



Notes to Financial Statements

31st December, 1999

1. CORPORATE INFORMATION

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

In the opinion of the Directors, the ultimate holding company is Century City International Holdings Limited, which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

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

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

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 58, 60 and 63, respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 59. Additional disclosures as required are included in the supporting notes to the financial statements.

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

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

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

3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTY

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$1,085.7 million for the year ended 31st December, 1999 (1998 - HK\$1,187.0 million). Since the beginning of 1998, the net asset value attributable to the Group's shareholders has declined significantly. This is largely attributable to the revaluation deficits arising in respect of the Group's hotel properties in 1998. At 31st December, 1999, the net asset value attributable to the Group's shareholders amounted to HK\$6,703.6 million. As a result of the foregoing, since 1998, certain of the Group's loan covenants for the maintenance of certain financial ratios, as specified in certain loan agreements, have not been complied with. The total outstanding loans affected in this manner amounted to HK\$4,893.2 million as at 31st December, 1999, comprising a syndicated loan of HK\$3,818.2 million (the "Syndicated Loan") and a construction loan of HK\$1,075.0 million (the "Construction Loan") (collectively, the "Loans") (see note 26 for further details thereof).

Pursuant to the terms of the loan agreements, as confirmed in a legal opinion obtained from the Group's legal advisors, upon receiving notice as to the non-compliance with these loan covenants, the agents (the "Agents") who act on behalf of the relevant lenders of the Loans (the "Lenders"), may require remedy of such breach and after lapse of a specified period of time for the remedy of the cause of such non-compliance and on the instruction of the specified majority of the Lenders, may serve notice to the Group to declare the Loans immediately due and repayable. Unless and until such notice is served by the Agents, the Loans remain repayable in accordance with their original stated maturity dates.

To date, as confirmed by the respective Agents of the Syndicated Loan and the Construction Loan, no such notice has been served to the Group. The Directors therefore consider it appropriate to classify the Loans as current or non-current liabilities as at 31st December, 1999 in accordance with their original maturity terms under the loan agreements, after taking into account the prepayment of a certain portion of the Syndicated Loan as mentioned below.

The Directors have taken steps with the objectives of reducing the Group's overall gearing level and improving its financial position and operations. As part of the measures to achieve these objectives, the Group has implemented a disposal programme to dispose of certain of its hotel properties. During the year, a securities purchase agreement was signed by the Group to dispose of its entire hotel interests in the United States of America (with the exception of its interest in Bostonian Hotel Limited Partnership, an associate of the Group, the sale of which was deferred in accordance with the provisions of the agreement) (the "Disposal"). The Disposal was completed on 17th December, 1999 and the net proceeds generated therefrom amounted to approximately US\$211.7 million (approximately HK\$1,644.8 million). Details of the Disposal were contained in the Company's circular dated 12th January, 2000.



In connection with the Disposal, the requisite consent therefor was obtained from the lenders of the Syndicated Loan on the conditions, among others, that (i) the negative pledge attached to each of the Group's four hotel properties in Hong Kong was to be replaced by a first legal mortgage over the respective hotel properties in favour of the lenders of the Syndicated Loan; (ii) an aggregate amount of US\$100 million (approximately HK\$772.3 million) out of the proceeds from the Disposal was to be applied towards the prepayment of certain loan instalment payments due in the years 2000, 2001 and part of which due in 2002, which was complied with by the Group in December 1999; and (iii) 50% of the US\$45 million (approximately HK\$349.7 million) deferred consideration in respect of the Disposal, which is not receivable from the purchaser until 17th December, 2001, together with interest accrued thereon at 7% per annum, is to be applied towards the prepayment of a portion of the loan instalment payment due in 2002.

In addition to the prepayments of certain instalment payments of the Syndicated Loan noted above, the Group continues to service the interest and loan principal payments of the Loans on schedule.

Following the completion of the Disposal, the Directors consider that the gearing level and liquidity position of the Group have improved considerably. Notwithstanding this, the non-compliance with certain financial ratios specified in the loan covenants of the Loans still exists.

However, with a view to obtaining waivers in respect of the Group's failure to comply with the relevant loan covenants and/or to secure their agreement not to enforce their rights to declare the Loans immediately due and repayable, the Group is still in discussions with the Lenders of the Loans for a revision of the terms of the loan covenants which include, inter alia, the relaxation of the financial ratios specified in the loan covenants currently required to be maintained by the Group (the "Waiver Discussions").

On the basis that the Waiver Discussions will be successful and, therefore, that the Lenders will not declare the default of the Loans and enforce their security or demand repayment thereof, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, on this basis, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties, hotel properties, property under development and certain equity investments, as further explained below.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies (including partnerships in which the Group controls more than half of the voting rights and the appointment of the general partners) for the year ended 31st December, 1999, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and joint ventures. The results of subsidiary companies, associates and joint ventures acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

(c) Goodwill/Capital reserve on consolidation

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

Capital reserve on consolidation represents the excess of the fair values ascribed to the acquired subsidiary companies' 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 attributable goodwill or capital reserve previously eliminated against or taken to reserves is realised and taken into account in arriving at the gain or loss on disposal of the investment.

(d) Subsidiary companies/partnerships

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

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

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

(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 interests in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values other than temporary in nature deemed necessary by the Directors.

(f) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any provisions for diminutions in values other than temporary in nature deemed necessary by the Directors.

(g) Hotel properties

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

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

(h) 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.

(i) Property under development

Property under development is stated at open market value for its intended use on completion, on the basis of professional valuation.

Movements in the values of property under development are dealt with in the property under development 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) Capitalised borrowing costs

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

(k) Lease rights

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

(l) Management contracts

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

(m) 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.

(n) 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.

(o) Properties held for resale

Properties held for resale are stated at the lower of cost and net realisable value, which is determined by reference to prevailing market prices, on an individual property basis.

(p) 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.

(q) 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.

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
Leasehold improvements	Over the remaining lease terms
Other furniture, fixtures and equipment	10% - 20% or replacement basis
Motor vehicles	25%

(r) 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.

(s) Inventories

Inventories are stated at the lower of cost and net realisable value after making due allowances for any obsolete or slow-moving items. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to disposal.

