



Notes to Financial Statements

31st December, 1999

1. CORPORATE INFORMATION

During the year, the Group was principally engaged in property investment and management, property development, development consultancy and project management, construction and construction-related businesses, hotel ownership and management, securities brokering, promotions and communications and other investments (including investment and trading in financial instruments and marketable securities).

2. IMPACT OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new or revised SSAPs have been adopted in the preparation of the current year’s consolidated financial statements.

- SSAP 1: Presentation of Financial Statements
- SSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- SSAP 10: Accounting for Investments in Associates
- SSAP 24: Accounting for Investments in Securities

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 62, 64, 65 and 68, respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 63. Additional disclosures as required are included in the supporting notes to the financial statements.

SSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the profit and loss account, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors. The principal impact of the SSAP on the preparation of these financial statements is that exceptional items, previously disclosed on the face of the profit and loss account, are now primarily disclosed by way of note, (note 6 to the financial statements) and are no longer specifically referred to as “exceptional”.

SSAP 10, which prescribes the accounting treatment for investments in associates, closely follows the previous SSAP 10 and, accordingly, has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

SSAP 24 prescribes the accounting treatment and disclosures for investments in debt and equity securities including, in certain circumstances, alternative accounting treatments. For these financial statements, as further explained in the accounting policy note below, investments in long term non-trading listed and unlisted equity securities are stated at their fair values, with revaluation differences being taken to a revaluation reserve. Short term investments in equity securities held for trading purposes are also stated at their fair values, with differences in valuation being charged or credited to the profit and loss account.



3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$1,261.6 million for the year ended 31st December, 1999 (1998 - HK\$5,292.0 million). As at that date, the Group had consolidated accumulated losses of HK\$2,844.6 million (1998 - HK\$1,588.9 million) and consolidated net current liabilities of HK\$1,941.5 million (1998 - HK\$2,280.5 million).

Separate announcements were made in October 1998 by the Company and Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, stating that both the Group and PHL, including its subsidiary companies (the "PHL Group") were experiencing liquidity problems. Since then, both the Group and the PHL Group have conducted discussions with their respective financial creditors for the purpose of implementing standstill arrangements in order to permit the Group and the PHL Group to suspend the repayment of their respective outstanding indebtedness (the "Standstill Arrangements"). Majority of the financial creditors of the Group have agreed to extend the the Standstill Arrangement, which last expired on 30th April, 2000, to 31st October, 2000. In respect of the PHL Group, majority of its financial creditors agreed to the Standstill Arrangement, which expired on 30th September, 1999, but no renewal was made thereafter. In lieu thereof, to date, an informal Standstill Arrangement has been in operation.

Since October 1998, the Group has implemented an orderly asset disposal programme to stabilise its financial position. The PHL Group and Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (collectively the "RHIHL Group"), have also implemented similar measures (collectively the "Disposal Programmes"). In January 1999, the Group successfully completed the disposal of its entire effective 20.66% interest in the Chengdu Mianyang Expressway in Sichuan (the "Expressway"), the People's Republic of China ("PRC"), to one of the financial creditors of the Group for a consideration of HK\$390 million, which was satisfied by the discharge of certain indebtedness due to that financial creditor. During the current year, the PHL Group successfully disposed of an investment property and a 70% interest in a property development project, which generated total cash proceeds of HK\$599 million. The proceeds realised were substantially applied towards the repayment of certain loan principal and interest. The PHL Group will continue to implement the Disposal Programmes to dispose of certain other identified assets. On 17th December, 1999, the RHIHL Group successfully completed the disposal of its entire hotel interests in the United States of America (with the exception of its interest in an associate, Bostonian Hotel Limited Partnership, the sale of which was deferred in accordance with the agreement) (the "Disposal"). The net cash proceeds received and receivable from the Disposal amounted to approximately US\$211.7 million (approximately HK\$1,644.8 million), part of which was/is to be applied towards the prepayment of a certain portion of one of the Regal Loans (as defined hereunder) due in 2000, 2001 and part of which due in 2002 and the remainder for working capital uses. Details of the Disposal were contained in the Company's circular dated 12th January, 2000.

With a view to stabilising the financial position of the Group, on 27th January, 2000 and 24th March, 2000, two separate placements of the shares in the Company were completed, which generated cash proceeds of approximately HK\$170 million. The proceeds were substantially applied to service interest payments to financial creditors of the Group.

The Directors have also been taking steps to strengthen the equity base of the Group, with the objective of improving its financial position, profitability and operations. As part of the measures to

achieve these objectives, the Group is working closely with its professional advisors with the objective of formulating a proposal for the acquisition of a further interest in a company, in which the Group has already had an indirect minority interest, which is involved in the development of internet related businesses based on a leased fibre network in the PRC.

On 14th March, 2000, the PHL Group mandated a financial institution to arrange for a long term refinancing programme which is currently in progress. The arrangement involves a mortgage-backed securitisation for the PHL Group's two principal properties, namely Paliburg Plaza and Kowloon City Plaza, with an underwritten amount of HK\$1,200 million, which can be increased up to a maximum of HK\$1,400 million, subject to certain conditions (the "Refinancing Arrangement"). The Directors of PHL intend to apply the majority of the surplus proceeds from the Refinancing Arrangement to reduce or repay borrowings to financial creditors of the PHL Group, following the redemption of the indebtedness attached to these two properties currently aggregating HK\$826.8 million. The Directors of PHL consider that the Refinancing Arrangement will proceed as scheduled and will be able to be completed by July 2000. The PHL Group has also commenced discussions with its financial creditors with a view to replacing the existing informal Standstill Arrangement with new bilateral facilities upon completion of the Refinancing Arrangement.

In addition, during the year, the Directors held discussions with various parties in respect of provisions for certain liabilities of the Group aggregating HK\$890.2 million made in the prior year. An amount of approximately HK\$170.1 million was discharged as part of the consideration for the Group's disposal of its interest in the Expressway while the relevant parties representing approximately HK\$379.8 million of those provisions joined the Standstill Arrangement of the Group during the year and have agreed to extend the arrangement to 31st October, 2000. The Directors will conduct discussions with the one remaining party in respect of a provision of HK\$340.3 million as at 31st December, 1999 with a view to restructuring the settlement terms thereof (the "Restructuring"). The Directors believe that the Restructuring will be successful.

On the basis of progress made to date, the Directors of the Company and PHL believe that the Standstill Arrangement of the Group will be renewed on expiry and the informal Standstill Arrangement of the PHL Group will remain in place to allow the Group and the PHL Group to complete the financial position and profitability improvement measures and the Refinancing Arrangement, respectively, and to continue the implementation of the Disposal Programmes by the PHL Group.

The Directors consider that the indebtedness pressure of the Group has been moderately alleviated and the liquidity position of the PHL Group and the RHIHL Group have also improved during the year, as a result of the successful completion of the share placements of the Company and the substantial progress so far achieved on the Disposal Programmes, including those implemented by the PHL Group and the RHIHL Group. Notwithstanding this, certain bank and other borrowing agreements require specific loan covenants to be satisfied. At the balance sheet date, the non-compliance with certain loan covenants by the RHIHL Group on two loans totalling HK\$4,893.2 million (the "Regal Loans") (note 30) still existed. Pursuant to the terms of the Regal Loans, as confirmed by a legal opinion obtained from RHIHL's legal advisors, upon the non-compliance with any borrowing covenants (after the expiry of any grace period applicable or the service of any required notice), the agents of the Regal Loans (the "Agents"), acting on the instructions of the specified majority of the lenders (the "Lenders"), may serve a notice to the RHIHL Group to declare the Regal Loans to be immediately due and repayable unless the cause for the non-compliance is



remedied within a specified agreed upon period. However, unless and until such notice is served by the Agents, the Regal Loans remain repayable in accordance with their original stated maturity dates. As confirmed by the respective Agents of the Regal Loans, no such notice has been served to the RHIHL Group to date.

In connection with the Disposal, arrangements have been made by the RHIHL Group to replace the negative pledge attached to certain hotel properties in Hong Kong by a first legal mortgage over the respective hotel properties in favour of the lenders of one of the Regal Loans and to prepay a certain portion of the loan outstanding out of the proceeds received and receivable from the Disposal. In addition to the above, the RHIHL Group continues to service interest and loan principal payments of the Regal Loans on schedule. Despite these arrangements, with a view to obtaining waivers in respect of RHIHL's failure to comply with the relevant loan covenants and/or to secure their agreement not to enforce their rights explained above, RHIHL is still in discussions with the Lenders of the Regal Loans for a revision of the terms of the loan covenants which revisions would include, inter alia, the relaxation of the financial ratios specified in the loan covenants currently required to be maintained by RHIHL (the "Waiver Discussions"). On the basis that the Waiver Discussions will be successful, the directors of RHIHL consider it appropriate to continue to classify the Regal Loans as current and non-current liabilities, in accordance with their original maturity terms under the Regal Loans agreements, after taking into account the prepayment of a certain portion of the Regal Loans.

The trust deeds governing the issue of the 3.5% Exchangeable Guaranteed Bonds (note 31) and the Zero Coupon Guaranteed Convertible Bonds (note 32) (the "PHL Bonds") of the PHL Group contain a cross default clause to the effect that if any relevant loans, including the Regal Loans, become due and repayable prematurely by reason of an event of default, the PHL Bonds, in turn, will become immediately due and payable once a notice is served by the trustees of the PHL Bonds to the PHL Group stating that the PHL Bonds are so due and payable. To date, as confirmed by the respective Agents of the Regal Loans, no notice has been served to the RHIHL Group to declare an event of default in respect of the Regal Loans. Accordingly, there is no cross default in respect of the PHL Bonds. Therefore, the Regal Loans and the PHL Bonds have not become immediately due and repayable and have continued to be classified as current and non-current liabilities in accordance with their original maturity dates, after taking into account the prepayment of a certain portion of the Regal Loans.

On the bases that the Standstill Arrangements will remain in place or renewed, the Restructuring, the Refinancing Arrangement and the Waiver Discussions will be successful, and the financial position and profitability improvement measures and the Disposal Programmes will be/continue to be successfully implemented, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and current liabilities, respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of hotel properties, investment properties, certain properties under development, certain fixed assets and 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 (including partnerships in which the Group controls more than half of the voting rights and the appointment of the general partners) for the year ended 31st December, 1999, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and joint ventures. The results of subsidiary companies/partnerships, associates and joint ventures acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

(c) Goodwill/Capital reserve on consolidation

Goodwill arising on consolidation of subsidiary companies/partnerships and on acquisition of associates represents the excess purchase consideration paid for such companies/partnerships over the fair values ascribed to the net underlying assets at the date of acquisition and is eliminated against reserves in the year in which it arises.

