**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** or transferred all your shares in Century City International Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.



世紀城市國際控股有限公司
Century City
International Holdings Limited
(Incorporated in Bermuda with limited liability)

# POSSIBLE VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

# POSSIBLE ACQUISITION OF AN INTEREST IN A COMPANY INVOLVED IN INFORMATION TECHNOLOGY BUSINESS IN CONNECTION WITH A BROADBAND NATIONAL RAILWAY FIBRE OPTIC NETWORK IN THE PRC

**Financial adviser to Century City International Holdings Limited**

ASIA FINANCIAL CAPITAL LIMITED

**Independent financial adviser to the Independent Board Committee**

TAI FOOK

**Tai Fook Capital Limited**

A notice convening a special general meeting of Century City International Holdings Limited to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 22nd September, 2000 at 10:00 a.m. is set out on pages 115 to 116 of this circular. Whether or not you are able to attend, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrars in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for the holding of the meeting (or any adjournment thereof). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting (or any adjournment thereof) should you so wish.

6th September, 2000

# CONTENTS


*Page*

**Definitions** . . . . . . . . . . 1

**Letter from the Board**

Introduction . . . . . . . . . . 4

The Option Agreement . . . . . . . . . . 5

Shareholding structure . . . . . . . . . . 9

Information on Net Age, CDE, the PRC Joint Venture and the Project . . . . . . . . . . 12

Reasons for the Transaction . . . . . . . . . . 14

Increase in authorised share capital . . . . . . . . . . 15

Financial and business prospects of the Group . . . . . . . . . . 15

Financial effects of the Transaction on the Group . . . . . . . . . . 16

Recommendation . . . . . . . . . . 16

SGM . . . . . . . . . . 16

Additional information . . . . . . . . . . 17

**Letter from the Independent Board Committee** . . . . . . . . . . 18

**Letter from Tai Fook** . . . . . . . . . . 19

**Appendix I — Accountants' report on Net Age** . . . . . . . . . . 28

**Appendix II — Financial information on the Group** . . . . . . . . . . 35

**Appendix III — Valuation report of the PRC Joint Venture** . . . . . . . . . . 101

**Appendix IV — General information** . . . . . . . . . . 107

**Notice of SGM** . . . . . . . . . . 115

*In this circular, the following expressions have the following meanings, unless the context otherwise requires:—*

| | |
|---|---|
| "8D International" | 8D International (BVI) Limited, a company incorporated in the British Virgin Islands |
| "Asia Financial" | Asia Financial Capital Limited, the financial adviser to the Company in relation to the Transaction and an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Law of Hong Kong) |
| "Board" | the board of Directors |
| "Call Option" | an option granted by Founder Group to the Company, under which the Company has the right, upon the fulfillment of certain conditions, to require the transfer of the Net Age Shares by Founder Group to E-Success (or a nominee of the Company), being a wholly owned subsidiary of the Company, in exchange for the issue and allotment of New Shares pursuant to the terms of the Option Agreement |
| "CDE" | Century Digital Enterprise Limited, a company incorporated in the British Virgin Islands with limited liability, which is beneficially owned as to approximately 4.92 per cent. by the Company and has 100 shares in issue as at the Latest Practicable Date |
| "Century Group" | the Company and its subsidiaries (excluding the PHL Group and the Regal Group) |
| "Company" | Century City International Holdings Limited, a company incorporated in Bermuda, the shares of which are currently listed and dealt in on the Stock Exchange |
| "Director(s)" | the director(s) of the Company |
| "E-Success" | E-Success Technology Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company |
| "Founder Group" | Perfect Approach Technology Limited, a company incorporated in the British Virgin Islands with limited liability, which was formed by the founding shareholders of the Project |
| "Group" | the Company and its subsidiaries |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Independent Board Committee" | an independent committee of the Board comprising Mr. Ng Siu Chan and Mr. Anthony Chuang appointed to consider and make recommendations to the Independent Shareholders in relation to the Transaction |

| | |
|---|---|
| "Independent Shareholders" | Shareholders other than Mr. Lo and his associates (as defined under the Listing Rules) and the beneficial shareholder of Top Technologies Limited, being a shareholder of Founder Group |
| "Issue Price" | the issue price of HK$0.55 per New Share, subject to adjustment |
| "Latest Practicable Date" | 1st September, 2000, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Mr. Lo" | Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of the Company |
| "Net Age" | Net Age Technology Limited, a company incorporated in the British Virgin Islands with limited liability and has 100 shares in issue as at the Latest Practicable Date |
| "Net Age Share(s)" | ordinary shares of US$1.00 each in the issued share capital of Net Age |
| "New Share(s)" | Shares which may fall to be issued, allotted and credited as fully paid upon exercise of the Option |
| "Option" | the Call Option and/or the Put Option |
| "Option Agreement" | the conditional subscription option agreement dated 15th August, 2000 entered into between the Company and Founder Group in relation to the Transaction |
| "Option Exercise Period" | within 24 months after fulfillment of the conditions to the first exercise of the Option under the Option Agreement |
| "Paliburg" | Paliburg Holdings Limited, a company listed on the Stock Exchange and beneficially owned as to approximately 60 per cent. by the Company |
| "PHL Group" | Paliburg and its subsidiaries (excluding the Regal Group) |
| "PRC" | the People's Republic of China |
| "PRC Joint Venture" | 北京世紀中海聯數碼技術有限公司 (Beijing Century Union Digital Technology Limited), a sino-foreign equity joint venture company established on 24th April, 2000 in the PRC |
| "PRC Partner" | 北京中海聯數碼技術有限公司 (Beijing CSU Digital Technologies Limited), a company incorporated in the PRC with limited liability and being the Chinese party holding 10 per cent. equity interest in the PRC Joint Venture, which is independent of and not connected with the Company, directors, chief executives or substantial shareholders of the Company, its subsidiaries or their respective associates (as defined under the Listing Rules) |

| | |
|---|---|
| "Project" | the project involving the provision by the PRC Joint Venture of technical, consultancy and other services for information technology businesses in connection with a broadband national railway fibre optic network in the PRC |
| "Put Option" | an option granted by the Company to Founder Group, under which Founder Group has the right, upon fulfillment of certain conditions, to subscribe for the New Shares at the Issue Price in exchange for the transfer of its interest in Net Age to E-Success (or a nominee of the Company), being a wholly-owned subsidiary of the Company, pursuant to the terms of the Option Agreement |
| "Regal Group" | Regal Hotels and its subsidiaries |
| "Regal Hotels" | Regal Hotels International Holdings Limited, a company listed on the Stock Exchange and beneficially owned as to approximately 74 per cent. by Paliburg |
| "SDI Ordinance" | Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) |
| "SGM" | the special general meeting of the Company to be convened for approving, inter alia, the Option Agreement and the issue and allotment of the New Shares by the Independent Shareholders |
| "Share(s)" | share(s) of HK$0.10 each in the share capital of the Company |
| "Shareholders" | holders of Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Tai Fook" | Tai Fook Capital Limited, the independent financial adviser to the Independent Board Committee and an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) |
| "Transaction" | the grant of the Option in relation to the possible acquisition by the Company of up to 30 per cent. attributable interest in CDE pursuant to the Option Agreement |
| "World Action" | World Action Technology Limited, a company incorporated in the British Virgin Islands with limited liability, which is beneficially owned as to approximately 7.7 per cent. by the Company |
| "HK$" | Hong Kong dollars |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "US$" | United States dollars |

