



Notes to Financial Statements

31st December, 2000

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 and other investments (including investment and trading in financial instruments and marketable securities).

2. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$121.6 million for the year ended 31st December, 2000 (1999 - HK\$1,261.6 million). At as that date, the Group had consolidated accumulated losses of HK\$2,958.7 million (1999 - HK\$2,844.6 million) and consolidated net current liabilities of HK\$4,896.4 million (1999 - HK\$1,941.5 million).

Since October 1998, the Group and Paliburg Holdings Limited (“PHL”), a principal listed subsidiary company of the Group, including its subsidiary companies (the “PHL Group”), have encountered liquidity problems. They both 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”). Since the Group’s Standstill Arrangement last expired on 31st October, 2000, in lieu thereof, an informal Standstill Arrangement has been in place to allow the Group to complete proposed measures to improve its financial position and profitability, as further explained below. In respect of the PHL Group, since the Standstill Arrangement last expired on 30th September, 1999, an informal Standstill Arrangement has been in operation to allow the PHL Group to complete a Securitisation Loan and continue with the Disposal Programme, which are further explained below.

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

On 15th August, 2000, the Company entered into a conditional subscription option agreement with a company (the “Vendor”), in which Mr. Lo Yuk Sui, Chairman of the Company, has majority interest, in connection with the grant of a put option to the Vendor and a call option to the Company (collectively, the “Options”) relating to the possible acquisition by the Company of up to a further 30% interest, in addition to its existing indirect minority 4.9% interest, in another company which holds a 90% interest in a sino-foreign equity joint venture involved in information technology businesses in the People’s Republic of China (the “PRC”) for a consideration of up to HK\$2,475 million to be satisfied by the issue and allotment of the Company’s shares at HK\$0.55 per share. The acquisition proposal was intended to provide the Company with an opportunity to increase its involvement in information technology businesses and, more importantly, to revitalise the Company so that it may gradually restore its financial stability. Further details on the proposal were contained in the Company’s circular dated 6th September, 2000. As announced by the Company on 16th February, 2001, the Options became exercisable during the twenty-four month period to 15th February, 2003 in accordance with the agreed terms.

In February 2001, the Group appointed a financial adviser with a view to replacing the existing informal Standstill Arrangement of the Group by a proposed restructuring of the Group's outstanding indebtedness into three year convertible bonds (the "Debt Restructuring"). The Group is currently in discussions with its financial creditors with respect to the proposed Debt Restructuring.

In September 2000, the PHL Group successfully completed a long term refinancing programme which involved a mortgage-backed securitisation of its two principal investment properties, namely Paliburg Plaza and Kowloon City Plaza. The refinancing arrangement generated proceeds from a new mortgage loan of HK\$1,247 million (the "Securitisation Loan") which were used (i) to refinance the then existing indebtedness attached to these two properties aggregating HK\$773.6 million; and (ii) with the majority of the remaining balance of HK\$473.4 million to repay borrowings to other financial creditors of the PHL Group. Since the completion of the Securitisation Loan, the PHL Group has also been conducting discussions with its financial creditors to replace the informal Standstill Arrangement with new bilateral facilities (the "Bilateral Facilities Arrangement") which have been agreed in principle by the relevant financial creditors. The finalisation of the Bilateral Facilities Arrangement will, to a significant extent, depend on the satisfactory progress of the Bonds Restructuring as detailed below.

As at 31st December, 2000, the PHL Group had US\$140 million 3 $\frac{1}{2}$ % Exchangeable Guaranteed Bonds which matured on 6th February, 2001 (the "Exchangeable Bonds") (note 30) and US\$210 million Zero Coupon Guaranteed Convertible Bonds due to mature on 12th March, 2002 (the "Convertible Bonds") (note 31) (collectively, the "Paliburg Bonds"). The principal, interest and accrued redemption premium in respect of the Paliburg Bonds outstanding as at 31st December, 2000 were HK\$3,507.5 million. In October 2000, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring of the Paliburg Bonds, which included, among other terms proposed, a deferral of the maturity dates of the Paliburg Bonds to February 2004. Since October 2000, informal meetings and discussions have been held with the holders of the Paliburg Bonds with a view to securing their agreement to the restructuring of the terms and deferral of the repayments of the Paliburg Bonds. On 6th February, 2001, PHL announced that the Exchangeable Bonds had matured on 6th February, 2001 and remained unpaid. The outstanding principal, redemption premium and interest accrued of the Exchangeable Bonds as at that date amounted to US\$161.5 million (HK\$1,259.7 million). On 15th March, 2001, the trustee of the Convertible Bonds served a notice to the PHL Group to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. The PHL Group is currently in continuing discussions with the holders of the Paliburg Bonds with an objective of achieving a consensual restructuring of the terms of the Paliburg Bonds (the "Bonds Restructuring").

The PHL Group continued to implement an orderly asset disposal programme (the "Disposal Programme"). In December 2000, the PHL Group completed the disposal of a 50% interest in a wholly-owned subsidiary company which in turn holds an effective 45.5% interest in a property development project in the PRC. In March 2001, the PHL Group entered into a sale and purchase agreement for the disposal of a commercial property at Shau Kei Wan, Hong Kong, with completion scheduled in June 2001. The PHL Group will continue to implement the Disposal Programme to dispose of certain other identified assets. Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of PHL, and its subsidiary companies



(collectively the “RHIHL Group”), also implemented similar measures. Following the substantial disposal of its hotel interests in the United States of America in December 1999 (the “Disposal”), during the year, the deferred disposal of RHIHL’s remaining interest in its US hotel operations, namely Bostonian Hotel Limited Partnership, an associate of RHIHL, was also completed. The net proceeds generated therefrom amounted to approximately US\$13.6 million (HK\$106.1 million) which was used for working capital purposes.

Notwithstanding the successful implementation of the Disposal of the RHIHL Group, certain of its 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\$4,894.1 million (the “Regal Loans”) (note 29) still existed. Pursuant to the terms of the Regal Loans, as confirmed by a legal opinion obtained from RHIHL’s legal advisers, 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 RHIHL to declare the Regal Loans to be immediately due and repayable (the “Declaration Notice”) unless the cause for the non-compliance is remedied within a specified agreed upon period. However, unless and until such Declaration Notice is served by the Agents, the Regal Loans remain repayable on their original stated maturity dates. As confirmed by the respective Agents of the Regal Loans, no such Declaration Notice has been served to the RHIHL Group to date. 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 Agreement, after taking into account the prepayment of a certain portion of the Regal Loans as noted below. The directors of the Group and the PHL Group have also adopted such classification for the same reasons.

In connection with the Disposal, arrangements were made by the RHIHL Group in December 1999 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 (the “Arrangements”). In addition to the above, the RHIHL Group continues to service interest and loan principal payments of the Regal Loans on schedule.

In conjunction with these arrangements, RHIHL has been in discussions with the Lenders of the Regal Loans with a view to obtaining waivers in respect of RHIHL’s non-compliance with the relevant loan covenants and/or to secure their agreement not to enforce their rights explained above and for a revision of the terms of the loan covenants to include, inter alia, the relaxation of the financial ratios specified in the loan covenants currently required to be maintained by RHIHL (the “Waiver Discussions”). To date, no written indication from the Agents has been received by the RHIHL Group in respect of the successful outcome of the Waiver Discussions. However, the directors of RHIHL are confident that the RHIHL Group will be able to obtain the ongoing support from the Lenders, because (i) the RHIHL Group has continued to fulfill the ongoing requirements from the Lenders consequent to RHIHL’s non-compliance with the loan covenants, including the Arrangements; and (ii) the RHIHL Group has continued to service the payments of interest and principal of the Regal Loans on schedule.

On the bases that the Debt Restructuring, the Bonds Restructuring and the Bilateral Facilities Arrangement will be successful, the Disposal Programme will continue to be successfully implemented, and the Agents of the Regal Loans will not serve the Declaration Notice to the RHIHL Group, 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.

3. 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 period remeasurement of the Group's investment properties, hotel 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 for the year ended 31st December, 2000, 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, 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 and on acquisition of associates represents the excess purchase consideration paid for such companies 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' or associates' net underlying assets at the date of acquisition over the purchase consideration for such subsidiary companies or associates.