(t) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) hotel and other service income, in the period in which such services are rendered;
- (ii) rental income, in the period in which the property is let and on the straight-line basis over the lease terms;
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (iv) dividend income, when the shareholders' right to receive payment is established; and
- (v) proceeds from the sale of short term and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged.

(u) 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 or, if appropriate, at forward contract rates. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates or at the contracted rate if the transaction is covered by a forward exchange contract. Profits and losses on exchange are dealt with in the profit and loss account.

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

**(v) 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.

(w) Operating leases

Leases where substantially all of 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.

(x) Staff retirement scheme

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

(y) 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.

(z) Cash equivalents

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



5. TURNOVER AND REVENUE

Turnover represents the aggregate of gross hotel income, rental income, travel services revenue and commissions, plant nursery and florist income, restaurant revenue, wedding services revenue, karaoke club revenue, net sales income from beer distribution, proceeds from the sale of short term listed investments, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Hotel operations and management services	2,939.6	2,909.7
Other operations, including travel services, plant nursery and florist, restaurant operations, wedding services, karaoke club operations and brewery operations	73.7	61.7
Rental income:		
Hotel properties	26.7	23.8
Investment properties	33.5	36.2
Proceeds from the sale of short term listed investments	0.1	26.4
Turnover	<u>3,073.6</u>	<u>3,057.8</u>

6. OTHER REVENUE/OTHER OPERATING EXPENSES

Other revenue/other operating expenses include the following items:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Other revenue:		
Compensation received from cancellation of a tenancy agreement	<u>22.8</u>	<u>-</u>
Other operating expenses:		
Write off/provisions against other loans and interest receivable	57.3	77.9
Provisions for impairments in values of long term investments	27.5	107.5
Deficit on revaluation of investment properties	13.1	-
Provisions for convertible bonds and interest receivable	-	283.0
	<u>-</u>	<u>283.0</u>



7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	GROUP	
	1999	1998
	HK\$'million	HK\$'million
Cost of inventories sold and services provided	1,507.7	1,564.1
Staff costs (exclusive of directors' remuneration disclosed in note 9(a)):		
Wages and salaries	1,180.0	1,188.9
Staff retirement scheme contributions	14.2	16.2
Less: Forfeited contributions*	(5.7)	(6.6)
Net retirement scheme contributions	8.5	9.6
	1,188.5	1,198.5
Auditors' remuneration	8.1	6.7
Write down in value of short term investments	-	2.2
Loss on disposal of listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.9 million)	-	9.3
Loss on disposal of fixed assets	0.5	-
Operating lease rentals:		
Land and buildings	60.3	58.2
Other equipment	10.1	11.5
Depreciation	127.0	116.1
Amortisation of lease rights	1.2	1.2
Amortisation of management contracts	0.4	0.5
and after crediting:		
Gross rental income	60.2	60.0
Less: Outgoings	(27.2)	(29.3)
Net rental income	33.0	30.7
Dividend income from listed investments	-	4.8
Interest income from:		
Associates and jointly controlled entity	1.6	99.2
Bank balances	32.7	114.5
Other loans	19.6	64.3
	53.9	278.0
Write back of value of short term investments	0.1	-
Exchange gain on trading of forward exchange rate contracts	-	12.7
Gain on disposal of listed investments (after a transfer from the revaluation reserve of a surplus of HK\$9.3 million)	6.8	-
Gain on disposal of fixed assets	-	10.0
Gain on disposal of an investment property	-	4.2

* At 31st December, 1999, there were forfeited contributions amounting to HK\$0.2 million (1998 - Nil) available to the Group to reduce its future contributions to the staff retirement scheme.



8. FINANCE COSTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Interest on bank loans, overdrafts, notes payable and other loans wholly repayable within five years	665.6	719.4
Interest on other loans and notes payable	36.9	44.9
	<u>702.5</u>	<u>764.3</u>
Less: Interest capitalised in respect of property under development (note 17)	(70.8)	(106.9)
	<u>631.7</u>	<u>657.4</u>
Amortisation of deferred expenditure	65.3	48.6
Write off of deferred expenditure	5.2	8.8
	<u>702.2</u>	<u>714.8</u>

9. DIRECTORS' REMUNERATION

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

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Fees	0.6	0.7
Salaries and other allowances	5.7	5.6
Performance related/discretionary bonuses	0.6	0.6
Staff retirement scheme contributions	0.1	0.1
	<u>7.0</u>	<u>7.0</u>

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.2 million (1998 - HK\$0.2 million) as Directors' fees for the year ended 31st December, 1999.



The remuneration of the Directors fell within the following bands:

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

(b) Share options

Details of the share options granted by the Company to the Directors are set out below:

	Number of ordinary shares under options			Total 'million
	Granted on 22nd February, 1992 'million	Granted on 28th August, 1992 'million	Granted on 22nd February, 1997 'million	
Balance at beginning of year	44.3	1.9	7.2	53.4
Cancelled during the year	(1.8)	(1.9)	(7.2)	(10.9)
Balance at end of year	<u>42.5⁽¹⁾</u>	<u>-</u>	<u>-</u>	<u>42.5</u>
Outstanding rights vested with the Directors at end of year	<u>25.2⁽¹⁾</u>	<u>-</u>	<u>-</u>	
Exercise price per ordinary share (HK\$)	<u>0.7083</u>	<u>0.9250</u>	<u>2.1083</u>	

Note:

- (1) The options for 25.2 million ordinary shares are exercisable at any time. The options for the remaining 17.3 million ordinary shares are exercisable in stages commencing eight years from the date of grant.

Under the terms of the grants, the options granted on the ordinary shares of the Company are not transferable and, in the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted to the respective Directors.

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



10. SENIOR EXECUTIVES' EMOLUMENTS

- (a) The five highest-paid individuals included one (1998 - one) Director, details of whose remuneration are disclosed in note 9 to the financial statements. The emoluments of the other four (1998 - four) individuals, who were not Directors, are as follows:

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Salaries and other emoluments	8.3	11.1
Performance related/discretionary bonuses	1.1	0.1
Staff retirement scheme contributions	0.1	0.1
	<u>9.5</u>	<u>11.3</u>

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

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



(b) Share options

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

	Number of ordinary shares under options		
	Granted on 22nd February, 1992 'million	Granted on 22nd February, 1997 'million	Total 'million
Balance at beginning and at end of year	<u>2.1⁽¹⁾</u>	<u>2.4⁽²⁾</u>	<u>4.5</u>
Outstanding rights vested with the senior executives at end of year	<u>1.1⁽¹⁾</u>	<u>0.5⁽²⁾</u>	
Exercise price per ordinary share (HK\$)	<u>0.7083</u>	<u>2.1083</u>	

Notes:

- (1) The options for 1.1 million ordinary shares are exercisable at any time. The options for the remaining 1.0 million ordinary shares are exercisable in stages commencing eight years from the date of grant.
- (2) The option for 0.5 million ordinary shares is exercisable at any time. The option for the remaining 1.9 million ordinary shares is exercisable in stages commencing three years from the date of grant.