*Note: For the purpose of this circular, all amounts in Renminbi were translated into Hong Kong dollars at an exchange rate of HK$1.00 : RMB1.07 and all amounts in United States dollars at an exchange rate of US$1.00 : HK$7.75.*

世紀城市國際控股有限公司
**Century City International Holdings Limited**
(Incorporated in Bermuda with limited liability)

| | |
|---|---|
| *Directors:* | *Registered Office:* |
| Mr. LO Yuk Sui *(Chairman and Managing Director)* | Rosebank Centre |
| Mr. Anthony CHUANG* | 11 Bermudiana Road |
| Mrs. Kitty LO LEE Kit Tai | Pembroke |
| Mr. Jimmy LO Chun To | Bermuda |
| Mr. Kenneth NG Kwai Kai | |
| Mr. NG Siu Chan* | *Head office and principal place of business in Hong Kong:* |
| * *Independent non-executive Director* | 18th Floor, Paliburg Plaza |
| | 68 Yee Wo Street |
| | Causeway Bay |
| | Hong Kong |

6th September, 2000

*To the Shareholders*

Dear Sir or Madam,

## POSSIBLE VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

## POSSIBLE ACQUISITION OF AN INTEREST IN A COMPANY INVOLVED IN INFORMATION TECHNOLOGY BUSINESS IN CONNECTION WITH A BROADBAND NATIONAL RAILWAY FIBRE OPTIC NETWORK IN THE PRC

### INTRODUCTION

The Board announced that on 15th August, 2000, the Company entered into the Option Agreement with Founder Group relating to the possible acquisition of up to a 30 per cent. effective interest in CDE for a consideration of up to HK$2,475,000,000 by the exercise of either the Call Option by the Company or the Put Option by Founder Group. Upon exercise of the Option, the issued share capital of Net Age (the sole asset of which is its 30 per cent. interest in CDE, which in turn holds a 90 per cent. equity interest in the PRC Joint Venture) will be transferred to E-Success (or a nominee of the Company), being a wholly owned subsidiary of the Company, in whole or in tranches in exchange for the issue and allotment of up to 4,500,000,000 New Shares by the Company to Founder Group at the Issue Price.

The Transaction constitutes a very substantial acquisition and connected transaction of the Company under the Listing Rules by virtue of the size of the consideration under the Transaction and the fact that Mr. Lo, being the Chairman and the controlling shareholder of the Company, is the controlling shareholder of Founder Group. Accordingly, the Option Agreement and the transactions comtemplated thereunder are subject to approval by the Independent Shareholders at the SGM. Mr. Lo and his associates (as defined under the Listing Rules) and the beneficial shareholder of Top Technologies Limited, being a shareholder of Founder Group, will abstain from voting at the SGM in relation to the ordinary resolutions approving the Option Agreement and the issue and allotment of New Shares. Asia Financial has been appointed as the financial adviser to the Company in respect of the Transaction.

The Independent Board Committee, comprising Mr. Ng Siu Chan and Mr. Anthony Chuang, has been appointed by the Board to consider the terms of the Option Agreement and to give recommendation to the Independent Shareholders regarding the Option Agreement. Tai Fook has been appointed as the independent financial adviser to the Independent Board Committee.

The purpose of this circular is to give you further information on the Option Agreement and the Transaction, to set out the advice of Tai Fook to the Independent Board Committee and the recommendation of the Independent Board Committee, and to seek the approval of the Independent Shareholders at the SGM for the Option Agreement and the transactions contemplated under the Option Agreement.

## THE OPTION AGREEMENT

### Parties

(i) Founder Group; and

(ii) the Company.

### Call Option

Under the Option Agreement, Founder Group has granted the Call Option to the Company so that the Company has the right to require, from time to time during the Option Exercise Period, the transfer by Founder Group to E-Success (or a nominee of the Company), being a wholly owned subsidiary of the Company, of all the Net Age Shares for a consideration of HK$2,475,000,000, to be satisfied by the issue and allotment of 4,500,000,000 New Shares to Founder Group in the ratio of 45,000,000 New Shares for every Net Age Share transferred. The Call Option is exercisable in whole or in tranches. Each exercise of the Call Option by the Company shall be subject to (i) Founder Group being of the reasonable opinion that there has been no material adverse change in the conditions, financial or otherwise, of the Company since the date of the Option Agreement; and (ii) the Company not being in default of any of its material payment obligations to any of its financial creditors. The Company will be obliged to exercise the Call Option in full if it has received proceeds of at least HK$1,500,000,000 from the issuance of new Shares or other securities in the future. As at the Latest Practicable Date, there is no concrete plan or timetable in respect of any possible issuance of new Shares or other securities by the Company.

### Put Option

In consideration of the grant of the Call Option, the Company has granted the Put Option to Founder Group so that Founder Group has the right to subscribe, from time to time during the Option Exercise Period, for 4,500,000,000 New Shares at the Issue Price for a consideration of HK$2,475,000,000, to be satisfied by the transfer by Founder Group to E-Success (or a nominee of the Company) in the ratio of one Net Age Share for every 45,000,000 New Shares issued. The Put Option is exercisable in whole or in tranches. Each exercise of the Put Option by Founder Group shall be subject to the Company being of the reasonable opinion that there has been no material adverse change in the conditions, financial or otherwise, of the Project, Net Age, CDE or the PRC Joint Venture since the date of the Option Agreement.

**Option Exercise Period**

Subject to the conditions to each exercise, both the Call Option and the Put Option are exercisable at any time within 24 months after fulfillment of the conditions to the first exercise of the Option under the Option Agreement.

**Assets to be acquired upon exercise of the Option in full**

100 Net Age Shares, representing 100 per cent. of the issued share capital of Net Age, the sole asset of which is its 30 per cent. equity interest in CDE which in turn holds a 90 per cent. equity interest in the PRC Joint Venture.

**Consideration and payment terms**

The consideration of HK$2,475,000,000 for the possible acquisition of a 27 per cent. effective interest in the PRC Joint Venture was arrived at after arm's length negotiations between the Company and Founder Group. Such consideration represents a discount of approximately 22.3 per cent. to the effective 27 per cent. of the valuation by American Appraisal Hongkong Limited, an independent valuer, of approximately RMB12.6 billion (approximately HK$11.8 billion) attributable to the entire equity interest of the PRC Joint Venture as at 31st July, 2000. The methodology of discounted cash flow was adopted by the independent valuer in the valuation.

Upon exercise of the Option in full, all Net Age Shares will be transferred to E-Success (or a nominee of the Company) in exchange for the issue and allotment of 4,500,000,000 New Shares to Founder Group. The issue price of HK$0.55 per New Share was determined with reference to the latest audited consolidated net asset value of approximately HK$0.55 per Share as at 31st December, 1999. The Issue Price represents a premium of approximately 66.67 per cent. over the closing price of the Shares of HK$0.33 on 14th August, 2000, being the last trading day prior to the date of the Option Agreement, and a premium of approximately 90.31 per cent. over the average closing price of the Shares of HK$0.289 for the ten trading days up to and including 14th August, 2000. The Directors are of the view that the Issue Price is fair and reasonable.

Based on 3,326,773,953 Shares in issue as at the Latest Practicable Date, the 4,500,000,000 New Shares represent approximately 135.3 per cent. of the existing issued share capital of the Company and approximately 57.5 per cent. of the issued share capital of the Company as enlarged by the issue of such New Shares. The New Shares, upon issuance, will rank pari passu with the then issued Shares. Application has been made to the Stock Exchange for the listing of and permission to deal in the New Shares.