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired subsidiary companies'/partnerships' or associates' net underlying assets at the date of acquisition over the purchase consideration for such subsidiary companies/partnerships or associates.

Upon the actual disposal of an interest in a subsidiary company/partnership or associate, the relevant portion of the attributable goodwill or capital reserve previously eliminated against or taken to reserves is realised and taken into account in arriving at the gain or loss on disposal of the investment.

(d) Subsidiary companies/partnerships

A subsidiary company/partnership is a company/partnership in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors or appointment of the general partners.

Investments in subsidiary companies/partnerships are stated in the Company's balance sheet at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, in which event they are written down to values determined by the Directors.

Upon the disposal of interests in subsidiary companies/partnerships, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the profit and loss account.

Where the Group's equity interest in a subsidiary company/partnership is diluted by virtue of the additional issue of shares by such subsidiary company/partnership (a "deemed disposal"), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's retained profits and an amount equal to the increase in the Group's share of the non-distributable reserves of the subsidiary company/partnership is transferred to the capital reserve.

(e) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly controlled entities.

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated profit or loss account and consolidated reserves, respectively. The Group's interests 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 provisions for diminutions in values, other than temporary in nature deemed necessary by the Directors.

(f) Associates

An associate is a company or a partnership, not being a subsidiary company/partnership or a joint venture, 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 provisions for diminutions in values other than temporary in nature deemed necessary by the Directors.

(g) Investment properties

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

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

When an asset is reclassified from investment properties to leasehold properties, the asset is stated at the carrying value as at the date of the reclassification, and the revaluation reserve attributable to that asset is transferred to the leasehold property revaluation reserve. Depreciation on such an asset is calculated based on that carrying value, and the portion of the depreciation charge thereon attributable to the related revaluation surplus is transferred from the leasehold property revaluation reserve to retained profits. On disposal or retirement of such an asset, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

(h) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plants, which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of annual professional valuations. Movements in the carrying values of the hotel properties are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred.

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

(i) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to the prevailing market prices, on an individual property basis. Property under development which is intended to be used in the operation of a hotel is stated at an open market value for its intended use on completion, on the basis of a professional valuation. Other properties under development are stated at cost unless, in the opinion of the Directors, there have been permanent diminutions in values, when they are written down to values determined by the Directors. Cost includes all costs attributable to such development, including any related finance charges.

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the property is determined by the apportionment of the total estimated profit over the entire period of construction to reflect the progress of the development, and is calculated by reference to the proportion of construction costs incurred up to the balance sheet date to the estimated total construction costs to completion, but is limited to the amount of sales deposits received and with due allowances for contingencies.

Properties under development intended for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are classified under current assets.



Deposits received on properties pre-sold prior to their completion in excess of the attributable profit recognised are classified as current liabilities.

Movements in the values of the hotel property under development 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.

(j) Properties held for future development

Properties held for future development are stated at cost less provisions for permanent diminutions in values, where appropriate. Cost includes all costs attributable to the acquisition and holding of such properties, including any related finance charges.

(k) Capitalised borrowing costs

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

(l) Lease rights

Lease rights, which represent the costs of acquiring leases in respect of certain hotel properties of the Group, are stated at cost less amortisation. Amortisation of the lease rights is calculated on the straight-line basis to write off the acquisition cost of each lease over the term of the lease.

(m) Management contracts

Purchased management contracts in relation to the management of hotel operations are stated at cost less amortisation and any provisions for permanent diminutions in values deemed necessary by the Directors. Amortisation of purchased management contracts is calculated on the straight-line basis to write off the acquisition cost of each contract over the term of the contract period.

(n) Deferred expenditure

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

(o) Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended for sale, are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(p) Other assets

Other assets held on the long term basis are stated at cost less any provisions for any permanent diminutions in values deemed necessary by the Directors.



(q) Long term investments

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

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

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

(r) Short term investments

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

(s) Fixed assets and depreciation

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation. 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 the 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. As stated in (g) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of reclassification.

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



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

Leasehold land	Over the remaining lease terms
Freehold and leasehold properties	Over the shorter of 40 years or the remaining lease terms on cost or valuations of buildings
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25% or replacement basis
Site equipment	20%
Motor vehicles	25%

(t) Construction in progress

Construction in progress represents fixed assets under construction or renovation, and is stated at cost. 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.

(u) 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 estimated selling prices less any further costs expected to be incurred to disposal.

(v) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract cost incurred comprises direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the work certified by architects for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(w) Premium on redemption of exchangeable bonds and convertible bonds

The premium on redemption of exchangeable bonds and convertible bonds represents the excess of the redemption price payable by the Group on the maturity of the bonds over the

respective principal amounts of the bonds. Provision is made for the premium so as to provide a constant rate of charge to the profit and loss account over the respective tenure of the bonds. Upon the exchange/conversion of the bonds prior to maturity, the related premium provided is released and accounted for as part of the consideration for the shares into which the bonds are so exchanged/converted.

(x) 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) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (i) above;
- (iv) fee income on short term construction contracts, on completion of the construction work;
- (v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (v) above;
- (vi) hotel and other service income, in the period in which such services are rendered;
- (vii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (viii) dividend income, when the shareholders' right to receive payment is established;
- (ix) proceeds from sale of short term investments and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and
- (x) commission and brokerage income on dealings in securities, futures and other derivatives, on the transaction dates when the relevant contract notes are exchanged.

(y) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date or, if appropriate, at forward contract rates. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates or at the contracted rate if the transaction is covered by a forward exchange contract. Profits and losses on exchange are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiary companies/partnerships and associates denominated in foreign currencies are translated at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are dealt with in the exchange equalisation reserve.

(z) Deferred tax

Provision is made for deferred tax using the liability method, on all material timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(aa) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(ab) Off-balance sheet financial instruments

The Group transacts in total return share swaps and put/call option transactions as part of its investment and/or financing activities which are accounted for as follows:

- (i) the net settlements arising from swaps undertaken are recognised on an accrual basis and are dealt with in the profit and loss account; and
- (ii) net premium paid/received from the writing of options is dealt with in the profit and loss account and provision is made for any shortfall in the market prices of the underlying securities in respect of which the options are written below the contracted strike prices under the option agreements.

(ac) Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Group contributions under the scheme are charged to the profit and loss account as incurred. The amount of Group contributions is based on a specified percentage of the basic salary of employees and forfeited contributions in respect of unvested benefits are used to reduce the Group's ongoing contributions otherwise payable. The assets of the scheme are held separately from those of the Group.

(ad) 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.

(ae) Cash equivalents

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

5. TURNOVER AND REVENUE

Turnover represents the aggregate of the gross amounts of rental income, estate management fees, proceeds from the sale of properties (in the case of the pre-sale of properties, proceeds from the pre-sale are adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), property development consultancy and project management fees, building services income, fee income in respect of construction contracts (in the case of long term construction contracts, the fee income is adjusted to reflect the stage of completion to the extent that this was not previously recognised), hotel income, travel services revenue and commissions, plant nursery and florist income, restaurant revenue, wedding services revenue, karaoke club revenue, net sales income from beer distribution, proceeds from sale of short term investments, commission and brokerage income on dealings in securities, futures and other derivatives, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Rental income:		
Investment properties	251.4	319.0
Hotel properties	26.7	23.8
Construction and construction-related income	252.3	349.3
Proceeds from the sale of properties	1,041.8	1,668.8
Estate management fees	19.7	12.6
Property development consultancy and project management fees	6.0	5.5
Hotel operations and management services	2,939.6	2,909.7
Other operations, including travel services, plant nursery and florist, restaurant operations, wedding services, karaoke club operations and brewery operations	98.8	115.4
Proceeds from sale of short term investments	21.3	92.4
Commission and brokerage income on dealings in securities, futures and other derivatives	16.7	4.1
Turnover	<u>4,674.3</u>	<u>5,500.6</u>



6. OTHER REVENUE/OTHER OPERATING EXPENSES

Other revenue/other operating expenses include the following items:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Other revenue:		
Write back of deficit on revaluation of hotel properties previously charged to profit and loss account	187.0	-
Gain on disposal of investment properties	0.6	46.0
Compensation received from cancellation of a tenancy agreement	22.8	-
	<u>210.4</u>	<u>46.0</u>
Other operating expenses:		
Provisions for losses against interests in associates	-	454.2
Loss on disposal of ordinary shares in listed subsidiary companies	8.0	112.2
Realised losses and provisions for losses in short term investments	22.5	1,367.7
Write off/Provisions against advances and interest receivable	57.5	894.5
Provisions for losses against properties	406.7	750.3
Provisions for guarantees and indemnity given	124.4	815.9
Excess of revaluation deficit of hotel properties over available hotel property revaluation reserve	-	466.9
Provisions for impairments in values of long term investments	44.2	124.3
	<u>1,063.3</u>	<u>4,071.8</u>



7. LOSS FROM OPERATING ACTIVITIES

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

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Cost of completed properties sold	1,426.5	325.5
Cost of inventories sold and other services provided	1,530.5	1,592.6
Staff costs (exclusive of directors' remuneration disclosed in note 9(a)):		
Wages and salaries	1,275.8	1,304.8
Staff retirement scheme contributions	19.3	22.6
Less: Unvested contributions forfeited*	(7.9)	(7.5)
Net retirement scheme contributions	11.4	15.1
	1,287.2	1,319.9
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(22.5)	(30.0)
Staff retirement scheme contributions	(1.4)	(3.1)
	1,263.3	1,286.8
Auditors' remuneration:		
Current year provision	9.6	8.9
Prior year overprovision	–	(0.4)
	9.6	8.5
Loss on disposal of listed investments (after a transfer from the revaluation reserve of a surplus of HK\$8.7 million (1998 - HK\$7.4 million))	5.2	70.8

* At 31st December, 1999, there were forfeited contributions amounting to HK\$0.7 million (1998 - HK\$0.1 million) available to the Group to reduce its future contributions to the staff retirement scheme.