Under the terms of the grants, the options granted on the ordinary shares of the Company are not transferable 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.



11. TAX

	GROUP	
	1999 HK\$'million	1998 HK\$'million
The Company and subsidiary companies/partnerships:		
Provision for tax in respect of profits for the year:		
Hong Kong	–	0.1
Overseas	22.8	17.6
	<u>22.8</u>	<u>17.7</u>
Prior year overprovisions:		
Hong Kong	–	(0.1)
Overseas	–	(0.3)
	<u>–</u>	<u>(0.4)</u>
Capital gains tax - overseas	24.2	–
Transferred from deferred tax (note 27)	(0.4)	–
	<u>46.6</u>	<u>17.3</u>

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

Tax on the profits of subsidiary companies/partnerships and associates 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.

12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$437.2 million (1998 - HK\$4.5 million).



13. DIVIDEND

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
5 ¹ / ₄ % convertible cumulative redeemable preference shares	-	7.7

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At 31st December, 1999, there was an unpaid dividend of HK\$8.1 million in arrears for the outstanding preference shares. Pursuant to the terms of the issuance of the preference shares, if such dividend is six months or more in arrears, this event will confer on the holders thereof the right to receive notice of and, unless all such arrears have been paid prior to the time for holding the meeting, to attend and vote at general meetings of the Company. This unpaid dividend has not been incorporated in the financial statements.

14. RETAINED PROFITS/(ACCUMULATED LOSSES) AT END OF YEAR

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Company and subsidiary companies/partnerships	144.3	1,141.8
Associates	16.1	45.0
Jointly controlled entity	(759.3)	(700.0)
	<u>(598.9)</u>	<u>486.8</u>

15. LOSS PER ORDINARY SHARE

(a) Basic loss per ordinary share

The calculation of basic loss per ordinary share is based on the net loss from ordinary activities attributable to ordinary shareholders for the year of HK\$1,085.7 million (1998 - HK\$1,194.7 million) and on the weighted average of 3,928.8 million (1998 - 3,937.6 million) ordinary shares of the Company in issue during the year.

(b) Diluted loss per ordinary share

No diluted loss per ordinary share is presented for the years ended 31st December, 1998 and 1999, as the exercise of share options and the conversion of preference shares of the Company are anti-dilutive.



16. FIXED ASSETS

GROUP

	1st January, 1999 HK\$'million	Exchange adjustments HK\$'million	Additions HK\$'million	Transfer from properties held for resale HK\$'million	Transfer from property under development HK\$'million	Disposal of subsidiary companies/ partnerships HK\$'million	Other disposals HK\$'million	Surplus / (Deficit) on revaluation HK\$'million	31st December, 1999 HK\$'million
At valuation:									
Investment properties	208.9	0.8	-	81.2	-	(209.7)	-	(13.1)	68.1
Hotels, including furniture, fixtures and equipment	11,177.6	38.0	84.8	-	2,601.3	(4,896.6)	(1.3)	285.9	9,289.7
	11,386.5	38.8	84.8	81.2	2,601.3	(5,106.3)	(1.3)	272.8	9,357.8
At cost:									
Leasehold properties	40.7	0.2	-	-	-	-	-	-	40.9
Leasehold improvements	32.1	0.1	4.4	-	-	(15.2)	(1.1)	-	20.3
Other furniture, fixtures and equipment	130.1	0.5	21.1	-	-	(82.4)	(1.0)	-	68.3
Motor vehicles	8.2	-	-	-	-	-	(3.6)	-	4.6
Construction in progress	28.8	0.1	-	-	-	-	-	-	28.9
	11,626.4	39.7	110.3	81.2	2,601.3	(5,203.9)	(7.0)	272.8	9,520.8
Accumulated depreciation:									
Hotel furniture, fixtures and equipment	456.2	3.4	106.6	-	-	(338.7)	(0.8)	-	226.7
Leasehold properties	1.8	-	1.3	-	-	-	-	-	3.1
Leasehold improvements	20.3	-	1.3	-	-	(4.0)	(0.7)	-	16.9
Other furniture, fixtures and equipment	37.7	0.2	16.8	-	-	(38.9)	(0.5)	-	15.3
Motor vehicles	5.2	-	1.0	-	-	-	(3.1)	-	3.1
	521.2	3.6	127.0	-	-	(381.6)	(5.1)	-	265.1
Net book value	11,105.2								9,255.7



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 shown:

	1999 HK\$'million	1998 HK\$'million
Investment properties	81.2	142.1
Hotel properties	4,658.2	6,845.0
	<u>4,739.4</u>	<u>6,987.1</u>

Analysis of net book value by geographical location:

	1999 HK\$'million	1998 HK\$'million
Leasehold land and buildings situated in Hong Kong:		
Hotel properties, at valuation at balance sheet date:		
Long term	4,090.0	3,629.0
Medium term	4,743.0	2,292.0
Medium term leasehold property, at cost	4.1	4.1
	<u>8,837.1</u>	<u>5,925.1</u>
Properties situated in the People's Republic of China (the "PRC"):		
Medium term leasehold properties, at cost	33.7	34.8
Long term leasehold land and investment properties, at valuation at balance sheet date	68.1	-
	<u>101.8</u>	<u>34.8</u>
Properties situated overseas:		
Land and hotel properties, at valuation at balance sheet date:		
Freehold	230.0	3,986.3
Long term leasehold	-	717.3
Medium term leasehold	-	96.8
Freehold land and investment properties, at valuation at balance sheet date	-	208.9
	<u>230.0</u>	<u>5,009.3</u>
	<u>9,168.9</u>	<u>10,969.2</u>

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

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

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

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

17. PROPERTY UNDER DEVELOPMENT

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Medium term leasehold land and property in Hong Kong, at cost/valuation:		
Balance at beginning of year	2,894.4	635.3
Additions during the year	170.2	939.4
Interest capitalised (note 8)	70.8	106.9
Transfer to fixed assets (note 16)	(2,601.3)	-
Surplus on revaluation (note 33)	110.9	1,212.8
	645.0	2,894.4
Balance at end of year	645.0	2,894.4

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

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

The property under development is pledged to secure certain banking facilities granted to the Group.



18. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Share of post-acquisition losses	(759.3)	(700.0)
Loans to the jointly controlled entity	1,072.5	1,002.8
Amount due from the jointly controlled entity	163.3	163.3
	<u>476.5</u>	<u>466.1</u>

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The share of post-acquisition losses included a provision for foreseeable loss in respect of a property development project amounted to HK\$700.0 million (1998: HK\$700.0 million).

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

Details of the Group's interests 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
			1999	1998	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	30	30	Property development

The jointly controlled entity is indirectly held by the Company.



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

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

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At the balance sheet date, the Group's share of capital commitments of Chest Gain in respect of a property development project was as follows:

	1999 HK\$'million	1998 HK\$'million
Authorised and contracted for	24.9	28.1
Authorised, but not contracted for	206.0	207.1
	<u>230.9</u>	<u>235.2</u>



19. INTERESTS IN ASSOCIATES

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Share of net assets:		
Unlisted companies/partnerships	54.9	156.9
Loans to associates	26.9	38.6
Amount due from an associate	0.4	2.4
	82.2	197.9
At the balance sheet date:		
Share of post-acquisition undistributed reserves	46.1	129.5

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

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

Name	Business structure	Place of incorporation and operation	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				1999	1998	
* Atlanta F.C., L.P. ("Atlanta")#	Partnership	U.S.A.	Limited partnership interest	-	54.00	Investment holding
Bostonian Hotel Limited Partnership ("Bostonian")#	Partnership	U.S.A.	Limited partnership interest	51.00	51.00	Hotel ownership
Century King Investment Limited	Corporate	Hong Kong	Ordinary shares	50.00	50.00	Restaurant operations
* Sunnyside Partners, Limited#	Partnership	U.S.A.	Limited partnership interest	-	39.75	Hotel ownership
* The El Dorado Partnership, Limited#	Partnership	U.S.A.	Limited partnership interest	-	40.00	Investment holding

* As at 31st December, 1998, these associates were held by Richfield Holdings, Inc. ("Richfield Holdings"), a then 100% owned subsidiary company of the Group. Richfield Holdings was disposed of by the Group during the year.

Not audited by Ernst & Young.

All associates were indirectly held by the Company.

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

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

For those associates held by Richfield Holdings, the share of net assets and post-acquisition undistributed reserves and the percentage of equity holdings at 31st December, 1998, represented those attributable to Richfield Holdings.

20. INVESTMENTS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Long term investments		
Listed equity investments, at market value:		
Hong Kong	194.0	169.2
Elsewhere	–	0.5
	194.0	169.7
Unlisted equity investments, at fair value:		
Carrying value	55.3	56.9
Provisions for impairments in values	(55.0)	(27.5)
	0.3	29.4
	194.3	199.1
Short term investments		
Listed equity investments, at market value:		
Hong Kong	2.6	2.6
Elsewhere	0.5	–
	3.1	2.6
	3.1	2.6

Long term listed investments with market values amounting to HK\$188.3 million (1998 - HK\$139.5 million) were pledged to secure general credit facilities granted to the Group.

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



21. LOANS AND OTHER LONG TERM RECEIVABLES

The loans and other long term receivables of the Group comprise the following:

	Notes	GROUP	
		1999 HK\$'million	1998 HK\$'million
Other receivable	(a)	349.7	-
Other loan	(b)	77.7	77.4
Promissory note receivable	(c)	-	100.8
		<u>427.4</u>	<u>178.2</u>

- (a) The other receivable represents 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.
- (b) The other loan represents a loan of US\$10 million (HK\$77.7 million) (1998 - HK\$77.4 million) advanced to a hotel owner in Shanghai, the People's Republic of China ("PRC"), to assist financing the interior decoration and pre-operating expenditure of its hotel which is managed by the Group. The loan is unsecured, interest free and is repayable commencing from the date of opening of the hotel, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with 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.
- (c) The prior year promissory note represented a receivable from Mr. T.T. Tsui, an independent third party, and was secured, inter alia, by a corporate guarantee by Rapid Growth Limited, the major shareholder of CNT Group Limited, a company listed on The Stock Exchange of Hong Kong Limited. This note bore interest at 5.5% over Hong Kong prime rate per annum and was repayable on 14th April, 2001. An amount of HK\$74.3 million was settled during the year and the remaining amount of HK\$26.5 million was written off in the current year's profit and loss account.

22. LEASE RIGHTS

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

23. MANAGEMENT CONTRACTS

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



24. SHORT TERM LOANS RECEIVABLE

The current year short term loans receivable of the Group represents promissory notes receivable in the aggregate amount of HK\$180.0 million (1998 - HK\$180.0 million) which are repayable on demand. Apart from an amount of HK\$50.0 million which is secured and bears interest at 11.5% per annum, the remaining amount of HK\$130.0 million is unsecured and bears interest at 1.5% to 2.5% over Hong Kong prime rate per annum.

The prior year short term loans receivable also included a term loan of HK\$100.8 million advanced to Commercial Gold Limited, an independent third party, which was secured, inter alia, by 200 million shares in CNT Group Limited and personal and corporate guarantees given by Mr. T.T. Tsui and Rapid Growth Limited, respectively. The loan bore interest at 5.5% over Hong Kong prime rate per annum and was repayable on demand. An amount of HK\$74.3 million was settled during the year and the remaining HK\$26.5 million was written off in the current year's profit and loss account.