**Undertakings**

Founder Group has undertaken to procure that during the Option Exercise Period, without the prior written consent of the Company, CDE shall not issue any shares of CDE or securities giving the right to acquire shares of CDE to any person at a price per share of CDE lower than HK$82,500,000 (which is based on the consideration of HK$2,475,000,000 for the acquisition of a 30 per cent. interest in CDE) or otherwise effect any changes to the capital structure of CDE.

Another undertaking given by Founder Group under the Option Agreement is that if (i) the Put Option is exercised; (ii) E-Success (or a nominee of the Company) is at any time thereafter directly or indirectly subject to any funding requirement in respect of the PRC Joint Venture, CDE or Net Age and; (iii) in the reasonable opinion of the Company, the Company and its wholly owned subsidiaries as a whole do not have sufficient financial resources to fund such requirement, then, in respect of such funding requirement, Founder Group will procure external finance to E-Success (or a nominee of the Company) on terms then obtainable, or failing which, by way of loan from Founder Group to E-Success (or a nominee of the Company) at an interest rate not exceeding 3 per cent. above the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited. In the event that the loan advanced by Founder Group to E-Success (or a nominee of the Company), if any, constitutes a connected transaction under the Listing Rules, the Company will comply with the relevant disclosure and/or approval requirements under Chapter 14 of the Listing Rules.

Founder Group has also undertaken to procure the necessary funding in respect of the portion of outstanding capital to be contributed by CDE to the present registered capital of the PRC Joint Venture.

Other undertakings given by Founder Group to the Company under the Option Agreement relate to the capital structure and scope of business of the PRC Joint Venture, CDE and Net Age.

**Warranties**

Founder Group gives the Company various representations and warranties relating to, inter alia, its shareholding in Net Age, the shareholding of Net Age in CDE and the equity interest of CDE in the PRC Joint Venture and the title to these shareholdings and equity interest.

**Conditions to the first exercise of the Option**

The first exercise of the Option is subject to, inter alia, the following conditions being fulfilled to the reasonable satisfaction of the Company and Founder Group:—

(i) the approval of the Option Agreement and the issue of New Shares pursuant to the exercise of the Put Option or the Call Option by the Independent Shareholders, and the approval of the increase of the authorised share capital of the Company from HK$400,000,000 to HK$2,000,000,000 by the creation of an additional 16,000,000,000 Shares by the Shareholders;

(ii) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the New Shares to be issued pursuant to the exercise of the Put Option or the Call Option;

(iii) the obtaining of all relevant authorisations, consents or approvals of all relevant government and regulatory authorities in relation to the Project and the Option Agreement;

(iv) the receipt by the Company of a legal opinion in relation to the Project in form and substance acceptable to it issued by a firm of lawyers qualified to practise in the PRC; and

(v) the entry into further agreements as may be reasonably required in connection with the Project.

Such further agreements as stated in condition (v) above include (but not limited to) the master service agreement (details of which are set out in the section headed "Information on Net Age, CDE, the PRC Joint Venture and the Project" below). Apart from the conditions stated above, other conditions to the first exercise of the Option include the entry into of a shareholders' agreement in relation to CDE and the final form of a shareholders' agreement in relation to Net Age being agreed.

In the event that any of the conditions set out above is not fulfilled or waived on or before the date which is three months from the date of the Option Agreement (or such other date as may be agreed by the parties to the Option Agreement), the Option Agreement shall be of no further effect.

**Completion of the transfer and subscription of shares upon each exercise of the Option**

Subject to the conditions under the Option Agreement being satisfied, completion of the transfer of Net Age Shares and the subscription of New Shares upon each exercise of the Option shall take place within 15 days after the date of the exercise notice given in respect of the Call Option or the Put Option.

**Option to acquire further interest**

Pursuant to the Option Agreement, the Company and Founder Group agree to negotiate, in good faith and on the principles of the Option Agreement, documentation relating to a further option to be granted by Founder Group to the Company for the transfer of up to a further 20 per cent. of the issued share capital of CDE as at the date of the Option Agreement in exchange for the issue and allotment of new Shares. In the event that the grant of such further option by Founder Group to the Company materializes and falls under the provisions of the Listing Rules, further announcement will be made by the Company in such regard. It is currently expected that subsequent to the exercise of such further option, the aggregate controlling interest of the Company in CDE will not be higher than 50 per cent. of the issued share capital of CDE and the Company has undertaken that in the event such further option is exercised, CDE will not be treated as a subsidiary of the Company and the interest of the Company in CDE will not be consolidated into the accounts of the Company.

**Adjustments to number of shares for transfer or subscription**

In the event that the Company subdivides or consolidates its ordinary shares or makes a bonus issue or free distribution of shares or assets, then the number of New Shares to be issued in consideration of the transfer of the Net Age Shares by Founder Group to E-Success (or a nominee of the Company) and effectively, the Issue Price shall be appropriately adjusted. In the event that Net Age subdivides or consolidates its ordinary shares or makes a bonus issue or free distribution of shares or assets, then the number of Net Age Shares to be transferred by Founder Group to E-Success (or a nominee of the Company) in consideration of the issue of New Shares shall be appropriately adjusted.

**Disclosure of information by Founder Group and the Company**

Pursuant to the Option Agreement, during the Option Exercise Period, in the event that there is any material change in connection with the Project, Founder Group, Net Age, CDE or the PRC Joint Venture, Founder Group will be obliged to promptly provide any information relating to such change in reasonable details to the Company. Founder Group will also be obliged to provide such further information relating to such change to the Company as the Company may reasonably require. On the basis of such information, the Company will then form a reasonable opinion as to whether there has been any material adverse change in the conditions, financial or otherwise, of the Project, Net Age, CDE or the PRC Joint Venture since the date of the Option Agreement. If Founder Group disputes the reasonableness of the Company's opinion, it may refer the dispute to Ernst & Young, being the auditors of the Group, who will make a final and binding determination of such dispute.

Pursuant to the Option Agreement, the Company has a similar obligation in relation to the disclosure of its information to Founder Group.