	GROUP	
	1999 HK\$'million	1998 HK\$'million
Depreciation	158.0	152.3
Less: Depreciation capitalised in respect of property development projects and construction contracts	(1.6)	(1.8)
	<u>156.4</u>	<u>150.5</u>
Loss on disposal of fixed assets	14.6	-
Operating lease rentals:		
Land and buildings	36.8	31.7
Other equipment	10.1	11.5
Amortisation of lease rights	1.2	1.2
Amortisation of management contracts	0.4	0.5
and after crediting:		
Gross rental income	278.1	342.8
Less: Outgoings	(78.0)	(85.8)
Net rental income	<u>200.1</u>	<u>257.0</u>
Interest income from:		
Associates and jointly controlled entity	4.7	230.1
Bank balances	48.4	132.2
Other loans	27.4	136.5
	<u>80.5</u>	<u>498.8</u>
Dividend income:		
Listed investments	0.9	8.6
Unlisted investment	1.0	-
	<u>1.9</u>	<u>-</u>



8. FINANCE COSTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Interest in respect of:		
Bank loans and overdrafts	735.8	822.8
Other loans, notes payable and exchangeable bonds, wholly repayable within five years	313.3	333.8
Notes payable, not wholly repayable within five years	36.9	44.9
	<u>1,086.0</u>	<u>1,201.5</u>
Premium provided on exchangeable bonds and convertible bonds	198.4	182.4
	<u>1,284.4</u>	<u>1,383.9</u>
Interest capitalised in respect of property development projects and construction contracts	(111.8)	(261.5)
	<u>1,172.6</u>	<u>1,122.4</u>
Amortisation of deferred expenditure	89.9	76.3
Write off of deferred expenditure	5.2	8.8
Total finance costs	<u><u>1,267.7</u></u>	<u><u>1,207.5</u></u>



9. DIRECTORS' REMUNERATION

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

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Fees	1.5	1.7
Salaries and other allowances	11.7	15.4
Performance related/discretionary bonuses	1.4	1.6
Staff retirement scheme contributions	0.2	0.5
	14.8	19.2
	14.8	19.2

The remuneration of the Directors fell within the following bands:

HK\$	1999 Number of Directors	1998 Number of Directors
Nil - 1,000,000	5	2
1,500,001 - 2,000,000	1	2
2,000,001 - 2,500,000	1	1
2,500,001 - 3,000,000	1	1
3,000,001 - 3,500,000	-	1
6,500,001 - 7,000,000	1	-
7,000,001 - 7,500,000	-	1
	-	1
	-	1

The above Directors' remuneration includes the remuneration received by certain Directors of the Company from PHL and RHIHL in connection with the management of their affairs during the year.

The independent Non-executive Directors of the Company were entitled to a total sum of HK\$0.3 million (1998 - HK\$0.3 million) as Directors' fees, including the Director's fee from PHL to an independent Non-executive Director who is also an independent non-executive director of PHL for the year ended 31st December, 1999.



(b) Share options

No share options were granted by the Company to the Directors of the Company.

Details of share options granted by PHL and RHIHL to the Directors of the Company are set out below.

PHL

	Number of shares under options Granted on 15th September, 1995 with Original Grant Date ⁽¹⁾					Total
	Granted on 22nd February, 1994 'million	of 22nd February, 1992 'million	of 28th August, 1992 'million	of 22nd February, 1994 'million	Granted on 22nd February, 1997 'million	'million
Balance at beginning of year	10.5	32.0	0.3	8.1	2.5	53.4
Options held by Directors resigned during the year	(5.0)	(8.0)	(0.3) ⁽⁴⁾	(8.1) ⁽⁵⁾	(2.5) ⁽⁶⁾	(23.9)
Balance at end of year	<u>5.5⁽²⁾</u>	<u>24.0⁽³⁾</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29.5</u>
Outstanding rights vested with the Directors at end of year	<u>2.8⁽²⁾</u>	<u>13.8⁽³⁾</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Exercise price per share (HK\$)	<u>10.4000</u>	<u>0.6656</u>	<u>1.3260</u>	<u>3.5392</u>	<u>6.6720</u>	

(1) Consequent upon the group reorganisation resulting in the effective merger of PHL and Paliburg International Holdings Limited ("PIHL"), a formerly listed subsidiary company of the Company, on 17th August, 1995 (the "Group Reorganisation") and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, PHL granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of PHL under the executive share option scheme of PHL ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.

(2) The options for 2.8 million shares are exercisable at any time. The options for the remaining 2.7 million shares are exercisable in stages commencing six years from the date of grant.

(3) The options for 13.8 million shares are exercisable at any time. The options for the remaining 10.2 million shares are exercisable in stages commencing eight years from the Original Grant Date.



- (4) At the time of cancellation, the option for 0.1 million shares was exercisable at any time and the option for the remaining 0.2 million shares was exercisable in stages commencing eight years from the Original Grant Date.
- (5) At the time of cancellation, the option for 3.0 million shares was exercisable at any time and the option for the remaining 5.1 million shares was exercisable in stages commencing six years from the Original Grant Date.
- (6) At the time of cancellation, the option for 0.5 million shares was exercisable at any time and the option for the remaining 2.0 million shares was exercisable in stages commencing three years from the date of grant.

RHIHL**Number of ordinary shares under options**

	Granted on 22nd February, 1992 'million	Granted on 28th August, 1992 'million	Granted on 22nd February, 1997 'million	Total 'million
Balance at beginning of year	44.3	1.9	7.2	53.4
Options held by Directors resigned during the year	(9.0)	(1.9) ⁽²⁾	(7.2) ⁽³⁾	(18.1)
Balance at end of year	<u>35.3⁽¹⁾</u>	<u>—</u>	<u>—</u>	<u>35.3</u>
Outstanding rights vested with the Directors at end of year	<u>22.3</u>	<u>—</u>	<u>—</u>	
Exercise price per ordinary share (HK\$)	<u>0.7083</u>	<u>0.9250</u>	<u>2.1083</u>	

- (1) The options for 22.3 million ordinary shares are exercisable at any time. The options for the remaining 13.0 million ordinary shares are exercisable in stages commencing eight years from the date of grant.
- (2) At the time of cancellation, the option for 1.2 million ordinary shares was exercisable at any time and the option for the remaining 0.7 million ordinary shares was exercisable in stages commencing eight years from the date of grant.
- (3) At the time of cancellation, the option for 1.4 million ordinary shares was exercisable at any time and the option for the remaining 5.8 million ordinary shares was exercisable in stages commencing three years from the date of grant.

Under the terms of grant, the options granted on the shares of PHL and RHIHL are not transferrable and, in the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted to the respective Directors.

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



10. SENIOR EXECUTIVES' EMOLUMENTS

- (a) The five highest paid individuals included two (1998 - three) Directors, details of whose remuneration are disclosed in note 9 to the financial statements. The emoluments of the other three (1998 - two) individuals, who were not Directors, are set out below:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Salaries and other emoluments	8.8	6.9
Performance related/discretionary bonuses	0.5	0.1
Staff retirement scheme contributions	0.1	-
	<u>9.4</u>	<u>7.0</u>

The emoluments of the three (1998 - two) individuals fell within the following bands:

HK\$	1999 Number of individuals	1998 Number of individuals
2,500,001 - 3,000,000	2	1
3,500,001 - 4,000,000	1	-
4,500,001 - 5,000,000	-	1
	<u> </u>	<u> </u>

The emoluments included the emoluments received by these individuals from PHL and RHIHL in connection with the management of the affairs of these subsidiary companies during the year.

- (b) Share options

No share options have been granted by the Company, PHL and RHIHL to the senior executives of the Company mentioned above.

**11. TAX**

	GROUP	
	1999 HK\$'million	1998 HK\$'million
The Company and subsidiary companies/partnerships:		
Provision for tax in respect of profits for the year:		
Hong Kong	24.1	58.5
Overseas	22.8	17.6
	46.9	76.1
Prior year overprovisions:		
Hong Kong	(13.2)	(0.8)
Overseas	-	(0.3)
	(13.2)	(1.1)
Capital gains tax - overseas	24.2	-
Transfer from deferred tax (note 34)	(3.2)	(6.5)
	54.7	68.5
Associates:		
Hong Kong	-	0.1
Overseas	-	1.4
	-	1.5
Tax charge for the year	54.7	70.0

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (1998 - 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Tax on the profits of subsidiary companies/partnerships operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing law, practices and interpretations thereof.

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

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,157.4 million (1998 - HK\$246.0 million).



13. TRANSFER FROM OTHER RESERVES

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Transfer from revaluation reserve of the portion of depreciation charge on leasehold properties attributable to the revaluation surplus in relation thereto (note 41)	5.9	5.9

14. DIVIDEND

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Adjustment for final dividend for 1997	–	5.0

The adjustment for the final dividend for 1997 represented the additional final dividend on the new ordinary shares issued prior to the dividend record date on 25th June, 1998.

15. ACCUMULATED LOSSES AT END OF YEAR

Accumulated losses at end of year accumulated in:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
The Company and subsidiary companies/partnerships	(1,726.7)	(569.8)
Associates	(187.4)	(162.9)
Jointly controlled entity	(930.5)	(856.2)
	<u>(2,844.6)</u>	<u>(1,588.9)</u>

Analysis of net book value by geographical location:

	1999 HK\$'million	1998 HK\$'million
Leasehold land and buildings in Hong Kong:		
Investment properties, at valuation at balance sheet date:		
Long term	530.6	719.2
Medium term	2,727.1	3,707.9
Hotel properties, at valuation at balance sheet date:		
Long term	4,090.0	3,629.0
Medium term	4,743.0	2,292.0
Leasehold properties, at cost or deemed cost:		
Long term	564.0	577.9
Medium term	5.1	99.9
	12,659.8	11,025.9
Properties situated overseas:		
Land and hotel properties in Canada and the United States of America (the "U.S.A."), at valuation at balance sheet date:		
Freehold	230.0	3,986.3
Long term leasehold	–	717.3
Medium term leasehold	–	96.8
Freehold land and investment properties in the U.S.A., at valuation at balance sheet date	–	208.9
Long term leasehold land and investment properties in the People's Republic of China (the "PRC"), at valuation at balance sheet date	68.1	–
Medium term leasehold properties in the PRC, at cost	58.7	64.5
	356.8	5,073.8
	13,016.6	16,099.7

As at 31st December, 1999, certain investment properties and leasehold properties situated in Hong Kong, certain leasehold properties situated in the PRC and all of the hotel properties situated in Hong Kong and overseas were mortgaged to secure syndicated loan and other credit facilities granted to the Group.

The valuations of the hotel properties and investment properties situated in Hong Kong as at 31st December, 1999 were performed by independent valuers with an RICS qualification on an open market, existing use basis.



