



Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 1999.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiary companies are property investment and management, property development, development

consultancy and project management, construction and construction-related businesses, hotel ownership and management, and other investments (including investment and trading in financial instruments and marketable securities).

There have been no significant changes in these activities during the year.

The turnover and contribution to trading results by each principal activity and by geographical location are as follows:

| | Turnover HK\$'million | Contribution HK\$'million |
|--------------------------------------------------|----------------------------------|--------------------------------------|
| By activity: | | |
| Property investment and management | 288.5 | 137.8 |
| Property development | 1,041.8 | (213.9) |
| Construction and construction-related businesses | 252.3 | (17.2) |
| Development consultancy and project management | 6.0 | (3.8) |
| Hotel ownership and management | 2,966.3 | 467.9 |
| Other operations and investments | 109.4 | (708.4) |
| | <u>4,664.3</u> | <u>(337.6)</u> |
| By geographical location: | | |
| Hong Kong | 2,398.0 | 381.1 |
| The United States of America | 2,098.4 | (323.5) |
| Others | 167.9 | (395.2) |
| | <u>4,664.3</u> | <u>(337.6)</u> |

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 1999 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 134.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow and Capital Structure

The Group continued to enjoy a healthy cash inflow from its property business during the year. With the gradual recovery of the tourist industry in Hong Kong, the downward trend in the operations of the Group's local hotels flattened in 1999. In addition, due to the commencement of business of the new Regal Airport Hotel since January 1999, and the increased contribution from the Group's hotel operations in the United States, the Group recorded a considerable improvement in net cash inflow from hotel operating activities. Overall, the Group recorded net cash inflow from operating activities of HK\$1,141.4 million, as compared with the corresponding amount of HK\$2,099.5 million last year, which largely comprised deposits received from unit sales of the Park Royale residential development in Yuen Long.

Capital expenditure of the Group during the year on property projects amounted to HK\$260.0 million, and a further loan of HK\$178.6 million was advanced to a jointly controlled entity in respect of a luxury residential development project in Stanley, in which the Company and Regal Hotels International Holdings Limited ("RHIHL"), the listed subsidiary company of the Group, holds 40% and 30% shareholding interest respectively. In addition, HK\$104.5 million was expended by RHIHL on fixed assets, which was mainly incurred on the

progressive renovation of several Regal hotels in the United States. The capital expenditure incurred on the development of the new Regal Airport Hotel in 1999 amounted to HK\$207.4 million.

As disclosed in the Major Transaction Circular dated 12th January, 2000, the transaction for the disposal by RHIHL of its hotel interests in the United States was completed in December 1999. Total gross proceeds received on completion amounted to HK\$4,623.2 million, before working capital adjustments, taxation and expenses, out of which HK\$3,200.2 million was used to discharge indebtedness attached to the assets sold. Net sale proceeds received on completion amounted to HK\$1,111.9 million, and after taking into account the cash and bank balances disposed of under the disposal, the net cash flow impact of the disposal to RHIHL in 1999 was HK\$684.5 million. Subsequent to the year end date, RHIHL has received another HK\$183.2 million from the disposal, which related to certain completion account adjustment and release of tax escrow. A further HK\$349.7 million, being the amount agreed to be withheld by the purchaser on completion, will be received in December 2001, with interest accruing at 7% per annum subject to any payment obligation of RHIHL arising from warranties and indemnities provided in connection with the assets sold.

Out of the net sale proceeds received from the disposal of hotel interests in the United States, HK\$772.3 million was utilised to partially prepay a syndicated loan to RHIHL. Together with other scheduled repayment of loans of HK\$116.0 million, total loan repayment by RHIHL in 1999 amounted to HK\$888.3 million. On the other hand, RHIHL had made drawdown of loans of HK\$267.5 million mainly for the development of the Regal Airport Hotel.

Apart from the disposal of hotel interests in the United States, the Company itself also undertook an asset disposal program through a combination of asset sales and joint venture.

In June 1999, the investment property at Tsuen Wan Hoover Plaza in Tsuen Wan was sold at a consideration of HK\$200 million.

In the following September, the Group completed the disposal of its 70% interest in the development project at Ap Lei Chau Inland Lot No. 129 through the establishment of a joint venture with independent third parties, in which the Group retains 30% interest. Total consideration amounted to HK\$399 million, of which HK\$300 million was received on completion, with the balance of HK\$99 million received in March 2000.

The majority of the sale proceeds were used to settle interest payable and to reduce the Group's borrowings.

As at 31st December, 1999, the Group's borrowings net of cash and bank balances amounted to HK\$8,798.6 million, as compared to HK\$12,778.8 million in 1998.

Details of the maturity profile of the Group's borrowings are set out in notes 28 to 30 to the financial statements.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with

interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date. In addition to normal bank financing, issues of debt or equity-linked securities are considered and arranged to provide an alternative source of funding, when circumstances are appropriate. Forward exchange contracts and interest swaps are arranged, where appropriate, to hedge against the Group's currency and interest rate exposures.