## SHAREHOLDING STRUCTURE

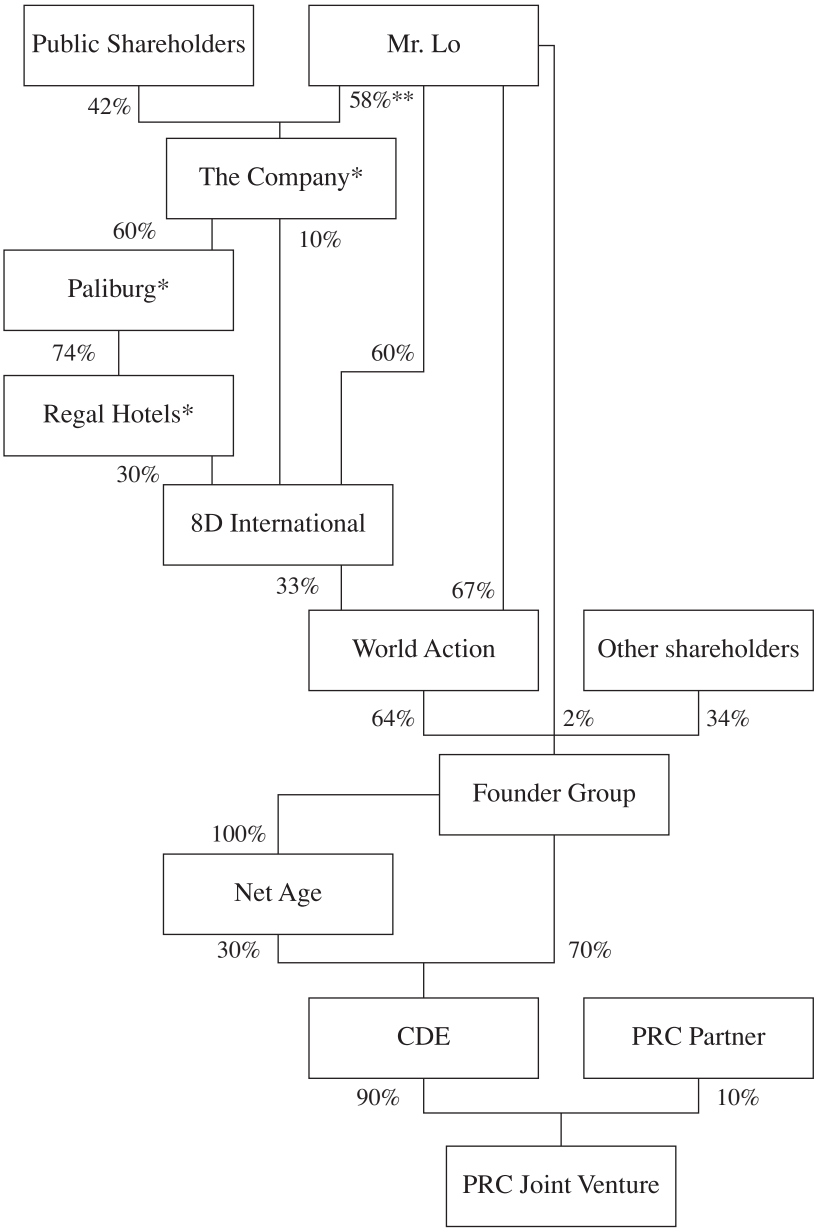
Based on the total issued Shares of 3,326,773,953 as at the Latest Practicable Date, the aggregate interests of Mr. Lo and his associates (as defined under the Listing Rules) in the Company, following the exercise of the Option in full, will increase from approximately 58 per cent. to approximately 82 per cent.. Mr. Lo has undertaken that he will ensure to maintain a minimum public float of 25 per cent. for the Shares by way of placement of Shares.

**The Stock Exchange has indicated that, in the event that less than 25 per cent. of the Shares are in public hands following any exercise of the Option, it will closely monitor the trading in the Shares. If the Stock Exchange believes that a false market exists or may exist in the Shares, or that there are insufficient Shares in public hands to maintain an orderly market, then it will give consideration to exercising its discretion to suspend dealings in the Shares. The Stock Exchange also has the power to aggregate a series of transactions by the Group and any such transaction may result in the Company being treated as a new listing applicant and/or subject to the requirements for new listing applicants as set out in the Listing Rules.**

Prior to any exercise of the Option, the Company holds an attributable interest of approximately 4.92 per cent. in CDE via Founder Group. Upon exercise of the Option in full, the attributable interest of the Company in CDE via Founder Group would be reduced to approximately 3.44 per cent., which, together with its interest of 30 per cent. in CDE acquired by the exercise of the Option, would amount to approximately a total attributable interest of 33.44 per cent.. Based on the current legislation and accounting principles applicable in Hong Kong, Ernst & Young has confirmed to the Company that upon exercise of the Option in full, CDE will not be treated as a subsidiary of the Company. Based on the opinion of Ernst & Young, the Company has undertaken that upon exercise of the Option in full, CDE will not be treated as a subsidiary of the Company.

Two other shareholders of Founder Group (which together hold an aggregate interest of 34 per cent. in Founder Group), namely Glorious Prospect Investments Limited and Top Technologies Limited, and their respective beneficial shareholders are independent of and not connected with the Company, the directors, chief executives or substantial shareholders of the Company, its subsidiaries or their respective associates (as defined under the Listing Rules). Given that the beneficial shareholder of Top Technologies Limited holds 5,429,788 Shares, representing approximately 0.16 per cent. of the issued share capital of the Company as at the Latest Practicable Date, such beneficial shareholder will abstain from voting in respect of the Option Agreement and the transactions contemplated thereunder at the SGM.

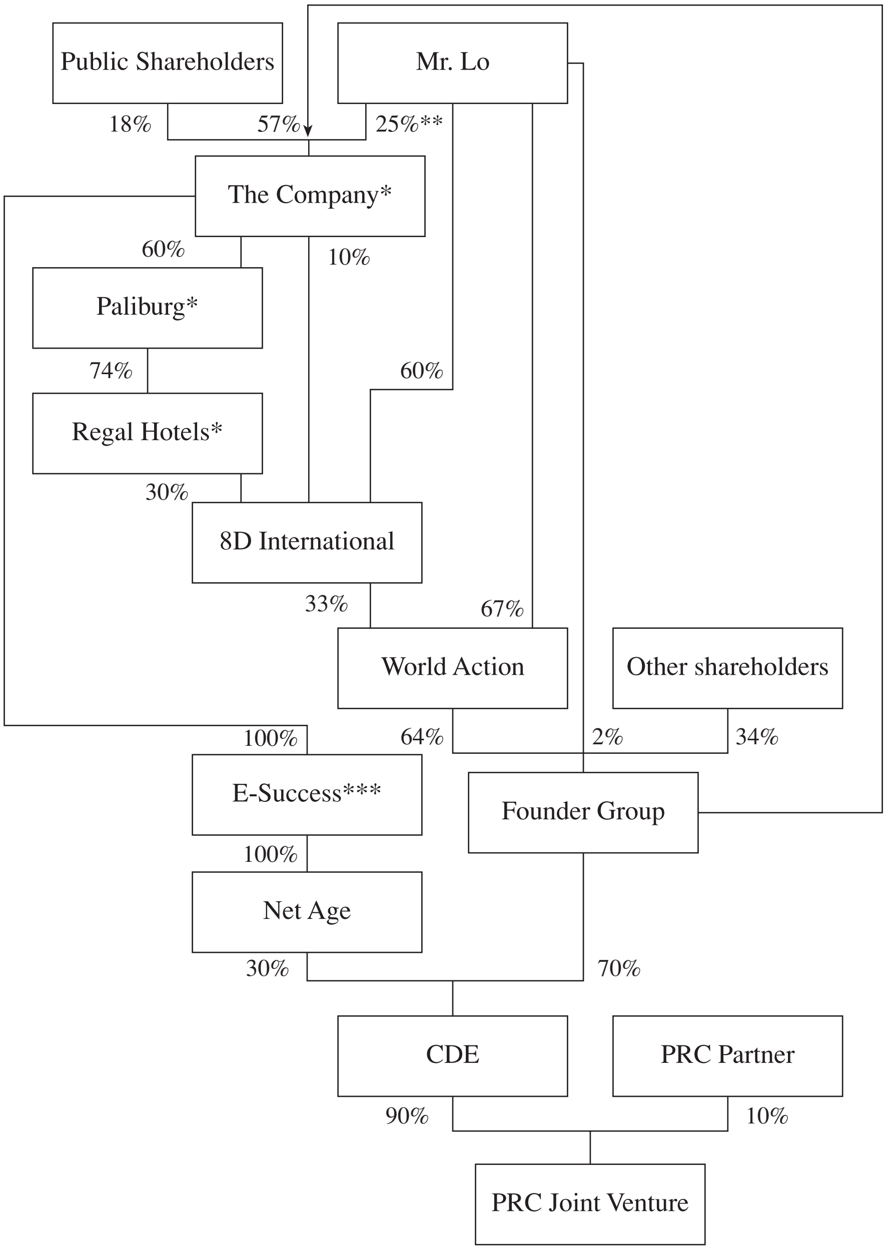
**Existing shareholding structure**




* *listed companies in Hong Kong*

** *the shareholding is attributable to Mr. Lo and his associates (as defined under the Listing Rules)*

**Shareholding structure upon exercise of the Option in full**
*(assuming no other changes in the shareholding structure)*