Upon the actual disposal of an interest in a subsidiary company 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

A subsidiary company is a company 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.

Investments in subsidiary companies 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, 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 is diluted by virtue of the additional issue of shares by such subsidiary company (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 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 and loss account and consolidated reserves, respectively. The Group's interest in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value, 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 (r) 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 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) Deferred expenditure

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

(m) 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.

(n) Intangible assets

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (“SEHK Trading Right”) and the Hong Kong Futures Exchange Limited (“HKFE Trading Right”), are stated at cost less accumulated amortisation. Cost was determined by the Directors according to the methodology detailed in note 22 to the financial statements.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over a period of 10 years and is charged to the profit and loss account.

(o) Other assets

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

(p) 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.

(q) 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.

**(r) 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 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%

During the year, the estimated useful life of certain computer equipment was changed. This change in accounting estimate has been made to more accurately reflect the expected patterns of economic benefits from these assets. This change in accounting estimate resulted in the increase in the amount of depreciation of HK\$4.8 million charged to the consolidated profit and loss account for the year ended 31st December, 2000.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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 (u) 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.

(x) Foreign currencies

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

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates. Profits and losses on exchange are dealt with in the profit and loss account.

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

(y) 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.

(z) 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.

(aa) 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) the 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.

(ab) Staff retirement scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

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

For certain subsidiary companies of the Group operating in Mainland China, contributions to the government retirement benefits scheme are charged to the profit and loss account as incurred.

(ac) 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.

(ad) 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.



4. TURNOVER AND REVENUE

Turnover represents the aggregate of the gross amounts of rental 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), proceeds from the sale of properties (in the case of 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), estate management fees, property development consultancy and project management fees, building services income, hotel income, travel services revenue and commissions, plant nursery and florist income, restaurant revenue, wedding services revenue, karaoke club revenue, income from brewery operations, proceeds from the 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	
	2000 HK\$'million	1999 HK\$'million
Rental income:		
Investment properties	195.2	251.4
Hotel properties	27.9	26.7
Construction and construction-related income	433.4	252.3
Proceeds from the sale of properties	46.1	1,041.8
Estate management fees	21.5	19.7
Property development consultancy and project management fees	0.1	6.0
Hotel operations and management services	972.3	2,939.6
Other operations, including travel services, plant nursery and florist, restaurant operations, wedding services, karaoke club operations and brewery operations	58.3	98.8
Proceeds from the sale of short term investments	45.0	21.3
Commission and brokerage income on dealings in securities, futures and other derivatives	15.2	16.7
Turnover	<u>1,815.0</u>	<u>4,674.3</u>

5. OTHER REVENUE/OTHER OPERATING INCOME/(EXPENSES), NET

Other revenue/other operating income/(expenses), net, include the following items:

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Other revenue:		
Compensation received from cancellation of a tenancy agreement	-	22.8
Other operating income/(expenses), net:		
Realised losses and provisions for losses in short term investments	(0.4)	(22.5)
Write off/Provisions against advances and interest receivable	(13.1)	(57.5)
Provisions for losses against properties	(106.0)	(406.7)
Provisions for guarantees and indemnity given	(18.1)	(124.4)
Provision for tax indemnity in respect of the disposal of overseas subsidiary companies/ partnerships in the prior year	(24.2)	-
Provisions for impairments in values of long term investments	-	(44.2)
Loss on disposal of ordinary shares in a listed subsidiary company	-	(8.0)
Write back of provision for guarantee given	29.9	-
Write back of provision for loss on deposit paid	10.0	-
Write back of provision against advances and interest receivable	9.6	-
Write back of deficit on revaluation of hotel properties previously charged to profit and loss account	65.8	187.0
Write back of provision for indemnity given	340.4	-



6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Cost of completed properties sold	40.7	1,426.5
Cost of inventories sold and other services provided	599.7	1,530.5
Staff costs (exclusive of directors' remuneration disclosed in note 8(a)):		
Wages and salaries*	458.6	1,275.8
Staff retirement scheme contributions	20.9	20.4
Less: Unvested contributions forfeited	(8.0)	(7.9)
Net retirement scheme contributions	12.9	12.5
	471.5	1,288.3
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(50.1)	(22.5)
Staff retirement scheme contributions	(0.6)	(1.4)
	420.8	1,264.4
Auditors' remuneration:		
Current year provision	5.4	9.6
Prior year underprovision	0.3	-
	5.7	9.6
Loss on disposal of listed investments (after a transfer from the revaluation reserve of a surplus of HK\$8.7 million)	-	5.2

* Inclusive of an amount of HK\$332.6 million (1999 - HK\$1,121.4 million) classified under cost of inventories sold and services provided.

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Depreciation	61.9	158.0
Less: Depreciation capitalised in respect of property development projects and construction contracts	(1.7)	(1.6)
	<u>60.2</u>	<u>156.4</u>
Loss on disposal of fixed assets	3.3	14.6
Write down in value of short term investments	5.7	-
Operating lease rentals:		
Land and buildings	0.8	36.8
Other equipment	1.1	10.1
Amortisation of lease rights	-	1.2
Amortisation of management contracts	-	0.4
Amortisation of trading rights	0.5	-
and after crediting:		
Gross rental income	223.1	278.1
Less: Outgoings	(57.5)	(78.0)
Net rental income	<u>165.6</u>	<u>200.1</u>
Interest income from:		
Bank balances	36.9	48.4
Other loans and receivables	35.4	27.4
Associates	11.8	4.7
	<u>84.1</u>	<u>80.5</u>
Gain on revaluation of short term investments	15.0	-
Gain on disposal of listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.9 million)	26.5	-
Dividend income from:		
Listed investments	1.0	0.9
Unlisted investment	1.3	1.0
	<u>1.3</u>	<u>1.0</u>



7. FINANCE COSTS

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Interest in respect of:		
Bank loans and overdrafts	562.8	735.8
Other loans, notes payable and exchangeable bonds, wholly repayable within five years	177.9	313.3
Notes payable, not wholly repayable within five years	–	36.9
	<u>740.7</u>	<u>1,086.0</u>
Premium provided on exchangeable bonds and convertible bonds	213.1	198.4
	<u>953.8</u>	<u>1,284.4</u>
Interest capitalised in respect of property development projects and construction contracts	(34.8)	(111.8)
	<u>919.0</u>	<u>1,172.6</u>
Amortisation of deferred expenditure	23.4	89.9
Write off of deferred expenditure	15.9	5.2
Other loan costs	0.8	–
Total finance costs	<u>959.1</u>	<u>1,267.7</u>

8. DIRECTORS' REMUNERATION

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

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Fees	1.6	1.5
Salaries and other allowances	8.3	11.7
Performance related/discretionary bonuses	0.7	1.4
Staff retirement scheme contributions	–	0.2
	10.6	14.8
	10.6	14.8

The remuneration of the Directors fell within the following bands:

HK\$	2000 Number of Directors	1999 Number of Directors
Nil - 1,000,000	4	5
1,500,001 - 2,000,000	–	1
2,000,001 - 2,500,000	–	1
2,500,001 - 3,000,000	1	1
6,000,001 - 6,500,000	1	–
6,500,001 - 7,000,000	–	1
	4	9
	4	9

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\$0.4 million (1999 - 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 and the fees entitled by those independent Non-executive Directors for serving as audit committee members, for the year ended 31st December, 2000.



(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	Granted on	
	22nd February, 1994	15th September, 1995	
	'million	with	
		Original Grant Date ⁽¹⁾	
		of 22nd February, 1992	Total
		'million	'million
Balance at beginning and at end of year	5.5 ⁽²⁾	24.0 ⁽³⁾	29.5
Outstanding rights vested with the Directors at end of year	3.3 ⁽²⁾	17.1 ⁽³⁾	
Exercise price per share (HK\$)	10.4000	0.6656	

- (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 Date is the date of grant of the PIHL Options and is used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- (2) The options for 3.3 million shares are exercisable at any time. The options for the remaining 2.2 million shares are exercisable in stages commencing seven years from the date of grant.
- (3) The options for 17.1 million shares are exercisable at any time. The options for the remaining 6.9 million shares are exercisable in stages commencing nine years from the Original Grant Date.