25. HOTEL AND OTHER INVENTORIES

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Hotel merchandise	23.3	64.4
Raw materials	6.3	3.2
Work in progress	0.9	0.8
Finished goods	1.1	2.7
	<u>31.6</u>	<u>71.1</u>

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



26. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Bank loans and overdrafts:		
Secured	5,131.6	1,111.6
Unsecured	24.0	4,686.7
Other loans and notes payable wholly repayable within five years:		
Secured	65.1	2,619.5
Unsecured	–	8.8
Other loans and notes payable not wholly repayable within five years:		
Secured	–	585.0
	<u>5,220.7</u>	<u>9,011.6</u>
Portion of borrowings due within one year included under current liabilities:		
Bank loans and overdrafts	(121.9)	(132.7)
Other loans and notes payable	(65.1)	(17.8)
	<u>(187.0)</u>	<u>(150.5)</u>
Long term borrowings	<u>5,033.7</u>	<u>8,861.1</u>
The bank loans and overdrafts, other loans and notes payable are repayable in varying instalments within a period of:		
On demand or not exceeding 1 year	187.0	150.5
More than 1 year but not exceeding 2 years	340.7	1,203.9
More than 2 years but not exceeding 5 years	4,198.0	4,971.9
More than 5 years	495.0	2,685.3
	<u>5,220.7</u>	<u>9,011.6</u>



At 31st December, 1999, the other loans carried fixed interest rates ranging from 8.25% to 18% per annum.

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

27. DEFERRED TAX

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	0.4	0.4
Released to profit and loss account (note 11)	(0.4)	-
Balance at end of year	<u>-</u>	<u>0.4</u>

The liability for deferred tax shown in the balance sheet relates to timing differences arising from the different basis of recognition of royalty income, in respect of the right of using the Regal name, for accounting and tax purposes.

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



28. SHARE CAPITAL

Shares

	COMPANY	
	Number of shares 'million	HK\$'million
Authorised:		
Ordinary shares of HK\$0.10 each	<u>6,000.0</u>	600.0
5¼% convertible cumulative redeemable preference shares of US\$10 each	<u>0.3</u>	<u>23.2</u>
		<u>623.2</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
Balance at beginning and at end of year	<u>3,928.8</u>	392.8
5¼% convertible cumulative redeemable preference shares of US\$10 each		
Balance at beginning and at end of year	<u>0.1</u>	<u>1.4</u>
		<u>394.2</u>

During the year, 0.1 million ordinary shares were allotted to the holders of share options who exercised the options under the Executive Share Option Scheme.

The outstanding preference shares at the beginning of the year represented 18,948 5¼% convertible cumulative redeemable preference shares of US\$10 each issued for cash on 13th December, 1993 at US\$1,000 each. The preference shares are redeemable on 13th December, 2008 at US\$1,000 each (the "Reference Amount"). The Company has the right to redeem, on or at any time after 13th December, 1996, either part or all of the preference shares, subject to certain conditions, at a redemption price of not less than the Reference Amount, with such amount to be determined by reference to specified percentages applicable to the year in which the redemption takes place. The redemption can be made either in United States dollars, or by issuing such number of the Company's ordinary shares calculated by reference to 95% of the average daily closing price of the ordinary shares for the five dealing days ending on the seventh day prior to the date on which notice of such redemption (the "Redemption Notice") is first given to the preference shareholders at the fixed exchange rate of HK\$7.730255 to US\$1.00.



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

None of the preference shares was converted during the year. The exercise in full of the Conversion Rights attached to the remaining 18,948 preference shares in issue at 31st December, 1999 would have, with the present capital structure of the Company, resulted in the issue of a further 86.0 million additional ordinary shares.

Share options

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

	Number of ordinary shares under options					Total 'million
	Granted on 22nd February, 1992 'million	Granted on 28th August, 1992 'million	Granted on 5th August, 1993 'million	Granted on 23rd February, 1995 'million	Granted on 22nd February, 1997 'million	
Balance at beginning of year	59.2	2.3	1.8	2.4	13.8	79.5
Exercised during the year	(0.1)	-	-	-	-	(0.1)
Cancelled during the year	(4.9)	(1.9)	(0.4)	(2.4)	(8.0)	(17.6)
Balance at end of year	<u>54.2</u>	<u>0.4</u>	<u>1.4</u>	<u>-</u>	<u>5.8</u>	<u>61.8</u>
Exercise price per ordinary share (HK\$):	<u>0.7083</u>	<u>0.9250</u>	<u>1.1083</u>	<u>1.2083</u>	<u>2.1083</u>	
Outstanding rights vested with option holders at the date of approval of the financial statements by the Board of Directors, inclusive of those exercised prior thereto since the year end date	<u>39.6</u>	<u>0.2</u>	<u>0.8</u>	<u>-</u>	<u>1.7</u>	

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

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of the Company, resulted in the issue of 42.3 million additional ordinary shares and cash proceeds to the Company of approximately HK\$32.7 million before related expenses.

**29. RESERVES**

	Notes	GROUP		COMPANY	
		1999 HK\$'million	1998 HK\$'million	1999 HK\$'million	1998 HK\$'million
Share premium	30	1,654.7	1,654.7	1,654.7	1,654.7
Capital redemption reserve	31	13.5	13.5	13.5	13.5
Capital reserve	32	1,206.6	146.0	-	-
Revaluation reserves	33	4,040.8	4,440.0	-	-
Exchange equalisation reserve	34	(7.3)	(12.7)	-	-
Contributed surplus	36	-	-	5,052.3	5,052.3
Retained profits/ (Accumulated losses)		(598.9)	486.8	(411.3)	25.9
		<u>6,309.4</u>	<u>6,728.3</u>	<u>6,309.2</u>	<u>6,746.4</u>

30. SHARE PREMIUM

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	1,654.7	1,695.7
Add: Premium on ordinary shares issued upon exercise of share options	-	0.4
Premium on ordinary shares issued upon the conversion of 5¼% convertible cumulative redeemable preference shares	-	9.5
Less: Premium on issue in relation to 5¼% convertible cumulative redeemable preference shares converted and cancelled	-	(9.9)
Premium on repurchase and cancellation of ordinary shares	-	(41.0)
Balance at end of year	<u>1,654.7</u>	<u>1,654.7</u>



31. CAPITAL REDEMPTION RESERVE

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	13.5	9.3
Transfer from retained earnings of par value of ordinary shares repurchased	–	4.2
Balance at end of year	<u>13.5</u>	<u>13.5</u>

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	13.5	9.3
Transfer from contributed surplus of par value of ordinary shares repurchased (note 36)	–	4.2
Balance at end of year	<u>13.5</u>	<u>13.5</u>