Remuneration Policy

The Group employs approximately 2,800 staff in Hong Kong, approximately 400 staff in Canada and approximately 1,000 staff in the PRC.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed and bonuses paid on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include provident fund scheme and pension contribution scheme, as well as medical and life insurance.

The Company and RHIHL each maintains an Executive Share Option Scheme under which share options are granted to selected eligible executives. These options are granted with a view to providing to senior management an appropriate long term incentive interest in the growth of the Group, thereby enhancing its continuing success.

A detailed review of the business operations and the outlook of the Group is contained in the Chairman's Report which precedes this report.



DIVIDENDS

No interim dividend was paid during the year.

The Directors have resolved not to recommend the payment of a final dividend for the year.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Mr. Cheng Yuk Lun
Mr. Francis Gonzalez Estrada
Mr. Donald Fan Tung
Mrs. Kitty Lo Lee Kit Tai
Mr. Jimmy Lo Chun To
Mr. Kenneth Ng Kwai Kai
Mr. Ng Siu Chan
Dr. Alex Wu Shu Chih

On 15th January, 1999, Mr. Richard Timothy Gallie resigned as a Director.

On 24th June, 1999, Mr. Daniel Bong Shu Yin resigned as a Director.

On 1st July, 1999, Mr. Michael Choi Chi Wing resigned as a Director.

On 25th October, 1999, Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To were appointed as Directors.

In accordance with Bye-laws 99 and 102 of the Company's Bye-laws, Mr. Donald Fan Tung, Mrs. Kitty Lo Lee Kit Tai, Mr. Jimmy Lo Chun To and Dr. Alex Wu Shu Chih retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests, whether direct or indirect, in any significant contract to which the Company or any of its holding companies, subsidiary companies or fellow subsidiary companies was a party at the balance sheet date or at any time during the year.

None of the Directors had any service contract with the Company or any of its subsidiary companies during the year.

At no time during the year was the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the Executive Share Option Schemes (the "Schemes") of the Company and its listed holding company, Century City International Holdings Limited ("CCIHL"), pursuant to which options have been granted to certain Directors under the Scheme of the Company.

During the year, none of the Directors exercised options to subscribe for shares under the Scheme of the Company.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 1999, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

(A) Interests in Shares

| | Name of Director | Class of Shares Held | Number of Shares Held | | | Total |
|------------------------------------|---------------------------------------|----------------------|-----------------------|------------------|--------------------------------|---------------|
| | | | Personal Interests | Family Interests | Corporate Interests | |
| 1. The Company | Mr. Lo Yuk Sui | Ordinary | 222,765 | - | 1,401,024,977 (Notes a & b) | 1,401,247,742 |
| | Mr. Cheng Yuk Lun | Ordinary | 2,325,000 | - | - | 2,325,000 |
| | Mr. Donald Fan Tung | Ordinary | 2,718 | - | - | 2,718 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 100,000 | - | - | 100,000 |
| | Mr. Jimmy Lo Chun To | Ordinary | 284,000 | - | - | 284,000 |
| | Mr. Ng Siu Chan | Ordinary | - | 536,500 | - | 536,500 |
| | Name of Associated Corporation | | | | | |
| 2. CCIHL | Mr. Lo Yuk Sui | Ordinary | 524,434,843 | - | 1,395,994,246 | 1,920,429,089 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 510,000 | - | - | 510,000 |
| | Mr. Jimmy Lo Chun To | Ordinary | 1,659,800 | - | - | 1,659,800 |
| | Mr. Ng Siu Chan | Ordinary | - | 15,453,000 | - | 15,453,000 |
| 3. RHIHL | Mr. Lo Yuk Sui | Ordinary | 220,000 | - | 2,907,644,944 (Notes a & c) | 2,907,864,944 |
| | | Preference | - | - | 3,440 (Note a) | 3,440 |
| | Mr. Cheng Yuk Lun | Ordinary | 600,000 | - | - | 600,000 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 370,000 | - | - | 370,000 |
| 4. Argosy Capital Corporation | Mr. Lo Yuk Sui | Ordinary | - | - | 1,130,349 (Note a) | 1,130,349 |
| 5. Century King Investment Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 5,000 (Note a) | 5,000 |
| 6. Chest Gain Development Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 7,000 (Note a) | 7,000 |

| Name of Associated Corporation | Name of Director | Class of Shares Held | Number of Shares Held | | | Total |
|-------------------------------------------|------------------|----------------------|-----------------------|------------------|----------------------------|-------------|
| | | | Personal Interests | Family Interests | Corporate Interests | |
| 7. Chi Cheung Investment Company, Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 214,188,951 (Note a) | 214,188,951 |
| 8. Chinatrend (Holdings) Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 7,500 (Note a) | 7,500 |
| 9. Chinatrend (Nankai) Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 85 (Note a) | 85 |
| 10. Hanoi President Hotel Company Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 75 (Note a) | 75 |
| 11. Polarfine Inc | Mr. Lo Yuk Sui | Ordinary | - | - | 3,000,000 (Notes a & d) | 3,000,000 |
| 12. Rapid Growth Holdings Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 25,000 (Note a) | 25,000 |
| 13. Supreme Idea Enterprise Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 125 (Note a) | 125 |
| 14. Villawood Developments Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 65 (Note a) | 65 |
| 15. Wealth Link Investments Limited | Mr. Lo Yuk Sui | Ordinary | - | - | 1 (Note a) | 1 |