RHIHL

	Number of ordinary shares under options	
	Granted on 22nd February, 1992 'million	Total 'million
Balance at beginning and at end of year	<u>35.3*</u>	<u>35.3</u>
Outstanding rights vested with the Directors at end of year	<u>26.6*</u>	
Exercise price per ordinary share (HK\$)	<u>0.7083</u>	

* The options for 26.6 million ordinary shares are exercisable at any time. The options for the remaining 8.7 million ordinary shares are exercisable in stages commencing nine 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.



9. SENIOR EXECUTIVES' EMOLUMENTS

- (a) The five highest paid individuals included two (1999 - two) Directors, details of whose remuneration are disclosed in note 8 to the financial statements. The emoluments of the other three (1999 - three) individuals, who were not Directors, are as follows:

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Salaries and other emoluments	4.5	8.8
Performance related/discretionary bonuses	–	0.5
Staff retirement scheme contributions	0.2	0.1
	<u>4.7</u>	<u>9.4</u>

The emoluments of the three (1999 - three) individuals fell within the following bands:

HK\$	2000	1999
	Number of	Number of
	individuals	individuals
1,000,001 - 1,500,000	2	–
1,500,001 - 2,000,000	1	–
2,500,001 - 3,000,000	–	2
3,500,001 - 4,000,000	–	1
	<u> </u>	<u> </u>

The emoluments included the emoluments received by those 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 to the senior executives of the Company mentioned above.

Details of the share options granted by PHL and RHIHL to the senior executives of the Company mentioned above are as follows:

PHL

	Number of shares under options					Total 'million
	Granted on 15th September, 1995 with Original Grant Date *					
	Granted on 22nd February, 1994 'million	Granted of 22nd February, 1992 'million	Granted of 22nd February, 1993 'million	Granted of 22nd February, 1994 'million	Granted on 22nd February, 1997 'million	
Balance at beginning and at end of year	<u>2.3</u> ⁽¹⁾	<u>4.2</u> ⁽²⁾	<u>1.8</u> ⁽³⁾	<u>3.1</u> ⁽⁴⁾	<u>0.6</u> ⁽⁵⁾	<u>12.0</u>
Outstanding rights vested with the senior executives at end of year	<u>1.4</u> ⁽¹⁾	<u>3.2</u> ⁽²⁾	<u>1.2</u> ⁽³⁾	<u>1.9</u> ⁽⁴⁾	<u>0.2</u> ⁽⁵⁾	
Exercise price per share (HK\$)	<u>10.4000</u>	<u>0.6656</u>	<u>1.1571</u>	<u>3.5392</u>	<u>6.6720</u>	

* See note 8(b)(1) to the financial statements.

- (1) The options for 1.4 million shares are exercisable at any time. The options for the remaining 0.9 million shares are exercisable in stages commencing seven years from the date of grant.
- (2) The option for 3.2 million shares is exercisable at any time. The option for the remaining 1.0 million shares is exercisable in stages commencing nine years from the Original Grant Date.
- (3) The option for 1.2 million shares is exercisable at any time. The option for the remaining 0.6 million shares is exercisable in stages commencing eight years from the Original Grant Date.
- (4) The option for 1.9 million shares is exercisable at any time. The option for the remaining 1.2 million shares is exercisable in stages commencing seven years from the Original Grant Date.
- (5) The option for 0.2 million shares is exercisable at any time. The option for the remaining 0.4 million shares is exercisable in stages commencing four years from the date of grant.

**RHIHL**

	Number of ordinary shares under options		
	Granted on 22nd February, 1992 'million	Granted on 5th August, 1993 'million	Total 'million
Balance at beginning and at end of year	<u>1.8⁽¹⁾</u>	<u>1.2⁽²⁾</u>	<u>3.0</u>
Outstanding rights vested with the senior executive at end of year	<u>1.4⁽¹⁾</u>	<u>0.8⁽²⁾</u>	
Exercise price per ordinary share (HK\$)	<u>0.7083</u>	<u>1.1083</u>	

- (1) The option for 1.4 million ordinary shares is exercisable at any time. The option for the remaining 0.4 million ordinary shares is exercisable in stages commencing nine years from the date of grant.
- (2) The option for 0.8 million ordinary shares is exercisable at any time. The option for the remaining 0.4 million ordinary shares is exercisable in stages commencing eight 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 senior executives.

10. TAX

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
The Company and subsidiary companies/partnerships:		
Provision for tax in respect of profits for the year:		
Hong Kong	5.4	24.1
Overseas	2.8	22.8
	<u>8.2</u>	<u>46.9</u>
Prior year overprovisions:		
Hong Kong	(0.8)	(13.2)
Capital gains tax - overseas	12.3	24.2
Transfer from deferred tax (note 33)	(0.8)	(3.2)
Tax charge for the year	<u>18.9</u>	<u>54.7</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (1999 - 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 or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the year.

**11. 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\$295.9 million (1999 - HK\$1,157.4 million).

12. TRANSFER FROM OTHER RESERVES

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Transfer from revaluation reserve of the portion of depreciation charge on leasehold properties attributable to the revaluation surplus in relation thereto (note 40)	5.0	5.9

13. ACCUMULATED LOSSES AT END OF YEAR

Accumulated losses at end of year accumulated in:

	GROUP	
	2000 HK\$'million	1999 HK\$'million
The Company and subsidiary companies/partnerships	(1,755.5)	(1,726.7)
Associates	(196.4)	(187.4)
Jointly controlled entity	(1,006.8)	(930.5)
	<u>(2,958.7)</u>	<u>(2,844.6)</u>

14. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$121.6 million (1999 - HK\$1,261.6 million) and on the weighted average of 3,288.5 million (1999 - 3,068.8 million) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the year ended 31st December, 2000, as no diluting events existed during the year. No diluted loss per share was presented for the year ended 31st December, 1999, as the exercise of the warrants of the Company then outstanding was anti-dilutive.

15. FIXED ASSETS

GROUP

	1st January, 2000 HK\$'million	Exchange adjustments HK\$'million	Additions HK\$'million	Transfer from property development HK\$'million	Transfer from leasehold properties HK\$'million	Disposal of subsidiary companies HK\$'million	Other Disposals HK\$'million	Surplus/ (Deficit) on revaluation HK\$'million	31st December, 2000 HK\$'million
At valuation:									
Investment properties	3,325.8	-	0.5	-	38.0	-	-	(209.1)	3,155.2
Hotels, including furniture, fixtures and equipment	9,187.5	(7.3)	18.7	755.7	-	-	-	137.4	10,092.0
	<u>12,513.3</u>	<u>(7.3)</u>	<u>19.2</u>	<u>755.7</u>	<u>38.0</u>	<u>-</u>	<u>-</u>	<u>(71.7)</u>	<u>13,247.2</u>
At cost:									
Leasehold properties	722.4	0.1	-	-	(43.4)	-	(44.1)	-	635.0
Leasehold improvements, furniture, fixtures and equipment	139.1	0.2	5.0	-	-	(2.0)	(16.1)	-	126.2
Site equipment	1.7	-	-	-	-	-	-	-	1.7
Construction in progress	28.9	0.1	0.4	-	-	-	(1.2)	-	28.2
Motor vehicles	7.3	-	0.1	-	-	-	(0.9)	-	6.5
	<u>13,412.7</u>	<u>(6.9)</u>	<u>24.7</u>	<u>755.7</u>	<u>(5.4)</u>	<u>(2.0)</u>	<u>(62.3)</u>	<u>(71.7)</u>	<u>14,044.8</u>
Accumulated depreciation:									
Hotel furniture, fixtures and equipment	124.5	(1.1)	32.8	-	-	-	-	-	156.2
Leasehold properties	94.6	-	15.0	-	(5.4)	-	(19.1)	-	85.1
Leasehold improvements, furniture, fixtures and equipment	68.5	-	12.9	-	-	(1.5)	(12.8)	-	67.1
Site equipment	1.7	-	-	-	-	-	-	-	1.7
Motor vehicles	4.5	-	1.2	-	-	-	(0.7)	-	5.0
	<u>293.8</u>	<u>(1.1)</u>	<u>61.9</u>	<u>-</u>	<u>(5.4)</u>	<u>(1.5)</u>	<u>(32.6)</u>	<u>-</u>	<u>315.1</u>
Net book value	<u>13,118.9</u>								<u>13,729.7</u>