* *listed companies in Hong Kong*

** *the shareholding is attributable to Mr. Lo and his associates (as defined under the Listing Rules)*

*** *or a nominee of the Company, being its wholly owned subsidiary*

## INFORMATION ON NET AGE, CDE, THE PRC JOINT VENTURE AND THE PROJECT

Net Age is an investment holding company incorporated in the British Virgin Islands on 5th July, 2000, the sole asset of which is its 30 per cent. interest in CDE. CDE is an investment holding company incorporated in the British Virgin Islands on 6th January, 2000, the sole asset of which is its 90 per cent. interest in the PRC Joint Venture.

Under the shareholders' agreement in relation to CDE to be executed, Net Age is expected to be entitled to appoint three directors out of 10 directors to the board of CDE. Accordingly, upon exercise of the Option in full, E-Success (or a nominee of the Company) is expected to be entitled to appoint three directors to the board of CDE through Net Age. It is currently expected that such three directors of CDE will be Mr. Kenneth Ng, Mr. Y. L. Cheng and Mr. Jimmy Lo, who are directors of the Company and/or its listed subsidiaries. It is the intention of Founder Group that pursuant to the shareholders' agreement in relation to Founder Group to be executed, among the seven directors entitled to be nominated by Founder Group to the board of CDE, three will be nominated by World Action and Mr. Lo, and four will be nominated by other shareholders of Founder Group. It is presently proposed that, upon exercise of the Option, the three directors to be nominated by World Action will be Mr. Lo, Mr. Peter Wong Man Kong and Mr. Thomas Ng. Mr. Wong has extensive business experience and is a deputy of the 9th National People's Congress. Mr. Ng is presently an independent director of a jointly controlled entity of the Group and Mr. Ng is a practicing solicitor and a partner of a Hong Kong firm of solicitors and notaries. Founder Group has undertaken that, so long as the Company has acquired and holds an interest in CDE by way of exercise of the Option (and not via its existing indirect interest in World Action) and so long as Founder Group has a legal and beneficial interest in CDE, save for one director (who is currently Mr. Lo), any director appointed or to be appointed by Founder Group to the board of CDE will be independent of and not connected with the Company, directors, chief executives or substantial shareholders of the Company, its subsidiaries or their respective associates (as defined under the Listing Rules). Each director of CDE shall be entitled to one vote at board meetings and no second or casting vote arrangement will apply.

The PRC Joint Venture is a sino-foreign equity joint venture company incorporated in the PRC on 24th April, 2000 and presently has a total investment amount and a registered capital both amounting to US$10,000,000 (approximately HK$77.5 million), of which 16.5 per cent. has been paid up and the remaining portion will be paid up within six months from the date of issuance of its business licence on 24th April, 2000. Founder Group has undertaken to procure the necessary funding for the portion of outstanding capital to be contributed by CDE to the present registered capital of the PRC Joint Venture. Under the shareholders' agreement in relation to CDE to be executed, Founder Group undertakes that, to the extent that such funding is provided by way of loan from Founder Group or its associates, such loan will be waived, unless otherwise agreed by the Company, for an amount up to such portion of the present registered capital of the PRC Joint Venture represented by CDE's interest in the PRC Joint Venture. The PRC Joint Venture is currently owned as to 90 per cent. by CDE and as to 10 per cent. by the PRC Partner which is independent of and not connected with the Company, directors, chief executives or substantial shareholders of the Company, its subsidiaries or their respective associates (as defined under the Listing Rules). The term of the PRC Joint Venture is 25 years from the date of issuance of business licence on 24th April, 2000.

Given that Net Age was recently incorporated on 5th July, 2000, it has not recorded any profit or loss. Based on the audited balance sheet of Net Age as at 3rd August, 2000, the net assets of Net Age were approximately HK$780.

Based on the audited consolidated profit and loss account of CDE for the period from its date of incorporation on 6th January, 2000 to 3rd August, 2000, the consolidated net losses before and after taxation were both approximately HK$5.1 million, which principally represent legal and professional fees and general pre-operating expenses. Based on the audited consolidated balance sheet of CDE as at 3rd August, 2000, the consolidated net assets of CDE were approximately HK$11.4 million, which principally comprise bank balance, equipment and deposit for equipment netted off by certain payables.

Based on the audited profit and loss account of the PRC Joint Venture for the period from its date of incorporation on 24th April, 2000 to 3rd August, 2000, it has recorded a net loss of approximately HK$56,000. Based on the audited balance sheet of the PRC Joint Venture as at 3rd August, 2000, the net assets of the PRC Joint Venture were approximately HK$12.8 million.

The PRC Partner is a company incorporated in the PRC in September 1999, the principals of which are primarily telecommunications and information technology professionals. It is principally engaged in the telecommunications and information technology related businesses in the PRC. The PRC Partner has built up a strategic relationship with an entity of each of the Ministry of Railway, State Forestry Administration and State Administration of Metallurgical Industry and has set up joint ventures with each of these entities to offer industry specific information technology services to entities related to the ministries/bureaus through a fibre optic network as described below. The PRC Joint Venture will enter into a master service agreement with each of such joint ventures, pursuant to which the PRC Joint Venture will be appointed by such joint ventures as their exclusive technical support provider for a period of 20 years commencing from the date of such master service agreement. Such master service agreement is intended to be executed on or before the date of the SGM and its execution is a condition precedent to the first exercise of the Option. The spectrum of services to be provided by the PRC Joint Venture entails equipment supply and system integration, software design and application, system maintenance and upgrading, and consultancy service on technology aspects and business planning of the Project. Such arrangement serves to secure a group of domestic joint ventures related to the respective ministries/bureaus as core customers of the PRC Joint Venture. A majority of the senior management of the PRC Joint Venture has the relevant qualification and experience in the fields of information technology and engineering. The PRC Partner is expected to form similar strategic relationships with entities related to other ministries and bureaus under the Project. The Directors are of the view that if the PRC Partner succeeds in forming strategic relationships with entities related to other ministries/bureaus, similar exclusive technical support arrangement is expected to be made for the PRC Joint Venture.