Notes:

- (a) The shares were held through companies controlled by CCIHL, of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder.
- (b) Including the retained balance, i.e. 6,444,444 shares, (the "Retained Shares") of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly-owned subsidiary of CCIHL from a wholly-owned subsidiary of The New China Hong Kong Group Limited (the "NCHK Company") pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the "Completion Date"). The Retained Shares are retained by the CCIHL group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) A total of 536,755,200 shares were charged by a wholly-owned subsidiary company of the Company in favour of a trustee, covering the exchange rights of the holders of the Exchangeable Bonds issued by another wholly-owned subsidiary company of the Company. The Exchangeable Bonds are exchangeable into those existing ordinary shares of RHIHL during the period from 6th April, 1996 to 23rd January, 2001 at an adjusted effective exchange price of HK\$2.0144 per share (cum entitlements as provided in the relevant trust deed).
- (d) Including security interest over 600,000 shares under a share mortgage held by a subsidiary of CCIHL.

**(B) Interests in Share Options Granted by the Company****Number of Shares under the Options**

| Name of Director | | Date of Grant (Original Grant Date) (Exercise Price per Share) | As at 1/1/1999 | | Options Outstanding As at 31/12/1999 | |
|----------------------------|-----|----------------------------------------------------------------------------|----------------|-----------------------|--------------------------------------------|-----------------------|
| | | | (I) | (II) | (I) | (II) |
| Mr. Lo Yuk Sui | (a) | 22/2/1994 (HK\$10.40) | (I) | 1,825,000 | (I) | 2,281,250 |
| | | | (II) | 2,737,500 (Note 2) | (II) | 2,281,250 (Note 6) |
| | (b) | 15/9/1995 (22/2/1992) (HK\$0.6656) | (I) | 9,375,000 | (I) | 11,718,750 |
| | | | (II) | 9,375,000 (Note 3) | (II) | 7,031,250 (Note 7) |
| Mr. Cheng Yuk Lun | (a) | 22/2/1994 (HK\$10.40) | (I) | 500,000 | (I) | 625,000 |
| | | | (II) | 750,000 (Note 2) | (II) | 625,000 (Note 6) |
| | (b) | 15/9/1995 (22/2/1992) (HK\$0.6656) | (I) | 1,827,342 | (I) | 2,852,732 |
| | | | (II) | 4,101,564 (Note 3) | (II) | 3,076,174 (Note 7) |
| Mr. Donald Fan Tung | (a) | 22/2/1994 (HK\$10.40) | (I) | 750,000 | (I) | 937,500 |
| | | | (II) | 1,125,000 (Note 2) | (II) | 937,500 (Note 6) |
| | (b) | 15/9/1995 (22/2/1992) (HK\$0.6656) | (I) | 2,109,374 | (I) | 2,636,717 |
| | | | (II) | 2,109,376 (Note 3) | (II) | 1,582,033 (Note 7) |
| | (c) | 15/9/1995 (22/2/1993) (HK\$1.1571) | (I) | 878,906 | (I) | 1,054,687 |
| | | | (II) | 878,906 (Note 4) | (II) | 703,125 (Note 3) |
| | (d) | 15/9/1995 (22/2/1994) (HK\$3.5392) | (I) | 1,250,000 | (I) | 1,562,500 |
| | | | (II) | 1,875,000 (Note 5) | (II) | 1,562,500 (Note 4) |
| Mr. Kenneth Ng Kwai Kai | (a) | 22/2/1994 (HK\$10.40) | (I) | 400,000 | (I) | 500,000 |
| | | | (II) | 600,000 (Note 2) | (II) | 500,000 (Note 6) |
| | (b) | 15/9/1995 (22/2/1992) (HK\$0.6656) | (I) | 1,026,092 | (I) | 2,051,482 |
| | | | (II) | 4,101,564 (Note 3) | (II) | 3,076,174 (Note 7) |

Notes:

- (1) The options are exercisable at any time.
- (2) The options are exercisable in stages commencing five years from the date of grant.
- (3) The options are exercisable in stages commencing seven years from their respective Original Grant Dates.
- (4) The options are exercisable in stages commencing six years from their respective Original Grant Dates.
- (5) The option is exercisable in stages commencing five years from the Original Grant Date.
- (6) The options are exercisable in stages commencing six years from the date of grant.
- (7) The options are exercisable in stages commencing eight years from the Original Grant Date.