The valuation of the hotel property situated overseas at 31st December, 1999 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

The valuations of the investment properties situated overseas at 31st December, 1999 were performed by an independent valuer, with an RICS qualification, on an open market, existing use basis.

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

	1999	1998
	HK\$'million	HK\$'million
Investment properties	1,159.8	1,428.2
Hotel properties	4,658.2	6,845.0
Leasehold properties	167.2	266.1
	<u>5,985.2</u>	<u>8,539.3</u>



18. PROPERTIES UNDER DEVELOPMENT

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	5,501.3	2,496.6
Exchange adjustments	0.6	-
Other additions in land and development costs	431.4	1,447.8
Acquisition of a subsidiary company	-	594.2
Interest capitalised	104.3	255.7
Disposal of a subsidiary company	-	(125.9)
Other disposal	(375.9)	-
Transfer from/(to):		
Properties held for future development (note 19)	-	477.3
Hotel property (note 17)	(2,601.3)	-
Properties held for sale	(1,349.3)	(606.7)
Surplus on revaluation	109.3	1,292.3
Provision for diminutions in values of properties under development	(400.0)	(330.0)
Balance at end of year	1,420.4	5,501.3
Properties under development included in current assets	(155.4)	(1,267.8)
Non-current portion	1,265.0	4,233.5
Analysis by geographical location:		
Leasehold land and buildings in Hong Kong held under medium term leases:		
At cost	41.8	1,503.3
At valuation	645.0	2,894.4
	686.8	4,397.7
Freehold land in the U.S.A., at cost less provision for diminution in value	155.4	154.8
Leasehold land and buildings in the PRC, at cost less provision for diminution in value:		
Long term	19.8	19.3
Medium term	558.4	929.5
	578.2	948.8
	1,420.4	5,501.3

The properties under development include the new airport hotel at Chek Lap Kok, Hong Kong, which had its soft opening in January 1999. During the year, a portion of the hotel, representing certain completed hotel rooms and related ancillary facilities in operation for which a temporary occupation permit has been obtained, was reclassified as fixed assets. Capitalisation of borrowing costs ceased for that portion of rooms and ancillary facilities completed during the year.



The valuation of the hotel property under development at 31st December, 1999 was performed by an independent valuer with an RICS qualification on an open market, intended use on completion basis.

Certain of the Group's properties under development are pledged to secure banking facilities granted to the Group.

19. PROPERTIES HELD FOR FUTURE DEVELOPMENT

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning of year	24.3	497.4
Additions during the year	0.3	2.0
Interest capitalised	2.1	2.2
Transfer to properties under development (note 18)	–	(477.3)
Balance at end of year	<u>26.7</u>	<u>24.3</u>

20. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Share of post-acquisition losses	(1,771.7)	(1,633.4)
Loans to the jointly controlled entity	2,502.3	2,340.0
Amount due from the jointly controlled entity	339.7	328.5
	<u>1,070.3</u>	<u>1,035.1</u>

The share of post acquisition losses included a provision for foreseeable loss in respect of a property development project amounted to HK\$1,633.3 million (1998 - HK\$1,633.3 million).

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



Details of the Group's interests in the jointly controlled entity are as follows:

Name	Business structure	Place of operation and incorporation	Percentage of equity interest attributable to the Group		Principal activity
			1999	1998	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The percentage of equity interest represents the aggregate of the 40% and the 30% held by wholly-owned subsidiary companies of PHL and RHIHL, respectively, which was in turn 60.4% and 44.7% (1998 - 58.9% and 43.7%) owned by the Group as at 31st December, 1999, respectively.

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

	1999 HK\$'million	1998 HK\$'million
State of affairs		
Non-current assets	4,141.2	4,096.4
Current assets	0.3	38.6
Current liabilities	(72.0)	(72.8)
Non-current liabilities	(6,894.7)	(6,395.6)
Net liabilities attributable to venturers	<u>(2,825.2)</u>	<u>(2,333.4)</u>
Income and losses		
Income	<u>-</u>	<u>-</u>
Net loss from ordinary activities attributable to venturers	<u>(491.8)</u>	<u>(2,333.4)</u>



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:

	1999 HK\$'million	1998 HK\$'million
Authorised and contracted for	58.2	63.9
Authorised, but not contracted for	480.6	483.2
	<u>538.8</u>	<u>547.1</u>

21. INTERESTS IN ASSOCIATES

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Unlisted companies/partnerships:		
Share of net assets/(liabilities)	(229.5)	706.6
Loans to associates	150.1	38.6
Amounts due from associates	403.6	402.5
	<u>324.2</u>	<u>1,147.7</u>
Less: Provisions for diminutions in values	(100.2)	(533.6)
	<u>224.0</u>	<u>614.1</u>
At balance sheet date:		
Share of post-acquisition undistributed reserves	(255.6)	(160.6)

The loans to associates are unsecured, bear interest ranging from 6% to 10% per annum and are not repayable within one year.

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

The shares of net assets/(liabilities) and post-acquisition undistributed reserves represent the shares attributable to the Group before the Group's minority interests therein.

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

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				1999	1998	
Cheerjoy Development Limited ("Cheerjoy")*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽¹⁾	100.00	Property development
Weifang Futuan Building Materials Co., Ltd.	Corporate	The People's Republic of China	Equity joint venture interest	25.00 ⁽²⁾	25.00 ⁽²⁾	Cement production
Altanta F.C., L.P. ("Atlanta")*	Partnership	U.S.A.	Limited partnership interest	-	54.00 ⁽³⁾	Investment holding
Bostonian Hotel Limited Partnership ("Bostonian")*	Partnership	U.S.A.	Limited partnership interest	51.00 ⁽⁴⁾	51.00 ⁽⁴⁾	Hotel ownership
Century King Investment Limited	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁴⁾	50.00 ⁽⁴⁾	Restaurant operations
Sunnyvale Partners, Limited*	Partnership	U.S.A.	Limited partnership interest	-	39.75 ⁽³⁾	Hotel ownership
The El Dorado Partnership, Limited*	Partnership	U.S.A.	Limited partnership interest	-	40.00 ⁽³⁾	Investment holding

* not audited by Ernst and Young.

- (1) The percentage of equity interest represents equity interest attributable to a wholly-owned subsidiary company of PHL. Cheerjoy was previously a wholly-owned subsidiary company of PHL. Following the partial disposal of the 70% interest in Cheerjoy by PHL during the year, it became an associate of PHL. The sole asset of Cheerjoy is the holding of a property development project.
- (2) The percentage of equity interest represents equity interest attributable to a 75% owned subsidiary company of PHL.
- (3) As at 31st December 1998, these associates were held by Richfield Holdings, Inc. ("Richfield Holdings"), a then wholly-owned subsidiary company of RHIHL, which was in turn a 74.2% and 74.0% owned by PHL as at 31st December, 1998 and 1999, respectively. Richfield Holdings was disposed of by the Group during the year.
- (4) The percentages of equity interests represent those attributable to RHIHL.



All associates are 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 of 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.

The investments in Atlanta and Bostonian, both limited partnerships, are accounted for using the equity method because the Group does not control the appointment of the general partners.

22. INVESTMENTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Long term investments		
Listed equity investments, at market value:		
Hong Kong	197.0	173.7
Elsewhere	14.5	15.1
	211.5	188.8
Unlisted equity investments, at fair value:		
Carrying value	93.8	95.5
Provisions for impairments in values	(93.5)	(49.3)
	0.3	46.2
	211.8	235.0
Short term investments		
Listed equity investments, at market value:		
Hong Kong	4.6	17.5
Elsewhere	0.5	-
	5.1	17.5
	5.1	17.5

Long term investments with market values amounting to HK\$202.8 million (1998 - HK\$156.9 million) were pledged to secure general credit facilities granted to the Group.

Short term investments with market values amounting to HK\$2.5 million (1998 - HK\$2.5 million) were pledged to secure general credit facilities granted to the Group.



23. LOANS AND OTHER LONG TERM RECEIVABLES

		GROUP	
	Notes	1999 HK\$'million	1998 HK\$'million
Other receivable	(a)	349.7	-
Long term mortgage loans, secured	(b)	123.6	190.7
Other loans, unsecured	(c)	77.7	178.2
		<u>551.0</u>	<u>368.9</u>

- (a) The other receivable represents a deferred consideration of US\$45 million (HK\$349.7 million) in respect of the Group's disposal of its hotel interests in the United States (the "Disposal"). The amount is receivable, together with interest accrued thereon at 7% per annum, on the second anniversary of the completion date of the Disposal which was 17th December, 1999.
- (b) The long term mortgage loans represent loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by the second mortgages over the properties sold and are repayable by installments. HK\$0.2 million (1998 - HK\$3.1 million) of the long term mortgage loans is interest-free, while the remaining HK\$123.4 million (1998 - HK\$187.6 million) bears interest at Hong Kong prime rate plus 1.75%-2% per annum with certain of the loans having interest free periods of up to thirty-six months from the respective drawdown dates of such loans.
- (c) The current year's other loans represent a loan of US\$10 million (HK\$77.7 million) (1998 - HK\$77.4 million) advanced to a hotel owner in Shanghai, the People's Republic of China (the "PRC"), to assist financing the interior decoration and pre-operating expenditure of the hotel, which is managed by a subsidiary company of the Group. The loan is unsecured, interest free and is repayable commencing from the date of opening of the hotel, 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.

The other loans in the prior year also included a receivable of HK\$100.8 million from Mr. T.T. Tsui, an independent third party, and was secured, inter alia, by a corporate guarantee from Rapid Growth Limited, the major shareholder of CNT Group Limited, a company listed on The Stock Exchange of Hong Kong Limited. This note bore interest at 5.5% over Hong Kong prime rate per annum and was repayable on 14th April, 2001. An amount of HK\$74.3 million was settled during the year and the remaining HK\$26.5 million was written off in the current year's profit and loss account.