It is currently estimated that the total capital expenditure in relation to the Project, to be rolled out in stages, would amount to around RMB2.5 billion (approximately HK$2.3 billion). It is expected that such capital expenditure will be financed principally by way of vendor financing and negotiations with certain renowned global equipment suppliers to provide such vendor financing are underway. In the event that no vendor financing could be arranged and the Option has been exercised in full, the funding to be contributed by E-Success (or a nominee of the Company), with reference to its 27 per cent. attributable interest in the PRC Joint Venture, would amount to approximately RMB675 million (approximately HK$631 million). However, pursuant to the Option Agreement, Founder Group undertakes that if (i) the Put Option is exercised; (ii) E-Success (or a nominee of the Company) is at any time thereafter directly or indirectly subject to any funding requirement in respect of the PRC Joint Venture, CDE or Net Age; and (iii) in the reasonable opinion of the Company, the Company and its wholly owned subsidiaries as a whole do not have sufficient financial resources to fund such requirement, then, in respect of such funding requirement, Founder Group will procure external finance to E-Success (or a nominee of the Company) on terms then obtainable or, failing which, by way of loan from Founder Group to E-Success (or a nominee of the Company). Such undertaking is aimed at ensuring that E-Success (or a nominee of the Company) is able to obtain sufficient financing to fulfil its funding obligations as and when necessary.

The PRC Partner has undertaken to cooperate with those domestic joint ventures as aforedescribed and that the fibre optic network, which is the subject of a master lease agreement entered into between an entity of the Ministry of Railway as lessor and the PRC Partner as lessee, be employed for the services of such domestic joint ventures.

Pursuant to the master lease agreement, the fibre optic network will be made available for lease at a preferential market rate which will not be more than the rent a third party will pay in respect of a similar fibre optic network. There is no clause providing that the leasing of the fibre optic network is on an exclusive basis. In line with the schedule of equipping the network for service, the PRC Partner intends to lease the network in stages, thereby avoiding incurring rental for the whole network when the network is not fully operational. The leasing of the fibre optic network will be effected by way of sectional leases. Pursuant to the sectional lease covering stage 1 of the network, the lease term is 20 years from the date of the sectional lease and upon expiry of the lease term, unless the parties otherwise agree, the lease term shall be automatically extended for a further 20 years. It is expected that sectional leases covering stages 2 and 3 of the network will be entered into according to the schedule of equipping the network for service. Such network is configured along the national railway system of the PRC. The Project is targeted to exploit the ubiquity of this network to provide national coverage allowing access to the targeted users in the PRC. As such, it will allow instant access by the target market without the need to negotiate the right of way to construct the network. In addition, the network junctions of this network in each locality are usually located near the centre of the community such as railroad stations. Thus, the network will be strategically and conveniently placed to interconnect with its targeted users.

The Project is expected to deploy a pair of fibre optic strand with a total of 37,500 km in three stages and the construction of such fibre optic network has been substantially completed by the Ministry of Railway. It is expected that stage 1 of the network connecting 5 cities with a total length of 2,351 km will be equipped for service by the end of 2000. Stage 2 of the network connecting additional 84 cities with a total length of 17,950 km will be equipped for service in 2001. Stage 3 of the network connecting further 40 cities with a total length of 17,199 km will be equipped for service in 2002. The Project will be fully operational by 2003.

**REASONS FOR THE TRANSACTION**

The Company is an investment holding company and the principal activities of its subsidiaries include property investment and management, property development, development consultancy and project management, construction and construction-related businesses, hotel ownership and management, securities brokering, promotions and communications and other investments.

At present, the Company owns an attributable interest of approximately 4.92 per cent. of CDE. The Company is one of the founders of CDE and wishes to increase its shareholding in CDE by acquiring interests from other shareholders of CDE. The purpose of the Transaction is to create opportunities for the Company to be further involved in information technology businesses and, more importantly, for revitalising the Company in order to enhance its capability in repaying financial creditors which have an informal standstill arrangement with the Company. The Directors consider that the Transaction is in the interest of the Company and in the absence of which there is no other immediately available proposal in place that can represent a meaningful asset injection which can provide a repayment probability to the financial creditors. Given the anticipation that the Project carries the potential to generate revenue and the huge potential of the high technology network business in the PRC, the Directors are of the view that the Project would constitute a potential source of income to the Group while achieving a diversification of the business portfolio of the Group. The Company has informed the financial creditors of such possible acquisition so as to facilitate the financial restructuring proposal of the Century Group. As mentioned in the 1999 results announcement published by the Company in May 2000, a majority of financial creditors has indicated in principle support to the Company to extend the informal standstill arrangement to 31st October, 2000. The Company is currently in negotiation with its financial creditors with a view to further extending the date of the informal standstill arrangement and is hopeful of obtaining the support of the financial creditors regarding such extension. The Company will endeavour to raise equity fund from strategic investors as well as from the markets generally through the issue of new Shares or other securities.

The terms of the Option Agreement were agreed after arm's length negotiations between the Company and Founder Group. The Directors consider that the Transaction is in the interest of the Company and that the terms of the Option Agreement are fair and reasonable so far as the Company and the Shareholders are concerned.

**INCREASE IN AUTHORISED SHARE CAPITAL**

As at the Latest Practicable Date, the authorised share capital of the Company is HK$400,000,000, comprising 4,000,000,000 Shares and the issued share capital of the Company is HK$332,677,395.30, comprising 3,326,773,953 Shares in issue. For the purpose of issuance of the New Shares upon exercise of the Option, the Company proposes to increase the authorised share capital from HK$400,000,000 to HK$2,000,000,000 which is subject to approval by the Shareholders at the SGM.

**FINANCIAL AND BUSINESS PROSPECTS OF THE GROUP**

As stated in the 1999 annual report of the Company, for the year ended 31st December, 1999, the Group recorded an audited consolidated net loss attributable to Shareholders of HK$1,262 million (1998 - net loss of HK$5,292 million). This included loss, before minority interests, of HK$1,014 million attributable to the disposal by Regal Hotels of its hotel ownership and management interests in the United States and HK$400 million on account of provision made on the Group's development properties in the PRC.

Since 31st December, 1999, the Company has successfully raised new equities in the gross sum of approximately HK$171 million, before expenses, through two placements of new Shares in January and March 2000 at an issue price of HK$0.37 and HK$1.00 per Share respectively. A majority of the proceeds obtained was used to reduce outstanding borrowings of the Century Group and the remainder retained for working capital purposes. The informal standstill arrangement among the lenders of the Company last expired on 30th April, 2000, and a majority of the financial creditors has indicated their in principle support to the Company to extend the informal standstill arrangement to 31st October, 2000.

With a view to broadening and enhancing its business prospects, the Company has since the beginning of the new millennium been taking steps to diversify its activities in the information technology businesses, particularly in those projects that can provide a stable business base and significant growth potential.

In January 2000, the Company announced the establishment of a joint venture on information technology business through 8D International Limited, formerly a wholly owned subsidiary of the Company. Projects currently undertaken by 8D International Limited include the development of the Intelligence Hotel Platform, which is a comprehensive and integrated hotel solution that has the capacity to link with other international and regional travel-related parties, forming a potent and pervasive network. 8D International Limited has formed strategic alliances with certain technological partners that are considered to be complementary to its present undertakings.

## FINANCIAL EFFECTS OF THE TRANSACTION ON THE GROUP

In view of the nature of the Option, the Transaction will exert no financial effect on the Group prior to any exercise of the Option.

Based on the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group set out in Appendix II of this circular, upon exercise of the Option in full, the pro forma adjusted consolidated net tangible assets of the Group will be approximately HK$1,789 million, after taking into account the resultant increase in net assets and netting off the write-off of goodwill. This represents an increase of approximately 1.19 per cent. as compared to the pro forma adjusted consolidated net tangible assets of approximately HK$1,768 million immediately prior to the exercise of the Option.