Save as mentioned above, no right has been granted to, or exercised by, any Director of the Company or his spouse and children under 18 years of age, to subscribe for shares in or debentures of the Company during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 1999, the interests of those persons (other than the Directors) in the share capital of the Company as recorded in the register kept under Section 16 of the Securities (Disclosure of Interests) Ordinance were as follows:-

| Name of Shareholder | Number of Shares held |
|------------------------------------------------------|-----------------------|
| CCIHL (Notes i and iii) | 1,401,024,977 |
| Century City BVI Holdings Limited (Notes ii and iii) | 1,401,024,977 |
| Century City Holdings Limited (Note ii) | 827,458,989 |

Notes:-

- (i) These shares were shown as the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under Interests in Shares of Directors' Interests in Share Capital.
- (ii) These companies are subsidiary companies of CCIHL and their interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) Including the retained balance of 6,444,444 shares as disclosed under Note (b) to Interests in Shares of Directors' Interests in Share Capital.

Mr. Lo Yuk Sui, Mrs. Kitty Lo Lee Kit Tai, Mr. Jimmy Lo Chun To, Mr. Kenneth Ng Kwai Kai and Mr. Ng Siu Chan are directors of CCIHL. Messrs. Lo Yuk Sui, Cheng Yuk Lun, Donald Fan Tung and Kenneth Ng Kwai Kai are also directors of the abovenamed subsidiary companies of CCIHL.



MOVEMENTS IN SHARE OPTIONS AND 5¹/₄% CONVERTIBLE CUMULATIVE REDEEMABLE PREFERENCE SHARES OF REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

Share Options

Movements during the year in options granted by RHIHL pursuant to the Executive Share Option Scheme approved by its shareholders on 28th June, 1990 are detailed below:-

| Description of Event | Number of Ordinary Shares under the Options | | | | | Total |
|-------------------------------------------|---------------------------------------------|----------------------|-----------------------|----------------------|-----------------------|--------------|
| | Granted on 22/2/1992 | Granted on 28/8/1992 | Granted on 5/8/1993 | Granted on 23/2/1995 | Granted on 22/2/1997 | |
| Balance at beginning of year | 59,304,000 | 2,280,000 | 1,770,000 | 2,400,000 | 13,800,000 | 79,554,000 |
| Exercised during the year | (48,000) | - | - | - | - | (48,000) |
| Cancelled during the year | (4,962,000) | (1,920,000) | (390,000) | (2,400,000) | (8,040,000) | (17,712,000) |
| Balance at end of year | 54,294,000 (Note a) | 360,000 (Note b) | 1,380,000 (Note c) | - | 5,760,000 (Note d) | 61,794,000 |
| Exercise price per ordinary share (HK\$): | 0.7083 | 0.9250 | 1.1083 | 1.2083 | 2.1083 | |

Notes:

- The options for 32,262,000 ordinary shares are exercisable at any time. The options for the remaining 22,032,000 ordinary shares are exercisable in stages commencing eight years from the date of grant.
- The option for 180,000 ordinary shares is exercisable at any time. The option for the remaining 180,000 ordinary shares is exercisable in stages commencing eight years from the date of grant.
- The options for 780,000 ordinary shares are exercisable at any time. The options for the remaining 600,000 ordinary shares are exercisable in stages commencing seven years from the date of grant.
- The options for 1,152,000 ordinary shares are exercisable at any time. The options for the remaining 4,608,000 ordinary shares are exercisable in stages commencing three years from the date of grant.

5¼% Convertible Cumulative Redeemable Preference Shares

Details of the 5¼% convertible cumulative redeemable preference shares with par value of US\$10.00 each (“Preference Shares”) of RHIHL are set out below:-

| | Number of Preference Shares |
|-----------------------------------------|----------------------------------------|
| Balance at beginning and at end of year | <u>18,948</u> |

Note: The Preference Shares are convertible into fully paid ordinary shares of HK\$0.10 each of RHIHL at any time until and including 5th December, 2008 at the adjusted conversion price of HK\$1.7037 per share (subject to adjustment) based on a reference amount of US\$1,000 per Preference Share at the fixed exchange rate of HK\$7.730255 to US\$1.00.

For the purpose of the sections below headed “Connected Transactions” and “Disclosure pursuant to Practice Note 19”, the “RHIHL Group” refers to RHIHL and its subsidiary companies; the “PHL Group” refers to the Company and its subsidiary companies, other than those comprising the RHIHL Group; the “CCIHL Group” refers to CCIHL and its subsidiary companies, other than those comprising the PHL Group and the RHIHL Group; and the “PHL/RHL Group” or the “Group” refers to the Company and its subsidiary companies, including those comprising the RHIHL Group.