Analysis of net book value by geographical location:

	2000 HK\$'million	1999 HK\$'million
Leasehold land and buildings in Hong Kong:		
Investment properties, at valuation at balance sheet date:		
Long term	512.9	530.6
Medium term	2,579.1	2,727.1
Hotel properties, at valuation at balance sheet date:		
Long term	3,973.0	4,090.0
Medium term	5,739.0	4,743.0
Leasehold properties, at cost or deemed cost:		
Long term	512.5	564.0
Medium term	4.9	5.1
	<u>13,321.4</u>	<u>12,659.8</u>
Properties situated in the People's Republic of China excluding Hong Kong (the "PRC"):		
Medium term leasehold properties, at cost	32.5	58.7
Long term leasehold land and investment properties, at valuation at balance sheet date	<u>63.2</u>	<u>68.1</u>
	<u>95.7</u>	<u>126.8</u>
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	<u>223.8</u>	<u>230.0</u>
	<u>13,640.9</u>	<u>13,016.6</u>

As at 31st December, 2000, 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 a 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, 2000 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, 2000 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

At 31st December, 2000, the investment properties situated in the PRC were stated at their subsequent selling price (note 50) as, in the opinion of the Directors, this approximated the open market value as at the balance sheet date. The valuations of these investment properties in the prior year 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:

	2000 HK\$'million	1999 HK\$'million
Investment properties	1,170.9	1,159.8
Hotel properties	5,413.0	4,658.2
Leasehold properties	151.1	167.2
	<u>6,735.0</u>	<u>5,985.2</u>

**16. PROPERTIES UNDER DEVELOPMENT**

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Balance at beginning of year	1,420.4	5,501.3
Exchange adjustments	0.6	0.6
Other additions in land and development costs	133.2	431.4
Interest capitalised	32.4	104.3
Disposal of subsidiary companies	(596.8)	-
Other disposals	-	(375.9)
Transfer to:		
Hotel property (note 15)	(755.7)	(2,601.3)
Properties held for sale	-	(1,349.3)
Surplus on revaluation	-	109.3
Provisions for diminutions in values of properties under development	(20.0)	(400.0)
	<hr/>	<hr/>
Balance at end of year	214.1	1,420.4
Properties under development included in current assets	(156.0)	(155.4)
	<hr/>	<hr/>
Non-current portion	58.1	1,265.0
	<hr/> <hr/>	<hr/> <hr/>
Analysis by geographical location:		
Leasehold land and buildings in Hong Kong held under medium term leases:		
At cost less provision for diminution in value	22.2	41.8
At valuation	-	645.0
	<hr/>	<hr/>
	22.2	686.8
	<hr/>	<hr/>
Freehold land in the U.S.A., at cost less provision for diminution in value	156.0	155.4
	<hr/>	<hr/>
Leasehold land and buildings in the PRC, at cost less provisions for diminutions in values:		
Long term	25.5	19.8
Medium term	10.4	558.4
	<hr/>	<hr/>
	35.9	578.2
	<hr/>	<hr/>
	214.1	1,420.4
	<hr/> <hr/>	<hr/> <hr/>

The valuation of hotel property under development in the prior year was performed by an independent valuer with an RICS qualification on an open market, intended use on completion basis. As at 31st December, 1999, certain of the Group's properties under development were pledged to secure banking facilities granted to the Group.

17. PROPERTIES HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning of year	26.7	24.3
Additions during the year	–	0.3
Interest capitalised	–	2.1
	<u>26.7</u>	<u>26.7</u>
Balance at end of year	<u><u>26.7</u></u>	<u><u>26.7</u></u>

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Share of post-acquisition losses	(1,914.1)	(1,771.7)
Loans to the jointly controlled entity	2,646.5	2,502.3
Amount due from the jointly controlled entity	341.1	339.7
	<u>1,073.5</u>	<u>1,070.3</u>
	<u><u>1,073.5</u></u>	<u><u>1,070.3</u></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 (1999 - HK\$1,633.3 million).

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



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

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group		Principal activity
			2000	1999	
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 44.6% (1999 - 60.4% and 44.7%) owned by the Group as at 31st December, 2000, respectively.

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

	2000 HK\$'million	1999 HK\$'million
State of affairs		
Non-current assets	4,145.0	4,141.2
Current assets	0.2	0.3
Current liabilities	(72.1)	(72.0)
Non-current liabilities	(7,441.7)	(6,894.7)
Net liabilities attributable to venturers	<u>(3,368.6)</u>	<u>(2,825.2)</u>
Income and losses		
Income	<u>-</u>	<u>-</u>
Net loss from ordinary activities attributable to venturers	<u>(543.4)</u>	<u>(491.8)</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:

	2000 HK\$'million	1999 HK\$'million
Authorised and contracted for	15.9	58.2
Authorised, but not contracted for	555.8	480.6
	<u>571.7</u>	<u>538.8</u>

19. INTERESTS IN ASSOCIATES

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Unlisted companies/partnerships:		
Share of net liabilities	(14.0)	(229.5)
Loans to associates	233.0	150.1
Amounts due from associates	30.4	403.6
	<u>249.4</u>	<u>324.2</u>
Less: Provisions for diminutions in values	(0.4)	(100.2)
	<u>249.0</u>	<u>224.0</u>
At balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(305.6)</u>	<u>(255.6)</u>

The loans to associates are unsecured and not repayable within one year. Except for the amounts of HK\$126.3 million (1999 - HK\$123.2 million) and HK\$2.9 million (1999 - HK\$26.9 million) which bear interest at Hong Kong prime rate (1999 - Hong Kong prime rate) and 10% (1999 - 6% to 10%) per annum, respectively, the remaining balances are interest free.

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

The shares of net 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
				2000	1999	
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	50.00 ⁽¹⁾	100.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd. ("Beijing Hengfu")*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 ⁽¹⁾	45.50 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽²⁾	30.00 ⁽²⁾	Property development
Weifang Futuan Building Materials Co., Ltd.	Corporate	The People's Republic of China	Equity joint venture interest	25.00 ⁽³⁾	25.00 ⁽³⁾	Cement production
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽⁴⁾	-	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽⁴⁾	-	Investment holding
8D International Limited ("8D-HK")	Corporate	Hong Kong	Ordinary shares	40.00 ⁽⁵⁾	100.00 ⁽⁵⁾	Promotions, communications and information technology
Century King Investment Limited ("Century King")	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁶⁾	50.00 ⁽⁶⁾	Restaurant operations
Bostonian Hotel Limited Partnership ("Bostonian")*	Partnership	U.S.A.	Limited partnership interest	- ⁽⁷⁾	51.00 ⁽⁶⁾	Hotel ownership

* not audited by Ernst and Young.

- (1) The percentage of equity interest in Talent Faith represents the equity interest attributable to a wholly-owned subsidiary company of PHL. Talent Faith, previously a wholly-owned subsidiary company of PHL, holds an effective 45.5% interest in Beijing Hengfu. The sole asset of Beijing Hengfu is the holding of a property development project in the PRC. Following the partial disposal of a 50% interest in Talent Faith by PHL during the year, both Talent Faith and Beijing Hengfu became effective 50% and 22.75% associates, respectively, of PHL.
- (2) The percentage of equity interest represents equity interest attributable to a wholly-owned subsidiary company of PHL.
- (3) The percentage of equity interest represents the equity interest attributable to a 75% owned subsidiary company of PHL.
- (4) The percentages of the equity interests represent the aggregate of the 10% and the 30% equity interests attributable to wholly-owned subsidiary companies of the Company and RHIHL, respectively. RHIHL was in turn 44.6% (1999 - 44.7%) owned by the Group as at 31st December, 2000.
- (5) The percentage of equity interest represents the aggregate of the 10% and the 30% equity interests attributable to wholly-owned subsidiary companies of the Company and RHIHL, respectively. 8D-HK was previously a wholly-owned subsidiary company of the Company. Following the effective partial disposal of a 90% equity interest by the Company during the year, it became an associate of the Group.

- (6) The percentage of equity interest represents those attributable to RHIHL.
 (7) This associate was disposed of during the year.

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 investment in Bostonian, a limited partnership, is accounted for using the equity method because the Group does not control the appointment of the general partners.