For the period from its date of incorporation on 6th January, 2000 to 3rd August, 2000, CDE recorded consolidated net losses before and after taxation, both amounting to approximately HK$5.1 million. Given the expectation that stage 1 of the network will only be equipped for service around the end of 2000, it is anticipated that CDE will not be able to generate significant revenue to the Group during the financial year of 2000 assuming that the Option is exercised in 2000.

## RECOMMENDATION

The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the Option Agreement and the transactions contemplated thereby is set out on page 18 of this circular. The letter from Tai Fook containing its advice to the Independent Board Committee and the principal factors and reasons taken into account in arriving at its recommendations is set out on pages 19 to 27 of this circular.

The Directors consider that the terms of the Option Agreement are fair and reasonable so far as the Company and the Shareholders are concerned. The Independent Board Committee has considered the terms of the Option Agreement and the advice given by Tai Fook and is of the opinion that the terms of the Option Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the entry into of the Option Agreement and the Transaction is in the interests of the Company. Accordingly, the Directors and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM.

## SGM

A notice convening the SGM at which ordinary resolutions will be proposed to consider, and if thought fit, to approve, inter alia, the Option Agreement and the transactions contemplated therein is set out on pages 115 to 116 of this circular. Mr. Lo and his associates (as defined under the Listing Rules) and the beneficial shareholder of Top Technologies Limited, being a shareholder of Founder Group, will abstain from voting at the SGM on the resolutions in relation to the Option Agreement and the transactions contemplated therein.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrars in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong as soon as practicable and in any event not later than 48 hours before the time appointed for holding such meeting (or any adjournment thereof). Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM (or any adjournment thereof) should you so wish.

## ADDITIONAL INFORMATION

Your attention is drawn to the additional information contained in the appendices to this circular.

Yours faithfully,
By order of the Board
**Lo Yuk Sui**
*Chairman and Managing Director*

世紀城市國際控股有限公司
Century City
International Holdings Limited
(Incorporated in Bermuda with limited liability)

6th September, 2000

*To the Independent Shareholders*

Dear Sir or Madam,

## POSSIBLE VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

## POSSIBLE ACQUISITION OF AN INTEREST IN A COMPANY INVOLVED IN INFORMATION TECHNOLOGY BUSINESS IN CONNECTION WITH A BROADBAND NATIONAL RAILWAY FIBRE OPTIC NETWORK IN THE PRC

We refer to the circular dated 6th September, 2000, issued to the Shareholders (the "Circular"), of which this letter forms part. Capitalized terms used herein shall have the same meaning as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board for the purpose of considering the terms of the Option Agreement and the transactions contemplated therein, details of which are set out in the text of the letter from the Board as set out on pages 4 to 17 of the Circular.

We wish to draw your attention to the letter from Tai Fook as set out on pages 19 to 27 of the Circular which contains, inter alia, its advice and recommendation to us as regards the terms of the Option Agreement together with the principal factors and reasons for its advice and recommendation.

Having taken into account the advice and recommendation of Tai Fook, we consider that the entry into of the Option Agreement and the Transaction is in the interests of the Company and the terms of the Option Agreement are fair and reasonable so far as the Independent Shareholders are concerned. We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Option Agreement and all relevant matters to be proposed at the SGM.

Yours faithfully,
For and on behalf of
**the Independent Board Committee**
**Ng Siu Chan** **Anthony Chuang**
*Independent non-executive Directors*

*The following is the text of a letter received from Tai Fook to the Independent Board Committee for incorporation into this circular.*

**Tai Fook Capital Limited**
25th Floor
New World Tower
16-18 Queen's Road Central
Hong Kong

6th September, 2000

The Independent Board Committee
Century City International Holdings Limited
18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs,

**POSSIBLE VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION**

**POSSIBLE ACQUISITION OF AN INTEREST IN A COMPANY INVOLVED IN INFORMATION TECHNOLOGY BUSINESS IN CONNECTION WITH A BROADBAND NATIONAL RAILWAY FIBRE OPTIC NETWORK IN THE PRC**

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee with respect to the Option Agreement, details of which are contained in the circular dated 6th September, 2000 (the "Circular") to the Shareholders of which this letter forms part. Terms used in this letter shall have the same respective meanings in the Circular unless the context otherwise requires.

Pursuant to the requirements under Chapter 14 of the Listing Rules, the Transaction would constitute a very substantial acquisition and connected transaction which is subject to the approval by the Independent Shareholders at the SGM. In our capacity as the independent financial adviser to the Independent Board Committee, our role is to give you an independent opinion as to whether the terms of the Option Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

In formulating our recommendations, we have relied on the information and facts supplied and representations expressed by the Directors. We have been advised by the Directors that no material facts have been omitted from the information supplied and representations expressed to us and we are not aware of any facts or circumstances which would render such information and representations untrue, inaccurate or misleading. We have assumed that the information contained and representations made or referred to in the Circular were complete, true and accurate at the time they were made and continue to be so at the date of dispatch of the Circular. We have also discussed with the Directors with respect to the terms and reasons of, and basis of consideration for, the Transaction and consider that we have reviewed sufficient information to reach an informed view and have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us. We have not, however, conducted an independent investigation into the business and affairs of the Group.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in respect of the Option Agreement and the Transaction, we have considered, among other things, the following principal factors and reasons:

**I. BACKGROUND**

**Business of the Group**

The principal activities of the Group consist of investment holding, property investment and management, property development, development consultancy and project management, construction and construction-related businesses, hotel ownership and management, securities brokering, promotions and communications and other investments.

As stated in the annual report of the Company for the year ended 31st December, 1998, the Group sustained a huge loss attributable to the Shareholders of approximately HK$5,292.0 million for the year ended 31st December, 1998, which led to a significant increase in long-term debts to equity ratio to approximately 397.4% (based on approximately HK$12,175.9 million long term debts against approximately HK$3,064.2 million of Shareholders' fund as at 31st December, 1998). As advised by the Directors, the loss was partly attributed to the provisions made for the devaluation of the properties and hotels portfolio held by the Group. For the year ended 31st December, 1999, the Group made an audited consolidated loss attributable to the Shareholders of approximately HK$1,261.6 million and the audited consolidated accumulated losses were approximately HK$2,844.6 million as of that year end date. As at 31st December, 1999, the long-term debts to equity ratio climbed to approximately 492.0% (based on approximately HK$8,258.0 million long term debts against approximately HK$1,678.4 million of Shareholders' fund as at 31st December, 1999), representing an increase of approximately 23.8% when compared to that at 31st December, 1998.

An announcement was made by the Company in October 1998 stating that the Group, including its principal listed subsidiary, Paliburg Holdings Limited, was experiencing liquidity problems. Since then, the Century Group started discussions and subsequently agreed with its financial creditors for a postponement in debt repayment. In May this year, a majority of the financial creditors of the Century Group further agreed to extend the expiry date of the informal standstill arrangement to 31st October, 2000.

As stated in the annual report of the Company for the year ended 31st December, 1999, the Group had implemented measures to stabilise the financial position of the Group including, among other things, an orderly asset disposal programme and the raising of new equities. In January 1999, the Group successfully disposed of its entire 20.66% effective interest in the Chengdu Mianyang Expressway in Sichuan of the PRC for a gross consideration of HK$390 million. During this year, the Company has also raised, in aggregate, approximately HK$171 million through two placements of new Shares. A majority part of such proceeds was used to reduce outstanding borrowings of the Century Group with the remainder retained for working capital purposes.