CONNECTED TRANSACTIONS

ON-GOING TRANSACTIONS

On 9th February, 1998, the Company issued a circular (the “Circular”) to the shareholders containing information regarding, inter alia, various on-going transactions (the “On-going Transactions”) and future similar transactions (the “Future Connected Transactions”) between respective subsidiary companies of the CCIHL Group, the PHL Group and the RHIHL Group, all conducted within their ordinary and normal course of businesses. The said transactions constituted or will

constitute connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”). The Stock Exchange, on application by the Company, granted a waiver (the “Waiver”) of strict compliance by the Company with the announcing requirement under the Listing Rules in respect of Future Connected Transactions, details of which Waiver were contained in the Circular. Details of the On-going Transactions conducted during the year were as follows:-

Corporate Services Transactions

The present head office accommodation of the CCIHL Group located at 18th to 22nd Floors of Paliburg Plaza is leased to the CCIHL Group by the PHL Group. Relevant rentals paid for the year ended 31st December, 1999 amounted to approximately HK\$21.7 million. The lease for the office premises was for a term of two years ended 17th December, 1999 at a rental of approximately HK\$22 million per annum. The lease has been renewed for a term of two years ending 17th December, 2001 at a rental of approximately HK\$18 million per annum.

The head office accommodation of the CCIHL Group is shared with the CCIHL Group by the PHL Group and the RHIHL Group. The rental charge of the head office accommodation is allocated among the Company, CCIHL and RHIHL, according to estimates from time to time by the directors of CCIHL and, as appropriate, with endorsement of the respective directors of the Company and RHIHL, of fair proportional use, based on the actual area occupied. The rental in respect of the areas used in common among such members of the PHL Group, the CCIHL Group and the RHIHL Group is apportioned with reference to individual consolidated turnover, profit and assets values of the Company, CCIHL and RHIHL for each financial year. The payment obligation in respect of such rentals is assumed by the three companies.

Furthermore, the CCIHL Group provides corporate management services to the PHL Group and the RHIHL Group, the fees for which are charged by apportionment of actual costs among the Company, CCIHL and RHIHL on a fair proportionate basis by reference to individual consolidated turnover, profit and assets value of the Company, CCIHL and RHIHL for each financial year.

The aggregate amount of such rentals and corporate management costs apportioned to the Company and RHIHL for 1999 were approximately HK\$39.9 million (comprising rental of HK\$12.9 million) and HK\$34.3 million (comprising rental of HK\$7.3 million), respectively. The payment obligations in respect of these rentals were assumed by the Company and RHIHL respectively.

Miscellaneous Connected Transactions

A member of the CCIHL Group has been providing advertising and promotion services to the PHL Group on retainers and at a standard fee based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The aggregate sum of the retainer fees and standard fees paid by the PHL Group to the CCIHL Group in respect of such transactions for the year ended 31st December, 1999 amounted to approximately HK\$2.1 million.

Information relating to the On-going Transactions is also contained in note 44 to the financial statements.

Compliance with Waiver Conditions

The aggregate amounts of the rentals and corporate management costs under the Corporate Services Transactions apportioned to the Company and the retainer fees and standard fees under the Miscellaneous Connected Transactions paid by the PHL Group to the CCIHL Group for the year ended 31st December, 1999 were within the respective caps as set out in the Waiver of 0.5% and 0.25% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 1998, adjusted to take into account of the results for the six-month period ended 30th June, 1999.

The On-going Transactions have been reviewed by the Directors (including the independent Non-Executive Directors), and the independent Non-Executive Directors of the Company have confirmed that they consider that the above transactions were conducted:-

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
- (c) on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The Auditors of the Company have confirmed to the Directors in writing in respect of the On-going Transactions that the relevant transactions have received the approval of the Board of Directors, and that they consider that the relevant transactions have been entered into on normal commercial terms or have been entered into in accordance with the terms of the agreement relating to the transaction in question or, where there is no such agreement, on terms no less favourable than terms available to or from independent third parties.

PROVISION OF FINANCIAL ASSISTANCE TO NON WHOLLY-OWNED SUBSIDIARY

On 21st January, 1999, the Company executed a Guarantee (the "Guarantee") in favour of The Bank of East Asia, Limited (the "Bank"), an independent third party, as part of the security to guarantee the entire amount outstanding under the HK\$200 million revolving loan facility (the "Facility") from the Bank to the Company's 80%-owned construction arm, Chatwin Engineering Limited ("Chatwin"). Chatwin is the direct wholly-owned subsidiary of Polarfine Inc which is owned as to 80% by the Company

indirectly and 20% by Double Bliss Limited, an associate of Mr. Kwan Chi Ping ("Mr. Kwan"), the Managing Director of Chatwin.

Apart from the Guarantee, the said loan facility was also secured by a charge over cash deposits in specified loan to deposit ratio placed with the Bank by Chatwin (the "Charge Over Cash Deposits").