20. INVESTMENTS

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Long term investments		
Listed equity investments, at market value:		
Hong Kong	144.8	197.0
Elsewhere	8.0	14.5
	152.8	211.5
Unlisted equity investments, at fair value:		
Carrying value	392.7	93.8
Provisions for impairments in values	(93.5)	(93.5)
	299.2	0.3
	452.0	211.8

Long term investments with market values amounting to HK\$32.3 million (1999 - HK\$202.8 million) were pledged to secure general credit facilities granted to the Group.

Included in the unlisted long term investments is an amount of HK\$298.9 million which represents the PHL Group's investments of 23% interest each in two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") in Beijing, the People's Republic of China (the "PRC"). The PHL Group's investments in the Investee Companies are stated at their carrying values as at the date of the change of their status from subsidiary companies to long term investments following the PHL Group's transfer of 72% interests in each of the Investee Companies to an independent third party in August 2000. In November 2000, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on grounds



of its prolonged idle condition. The joint venture partners to the Investee Companies have the right to make an application to the relevant PRC government authorities for an administrative review. The Group and the other parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. In the opinion of the directors of PHL, it is not possible to determine at this stage with reasonable certainty the ultimate outcome of the negotiations and hence, the provision, if any, required to be made against the PHL Group's investments in the Investee Companies. Accordingly, no provision has been made in the financial statements in respect of these investments.

Despite the PHL Group's holding 23% interests in the Investee Companies, the directors of PHL confirm that the PHL Group is not in a position to exercise significant influence over the financial and operating decision policies of the Investee Companies due to a contractual arrangement made with that independent third party to exchange the PHL Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially held by the Investee Companies in accordance with the agreed terms. Accordingly, the directors of PHL consider it more appropriate to account for the investments therein as long term investments.

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Short term investments		
Listed equity investments, at market value:		
Hong Kong	27.7	4.6
Elsewhere	—	0.5
	<u>27.7</u>	<u>5.1</u>

Short term investments with market values amounting to HK\$2.0 million (1999 - HK\$2.5 million) were pledged to secure general credit facilities granted to the Group.

21. LOANS AND OTHER LONG TERM RECEIVABLES

		GROUP	
	Notes	2000 HK\$'million	1999 HK\$'million
Promissory notes receivable	(a)	180.0	-
Long term mortgage loans	(b)	74.3	123.6
Other loans	(c)	115.7	77.7
Other receivable	(d)	-	349.7
		370.0	551.0

(a) This represents promissory notes receivable in the aggregate amount of HK\$180.0 million (1999 - 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. The notes receivable were classified as current assets in the prior year (note 24). The issuers of the promissory notes are in discussions with the Group to restructure the terms of the notes. Accordingly, the Directors consider it appropriate to reclassify the notes receivable as non-current assets at the balance sheet date.

(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.

The long term mortgage loans of HK\$74.3 million (1999 - HK\$123.4 million) bear interest at Hong Kong prime rate plus 1.75% to 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. The prior year balance included an amount of HK\$0.2 million which was interest free.

(c) The other loans include a loan of US\$10.0 million (HK\$78.0 million) (1999 - HK\$77.7 million) advanced to a hotel owner in Shanghai, the PRC, to assist financing the interior decoration and pre-operating expenditure of its 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 the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

The remaining amount represents a loan of RMB40.0 million (HK\$37.7 million) (1999 - Nil) advanced to an independent third party which is secured, bears interest at Hong Kong prime rate per annum and has no fixed terms of repayment.



- (d) The prior year other receivable represented a deferred consideration of US\$45 million (approximately HK\$349.7 million) in respect of the Group's disposal of its hotel interests in the United States of America (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. Accordingly, the amount has been reclassified to current assets in the current year (note 26).

22. INTANGIBLE ASSETS

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Transfer from other assets	7.5	-
Amortisation provided during the year	(0.5)	-
Balance at end of year	<u>7.0</u>	<u>-</u>

Pursuant to the restructuring of The Stock Exchange of Hong Kong Limited (the "SEHK") and the Hong Kong Futures Exchange Limited (the "HKFE"), which was effective on 6th March, 2000, the Group received two SEHK Trading Rights, a HKFE Trading Right and 3,003,500 ordinary shares of HK\$1.00 each in Hong Kong Exchanges and Clearing Limited (the "HKEx" Shares) in exchange for its two shares previously held in the SEHK and one share previously held in the HKFE.

The prior carrying costs of the previously held shares in the SEHK and the HKFE have been apportioned to the SEHK Trading Rights and the HKFE Trading Right (collectively the "Trading Rights") on the basis of their respective estimated fair values on 6th March, 2000. The Trading Rights have been classified as intangible assets. The HKEx Shares have been classified as short term listed equity investments in Hong Kong (note 20). Subsequent to their classification under these balance sheet categories, the Trading Rights and HKEx Shares have been treated in accordance with the accounting policies applicable to the respective categories.

23. OTHER ASSETS

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
At cost:		
Shares in SEHK	–	10.0
Share in HKFE	–	5.0
Deposits with the HKFE, SEHK and the SEHK Option Clearing House Limited	1.8	1.8
Others	0.7	0.7
	<hr/> 2.5 <hr/>	<hr/> 17.5 <hr/>

The Group held two shares in the SEHK and one share in the HKFE as at 31st December, 1999. As detailed in note 22 to the financial statements, pursuant to the restructuring of the SEHK and HKFE which was effective on 6th March, 2000, these shares were exchanged for two SEHK Trading Rights, a HKFE Trading Right, and 3,003,500 HKEx Shares.

24. SHORT TERM LOANS RECEIVABLE

The short term loans receivable of the Group represents an unsecured and interest free loan to a consortium in the amount of HK\$0.9 million (1999 - HK\$0.9 million).

The prior year amount included promissory notes receivable in the aggregate amount of HK\$180.0 million. The notes receivable were reclassified to non-current assets at the balance sheet date (note 21(a)).



25. HOTEL AND OTHER INVENTORIES

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Hotel merchandise and restaurant supplies	24.7	23.3
Raw materials	6.4	6.3
Work in progress	8.2	6.2
Finished goods	1.9	1.1
	<u>41.2</u>	<u>36.9</u>

As at 31st December, 2000, the carrying amount of the inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$9.8 million (1999 - HK\$9.5 million).

26. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$199.9 million (1999 - HK\$177.7 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Outstanding balances with ages:		
Within 3 months	147.3	128.2
Between 4 to 6 months	5.3	11.6
Between 7 to 12 months	14.0	38.6
Over 1 year	52.1	20.1
	<u>218.7</u>	<u>198.5</u>
Provisions	<u>(18.8)</u>	<u>(20.8)</u>
	<u>199.9</u>	<u>177.7</u>

Credit Terms

Trade debtors, which generally have credit terms of 2 to 90 days, are recognised and carried at their original invoiced amount less provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The debtors, deposits and prepayments in the current year includes a deferred consideration of US\$45 million (approximately HK\$351.0 million) and interest accrued thereon at 7% per annum, further details of which are set out in note 21(d) to the financial statements.

27. CREDITORS AND ACCRUALS

Included in the balance of HK\$109.3 million (1999 - HK\$157.7 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	79.4	129.5
Between 4 to 6 months	3.1	6.0
Between 7 to 12 months	1.9	13.7
Over 1 year	24.9	8.5
	<u>109.3</u>	<u>157.7</u>

28. CONSTRUCTION CONTRACTS

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Gross amount due from contract customers included in debtors, deposits and prepayments	2.4	10.0
Gross amount due to contract customers included in creditors and accruals	(119.6)	(85.3)
	<u>(117.2)</u>	<u>(75.3)</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,092.9	874.0
Less: Progress billings	(1,210.1)	(949.3)
	<u>(117.2)</u>	<u>(75.3)</u>

At 31st December, 2000, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$25.6 million (1999 - HK\$23.6 million).

As 31st December, 2000, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$23.2 million (1999 - HK\$40.0 million).