**24. LEASE RIGHTS**

	GROUP	
	1999	1998
	HK\$'million	HK\$'million
Lease rights in respect of hotel properties:		
At cost:		
Balance at beginning of year	23.9	23.9
Disposal of subsidiary companies/partnerships	(23.9)	-
Balance at end of year	-	23.9
Amortisation:		
Balance at beginning of year	4.8	3.6
Provision during the year	1.2	1.2
Disposal of subsidiary companies/partnerships	(6.0)	-
Balance at end of year	-	4.8
Net book value at balance sheet date	-	19.1

25. MANAGEMENT CONTRACTS

	GROUP	
	1999	1998
	HK\$'million	HK\$'million
Purchased contracts in relation to the management of hotel operations:		
At cost:		
Balance at beginning of year	16.5	19.6
Disposal of subsidiary companies/partnerships	(16.5)	-
Write off during the year	-	(3.1)
Balance at end of year	-	16.5
Amortisation:		
Balance at beginning of year	10.5	10.5
Provision during the year	0.4	0.5
Disposal of subsidiary companies/partnerships	(10.9)	-
Write off during the year	-	(0.5)
Balance at end of year	-	10.5
Net book value at balance sheet date	-	6.0



26. OTHER ASSETS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
At cost:		
Share in The Hong Kong Futures Exchange Limited ("HKFE")	5.0	5.0
Shares in The Stock Exchange of Hong Kong Limited ("SEHK")	10.0	10.0
Deposits with HKFE, SEHK and the SEHK Options Clearing House Limited	1.8	3.3
Others	0.7	2.2
	<u>17.5</u>	<u>20.5</u>

27. SHORT TERM LOANS RECEIVABLE

The short term loans receivable of the Group comprise the following:

- (a) An unsecured and interest-free loan to a consortium in the amount of HK\$0.9 million (1998 - HK\$48.9 million);
- (b) Promissory notes receivable in the aggregate amount of HK\$180.0 million (1998 - HK\$180.0 million) which are repayable on demand. Apart from an amount of HK\$50.0 million which is secured and bears interest at 11.5% per annum, the remaining amount of HK\$130.0 million is unsecured and bears interest at 1.5% to 2.5% over Hong Kong prime rate per annum; and
- (c) The short term loans receivable in prior year also included a term loan of HK\$100.8 million advanced to Commercial Gold Limited, an independent third party, which was secured, inter alia, by 200 million shares in CNT Group Limited, and personal and corporate guarantees given by Mr. T.T. Tsui and Rapid Growth Limited, respectively. The loan bore interest at 5.5% over Hong Kong prime rate per annum and was repayable on demand. An amount of HK\$74.3 million was settled during the year and the remaining HK\$26.5 million was written off in the current year's profit and loss account.



28. HOTEL AND OTHER INVENTORIES

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Hotel merchandise and restaurant supplies	23.3	64.9
Raw materials	6.3	3.2
Work in progress	6.2	11.7
Finished goods	1.1	2.7
	<u>36.9</u>	<u>82.5</u>

As at 31st December, 1999, the carrying amount of inventories of the Group pledged as security for banking facilities granted to the Group amounted to HK\$9.5 million (1998 - HK\$21.5 million).

29. CONSTRUCTION CONTRACTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Gross amount due from contract customers included in debtors, deposits and prepayments	10.0	11.6
Gross amount due to contract customers included in creditors and accruals	(85.3)	(64.4)
	<u>(75.3)</u>	<u>(52.8)</u>
Contract costs incurred plus recognised profits less recognised losses to date	874.0	585.1
Less: progress billings	(949.3)	(637.9)
	<u>(75.3)</u>	<u>(52.8)</u>

At 31st December, 1999, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$23.6 million (1998 - HK\$21.3 million).

As 31st December, 1999, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$40.0 million (1998 - HK\$37.4 million).



30. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Bank loans and overdrafts:		
Secured	7,226.0	3,610.0
Unsecured	275.9	4,947.9
Other loans and notes payable wholly repayable within five years:		
Secured	65.1	2,619.5
Unsecured	194.3	228.7
Other loans and notes payable not wholly repayable within five years, secured	–	585.0
	<u>7,761.3</u>	<u>11,991.1</u>
Portion of borrowings due within one year included under current liabilities:		
Bank loans and overdrafts	(1,961.7)	(2,284.8)
Other loans and notes payable	(259.4)	(237.7)
	<u>(2,221.1)</u>	<u>(2,522.5)</u>
Long term borrowings	<u>5,540.2</u>	<u>9,468.6</u>
The bank loans and overdrafts, other loans and notes payable are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	2,221.1	2,522.5
More than 1 year but not exceeding 2 years	431.2	1,280.9
More than 2 years but not exceeding 5 years	4,614.0	5,502.4
More than 5 years	495.0	2,685.3
	<u>7,761.3</u>	<u>11,991.1</u>



The various other loans and notes payable carried fixed interest rates ranging from 8.25% to 18% per annum at the balance sheet date.

At the balance sheet date, RHIHL had not complied with certain loan covenants in respect of a syndicated loan amounting to HK\$3,818.2 million and a construction loan amounting to HK\$1,075.0 million (collectively referred to as the "Regal Loans"). As more fully explained in note 3 to the financial statements, the terms of the loan agreements stipulate that with any non-compliance with these loan covenants, the agents for the Regal Loans (the "Agents"), acting on the instructions of the specified majority of the lenders of the Regal Loans, may serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable if the cause of non-compliance is not remedied within a specified period of time. Unless and until such a notice is given by the Agents, the Regal Loans remain repayable in accordance with their original stated maturity dates. To date, as confirmed by the respective Agents of the Regal Loans, no such notice has been served to the RHIHL Group. For the reasons set out in note 3 to the financial statements, the directors of RHIHL consider that it is appropriate to continue to classify the Regal Loans as current or non-current liabilities in accordance with their original maturity terms, as adjusted for the prepayment of a certain loan portion, under the loan agreements as at 31st December, 1999.

31. EXCHANGEABLE BONDS

In February 1996, the PHL Group issued US\$140 million 3½% exchangeable guaranteed bonds (the "Exchangeable Bonds") which fall due in 2001. The Exchangeable Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Exchangeable Bonds was 100% of their principal amount and they bear interest at the rate of 3½% per annum.

As at 1st January, 1999, the outstanding Exchangeable Bonds in the amount of US\$139.8 million were exchangeable, at the option of the bondholders, into an aggregate of 536.7 million fully paid ordinary shares in RHIHL ("Regal Shares") owned by the PHL Group at an effective exchange price of HK\$2.0144 per Regal Share, subject to adjustments, based on an exchange rate of HK\$7.735 to US\$1.00. The exchange period for the Exchangeable Bonds is from 6th April, 1996 to 23rd January, 2001, both dates inclusive.

The PHL Group has the right to redeem on or after 13th February, 1999 all or part of the Exchangeable Bonds, subject to certain conditions, at a redemption price of not less than their principal amount and to be determined by reference to the specified percentage as applicable to the year in which the redemption takes place, together with interest accrued to the date of redemption.

The Exchangeable Bonds are redeemable on maturity on 6th February, 2001 at 121.85% of their principal amount, if not previously exchanged or redeemed.

In prior year, the Exchangeable Bonds in the amount of US\$220,000 were exchanged for Regal Shares.

During the year, none of the Exchangeable Bonds was exchanged for Regal Shares. The full exchange of the remaining Exchangeable Bonds as at 31st December, 1999 for Regal Shares would, with the capital structure of RHIHL as at 31st December, 1999 and based on the issued ordinary share capital of RHIHL and the PHL Group's 74.0% interest therein as at that date, dilute the PHL Group's shareholding in RHIHL to 60.3%.

As stated in note 30 to the financial statements, at the balance sheet date, the RHIHL Group had not complied with certain loan covenants in respect of the Regal Loans. As more fully explained in note 3 to the financial statements, the trust deed governing the issue of the Exchangeable Bonds contains a cross default clause to the effect that if any relevant loans, including the Regal Loans, become due and repayable prematurely by reason of an event of default, the Exchangeable Bonds, in turn, will become immediately due and payable once a notice is served by the trustee of the Exchangeable Bonds stating that the Exchangeable Bonds are so due and payable. As the respective Agents of the Regal Loans confirmed that no such notice has been served to the RHIHL Group to declare an event of default in respect of the Regal Loans, there is no cross default in respect of the Exchangeable Bonds. Therefore, the Exchangeable Bonds have not become immediately due and repayable and continue to be classified as non-current liabilities.

32. CONVERTIBLE BONDS

On 12th March, 1997, the PHL Group issued US\$210 million of zero coupon guaranteed convertible bonds (the "Convertible Bonds") which mature in 2002. The Convertible Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Convertible Bonds was 100% of their principal amount.

As at 1st January, 1999, the Convertible Bonds were convertible, at the option of the bondholders, into an aggregate of 193.7 million fully paid shares of HK\$1.00 each in PHL at a conversion price of HK\$8.40 per share, subject to adjustments, based on an exchange rate of HK\$7.749 to US\$1.00. The conversion period for the Convertible Bonds is from 21st April, 1997 to 5th March, 2002, both dates inclusive.

The PHL Group has the right to redeem the Convertible Bonds, in whole or in part, on or after 12th March, 2000, subject to certain conditions, at a redemption price based on the principal amount plus a time pro-rated portion of the final redemption premium calculated by reference to the number of days elapsed since the date of issue to the date of the redemption.

The Convertible Bonds are redeemable on maturity on 12th March, 2002 at 145.875% of their principal amount, if not previously redeemed, purchased and cancelled or converted.

Up to 31st December, 1999, none of the Convertible Bonds had been converted into shares of PHL. The full conversion of the Convertible Bonds would, with the capital structure of PHL as at 31st December, 1999 and based on the issued share capital of PHL and the Group's 60.4% interest therein as at that date, dilute the Group's shareholding in PHL to 55.7%.

As stated in note 30 to the financial statements, at the balance sheet date, the RHIHL Group had not complied with certain loan covenants in respect of the Regal Loans. As more fully explained in note 3 to the financial statements, the trust deed governing the issue of the Convertible Bonds contains a cross default clause to the effect that if any relevant loans, including the Regal Loans, become due and repayable prematurely by reason of an event of default, the Convertible Bonds, in turn, will become immediately due and payable once a notice is served by the trustee of the Convertible Bonds stating that the Convertible Bonds are so due and payable. As the respective Agents of the Regal Loans confirmed that no such notice has been served to the RHIHL Group to declare an event of default in respect of these loans, there is no cross default in respect of the Convertible Bonds. Therefore, the Convertible Bonds have not become immediately due and repayable and continue to be classified as non-current liabilities.



33. PROVISION FOR PREMIUM ON REDEMPTION OF EXCHANGEABLE BONDS AND CONVERTIBLE BONDS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	365.5	183.3
Provision during the year	198.4	182.4
Provision released upon the exchange of bonds prior to maturity	—	(0.2)
Balance at end of year	<u>563.9</u>	<u>365.5</u>

The above provision for premium has been classified as a non-current liability on the same basis as the related Exchangeable Bonds and Convertible Bonds, as explained in notes 31 and 32 to the financial statements, respectively.