In connection with the additional liabilities assumed by the Company under the Guarantee:

- (a) A Deed of Counter-Indemnity dated 21st January, 1999 was executed by Mr. Kwan in favour of the Company, whereby Mr. Kwan undertakes to counter-indemnify the Company from and against 20% of the Company's obligations and liabilities under the Guarantee (the "Indemnity"); and
- (b) A Share Mortgage dated 21st January, 1999 over the 20% shareholding interests in Polarfine Inc (the "Share Mortgage") was executed by Double Bliss Limited in favour of the Company as security for the obligations of Mr. Kwan under the Indemnity.

On 22nd October, 1999, the amount of the Facility was increased to HK\$212.5 million. The revised Facility is continued to be secured by the Guarantee and the Charge over Cash Deposits, and the Indemnity and the Share Mortgage continue to secure the obligations assumed by the Company under the Guarantee for the revised Facility.

The aforesaid transaction is disclosed in this annual report in accordance with Rule 14.25(2)(a) of the Listing Rules.



JOINT VENTURE ON INFORMATION TECHNOLOGY BUSINESS

In January 2000, 8D International (BVI) Limited ("8D-BVI") was established as a joint venture company owned as to 10% by Worthy Aim International Limited ("CBVI"), a wholly owned subsidiary of CCIHL, 30% by Inroad Technology Limited ("RBVI"), a wholly owned subsidiary of RHIHL, 30% by Manyways Technology Limited ("YSL-BVI"), a company wholly owned by Mr. Lo Yuk Sui, and 30% by Speedway Technology Limited ("303-BVI"), a wholly owned subsidiary of 303 Company Limited ("303 Co.") through subscription of new shares of HK\$1.00 each of 8D-BVI ("8D-BVI Shares") as mentioned below. 303 Co. is owned as to approximately 33.3% by World Momentum Limited, which is beneficially owned by Mr. Lo Chun To and his sister, and approximately 66.7% by a group of information technology professionals and researchers.

RBVI, YSL-BVI and 303-BVI (the "Subscribers") each subscribed 300 new 8D-BVI Shares at a subscription price, in cash, of HK\$10,000 per share, totalling in each case HK\$3,000,000. As a result, the issued share capital of 8D-BVI was increased from HK\$100 comprising 100 8D-BVI Shares to HK\$1,000 comprising 1,000 8D-BVI Shares.

Following the above share subscriptions, CBVI's shareholding interest in 8D-BVI was diluted to 10%. In connection with the share subscriptions, CCIHL warranted to the Subscribers that the proforma audited consolidated net assets of the 8D-BVI and 8D International Limited ("8D"), the then subsidiary of 8D-BVI, (together, the "8D

Group") as at 31st December, 1999 would not be less than HK\$1,000,000, and any excess or deficit of the proforma audited consolidated net assets as at such date over or below HK\$1,000,000 should be refunded to or made good by Century.

With respect to the establishment of the 8D Group, apart from the subscriptions of new 8D-BVI Shares by RBVI, YSL-BVI and 303-BVI, there were no other contributions either in the form of equity capital or loans from CBVI, RBVI, YSL-BVI, 303-BVI and any connected persons of CCIHL, the Company and RHIHL. Future contributions to 8D-BVI would be made by CBVI, RBVI, YSL-BVI and 303-BVI according to the proportion of their respective shareholding interests in 8D-BVI.

New Development of the 8D Group

8D was established by Century in 1986 and has been providing promotions and communications services to the Century City Group (comprising CCIHL and its subsidiaries).

Following the establishment of the joint venture, the 8D Group primarily focuses its future activities on information technology business, including the provision of professional services to member companies of the Century City Group and third party clients. Projects currently being undertaken include a comprehensive solution for direct marketing and reservations for hotels, restaurants and other facilities, customer services and networking, and other related aspects of e-tourism.

The aforesaid transaction is disclosed in this annual report in accordance with Rule 14.25(1)(a) of the Listing Rules.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Practice Note 19 (“PN19”) of the Listing Rules.

ADVANCES TO AN ENTITY (PARAGRAPH 3.2.1 OF PN19)

Details of the advances made to Chest Gain Development Limited (“Chest Gain”), a jointly controlled entity owned as to 40% by the Company, 30% by RHIHL and 30% by China Overseas Land & Investments Limited, which is independent of, and not connected with the Company and RHIHL, the respective directors, chief executive and substantial shareholders of the Company and RHIHL and any of their respective subsidiaries or any of their respective associates (as defined in the Listing Rules), by the PHL Group and the RHIHL Group as at 31st December, 1999 are set out below:

| Advances | PHL Group (HK\$'million) | RHIHL Group (HK\$'million) | PHL/RHIHL Group (HK\$'million) |
|--------------------------------------------|-----------------------------|-------------------------------|--------------------------------------|
| (A) Principal Amount of Advances | 1,429.8 | 1,072.5 | 2,502.3 |
| (B) Interest Receivable | 216.7 | 162.5 | 379.2 |
| (C) Several Guarantees for: | | | |
| (a) Principal Amount of Bank Facilities | 1,320.0 | 990.0 | 2,310.0 |
| (b) Amount of Bank Facilities Drawdown | 1,004.4 | 753.3 | 1,757.7 |
| Total: (A)+(B)+(C)(a) | 2,966.5 | 2,225.0 | 5,191.5 |
| (A)+(B)+(C)(b) | 2,650.9 | 1,988.3 | 4,639.2 |