**29. INTEREST BEARING BANK AND OTHER BORROWINGS**

	GROUP		COMPANY	
	2000 HK\$'million	1999 HK\$'million	2000 HK\$'million	1999 HK\$'million
Bank loans and overdrafts:				
Secured	6,044.5	7,226.0	55.0	58.1
Unsecured	223.7	275.9	-	-
Other loans wholly repayable within five years:				
Secured	1,464.7	65.1	-	-
Unsecured	107.0	194.3	-	-
	<u>7,839.9</u>	<u>7,761.3</u>	<u>55.0</u>	<u>58.1</u>
Portion of borrowings due within one year included under current liabilities:				
Bank loans and overdrafts	(1,519.9)	(1,961.7)	(55.0)	(58.1)
Other loans	(362.2)	(259.4)	-	-
	<u>(1,882.1)</u>	<u>(2,221.1)</u>	<u>(55.0)</u>	<u>(58.1)</u>
Long term borrowings	<u>5,957.8</u>	<u>5,540.2</u>	<u>-</u>	<u>-</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:				
On demand or not exceeding 1 year	1,882.1	2,221.1	55.0	58.1
More than 1 year but not exceeding 2 years	496.3	431.2	-	-
More than 2 years but not exceeding 5 years	5,069.5	4,614.0	-	-
More than 5 years	392.0	495.0	-	-
	<u>7,839.9</u>	<u>7,761.3</u>	<u>55.0</u>	<u>58.1</u>

The other loans carried fixed interest rates ranging from 8.78% to 13.5% (1999 - 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\$3,822.1 million and a construction loan amounting to HK\$1,072.0 million (collectively referred to as the "Regal Loans"). As more fully explained in note 2 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 a 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 2 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 certain loan portion, under the loan agreements as at 31st December, 2000.

30. EXCHANGEABLE BONDS

In February 1996, the PHL Group issued US\$140 million 3 $\frac{1}{2}$ % 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 3 $\frac{1}{2}$ % per annum.

As at 1st January, 2000, 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 was from 6th April, 1996 to 23rd January, 2001, both dates inclusive (which period was extended by 90 days to 23rd April, 2001 pursuant to a second supplemental trust deed dated 23rd January, 2001).

The PHL Group had 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 were redeemable on maturity on 6th February, 2001 at 121.85% of their principal amount, if not previously exchanged or redeemed. Accordingly, the Exchangeable Bonds have been reclassified as current liabilities at the balance sheet date. On 6th February, 2001, PHL announced that the Exchangeable Bonds had matured on 6th February, 2001 and remained unpaid. Further details are set out in note 2 to the financial statements.

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, 2000 for Regal Shares would, with the capital structure of RHIHL as at 31st December, 2000 and based on the issued ordinary share capital of RHIHL and the PHL Group's 73.8% interest therein as at that date, dilute the PHL Group's shareholding in RHIHL to 60.2%.



31. 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, 2000, 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, 2000, 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, 2000 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 more fully explained in note 2 to the financial statements, as a result of the maturity default of the Exchangeable Bonds (note 30), on 15th March, 2001, the trustee of the Convertible Bonds served a notice to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. Accordingly, the Convertible Bonds have been reclassified as current liabilities at the balance sheet date.

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

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Balance at beginning of year	563.9	365.5
Exchange adjustments	2.2	-
Provision during the year	213.1	198.4
Balance at end of year	<u>779.2</u>	<u>563.9</u>

The above provision for premium has been reclassified as a current liability on the same basis as the related Exchangeable Bonds and Convertible Bonds, as explained in notes 30 and 31 to the financial statements, respectively.

33. DEFERRED TAX

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Balance at beginning of year	0.8	4.0
Release to profit and loss account (note 10)	(0.8)	(3.2)
Balance at end of year	<u>-</u>	<u>0.8</u>

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



34. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

All advances from minority shareholders of subsidiary companies are unsecured and have no fixed terms of repayment. Apart from an amount of HK\$28.4 million (1999 - HK\$25.8 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

35. SHARE CAPITAL

	COMPANY	
	Number of shares of HK\$0.10 each 'million	HK\$'million
Authorised:		
Balance at beginning of year	4,000.0	400.0
Increase during the year	16,000.0	1,600.0
Balance at end of year	<u>20,000.0</u>	<u>2,000.0</u>
Issued and fully paid:		
Balance at beginning of year	3,068.8	306.9
Issue of new shares	258.0	25.8
Balance at end of year	<u>3,326.8</u>	<u>332.7</u>

During the year, the following movements in the authorised and issued share capital of the Company were recorded:

- (a) pursuant to an ordinary resolution passed at the Special General Meeting held on 22nd September, 2000, the authorised share capital of the Company was increased from HK\$400,000,000 divided into 4,000,000,000 shares of HK\$0.10 each to HK\$2,000,000,000 divided into 20,000,000,000 shares of HK\$0.10 each by the creation of an additional 16,000,000,000 shares of HK\$0.10 each;
- (b) on 27th January, 2000, a total of 138 million new shares of HK\$0.10 each of the Company were issued to Mr. Lo Yuk Sui ("Mr. Lo"), the Chairman and 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 independent investors on 19th January, 2000.
- (c) on 24th March, 2000, a total of 120 million new shares of HK\$0.10 each were issued to YSL International Holdings Limited ("YSL Int'l"), a company controlled by Mr. Lo, at HK\$1.00 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 Int'l to independent investors on 15th March, 2000.

36. RESERVES

	Notes	GROUP		COMPANY	
		2000 HK\$'million	1999 HK\$'million	2000 HK\$'million	1999 HK\$'million
Share premium	37	888.4	747.0	888.4	747.0
Capital redemption reserve	38	4.4	4.4	4.4	4.4
Capital reserve	39	3,226.9	3,239.4	-	-
Revaluation reserves	40	64.7	223.3	-	-
Exchange equalisation reserve	41	(3.2)	2.0	-	-
Contributed surplus	43	-	-	1,893.5	1,893.5
Accumulated losses		(2,958.7)	(2,844.6)	(1,563.8)	(1,267.9)
		<u>1,222.5</u>	<u>1,371.5</u>	<u>1,222.5</u>	<u>1,377.0</u>

37. SHARE PREMIUM

	COMPANY	
	2000 HK\$'million	1999 HK\$'million
Balance at beginning of year	747.0	747.0
Premium on issue of new shares	145.3	-
Share issue expenses	(3.9)	-
Balance at end of year	<u>888.4</u>	<u>747.0</u>

**38. CAPITAL REDEMPTION RESERVE**

	GROUP AND COMPANY	
	2000 HK\$'million	1999 HK\$'million
Balance at beginning and at end of year	<u>4.4</u>	<u>4.4</u>

39. CAPITAL RESERVE

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Balance at beginning of year	3,239.4	2,680.8
Capital reserve arising on increase in shareholding in subsidiary companies	-	88.2
Release on disposal of ordinary shares in the listed subsidiary companies	-	(3.9)
Release as a result of the deemed disposal of the Group's interest in a listed subsidiary company	(2.5)	-
Goodwill eliminated against capital reserve released on disposal of subsidiary companies/partnerships	-	473.4
Goodwill eliminated against capital reserve released on disposal of an associate	-	0.9
Share of goodwill of an associate eliminated directly against reserves	(10.0)	-
Balance at end of year	<u>3,226.9</u>	<u>3,239.4</u>

40. REVALUATION RESERVES

GROUP						
	Associates*	Investment	Hotel	Leasehold	Long term	Total
	HK\$ million	properties	properties	properties	investments	HK\$ million
	HK\$ million					
At 1st January, 1999	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 12)	-	-	-	(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)
At 31st December, 1999 and at 1st January, 2000	4.9	109.0	-	151.5	(42.1)	223.3
Movement in fair value	-	-	-	-	(26.0)	(26.0)
Reclassification of leasehold properties as investment properties	-	16.3	-	(16.3)	-	-
Release on deemed disposal of the Group's interest in a listed subsidiary company	(0.1)	-	-	-	0.1	-
Release on disposal	(4.8)	-	-	-	0.4	(4.4)
Transfer to retained profits (note 12)	-	-	-	(5.0)	-	(5.0)
Surplus/(Deficit) on revaluation	-	(123.2)	65.8	-	-	(57.4)
Write back of deficit previously charged to profit and loss account	-	-	(65.8)	-	-	(65.8)
Balance at end of year	<u>-</u>	<u>2.1</u>	<u>-</u>	<u>130.2</u>	<u>(67.6)</u>	<u>64.7</u>

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

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.