34. DEFERRED TAX

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	4.0	10.5
Release to profit and loss account (note 11)	(3.2)	(6.5)
Balance at end of year	<u>0.8</u>	<u>4.0</u>

The liability for deferred tax, as shown in the balance sheet, relates to timing differences arising from the different bases of recognition for accounting and tax purposes of royalty income and income from the pre-sale of properties under development.

At the balance sheet date, the Group had no material unprovided deferred tax liabilities.



35. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

All advances from minority shareholders of subsidiary companies are unsecured, interest free and have no fixed terms of repayment.

36. SHARE CAPITAL

Shares

	COMPANY	
	Number of shares of HK\$0.10 each 'million	HK\$'million
Authorised:		
Balance at beginning and at end of year	4,000	400.0
Issued and fully paid:		
Balance at beginning and at end of year	3,068.8	306.9

Warrants

Details of movements of the Company's warrants during the year are as follows:

	1999 Warrants (Number of Units) 'million
Balance at beginning of year	128.4
Lapsed and cancelled during the year	(128.4)
Balance at end of year	-
Subscription price per share (HK\$)	3.00
Number of unit required to subscribe for one share of HK\$0.10	1
Expiry date	31st December, 1999



37. RESERVES

	Notes	GROUP		COMPANY	
		1999 HK\$'million	1998 HK\$'million	1999 HK\$'million	1998 HK\$'million
Share premium	38	747.0	747.0	747.0	747.0
Capital redemption reserve	39	4.4	4.4	4.4	4.4
Capital reserves	40	3,239.4	2,680.8	-	-
Revaluation reserves	41	223.3	915.7	-	-
Exchange equalisation reserve	42	2.0	(1.7)	-	-
Contributed surplus	44	-	-	1,893.5	1,893.5
Accumulated losses		(2,844.6)	(1,588.9)	(1,267.9)	(110.5)
		<u>1,371.5</u>	<u>2,757.3</u>	<u>1,377.0</u>	<u>2,534.4</u>

38. SHARE PREMIUM

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	747.0	262.0
Premium on issue of shares	-	485.0
Balance at end of year	<u>747.0</u>	<u>747.0</u>



39. CAPITAL REDEMPTION RESERVE

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning and at end of year	4.4	4.4

40. CAPITAL RESERVE

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	2,680.8	2,640.2
Capital reserve arising on increase in shareholding in subsidiary companies	88.2	754.8
Release on disposal of ordinary shares in the listed subsidiary companies	(3.9)	(501.1)
Elimination of goodwill arising on acquisition of subsidiary companies	–	(166.5)
Goodwill eliminated against capital reserve released upon disposal of subsidiary companies/partnerships	473.4	–
Goodwill eliminated against capital reserve released upon disposal of an associate	0.9	–
Release as a result of the full provision for interest in an associate	–	(46.6)
Balance at end of year	3,239.4	2,680.8



41. REVALUATION RESERVES

GROUP

	Associates *	Investment properties	Hotel properties	Leasehold properties	Long term investments	Total
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 1998:						
As previously stated	47.2	2,704.2	2,355.0	223.0	-	5,329.4
Prior year adjustment (note)	-	-	-	-	(11.1)	(11.1)
As restated	47.2	2,704.2	2,355.0	223.0	(11.1)	5,318.3
Movement in fair value	-	-	-	-	(39.1)	(39.1)
Release on disposal of ordinary shares in listed subsidiary companies	(12.7)	(715.7)	(631.9)	(59.5)	-	(1,419.8)
Release on disposal	-	15.5	-	-	(10.1)	5.4
Transfer to retained profits (note 13)	-	-	-	(5.9)	-	(5.9)
Deficit on revaluation	(5.0)	(1,215.1)	(2,190.0)	-	-	(3,410.1)
Excess of deficit on revaluation charged to profit and loss account	-	-	466.9	-	-	466.9
At 31st December 1998, as restated	29.5	788.9	-	157.6	(60.3)	915.7
At 1st January, 1999:						
As previously stated	29.5	788.9	-	157.6	-	976.0
Prior year adjustment (note)	-	-	-	-	(60.3)	(60.3)
As restated	29.5	788.9	-	157.6	(60.3)	915.7
Movement in fair value	-	-	-	-	21.7	21.7
Release on disposal of ordinary shares in listed subsidiary companies	(0.2)	(1.2)	-	(0.2)	0.3	(1.3)
Release on disposal of subsidiary companies/partnerships	(25.0)	(30.0)	-	-	-	(55.0)
Release on disposal	-	(0.6)	-	-	(3.8)	(4.4)
Transfer to retained profits (note 13)	-	-	-	(5.9)	-	(5.9)
Surplus/(Deficit) on revaluation	0.6	(648.1)	187.0	-	-	(460.5)
Write back of deficit previously charged to profit and loss account	-	-	(187.0)	-	-	(187.0)
Balance at end of year	4.9	109.0	-	151.5	(42.1)	223.3

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

Note: In prior years, long term investments are stated at cost less provisions for any permanent diminutions in values. During the year, the Group adopted a new accounting policy on these investments to comply with the new SSAP 24 "Accounting for investment in securities". Under the new policy, these investments are stated at fair value under the alternative treatment as defined in SSAP 24. Accordingly, the comparative amounts for 1998 have been restated, the effect of which is to decrease the Group's net asset value attributable to shareholders of HK\$60.3 million, after the amount shared by minority interests of HK\$72.7 million, as at 31st December, 1998.



Apart from certain Hong Kong investment properties in respect of which provision has been made for deferred tax on the related revaluation surplus, as disclosed in note 34 to the financial statements, the revaluations of the Group's hotel properties and investment properties in Hong Kong do not constitute timing differences because the realisation of the revaluation surplus would not be subject to Hong Kong profits tax.

In the event that the Group's interests in Bostonian Hotel Limited Partnership ("Bostonian"), an associate of the Group, were to be disposed of at their current carrying value by the company owning it, and based on the existing rates of tax, potential tax liabilities amounting to approximately HK\$22.3 million would arise. As a result, the Group's revaluation reserve and minority interests were reduced by HK\$10.0 million and HK\$12.3 million, respectively, since the purchaser has the right to complete the sale and purchase of the Group's interests in Bostonian at any time prior to 17th June, 2000 pursuant to the relevant agreement in connection with the Disposal as referred to in note 3 to the financial statements.

42. EXCHANGE EQUALISATION RESERVE

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	(1.7)	(3.9)
Exchange adjustment on translation of overseas subsidiary companies/partnerships	8.2	2.6
Release on disposal of ordinary shares in the listed subsidiary companies	–	0.9
Release on disposal of overseas subsidiary companies/partnerships	(4.5)	(1.3)
Balance at end of year	<u>2.0</u>	<u>(1.7)</u>



43. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	1,045.5	1,164.6
	<u>3,104.5</u>	<u>3,223.6</u>
Provisions for diminutions in values	(1,000.0)	-
	<u>2,104.5</u>	<u>3,223.6</u>

Details of the principal subsidiary companies (including the partnerships in which the Group controls more than half of the voting rights and the appointment of the general partners) are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Subsidiary companies					
8D International Limited	Hong Kong	HK\$10,000	100	100	Promotions and communications
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Century City (F.S.) Management Limited	Hong Kong	HK\$2	100	100	Management services
Century City Finance Limited	Hong Kong	HK\$2	100	100	Financing
Century City Funds Management Limited	Hong Kong	HK\$2	100	100	Fund management
Century City Financial Services Limited	British Virgin Islands	US\$56,000	100	100	Investment holding
Century City Futures Limited	Hong Kong	HK\$10,000,000	100	100	Brokerage services



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
Century City International Limited	British Virgin Islands	US\$700,000	100	100	Financial and consultancy services
Century City Investment Limited	Hong Kong	HK\$2	100	100	Financing
Century City (Nominees) Limited	Hong Kong	HK\$2	100	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	100	Secretarial services
Century City Securities Limited	Hong Kong	HK\$88,500,000	100	100	Brokerage services
Century Pacific Development Limited	Hong Kong	HK\$2	100	100	Financing
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing
Meylink Limited	British Virgin Islands	US\$1	100	100	Investment holding
Splendour Corporation	British Virgin Islands	US\$1	100	100	Investment holding
T.M. Nominees Limited	Hong Kong	HK\$2	100	100	Nominee services
Wise Assets Holdings Limited	British Virgin Islands	US\$1	100	100	Securities investment
Paliburg Holdings Limited	Bermuda	HK\$2,318,497,452	60.4	58.9	Investment holding
Athlone Limited	Hong Kong	HK\$10,000	60.4	58.9	Property investment
Bajan Company Limited	Hong Kong	HK\$2	60.4	58.9	Securities trading



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Beijing Hengfu Plaza Development Co., Ltd.	The People's Republic of China	US\$12,000,000	27.5	26.8	Property development and investment
Beijing Century City Real Estate Development Co., Ltd.	The People's Republic of China	US\$26,670,000	60.4	58.9	Property development and investment
Beijing Jianye Real Estate Developing Co., Ltd.	The People's Republic of China	US\$10,410,000	60.4	58.9	Property development and investment
Bonseta Limited	Hong Kong	HK\$2	60.4	58.9	Financing
Cathay City BVI Holdings Limited	British Virgin Islands	HK\$10	60.4	58.9	Investment holding
Cathay City Investments Limited	Hong Kong	HK\$89,626,000	60.4	58.9	Investment holding
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	60.4	58.9	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	60.4	58.9	Property and project management
Chatwin Construction Management Limited	Hong Kong	HK\$2	60.4	58.9	Construction management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	48.3	47.1	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	60.4	58.9	Financing
Chestworld Investment Limited	Hong Kong	HK\$2	60.4	58.9	Restaurant operations
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	45.3	44.2	Investment holding
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	45.3	44.2	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Cosmos Best Development Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Cosmos Gain Investment Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	60.4	58.9	Investment holding
Fine Cosmos Development Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Finso Limited	Hong Kong	HK\$2	60.4	58.9	Investment holding
Firstway Holdings Limited	Hong Kong	HK\$2	60.4	58.9	Restaurant operations
Gain World Investments Limited	British Virgin Islands	US\$1	60.4	58.9	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	60.4	58.9	Investment holding
Good Focus Holdings Limited	British Virgin Islands	US\$1	60.4	58.9	Property investment
Granco Development Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
H.P. Nominees Limited	Hong Kong	HK\$2	60.4	58.9	Investment holding and nominee services