32. CAPITAL RESERVE

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	146.0	282.0
Goodwill eliminated against capital reserve released on disposal of subsidiary companies/partnerships	1,058.6	–
Goodwill eliminated against capital reserve released on disposal of an associate	2.0	–
Elimination of goodwill arising on acquisition of subsidiary companies	–	(120.4)
Elimination of goodwill arising on acquisition of additional interest in a subsidiary company	–	(15.6)
Balance at end of year	<u>1,206.6</u>	<u>146.0</u>

33. REVALUATION RESERVES

	GROUP					
	Associates* HK\$'million	Property under development HK\$'million	Hotel properties HK\$'million	Investment properties HK\$'million	Long term investments HK\$'million	Total HK\$'million
At 1st January, 1998:						
As previously stated	96.0	-	9,527.4	65.8	-	9,689.2
Prior year adjustment (note)	-	-	-	-	(19.8)	(19.8)
As restated	96.0	-	9,527.4	65.8	(19.8)	9,669.4
Movement in fair value	-	-	-	-	(105.3)	(105.3)
Surplus/(Deficit) on revaluation	(11.5)	1,212.8	(6,327.6)	7.7	-	(5,118.6)
Release on disposal	-	-	-	(6.4)	0.9	(5.5)
At 31st December, 1998, as restated	<u>84.5</u>	<u>1,212.8</u>	<u>3,199.8</u>	<u>67.1</u>	<u>(124.2)</u>	<u>4,440.0</u>
At 1st January, 1999:						
As previously stated	84.5	1,212.8	3,199.8	67.1	-	4,564.2
Prior year adjustment (note)	-	-	-	-	(124.2)	(124.2)
As restated	84.5	1,212.8	3,199.8	67.1	(124.2)	4,440.0
Movement in fair value	-	-	-	-	51.8	51.8
Surplus on revaluation	1.4	110.9	285.9	-	-	398.2
Release on disposal	(55.9)	-	(716.9)	(67.1)	(9.3)	(849.2)
Reclassification	-	(994.3)	994.3	-	-	-
At 31st December, 1999	<u>30.0</u>	<u>329.4</u>	<u>3,763.1</u>	<u>-</u>	<u>(81.7)</u>	<u>4,040.8</u>

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

Note: In prior years, long term investments are stated at cost less provisions for any permanent diminutions in values. During the year, the Group adopted a new accounting policy on these investments to comply with the new SSAP 24 "Accounting for investment in securities". Under the new policy, these investments are stated at fair value under the alternative treatment as defined in SSAP 24. Accordingly, the comparative amounts for 1998 have been restated, the effect of which is to decrease the Group's net asset value attributable to shareholders of HK\$124.2 million as at 31st December, 1998.

The revaluation of the Group's hotel properties in Hong Kong does not constitute a timing difference because the realisation of the revaluation surplus would not be subject to Hong Kong profits tax.

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



34. EXCHANGE EQUALISATION RESERVE

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	(12.7)	(13.7)
Exchange adjustment on translation of overseas subsidiary companies/partnerships	15.6	1.0
Release on disposal of overseas subsidiary companies/partnerships	(10.2)	-
Balance at end of year	<u>(7.3)</u>	<u>(12.7)</u>

35. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Unlisted shares, at cost	5,552.2	5,552.2
Amount due from a subsidiary company	<u>1,587.2</u>	<u>1,591.0</u>
	7,139.4	7,143.2
Provisions for permanent diminutions in values	(433.9)	-
	<u>6,705.5</u>	<u>7,143.2</u>

The amount due from a subsidiary is unsecured, interest free and has no fixed terms of repayment.



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

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Subsidiary companies					
Bauhinia Hotels Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	100	100	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	90	-	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	100	100	Property investment
Chicago Hotel Holdings, Inc.*	U.S.A.	US\$1	-	100	Hotel ownership
Cityability Limited	Hong Kong	HK\$10,000	100	100	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	100	100	Securities investment and trading
Cranfield Investments Limited	Hong Kong	HK\$2	100	100	Wedding services
Fortune Nice Investment Limited	Hong Kong	HK\$2	100	100	Financing
Gala Hotels Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Gateway Hotel Holdings, Inc.*	U.S.A.	US\$1	-	100	Hotel ownership
Gaud Limited	Hong Kong	HK\$2	100	100	Plant nursery and florist
Honrich Investment Limited	Hong Kong	HK\$2	100	100	Car leasing



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Kaifeng Yatai Brewery Co., Ltd.	The People's Republic of China	RMB35,923,300	90	90	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.	The People's Republic of China	RMB30,576,700	90	90	Production and distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	100	100	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Park Plaza Hotel Corporation*	U.S.A.	US\$14	-	100	Investment holding
Ragout Investments Limited	British Virgin Islands	US\$1	100	100	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	100	100	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	100	100	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK\$2	100	100	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	100	100	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	100	100	Hotel management



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Regal Hotel Management, Inc.*	U.S.A.	US\$1	-	100	Hotel ownership
Regal International Limited	British Virgin Islands	US\$20	100	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	100	100	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	100	100	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	100	100	Investment holding
Regal Riverside Hotel Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	100	100	Bakery operations
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
RHM-88, LLC*	U.S.A.	US\$51,566,000	-	100	Hotel ownership
Richfield Holdings, Inc.*	U.S.A.	US\$10,750	-	100	Investment holding
Richfield Hospitality Services, Inc.*	U.S.A.	US\$10	-	100	Hotel management services
Ricobem Limited	Hong Kong	HK\$2	100	100	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$800,000	100	100	Travel services
Tenshine Limited	Hong Kong	HK\$2	100	100	Restaurant operations



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			1999	1998	
Unicorn Star Limited	British Virgin Islands	US\$1	100	100	Securities investment
WHB Corporation*	U.S.A.	US\$1	-	100	Hotel ownership
Widebase Limited	British Virgin Islands	US\$1	100	100	Securities investment
Winner Team Investment Limited	Hong Kong	HK\$2	100	100	Securities investment
Wimplex Company Limited	Hong Kong	HK\$2	100	100	Karaoke club operations
World Way Management Limited	Hong Kong	HK\$2	100	100	Management services
Partnerships					
Aircoa Hotel Partners, L.P.*	U.S.A.	-	-	100	Hotel ownership
Anchorage - Lakefront Limited Partnership*	U.S.A.	-	-	100	Hotel ownership
BHA - Stonehouse Associates GP*	U.S.A.	-	-	100	Hotel ownership
Bradenton Hotel L.P.*	U.S.A.	-	-	91	Hotel lessee
Cincinnati S.I. Co.*	U.S.A.	-	-	100	Hotel ownership
Minneapolis Hotel L.P.*	U.S.A.	-	-	96	Hotel lessee
Wynfield One, Ltd L.P.*	U.S.A.	-	-	100	Hotel ownership

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



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

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

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

The subsidiary companies/partnerships disposed of during the year contributed HK\$2,098.4 million to the Group's turnover and a profit of HK\$251.1 million to the Group's loss before tax.