**41. EXCHANGE EQUALISATION RESERVE**

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Balance at beginning of year	2.0	(1.7)
Release on disposal of overseas subsidiary companies/partnerships	(1.4)	(4.5)
Release on disposal of an overseas associate	(2.1)	-
Exchange adjustment on translation of the financial statements of overseas subsidiary companies/partnerships	(1.7)	8.2
Balance at end of year	<u>(3.2)</u>	<u>2.0</u>

42. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2000	1999
	HK\$'million	HK\$'million
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	1,059.8	1,045.5
	<u>3,118.8</u>	<u>3,104.5</u>
Provisions for diminutions in values	(1,236.2)	(1,000.0)
	<u>1,882.6</u>	<u>2,104.5</u>



Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Century City Brokerage Limited	Hong Kong	HK\$25,800,000	100	100	Brokerage services
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 Futures Limited	Hong Kong	HK\$10,000,000	100	100	Brokerage services
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
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 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



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
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	60.4	Investment holding
Athlone Limited	Hong Kong	HK\$10,000	60.4	60.4	Property investment
Bajan Company Limited	Hong Kong	HK\$2	60.4	60.4	Securities trading
Beijing Century City Real Estate Development Co., Ltd.*	The People's Republic of China	US\$26,670,000	13.9	57.4	Property development and investment
Beijing Jianye Real Estate Developing Co., Ltd.*	The People's Republic of China	US\$10,410,000	13.9	57.4	Property development and investment
Bonseta Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Cathay City BVI Holdings Limited	British Virgin Islands	HK\$10	60.4	60.4	Investment holding
Cathay City Investments Limited	Hong Kong	HK\$89,626,000	60.4	60.4	Investment holding
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	60.4	60.4	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	60.4	60.4	Property and project management
Chatwin Construction Management Limited	Hong Kong	HK\$2	60.4	60.4	Construction management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	48.3	48.3	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	45.3	45.3	Investment holding
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	45.3	45.3	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	60.4	60.4	Management services
Cosmos Gain Development Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	60.4	60.4	Investment holding
Fine Cosmos Development Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Finso Limited	Hong Kong	HK\$2	60.4	60.4	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Glory Legend Development Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Good Focus Holdings Limited	British Virgin Islands	US\$1	60.4	60.4	Property investment
Granco Development Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
H.P. Nominees Limited	Hong Kong	HK\$2	60.4	60.4	Investment holding and nominee services
Key Choice Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Landstar Investment Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Lead Fortune Development Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Linkprofit Limited	Hong Kong	HK\$2	60.4	60.4	Investment holding
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	60.4	60.4	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	60.4	60.4	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	60.4	60.4	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	60.4	60.4	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	60.4	60.4	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	60.4	60.4	Estate management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Paliburg Finance (C.B. 2002) Limited	British Virgin Islands	US\$1	60.4	60.4	Financing
Paliburg Finance Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Paliburg International Finance Limited	British Virgin Islands	US\$1	60.4	60.4	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	60.4	60.4	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	60.4	60.4	Investment holding
Polarfine Inc	British Virgin Islands	HK\$3,000,000	48.3	48.3	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	60.4	60.4	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	60.4	60.4	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	60.4	60.4	Financing
Sanefix Development Limited	Hong Kong	HK\$2	60.4	60.4	Property investment
Shenyang Paliburg Plaza Limited**	The People's Republic of China	US\$9,820,000	60.4	60.4	Property development and investment
Sonnix Limited	Hong Kong	HK\$2	60.4	60.4	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Tianjin Haihe Palace Of Entertainment Co., Ltd.#	The People's Republic of China	RMB7,000,000	25.0	25.0	Restaurant operations



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Transcar Investments Limited	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Treasure Spot Investments Limited	British Virgin Islands	US\$1	60.4	60.4	Property investment
Weifang Yuanzhong Real Estate Development Co., Ltd.*	The People's Republic of China	US\$8,130,000	31.7	31.7	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	60.4	60.4	Investment holding
Regal Hotels International Holdings Limited	Bermuda	Ordinary - HK\$393,877,250 Preference - US\$167,480	44.6	44.7	Investment holding
Bauhinia Hotels Limited	Hong Kong	HK\$2	44.6	44.7	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	44.6	44.7	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	40.1	40.2	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	44.6	44.7	Property investment
Cityability Limited	Hong Kong	HK\$10,000	44.6	44.7	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	44.6	44.7	Securities investment and trading
Cranfield Investments Limited	Hong Kong	HK\$2	44.6	44.7	Wedding services
Fortune Nice Investment Limited	Hong Kong	HK\$2	44.6	44.7	Financing



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Gala Hotels Limited	Hong Kong	HK\$2	44.6	44.7	Hotel ownership
Gaud Limited	Hong Kong	HK\$2	44.6	44.7	Plant nursery and florist
Kaifeng Yatai Brewery Co., Ltd.**	The People's Republic of China	RMB 35,923,300	40.1	40.2	Production/distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.**	The People's Republic of China	RMB 30,576,700	40.1	40.2	Production/distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	44.6	44.7	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	44.6	44.7	Securities investment
Ragout Investments Limited	British Virgin Islands	US\$1	44.6	44.7	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	44.6	44.7	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	44.6	44.7	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK\$2	44.6	44.7	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	44.6	44.7	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	44.6	44.7	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	44.6	44.7	Hotel management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2000	1999	
Regal International Limited	British Virgin Islands	US\$20	44.6	44.7	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	44.6	44.7	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	44.6	44.7	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	44.6	44.7	Investment holding
Regal Riverside Hotel Limited	Hong Kong	HK\$2	44.6	44.7	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	44.6	44.7	Bakery operations
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	44.6	44.7	Trademark holding
Ricobem Limited	Hong Kong	HK\$2	44.6	44.7	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$1,500,000	44.6	44.7	Travel services
Tenshine Limited	Hong Kong	HK\$2	44.6	44.7	Restaurant operations
Unicorn Star Limited	British Virgin Islands	US\$1	44.6	44.7	Securities investment
Widebase Limited	British Virgin Islands	US\$1	44.6	44.7	Securities investment
Winner Team Investment Limited	Hong Kong	HK\$2	44.6	44.7	Securities investment
World Way Management Limited	Hong Kong	HK\$2	44.6	44.7	Management services

* The interests in these subsidiary companies were partially disposed of during the year (note 20).

** These subsidiary companies are sino foreign co-operative joint venture companies established in the People's Republic of China (the "PRC").

These subsidiary companies are sino-foreign equity joint venture companies established in the PRC.

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

All of the above subsidiary companies operate in the place of their incorporation/registration except for Paliburg Holdings Limited, Good Focus Holdings Limited, Paliburg Finance (C.B. 2002) Limited, Paliburg International Finance Limited, Paliburg International Holdings Limited, Treasure Spot Investments 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 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 would, in the opinion of the Directors, result in particulars of excessive length.

43. 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.

**44. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**

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

	2000 HK\$'million	1999 HK\$'million
Profit/(Loss) from operating activities	675.4	(647.0)
Loss on disposal of ordinary shares in the listed subsidiary companies	–	8.0
Loss on disposal of overseas subsidiary companies/ partnerships	13.8	1,014.0
Loss/(Profit) on disposal of an overseas associate	(58.8)	2.4
Write back of deficit on revaluation of hotel properties previously charged to profit and loss account	(65.8)	(187.0)
Realised losses and provisions for losses in short term investments	0.4	22.5
Provision for deposit paid	4.7	–
Write off/Provisions against advances and interest receivable	13.1	57.5
Provisions for impairments in values of long term investments	–	44.2
Gain on disposal of investment properties	–	(0.6)
Provisions for losses against properties	106.0	406.7
Provision for tax indemnity in respect of the disposal of overseas subsidiary companies/partnership in the prior year	24.2	–
Write back of provision against advances and interest receivable	(9.6)	–
Write back of provisions for guarantee and indemnity given	(370.3)	–
Provisions for guarantees and indemnity given	18.1	124.4
Write back of provision for loss on deposit paid	(10.0)	–
Interest income	(84.1)	(80.5)
Dividend income from listed and unlisted investments	(2.3)	(1.9)
Depreciation	60.2	156.4
Amortisation of hotel management contracts and lease rights	–	1.6
Amortisation of trading rights	0.5	–
Provisions for doubtful debts	5.0	6.9
Loss on disposal of fixed assets	3.3	14.6
Profit on sale of properties	(3.9)	(260.6)
Gain on disposal of long term investments	(0.7)	(6.2)
Net proceeds from sale of properties	143.8	445.9
Additions to properties under development for sale and properties held for future development	(54.5)	(260.0)
Decrease in debtors, deposits and prepayments	10.2	247.5
Decrease/(Increase) in short term investments	(15.1)	4.9
Decrease/(Increase) in hotel and other inventories	(0.3)	12.1
Increase/(Decrease) in creditors and accruals	(144.3)	3.7
Increase/(Decrease) in deposits received	(16.6)	7.5
Exchange difference	11.6	19.0
Net cash inflow from operating activities	<u>254.0</u>	<u>1,156.0</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
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 partners of subsidiary partnerships	-	-	(2.3)
Write back of dividend payable to preference shareholders of a 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>