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Honour Charm Investment Limited	Hong Kong	HK\$2	60.4	58.9	Property investment
Key Choice Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Landstar Investment Limited	Hong Kong	HK\$2	60.4	58.9	Financing, property development and investment
Lead Fortune Development Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Linkprofit Limited	Hong Kong	HK\$2	60.4	58.9	Investment holding
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	60.4	58.9	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	60.4	58.9	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	60.4	58.9	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	60.4	58.9	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	60.4	58.9	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	60.4	58.9	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	60.4	58.9	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	60.4	58.9	Estate management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Paliburg Finance (C.B. 2002) Limited	British Virgin Islands	US\$1	60.4	58.9	Financing
Paliburg Finance Limited	Hong Kong	HK\$2	60.4	58.9	Financing
Paliburg International Finance Limited	British Virgin Islands	US\$1	60.4	58.9	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	60.4	58.9	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	60.4	58.9	Investment holding
Perfect Grand Investment Limited	Hong Kong	HK\$2	60.4	58.9	Karaoke club operations
Polarfine Inc	British Virgin Islands	HK\$3,000,000	48.3	46.7	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	60.4	58.9	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	60.4	58.9	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	60.4	58.9	Financing
Sanefix Development Limited	Hong Kong	HK\$2	60.4	58.9	Property investment
Shenyang Paliburg Plaza Limited	The People's Republic of China	US\$9,820,000	60.4	58.9	Property development and investment
Smart Base Holdings Limited	Hong Kong	HK\$2	60.4	58.9	Restaurant operations
Sonnix Limited	Hong Kong	HK\$2	60.4	58.9	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	60.4	58.9	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Tianjin Haihe Palace Of Entertainment Co., Ltd.	The People's Republic of China	RMB7,000,000	25.0	24.3	Restaurant operations
Transcar Investments Limited	British Virgin Islands	US\$1	60.4	58.9	Investment holding
Weifang Yuanzhong Real Estate Development Co., Ltd.	The People's Republic of China	US\$8,130,000	31.7	30.9	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	60.4	58.9	Investment holding
Regal Hotels International Holdings Limited	Bermuda	Ordinary - HK\$392,874,310 Preference - US\$189,480	44.7	43.7	Investment holding
Bauhinia Hotels Limited	Hong Kong	HK\$2	44.7	43.7	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	44.7	43.7	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	40.2	-	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	44.7	43.7	Property investment
Chicago Hotel Holdings, Inc.*	U.S.A.	US\$1	-	43.7	Hotel ownership
Cityability Limited	Hong Kong	HK\$10,000	44.7	43.7	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	44.7	43.7	Securities investment and trading
Cranfield Investments Limited	Hong Kong	HK\$2	44.7	43.7	Wedding services



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Fortune Nice Investment Limited	Hong Kong	HK\$2	44.7	43.7	Financing
Gala Hotels Limited	Hong Kong	HK\$2	44.7	43.7	Hotel ownership
Gateway Hotel Holdings, Inc.*	U.S.A.	US\$1	-	43.7	Hotel ownership
Gaud Limited	Hong Kong	HK\$2	44.7	43.7	Plant nursery and florist
Honrich Investment Limited	Hong Kong	HK\$2	44.7	43.7	Car leasing
Kaifeng Yatai Brewery Co., Ltd.	The People's Republic of China	RMB 35,923,300	40.2	39.4	Production/distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.	The People's Republic of China	RMB 30,576,700	40.2	39.4	Production/distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	44.7	43.7	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	44.7	43.7	Securities investment
Park Plaza Hotel Corporation*	U.S.A.	US\$14	-	43.7	Investment holding
Ragout Investments Limited	British Virgin Islands	US\$1	44.7	43.7	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	44.7	43.7	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	44.7	43.7	Hotel ownership



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Regal Hotels Company Limited	Hong Kong	HK\$2	44.7	43.7	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	44.7	43.7	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	44.7	43.7	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	44.7	43.7	Hotel management
Regal Hotel Management, Inc.*	U.S.A.	US\$1	-	43.7	Hotel ownership
Regal International Limited	British Virgin Islands	US\$20	44.7	43.7	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	44.7	43.7	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	44.7	43.7	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	44.7	43.7	Investment holding
Regal Riverside Hotel Limited	Hong Kong	HK\$2	44.7	43.7	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	44.7	43.7	Bakery operations
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	44.7	43.7	Trademark holding
RHM-88, LLC*	U.S.A.	US\$51,566,000	-	43.7	Hotel ownership
Richfield Holdings, Inc.*	U.S.A.	US\$10,750	-	43.7	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Richfield Hospitality Services, Inc.*	U.S.A.	US\$10	-	43.7	Hotel management services
Ricobem Limited	Hong Kong	HK\$2	44.7	43.7	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$800,000	44.7	43.7	Travel services
Tenshine Limited	Hong Kong	HK\$2	44.7	43.7	Restaurant operations
Unicorn Star Limited	British Virgin Islands	US\$1	44.7	43.7	Securities investment
WHB Corporation*	U.S.A.	US\$1	-	43.7	Hotel ownership
Widebase Limited	British Virgin Islands	US\$1	44.7	43.7	Securities investment
Winner Team Investment Limited	Hong Kong	HK\$2	44.7	43.7	Securities investment
Winplex Company Limited	Hong Kong	HK\$2	44.7	43.7	Karaoke club operations
World Way Management Limited	Hong Kong	HK\$2	44.7	43.7	Management services
Partnerships					
Aircoa Hotel Partners, L.P.*	U.S.A.	-	-	43.7	Hotel ownership
Anchorage - Lakefront Limited Partnership*	U.S.A.	-	-	43.7	Hotel ownership
BHA - Stonehouse Associates GP*	U.S.A.	-	-	43.7	Hotel ownership
Bradenton Hotel L.P.*	U.S.A.	-	-	39.8	Hotel lessee
Cincinnati S.I. Co.*	U.S.A.	-	-	43.7	Hotel ownership



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Minneapolis Hotel L.P.*	U.S.A.	-	-	42.0	Hotel lessee
Wynfield One, Ltd L.P.*	U.S.A.	-	-	43.7	Hotel ownership

* These subsidiary companies and partnerships were disposed of during the year.

Except for Century City BVI Holdings Limited, all subsidiary companies/partnerships are indirectly held by the Company.

All of the above subsidiary companies/partnerships operate in the place of their incorporation/registration except for Century City International Limited, Paliburg Holdings Limited, Good Focus Holdings Limited, Paliburg Finance (C.B. 2002) Limited, Paliburg International Finance Limited, Paliburg International Holdings Limited and Regal Hotels International Holdings Limited, which are incorporated in either Bermuda or the British Virgin Islands, but operate in Hong Kong.

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

44. CONTRIBUTED SURPLUS

The contributed surplus arose in 1989 as a result of the group reorganisation in that year and represented the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies at the date of acquisition.

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



45. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	1999 HK\$'million	1998 HK\$'million
Loss from operating activities	(647.0)	(3,834.5)
Loss on disposal of ordinary shares in the listed subsidiary companies	8.0	112.2
Loss on disposal of subsidiary companies/partnerships	1,014.0	-
Loss on disposal of an associate	2.4	-
Deficit on revaluation of hotel properties	-	466.9
Write back of deficit on revaluation of hotel properties previously charged to profit and loss account	(187.0)	-
Provisions for losses against interests in associates	-	454.2
Realised losses and provisions for losses in short term investments	22.5	1,367.7
Write off/Provisions against advances and interest receivable	57.5	894.5
Provisions for impairments in values of long term investments	44.2	124.3
Gain on disposal of investment properties	(0.6)	(46.0)
Provisions for losses against properties	406.7	750.3
Provisions for guarantees and indemnity given	124.4	815.9
Interest income	(80.5)	(498.8)
Dividend income from listed and unlisted investments	(1.9)	(8.6)
Depreciation	156.4	150.5
Amortisation of hotel management contracts and lease rights	1.6	1.7
Write off of management contract	-	2.6
Provisions for doubtful debts	6.9	9.4
Loss on disposal of fixed assets	14.6	-
Profit on sale of properties	(260.6)	(137.8)
Loss/(Gain) on disposal of long term investments	(6.2)	31.4
Write off of long term investments	-	0.4
Net proceeds from sale of properties	445.9	521.5
Additions to properties under development for sale and properties held for future development	(260.0)	(605.6)
Decrease/(Increase) in debtors, deposits and prepayments	247.5	(190.3)
Decrease in short term investments	4.9	78.7
Decrease in hotel and other inventories	12.1	16.7
Increase in creditors and accruals	3.7	80.2
Increase in deposits received	7.5	1,523.9
Exchange difference	19.0	0.6
Net cash inflow from operating activities	<u>1,156.0</u>	<u>2,082.0</u>



(b) Analysis of changes in financing

	Share capital (including share premium) HK\$'million	Loans, notes payable, exchangeable bonds, convertible bonds and advances from minority shareholders of subsidiary companies HK\$'million	Minority interests HK\$'million (Restated)
Balance at 1st January, 1998	518.9	14,310.5	8,701.6
Net cash inflow/(outflow) from financing	535.0	452.1	(29.8)
Share of loss for the year	-	-	(1,668.3)
Share of revaluation deficit	-	-	(3,735.3)
Share of goodwill on consolidation	-	-	(89.2)
Changes in shareholdings in subsidiary companies	-	-	(1,534.3)
Arising from disposal of ordinary shares in listed subsidiary companies	-	-	3,388.7
Arising from acquisition of subsidiary companies	-	27.0	4.2
Arising from acquisition of an associate	-	120.0	-
Disposal of a subsidiary company	-	(72.6)	(22.7)
Exchange of bonds for ordinary shares in a listed subsidiary company	-	(1.7)	2.8
Dividends paid to minority shareholders/partners and preference shareholders of subsidiary companies/partnerships	-	-	(44.4)
Cancellation of shares repurchased in the prior year by a listed subsidiary company	-	-	(7.5)
Effect of foreign exchange rate changes	-	(20.1)	-
Balance at 31st December, 1998	<u>1,053.9</u>	<u>14,815.2</u>	<u>4,965.8</u>