The above advances to Chest Gain, including interest receivable thereon, in an aggregate sum of HK\$1,646.5 million (before a provision of HK\$933.3 million representing the PHL Group’s attributable share of the provision for foreseeable loss in respect of the property development at the Stanley Site (as referred to below) of Chest Gain) were provided by the PHL Group. The above advances to Chest Gain, including interest receivable thereon, in an aggregate sum of HK\$1,235.0 million (before a provision of HK\$700.0 million representing the RHIHL Group’s attributable share of the provision for foreseeable loss in respect of the property development at the Stanley Site of Chest Gain) were provided by the RHIHL Group. Such contribution of funds to Chest Gain are provided in the form of shareholders’ loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest is being accrued at prime rate. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of its property project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the “Stanley Site”). The Stanley Site was acquired by Chest Gain at the government land auction held on 3rd June, 1997. The above guarantees were provided by the Company and RHIHL on 28th October, 1997 on a several

basis in proportion to their respective shareholding interests in Chest Gain and were given in respect of the bank loan facilities of HK\$3,300.0 million made available to Chest Gain for the purposes of refinancing part of the consideration for the acquisition of the Stanley Site and financing the estimated construction costs required for the luxury residential development at the Stanley Site.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 1999 provided by the PHL/RHIHL Group to Chest Gain in the respective sums of (a) HK\$5,191.5 million (based on the total available amount of the bank facilities) and (b) HK\$4,639.2 million (based on the amount of bank facilities drawdown) represented (a) 95.9% and (b) 85.7% of the consolidated net tangible assets of the Company of HK\$5,415.0 million (the "Paliburg NTA"), by reference to its latest audited financial statements for the year ended 31st December, 1999.

Financial Assistance provided to and Guarantees given for Affiliated Companies (Paragraph 3.3 of PN19)

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the PHL Group and the RHIHL Group as at 31st December, 1999 are set out below:

| Name of Affiliated Companies | Principal Amount of Advances (HK\$'million) | Interest Receivable (HK\$'million) | Guarantee given for Bank Facilities | |
|-------------------------------------|---------------------------------------------|------------------------------------|--------------------------------------------------------|--------------------------------------------------------|
| | | | (i) Principal Amount of Bank Facilities (HK\$'million) | (ii) Amount of Bank Facilities Drawdown (HK\$'million) |
| Chest Gain | (A) 2,502.3 | (B) 379.2 | (C)(i) 2,310.0 | (C)(ii) 1,757.7 |
| Cheerjoy Development Limited | (D) 123.3 (Interest Rate: Prime Rate) | (E) 3.1 | Nil | Nil |
| Century King Investment Limited | (F) 2.3 (Interest Rate: 10% p.a.) | (G) 0.4 | Nil | Nil |
| Bostonian Hotel Limited Partnership | (H) 24.5 (Interest Rate: 6% p.a.) | - | Nil | Nil |
| | | | Total: (A)+(B)+(C)(i)+(D)to(H) | 5,345.1 |
| | | | (A)+(B)+(C)(ii)+(D)to(H) | 4,792.8 |

Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Paragraph 3.2.1 of PN19 of the Listing Rules.

Cheerjoy Development Limited (“Cheerjoy”) was a wholly owned subsidiary of the Company and became a 30% owned associate of the Company during 1999. Cheerjoy owns the development property at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East, Hong Kong. The remaining 70% shareholding interest in Cheerjoy is owned by a third party, which is independent of, and not connected with the Company, the Directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder’s loans and, according to the terms of the shareholders’ agreement in respect of this joint venture, would not be in proportion to the Company’s shareholding interest in Cheerjoy. The advances were provided for the purpose of funding the working capital requirements of Cheerjoy, are unsecured and have no fixed term of repayment.

Century King Investment Limited (“Century King”) is a 50% owned associate of RHIHL, which is engaged in the operation of a Japanese restaurant. The remaining 50% shareholding interest in Century King is owned by a third party, which is independent of, and not connected with RHIHL, the directors, chief executive and substantial shareholders of RHIHL and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances were provided by the RHIHL Group in the form of shareholder’s loans in proportion to RHIHL’s shareholding interest in Century King, for the purpose of funding the capital requirements of Century King. The advances are unsecured and have no fixed term of repayment.

RHIHL owns 51% limited partnership interest in Bostonian Hotel Limited Partnership (“Bostonian”) and a third party, which is independent of, and not connected with RHIHL, the directors, chief executive and substantial shareholders of RHIHL and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules), owns the remaining 49% limited partnership interest. The advances were provided by the RHIHL Group in proportion to RHIHL’s equity interest in Bostonian, for the purpose of financing the working capital of Bostonian. The advances are unsecured and repayable by quarterly instalments with final due date in August 2026.