	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
Balance at 1st January, 2000	1,053.9	10,605.3	3,987.4
Net cash inflow/(outflow) from financing	167.2	(1.2)	(0.8)
Share of loss for the year	-	-	(321.0)
Share of revaluation deficit	-	-	(39.1)
Share of exchange difference on consolidation	-	-	(1.2)
Share of capital reserve on consolidation	-	-	(8.7)
Arising from deemed disposal of interest in a listed subsidiary company	-	-	2.1
Disposal of subsidiary companies	-	(98.9)	(0.9)
Disposal of an overseas associate	-	-	(19.2)
Interest expenses capitalised	-	9.4	-
Reclassification from creditors and accruals	-	98.2	-
Reclassification to interest payable	-	(20.8)	-
Effect of foreign exchange rate changes	-	8.9	-
Balance at 31st December, 2000	<u>1,221.1</u>	<u>10,600.9</u>	<u>3,598.6</u>

(c) Disposal of subsidiary companies/partnerships

	2000 HK\$'million	1999 HK\$'million
Net assets disposed of:		
Fixed assets	0.5	4,822.3
Properties under development	596.8	-
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	7.7	215.0
Cash and bank balances	0.5	427.4
Creditors and accruals	(23.5)	(349.7)
Tax payable	(0.2)	(15.5)
Interest bearing bank and other borrowings	-	(3,200.2)
Advances from minority shareholders	(98.9)	-
Minority interests	-	(1.4)
	<u>482.9</u>	<u>2,519.7</u>
Goodwill released on disposal	-	473.4
Revaluation reserves realised on disposal	-	(55.0)
Exchange equalisation reserve realised on disposal	(1.4)	(4.5)
Release of reserves attributable to minority shareholders	(0.9)	115.2
Loss on disposal	(13.8)	(1,014.0)
	<u>466.8</u>	<u>2,034.8</u>
Satisfied by:		
Cash	77.1	1,111.9
Debtors	8.2	183.2
Long term loan receivable	-	349.7
Decrease in other loans	-	218.0
Decrease in creditors and accruals	-	172.0
Reclassification to long term investments	298.9	-
Reclassification to interests in associates	82.6	-
	<u>466.8</u>	<u>2,034.8</u>



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

	2000 HK\$'million	1999 HK\$'million
Cash and bank balances disposed of	(0.5)	(427.4)
Cash consideration	77.1	1,111.9
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies/partnerships	<u>76.6</u>	<u>684.5</u>

The subsidiary companies disposed of during the year contributed HK\$5.1 million to the Group's net operating cash flows and utilised HK\$54.5 million for investing activities.

The subsidiary companies/partnerships disposed of in the prior year contributed HK\$514.7 million to the Group's net operating cash flow, 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.

- (d) The prior year 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 5 to the financial statements.
- (e) Major non-cash transaction

As further detailed in note 22 to the financial statements, during the year, the Group received two SEHK Trading Rights, a HKFE Trading Right and 3,003,500 HKEx Shares in exchange for its respective shares previously held in the SEHK and HKFE.

45. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2000 HK\$'million	1999 HK\$'million
Advertising and promotion fees (including cost reimbursements) paid to an associate	(a)	29.7	-
Gross construction fee income from a jointly controlled entity	(b)	-	47.8
Interest on loans to associates	(c)	11.8	4.7
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)	109.0	246.6
		<u> </u>	<u> </u>

Notes:

- The advertising and promotion fees were paid to 8D International Limited ("8D") and comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.
- 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.
- The interest income from associates arose from loans to Bostonian Hotel Limited Partnership, The El Dorado Partnership, Limited, Century King Investments Limited and Cheerjoy Development Limited. The details of the terms of such loans are disclosed in note 19 to the financial statements.
- The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain.
- The corporate guarantee was given by PHL in respect of a banking facility granted to Rapid Growth Holdings Limited, the then holding company of Chi Cheung Investment Company, Limited. The obligation under the guarantee was fully provided for in the prior year.
- In January 2000, 8D, a then wholly-owned subsidiary company of the Company, was partially disposed of effectively by the Group at its then net asset value. Following the effective disposal, 8D is owned as to 10% by the Company, 30% by RHIHL, 30% indirectly by Mr. Lo Yuk Sui ("Mr. Lo"), Chairman and controlling shareholder of the Company and 30% by an associate (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of Mr. Jimmy Lo Chun To, a director of each of the Company, PHL and RHIHL, which is jointly owned by his sister. Accordingly, 8D became an associate of the Group.



- (g) On 15th August, 2000, the Company entered into a conditional subscription option agreement with a company (the "Vendor"), in which Mr. Lo has majority interest, in connection with the possible acquisition from the Vendor of certain interest in a joint venture entity involved in information technology businesses in the People's Republic of China (note 2). Details of the transaction were contained in the Company's circular dated 6th September, 2000.

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

The related party transactions set out in notes 45(a) to (e) above did not constitute connected transactions as defined in the Listing Rules.

The related party transactions set out in notes 45(f) and (g) above also constituted connected transactions as defined in the Listing Rules. The relevant disclosures and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met.

46. 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\$14,235.0 million (1999 - HK\$14,448.6 million) and certain ordinary shares in two listed subsidiary companies and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity and to secure exchange rights under the exchangeable bonds issued by the PHL Group.

47. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2000 HK\$'million	1999 HK\$'million	2000 HK\$'million	1999 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	-	-	880.9	835.5
Obligations under an indemnity agreement entered into by a subsidiary company	-	-	-	340.3
	<u>1,757.7</u>	<u>1,757.7</u>	<u>880.9</u>	<u>1,175.8</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 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 either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amounts thereof with reasonable accuracy.

48. COMMITMENTS

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

	GROUP	
	2000	1999
	HK\$'million	HK\$'million
Capital commitments in respect of acquisition of interests in a hotel property in the PRC:		
Authorised and contracted for	6.5	-
Capital commitments in respect of the renovation or improvement of hotel properties:		
Authorised and contracted for	26.0	-
Authorised, but not contracted for	81.0	-
	<u>107.0</u>	<u>-</u>
Capital commitments in respect of property and hotel development projects:		
Authorised and contracted for	2.9	170.3
Authorised, but not contracted for	36.0	79.3
	<u>38.9</u>	<u>249.6</u>
	<u>152.4</u>	<u>249.6</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of:		
Land and buildings expiring within one year	-	1.4
Other equipment expiring:		
Within one year	2.4	2.5
In the second to fifth years, inclusive	2.1	1.0
	<u>4.5</u>	<u>3.5</u>
	<u>4.5</u>	<u>4.9</u>

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



49. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	GROUP	
	2000 HK\$'million	1999 HK\$'million
Notional amount of options	<u>43.4</u>	<u>41.0</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.

50. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the financial statements, the Group entered into the following significant transactions:

- (a) On 14th March, 2001, the RHIHL Group entered into a preliminary sale and purchase agreement with an independent third party to dispose of its investment properties in the PRC at a consideration of HK\$63.2 million. The resultant loss of HK\$17.5 million has been provided for in the current year.
- (b) On 29th March, 2001, a sale and purchase agreement was entered into between the PHL Group and an independent third party to dispose of a property held for sale at a consideration of HK\$100.0 million. Such disposal resulted in a loss of approximately HK\$38.5 million, before the related expenses, which has been fully provided for during the current year.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 17th April, 2001.