36. CONTRIBUTED SURPLUS

	COMPANY	
	1999 HK\$'million	1998 HK\$'million
Balance at beginning of year	5,052.3	5,056.5
Transfer to capital redemption reserve of par value of ordinary shares repurchased (note 31)	—	(4.2)
Balance at end of year	<u>5,052.3</u>	<u>5,052.3</u>

The contributed surplus arose in 1989 as a result of the Group reorganisation and represented the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies.

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

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

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

	1999 HK\$'million	1998 HK\$'million
Profit/(Loss) from operating activities	(298.2)	227.4
Provisions for convertible bonds and interest receivable	–	283.0
Write off/provisions against other loans and interest receivable	57.3	77.9
Provisions for impairments in values of long term investments	27.5	107.5
Interest income	(53.9)	(278.0)
Depreciation	127.0	116.1
Amortisation	1.6	1.7
Loss/(Gain) on disposal of fixed assets	0.5	(10.0)
Gain on disposal of an investment property	–	(4.2)
Loss on disposal of subsidiary companies/partnerships	693.4	–
Loss on disposal of an associate	2.4	–
Deficit on revaluation of investment properties	13.1	–
Dividend income from long term investments	–	(4.5)
Loss/(Gain) on disposal of long term investments	(6.8)	6.1
Write off of management contracts	–	2.6
Write down in/(Write back of) value of short term investments	(0.1)	2.2
Provisions for doubtful debts	0.5	1.8
Decrease in short term investments	0.1	3.0
Decrease/(Increase) in debtors, deposits and prepayments	(4.5)	79.1
Increase in properties held for resale	–	(81.2)
Decrease/(Increase) in hotel and other inventories	(1.1)	14.5
Increase/(Decrease) in creditors and accruals	67.4	(22.5)
Exchange difference	5.8	(0.3)
Net cash inflow from operating activities	<u>632.0</u>	<u>522.2</u>

(b) Analysis of changes in financing

	Share capital (including share premium) HK\$'million	Bank loans, other loans and notes payable HK\$'million	Minority interests HK\$'million
Balance at 1st January, 1998	2,093.6	7,968.1	2.6
Net cash inflow/(outflow) from financing	(38.2)	1,035.5	-
Share of profit for the year	-	-	0.9
Acquisition of subsidiary companies	-	25.1	4.2
Dividends paid to minority partners of subsidiary partnerships	-	-	(1.7)
Cancelled ordinary shares of the Company repurchased in the prior year	(6.5)	-	-
Effect of foreign exchange rate changes	-	(20.0)	-
Balance at 31st December, 1998 and 1st January, 1999	<u>2,048.9</u>	<u>9,008.7</u>	<u>6.0</u>
Net cash inflow/(outflow) from financing	-	(620.8)	0.2
Share of profit for the year	-	-	0.8
Disposal of subsidiary companies /partnerships	-	(3,200.2)	(1.4)
Dividends paid to minority partners of subsidiary partnerships	-	-	(2.3)
Effect of foreign exchange rate changes	-	33.0	-
Balance at 31st December, 1999	<u><u>2,048.9</u></u>	<u><u>5,220.7</u></u>	<u><u>3.3</u></u>

(c) Major non-cash transaction

During the year, an amount of HK\$42.6 million was deducted from the advance payment balance made to Chatwin Engineering Limited in prior years in respect of the settlement of construction work performed for the Group relating to the construction of the new Regal Airport Hotel in Chek Lap Kok (note 38(a)).

- (d) The net cash inflow from operating activities of HK\$632.0 million included a cash inflow of HK\$22.8 million relating to compensation received from the cancellation of a tenancy agreement as disclosed in note 6 to the financial statements in accordance with SSAP 2.



(e) Acquisition of subsidiary companies

	1999 HK\$'million	1998 HK\$'million
Net assets acquired:		
Fixed assets	–	114.5
Deferred expenditure	–	0.2
Long term investments	–	49.1
Inventories	–	13.7
Debtors, deposits and prepayments	–	13.7
Cash and bank balances	–	5.7
Creditors and accruals	–	(37.2)
Bank loan	–	(25.1)
Minority interests	–	(4.2)
	–	130.4
Goodwill on acquisition	–	120.4
	–	250.8
Satisfied by:		
Cash	–	250.8

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

	1999 HK\$'million	1998 HK\$'million
Cash consideration	–	250.8
Cash and bank balances acquired	–	(5.7)
Net outflow of cash and cash equivalents in respect of acquisition of subsidiary companies	–	245.1



(f) Disposal of subsidiary companies/partnerships

	1999 HK\$'million	1998 HK\$'million
Net assets disposed of:		
Fixed assets	4,822.3	-
Interests in associates	120.3	-
Long term investments	1.6	-
Lease rights	17.9	-
Management contracts	5.6	-
Deferred expenditure	45.3	-
Hotel and other inventories	41.1	-
Debtors, deposits and prepayments	215.0	-
Cash and bank balances	427.4	-
Creditors and accruals	(349.7)	-
Tax payable	(15.5)	-
Interest bearing bank and other borrowings	(3,200.2)	-
Minority interests	(1.4)	-
	<u>2,129.7</u>	<u>-</u>
Goodwill released on disposal	1,058.6	-
Revaluation reserves realised on disposal	(839.9)	-
Exchange equalisation reserve realised on disposal	(10.2)	-
Loss on disposal of subsidiary companies/ partnerships	(693.4)	-
	<u>1,644.8</u>	<u>-</u>
Satisfied by:		
Other long term receivable (note 21(a))	349.7	-
Other short term receivable	183.2	-
Cash	1,111.9	-
	<u>1,644.8</u>	<u>-</u>
Cash consideration	1,111.9	-
Cash and bank balances disposed of	(427.4)	-
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies/partnerships	<u>684.5</u>	<u>-</u>