Calculated on the basis shown above, as at 31st December, 1999, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the PHL/RHIHL Group in the respective sums of (a) HK\$5,345.1 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$4,792.8 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 98.7% and (b) 88.5% of the Paliburg NTA.

A pro-forma combined balance sheet of the abovenamed affiliated companies and the Group’s attributable interest in these affiliated companies are presented below:

| | Pro-forma combined balance sheet (HK\$’million) | Group’s attributable interest (HK\$’million) |
|-------------------------|--------------------------------------------------------------------|-----------------------------------------------------------------|
| Non-current assets | 5,121.1 | 2,900.6 |
| Current assets | 20.8 | 7.9 |
| Current liabilities | (87.0) | (50.4) |
| Non-current liabilities | (7,538.8) | (4,498.8) |
| Net liabilities | <u>(2,483.9)</u> | <u>(1,640.7)</u> |

Covenants relating to specific performance obligation of the controlling shareholders contained in certain loan agreements (Paragraph 3.7.1 of PN19)

The agreements for the following loans to the PHL Group and the RHIHL Group impose specific performance obligations on the controlling shareholders of the Company and RHIHL:

| | | Outstanding Balance of Bank Facilities as at 31st December, 1999 (HK\$'million) | Final Maturity of Bank Facilities | Specific Performance Obligations |
|--------------------|-----|--------------------------------------------------------------------------------------------------------|--------------------------------------------------|-------------------------------------------------|
| PHL Group | (a) | 117.7 | September 1999 | Note (i) |
| | (b) | 35.0 | September 1999 | Note (ii) |
| Total: | | 152.7 | | |
| RHIHL Group | (a) | 1,075.0 | July 2007 | Note (iii) |
| | (b) | 3,818.2 | September 2004 | Note (iv) |
| Total: | | 4,893.2 | | |

Notes:

- (i) (a) CCIHL, which owns a 60.4% shareholding interest in the Company, shall not, whether directly or indirectly, cease to be beneficially interested in at least 50.1% of shares in the Company in issue from time to time; or
- (b) CCIHL shall not cease to maintain the right to appoint or remove a majority of the directors on the board of directors of the Company.
- (ii) The Company shall not cease to be a subsidiary of CCIHL.
- (iii) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL, and/or members of his immediate family or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control in RHIHL.
- (iv) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in RHIHL.

Breach of the above specific performance obligations will constitute events of default of the bank facilities. As a result, the bank facilities may become immediately due and payable on demand by the relevant lenders according to the respective terms and conditions of the bank facilities.

CORPORATE GOVERNANCE

The Company has during the year complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent Non-Executive Directors of the Company were not appointed for specific terms. However, they were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the By-laws of the Company.

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee comprising Dr. Alex Wu Shu Chih (Chairman of the Committee), Mr. Francis Gonzalez Estrada and Mr. Ng Siu Chan, all of whom are independent Non-Executive Director of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

THE YEAR 2000 COMPLIANCE

Further to the information provided on Year 2000 compliance in previous interim and annual reports and in an announcement dated 12th October, 1999, the implementation of the Year 2000 compliance programme and the validation of contingency plans had been fully completed, as last re-scheduled, by November 1999. During the turn of the century and at the Year 2000 critical dates, the millennium issue had not caused any business disruption to the Group's operations.

The total cost incurred for the Year 2000 compliant project was within budget and amounted to about HK\$7.3 million which

was capitalised and amortised in the Group's accounts according to the accounting policies adopted by the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the listed securities of the Company.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's 5 largest suppliers and the percentage of turnover or sales attributable to the Group's 5 largest customers combined in respect of good and services was in each case less than 30% of the total amount involved.

FIXED ASSETS

The details of movements in fixed assets during the year are set out in note 16 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

The details of movements in properties under development during the year are set out in note 17 to the financial statements.

PROPERTIES HELD FOR FUTURE DEVELOPMENT

The details of movements in properties held for future development during the year are set out in note 18 to the financial statements.



BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in notes 28 to 30 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company during the year are set out in note 34 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 36 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in note 37 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 38 to the financial statements.

REVALUATION RESERVES

The details of movements in the revaluation reserve account during the year are set out in note 39 to the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in note 40 to the financial statements.

SUBSIDIARY COMPANIES/ PARTNERSHIPS

Particulars of the Company's principal subsidiary companies/partnerships are set out in note 41 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in jointly controlled entity and associates are set out in notes 19 and 20 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 42 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 1999, the Company's reserves available for distribution calculated in accordance with The Companies Act 1981 of Bermuda amounted to HK\$23.1 million.

In addition, the Company's share premium may be distributed in the form of fully paid bonus shares.

INTEREST CAPITALISED

Interest expenses in the amount of HK\$111.8 million were capitalised during the year in respect of the Group's property development projects and construction contracts.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
LO YUK SUI
Chairman

Hong Kong
19th May, 2000