	Share capital (including share premium) HK\$'million	Loans, notes payable, exchangeable bonds, convertible bonds and advances from minority shareholders of subsidiary companies HK\$'million	Minority interests HK\$'million (Restated)
Balance at 1st January, 1999	1,053.9	14,815.2	4,965.8
Net cash inflow/(outflow) from financing	-	(1,043.6)	0.1
Share of loss for the year	-	-	(824.7)
Share of revaluation deficit	-	-	(178.2)
Share of exchange difference on consolidation	-	-	9.5
Share of capital reserve on consolidation	-	-	1.0
Changes in shareholdings in subsidiary companies	-	-	(117.7)
Arising from disposal of ordinary shares in listed subsidiary companies	-	-	20.5
Disposal of subsidiary companies/partnerships	-	(3,200.2)	113.8
Other loans discharged upon disposal of a subsidiary company	-	(218.0)	-
Dividends paid to minority shareholders/partners of subsidiary companies/partnerships	-	-	(2.3)
Write back of dividend payable to preference shareholders of the listed subsidiary company	-	-	(0.4)
Capitalisation of a provision for loss in short term investments and interest payable	-	208.3	-
Effect of foreign exchange rate changes	-	43.6	-
Balance at 31st December, 1999	<u>1,053.9</u>	<u>10,605.3</u>	<u>3,987.4</u>



(c) Acquisition of subsidiary companies

	1999 HK\$'million	1998 HK\$'million
Net assets acquired:		
Fixed assets	–	119.8
Property under development	–	594.2
Other investments	–	49.1
Other assets	–	20.2
Cash and bank balances	–	7.2
Time deposits	–	41.9
Debtors, deposits and prepayments	–	31.7
Inventories	–	13.8
Creditors and accruals	–	(75.5)
Deposit received	–	(14.0)
Bank overdraft	–	(18.7)
Provision for tax	–	(5.3)
Bank loan	–	(25.1)
Other loan	–	(1.9)
Minority interests	–	(4.2)
	–	733.2
Goodwill attributable to minority shareholders	–	56.6
Goodwill on consolidation	–	166.5
	–	956.3
Satisfied by:		
Cash	–	660.7
Shares in a listed subsidiary company	–	116.3
Decrease in deposit for acquisition of a development project	–	179.3
	–	956.3

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary companies:

	1999 HK\$'million	1998 HK\$'million
Cash and bank balances acquired	–	7.2
Time deposits acquired	–	41.9
Bank overdraft assumed	–	(18.7)
Cash consideration paid	–	(660.7)
Net outflow of cash and cash equivalents in respect of acquisition of the subsidiary companies	–	(630.3)



The subsidiary companies acquired in the prior year utilised HK\$34.9 million to the Group's net operating cash flow, paid HK\$2.1 million for financing activities, paid HK\$1.6 million in respect of the net returns on investments and servicing of finance, and utilised HK\$1.3 million for investing activities and paid HK\$0.3 million in respect of tax during that year.

(d) Disposal of subsidiary companies/partnerships

	1999 HK\$'million	1998 HK\$'million
Net assets disposed of:		
Fixed assets	4,822.3	4.0
Property under development	–	125.9
Interests in associates	510.3	–
Long term investments	1.6	–
Lease rights	17.9	–
Management contracts	5.6	–
Deferred expenditure	45.3	–
Hotel and other inventories	41.1	–
Debtors, deposits and prepayments	215.0	0.6
Cash and bank balances	427.4	1.0
Creditors and accruals	(349.7)	(0.2)
Tax payable	(15.5)	–
Interest bearing bank and other borrowings	(3,200.2)	–
Advances from minority shareholders	–	(72.6)
Minority interests	(1.4)	(22.2)
	<u>2,519.7</u>	<u>36.5</u>
Goodwill released on disposal	473.4	–
Revaluation reserves realised on disposal	(55.0)	–
Exchange equalisation reserve realised on disposal	(4.5)	(1.3)
Release of reserves attributable to minority shareholders	115.2	(0.5)
Loss on disposal	(1,014.0)	–
	<u>2,034.8</u>	<u>34.7</u>
Satisfied by:		
Cash	1,111.9	32.8
Debtors	183.2	–
Long term loan receivable	349.7	–
Decrease in other loans	218.0	–
Decrease in creditors and accruals	172.0	–
Decrease in provision for loss	–	1.9
	<u>2,034.8</u>	<u>34.7</u>



Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiary companies/partnerships:

	1999 HK\$'million	1998 HK\$'million
Cash and bank balances disposed of	(427.4)	(1.0)
Cash consideration	1,111.9	32.8
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies/partnerships	<u>684.5</u>	<u>31.8</u>

The subsidiary companies/partnerships disposed of during the year contributed HK\$514.7 million to the Group's net operating cash flows, paid HK\$279.3 million in respect of the net returns on investments and servicing of finance, paid HK\$16.2 million in respect of tax, utilised HK\$80.3 million for investing activities and paid HK\$82.0 million for financing activities.

- (e) The net cash inflow from operating activities of HK\$1,156.0 million included a cash inflow of HK\$22.8 million relating to compensation received from the cancellation of a tenancy agreement as disclosed in note 6 to the financial statements in accordance with SSAP2.
- (f) Major non-cash transactions
- (i) The consideration for the disposal of a subsidiary company in the amount of HK\$390 million was satisfied by discharge of certain other loans and creditors and accruals.
- (ii) A provision for loss in short term investments and interest payable totalling HK\$208.3 million were capitalised as bank and other loans during the year.

46. CONNECTED AND RELATED PARTY TRANSACTIONS

The Group had the following material connected and related parties transactions during the year:

	Notes	1999 HK\$'million	1998 HK\$'million
Gross construction fee income from a jointly controlled entity	(a)	47.8	35.6
Interest from a jointly controlled entity	(b)	–	222.7
Interest on loans to associates	(c)	4.7	7.4
Guarantees given in respect of a banking facility of a jointly controlled entity	(d)	2,310.0	2,310.0
Guarantee given in respect of a banking facility of an associate	(e)	<u>246.6</u>	<u>268.0</u>



- (a) The gross construction fee income from a jointly controlled entity was charged to Chest Gain Development Limited (“Chest Gain”) in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process.
- (b) The interest income from the jointly controlled entity was charged to Chest Gain. The details of the Group’s interest in and the terms of the loans due from this jointly controlled entity are disclosed in note 20 to the financial statements.
- (c) The interest income from associates in the prior year arose from loans to Bostonian Hotel Limited Partnership (“Bostonian”), The El Dorado Partnership, Limited (“El Dorado”), Century King Investment Limited (“Century King”) and Chi Cheung Investment Company, Limited (“Chi Cheung”). The current year’s amount arose from loans to Bostonian, El Dorado, Century King and Cheerjoy Development Limited. The details of the terms of such loans are disclosed in note 21 to the financial statements.
- (d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain.
- (e) The corporate guarantee was given by PHL in respect of a banking facility granted to Rapid Growth Holdings Limited, the holding company of Chi Cheung. The obligation under the guarantee was fully provided for in the prior year.

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

The related party transactions set out above did not constitute connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to the Company.

47. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group’s time deposits, listed investments, fixed assets including properties and equipment, properties under development, inventories and receivables with a total book value of HK\$14,448.6 million (1998 - HK\$14,732.6 million) and certain ordinary shares in two listed subsidiary companies and the shares in a jointly controlled entity are pledged to secure general banking facilities granted to the Group and the jointly controlled entity and certain notes payable and exchangeable bonds issued by the Group.

48. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	1999 HK\$'million	1998 HK\$'million	1999 HK\$'million	1998 HK\$'million
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank and other borrowings of:				
- a jointly controlled entity	1,757.7	1,757.7	-	-
- subsidiary companies	-	-	835.5	760.4
Obligations under option and other indemnity agreements entered into by subsidiary companies	-	-	340.3	682.6
	<u>1,757.7</u>	<u>1,757.7</u>	<u>1,175.8</u>	<u>1,443.0</u>

- (b) On 18th November, 1999, Regal International (BVI) Holdings Limited ("Regal BVI"), a wholly-owned subsidiary company of the RHIHL Group, entered into a securities purchase agreement ("SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by Regal BVI to the Purchaser of its interests in hotel ownership and hotel management in the United States of America (the "Hotel Assets").

Under the SP Agreement, Regal BVI would warrant that the combined earnings before interest, tax, depreciation and amortisation in respect of the Hotel Assets for the two years ending 31st December, 2000 to be not less than US\$140 million (HK\$1,087.8 million), subject to a maximum claim of US\$10 million (HK\$77.7 million) for those two years.

The SP Agreement also contains representations, warranties and indemnification given by Regal BVI which are normal and usual for transactions of similar nature.

At the date of this report, the Directors of the Company are unable to assess the likelihood of crystallisation of the contingent liabilities or to estimate the amounts thereof with reasonable accuracy.



49. COMMITMENTS

At the balance sheet date, the Group had the following outstanding commitments:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Capital commitments in respect of the renovation or improvement of hotel properties:		
Authorised and contracted for	–	23.7
Authorised, but not contracted for	–	100.9
	–	124.6
Capital commitments in respect of property and hotel development projects:		
Authorised and contracted for	170.3	590.7
Authorised, but not contracted for	79.3	875.9
	249.6	1,466.6
	249.6	1,591.2
Annual commitments payable in the following year under non-cancellable operating leases in respect of :		
Land and buildings expiring:		
Within one year	1.4	0.1
In the second to fifth years, inclusive	–	0.3
After five years	–	16.1
	1.4	16.5
Other equipment expiring:		
Within one year	2.5	1.6
In the second to fifth years, inclusive	1.0	6.1
	3.5	7.7
	4.9	24.2

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



50. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Notional amount of options	<u>41.0</u>	<u>487.5</u>

The notional amounts of the above instruments indicate the volume of the transactions outstanding at the balance sheet date, and do not represent the amount at risk.

51. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Group entered into the following significant transactions:

- (a) On 27th January, 2000, 138 million shares of HK\$0.10 each of the Company were issued to Mr. Lo Yuk Sui ("Mr. Lo"), a controlling shareholder of the Company, at HK\$0.37 per share for a total consideration of HK\$51 million, following a placing of the same number of shares at the same price by Mr. Lo to an independent placee on 19th January, 2000.
- (b) On 24th March, 2000, 120 million shares of HK\$0.10 each of the Company were issued to YSL International Holdings Limited ("YSL"), a company controlled by Mr. Lo, at HK\$1.0 per share for a total consideration of HK\$120 million, following a placing of the same number of shares at the same price by YSL to an independent placee on 15th March, 2000.

The proceeds from the above placements were substantially applied in repayment of indebtedness of the Group.

52. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of new SSAPs during the current year, the presentation of the profit and loss account, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform to the current year's presentation.

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 19th May, 2000.