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

**38. CONNECTED AND RELATED PARTY TRANSACTIONS**

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

	Notes	1999 HK\$'million	1998 HK\$'million
Construction work performed by a subsidiary company of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company	(a)	112.9	857.0
Operating lease rentals in respect of land and buildings paid to wholly-owned subsidiary companies of PHL	(b)	28.5	27.6
Consultancy fees in respect of the hotel property development project paid to a wholly-owned subsidiary company of PHL	(c)	3.0	20.1
Advertising and promotion fees paid to a wholly-owned subsidiary company of Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	(d)	17.9	19.0
Management costs allocated from CCIHL	(e)	34.3	31.5
Interest from a jointly controlled entity	(f)	–	97.5
Interest from associates	(g)	1.6	1.7
Guarantee given in respect of a bank loan of a jointly controlled entity	(h)	990.0	990.0

Notes:

- (a) The construction work related to the hotel foundation and superstructure, carpark and walkway constructions performed by a subsidiary company of PHL in connection with the new airport hotel in Chek Lap Kok. The amount payable was determined in accordance with an agreement between the Group and PHL, in stages based on construction work certified by independent architects.

An outstanding amount of HK\$112.6 million (1998 - HK\$155.2 million) existing at the balance sheet date was included in debtors, deposits and prepayments, which represented the balance of an advance payment to Chatwin Engineering Limited ("Chatwin") in respect of the construction work of the new Regal Airport Hotel in Chek Lap Kok for which Chatwin is the main contractor. Chatwin is also a fellow subsidiary company of the Group. To make up for the delay occasioned in the approval of the building plans by the relevant government authorities, an accelerated construction programme for the hotel construction work was agreed with Chatwin, pursuant to which an advance payment of HK\$180.0 million, primarily to compensate Chatwin for the additional costs associated with the accelerated programme, was paid to Chatwin in 1998. The advance payment would be deducted against the Group's future payments of the hotel construction work certified by the architects. Subsequent to the balance sheet date, the balance of the advance payment was further reduced to HK\$97.6 million.

In addition, there was another outstanding amount existing at the balance sheet date which was included in creditors and accruals amounting to HK\$46.3 million (1998 - HK\$54.8 million). This represented construction costs and consultancy fees payable to Chatwin and certain other subsidiary company of Paliburg Holdings Limited, in connection with the construction and development of the hotel property at the new airport in Chek Lap Kok. The amounts are unsecured and payable in accordance with the terms of the respective contracts under which such amounts are incurred.

- (b) The rental expenses related to the leasing of various offices and commercial spaces. The rental was determined by reference to market rental for offices and commercial spaces of similar qualities in the same district obtained from independent sources.
- (c) The consultancy fees related to services provided by a subsidiary company of PHL which include, inter alia, advising on, co-ordinating, supervising the construction and the professional services provided by architects, structural engineers and interior designer of the new airport hotel in Chek Lap Kok. The fees were charged at 5% of the total construction cost of the hotel development project.
- (d) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.
- (e) The management costs included rentals and other overheads allocated from CCIHL either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group, the CCIHL group (excluding the PHL group and the Group) and the PHL group (excluding the Group) for each financial year.
- (f) The interest income arose from loans to a jointly controlled entity, Chest Gain Development Limited. The details of the Group's interest in and the terms of the loans due from this jointly controlled entity are disclosed in note 18 to the financial statements.
- (g) The interest income from associates arose from loans to Bostonian Hotel Limited Partnership, The El Dorado Partnership, Limited and Century King Investment Limited. The details of the terms of such loans are disclosed in note 19 to the financial statements.
- (h) Details of the guarantee are disclosed in note 40 to the financial statements.

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

The related party transactions set out in notes 38(a) to (e) above also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to the Company. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 1999 accompanying the financial statements.

The related party transactions set out in notes 38(f) and (h) also constituted connected transactions to the Company under Rule 14.25(2)(b) of the Listing Rules. Relevant details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 1999 accompanying the financial statements, according to the disclosure requirement under Rule 14.25(2)(b)(ii).

The related party transactions under note 38(g) did not constitute connected transactions as defined in the Listing Rules to the Company.



39. PLEDGE OF ASSETS

Certain of the Group's long and short term investments, hotel properties, property under development, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$10,130.0 million (1998 - HK\$8,723.2 million) and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

40. CONTINGENT LIABILITIES

- (a) At the balance sheet date, a corporate guarantee in the aggregate amount of HK\$990.0 million (1998 - HK\$990.0 million) was given by the Company in respect of banking facilities granted to a jointly controlled entity. The amount drawn against these facilities attributable to the Company at the year end amounted to HK\$753.3 million (1998 - HK\$753.3 million).
- (b) On 18th November, 1999, Regal International (BVI) Holdings Limited ("Regal BVI"), a wholly-owned subsidiary of the Group, entered into a securities purchase agreement ("SP Agreement") with an independent party (the "Purchaser") with respect to the disposal by Regal BVI to the Purchaser of its interests in hotel ownership and hotel management in the United States of America (the "Hotel Assets").

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

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

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

41. COMMITMENTS

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

	GROUP	
	1999 HK\$'million	1998 HK\$'million
Capital commitments in respect of renovation or improvement of hotel properties:		
Authorised and contracted for	–	23.7
Authorised, but not contracted for	–	100.9
	<u>–</u>	<u>124.6</u>
Capital commitments in respect of the hotel property under development:		
Authorised and contracted for	167.4	176.9
Authorised, but not contracted for	43.3	193.6
	<u>210.7</u>	<u>370.5</u>
	<u>210.7</u>	<u>495.1</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of:		
Land and buildings expiring:		
Within one year	1.7	14.8
In the second to fifth years, inclusive	17.4	16.1
After five years	–	16.0
	<u>19.1</u>	<u>46.9</u>
Other equipment expiring:		
Within one year	2.5	1.6
In the second to fifth years, inclusive	1.0	6.1
	<u>3.5</u>	<u>7.7</u>
	<u>22.6</u>	<u>54.6</u>

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

42. COMPARATIVE AMOUNTS

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

43. APPROVAL OF THE FINANCIAL STATEMENTS

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