The Directors are of the view that in order to alleviate the liquidity problem faced by the Century Group, the capital base and future earning capabilities of the Group must be strengthened.

**The PRC Joint Venture**

The fibre optic network is configured along the national railway system of the PRC. A master lease agreement and a sectional lease both dated 16th February, 2000 were entered into between an entity of the Ministry of Railway (as lessor) and the PRC Partner (as lessee). It is proposed that the fibre optic network will be used by the joint ventures formed or to be formed between the PRC Partner and entities related to the ministries/bureaus. Income will be derived through provisioning of applications and services to these joint ventures by the PRC Joint Venture. At present, the PRC Partner has already formed joint ventures with an entity related to each of the Ministry of Railway, State Forestry Administration and State Administration of Metallurgical Industry. As advised by the Directors, entities related to certain other ministries/bureaus are expected to follow and become the customers of the PRC Joint Venture.

**The Option Agreement**

*Call Option*

Pursuant to the Option Agreement, Founder Group has granted the Company the Call Option under which the Company has the right to require, from time to time during the Option Exercise Period, Founder Group to transfer the Net Age Shares to E-Success (or a nominee of the Company), being a wholly owned subsidiary of the Company, at a consideration of HK$2,475 million. The consideration is to be satisfied by the issue and allotment of 4,500 million New Shares to Founder Group in the ratio of 45 million New Shares for every Net Age Share transferred. The Call Option is exercisable in whole or in tranches. However, the Company will be obliged to exercise the Call Option in full if it has received proceeds of at least HK$1,500 million from the issuance of new Shares or other securities.

*Put Option*

In consideration of the grant of the Call Option, the Company has granted the Put Option to Founder Group to subscribe, from time to time during the Option Exercise Period, for 4,500 million New Shares at a consideration of HK$2,475 million. The consideration is to be satisfied by the transfer by Founder Group to E-Success (or a nominee of the Company) in the ratio of one Net Age Share for every 45 million New Shares issued. The Put Option is exercisable in whole or in tranches.

*Conditions*

Each exercise of the Call Option by the Company shall be subject to (i) Founder Group being of the reasonable opinion that there has been no material adverse change in the conditions, financial or otherwise, of the Company since the date of the Option Agreement; and (ii) the Company not being in default of any of its material payment obligations to any of its financial creditors.

On the other hand, each exercise of the Put Option by Founder Group shall be subject to the Company being of the reasonable opinion that there has been no material adverse change in the conditions, financial or otherwise, of the Project, Net Age, CDE or the PRC Joint Venture since the date of the Option Agreement.

*Option Exercise Period*

Both the Call Option and the Put Option are exercisable at any time within 24 months after fulfillment of the conditions to the first exercise of the Option under the Option Agreement.

*Consideration*

HK$2,475 million for the 27% effective interest in the PRC Joint Venture held by Net Age through CDE, which will be satisfied by the issue and allotment of 4,500 million New Shares.

*Issue Price*

The Issue Price of HK$0.55 per New Share is equivalent to the audited consolidated net asset value of the Group as at 31st December, 1999.

*Undertakings by Founder Group*

Founder Group has undertaken to procure external finance to E-Success (or a nominee of the Company) on terms then obtainable or, failing which, advance a loan to E-Success (or a nominee of the Company) at an interest rate not exceeding 3% above the prime rate quoted by The Hongkong and Shanghai Banking Corporation Limited if:

(i) the Put Option is exercised;

(ii) E-Success (or a nominee of the Company) is at any time thereafter directly or indirectly subject to any funding requirement in respect of the PRC Joint Venture, CDE or Net Age; and

(iii) in the reasonable opinion of the Company, the Company and its wholly owned subsidiaries as a whole do not have sufficient financial resources to fund such requirement.

Founder Group has also undertaken to procure the funding for the portion of outstanding capital to be contributed by CDE to the present registered capital of the PRC Joint Venture.

## II. REASONS FOR AND BENEFITS OF THE TRANSACTION

**Opportunity to raise equity funding**

Given the current financial difficulties faced by the Group, it is important for the Directors to explore new projects which can provide new sources of revenue in order to revitalize the business of the Group because the growth potential of the Group's existing businesses in the near term is relatively limited. As stated above, an informal standstill arrangement with the majority of the financial creditors of the Century Group will soon expire on 31st October, 2000. Without a concrete plan to reduce the gearing position of the Group, its financial creditors may or may not offer a further standstill extension.

We would also like to draw the attention of the Independent Shareholders that there is no immediate material capital commitment to the Project by the Group unless the Call Option is exercised. In view of the liquidity problem faced by the Century Group, we consider that the

Transaction is favourable to the Company as a whole since the Company can capture the opportunity to raise fund in the equity market through its further participation in the Project by way of exercising the Option, which will enhance the long term profitability of the Group subject to the successful implementation of the Project, without having any immediate material capital commitment.

**Further participation in the information technology business by the Group**

As a result of the overall economic downturn in Hong Kong, the Group incurred substantial losses attributable to the Shareholders for the two years ended 31st December, 1999, and the revenue from the existing business of the Group also declined significantly.

Based on the financial projection of the PRC Joint Venture, it indicates that the Project has the potential to generate substantial revenue derived from the high growth information technology business in the PRC. Subject to the successful implementation of the Project, the Option, if exercised, will enhance the revenue inflow of the Group and also enhance the business prospects of the Group by further participating in the business of information technology.

**Flexibility to the Group**

The Option also provides flexibility to the Group in participating in the Project. The Company may choose to exercise the Call Option to acquire an interest in the PRC Joint Venture when the Project becomes more mature. On the other hand, the Company will not be obligated to acquire any interest in the PRC Joint Venture if there is any material adverse change in conditions of the Project, Net Age, CDE or the PRC Joint Venture. Even if the Option is exercised, New Shares instead of cash will be issued as consideration. We therefore consider that the Option arrangement provides a flexible and prudent way to acquire a material interest in the Project which, for the time being, has relatively higher risk due to its present stage of development.

**No material adverse impact on the Group's financial position**

As stated in the Letter from the Board, the total capital expenditure in relation to the Project is estimated to be approximately RMB2.5 billion or equivalent to approximately HK$2.3 billion. It is expected that such capital expenditure will be principally financed by way of vendor financing. In the event that no vendor financing could be arranged and the Put Option has been exercised in full or in tranches, the funding to be provided by E-Success (or a nominee of the Company) for its interest in the PRC Joint Venture will be arranged or advanced by Founder Group under the conditions and terms as set out under the section headed "Undertakings by Founder Group" above. Such arrangement enables E-Success (or a nominee of the Company) to secure adequate financing to fulfil its funding obligations without relying on the financial resources of the Group as and when required. The Directors also confirmed with us that any loans procured or provided by Founder Group to E-Success (or a nominee of the Company) in respect of such undertaking shall be non-recourse to the Group (but excluding E-Success or the nominee of the Company so nominated).

As advised by the Directors, Founder Group has undertaken to procure the necessary funding for the portion of outstanding capital to be contributed by CDE to the present registered capital of the PRC Joint Venture. We were further advised by the Directors that pursuant to the shareholders agreement in relation to CDE to be executed. Founder Group will undertake that, to the extent that such funding is provided by way of loan from Founder Group or its associates, such loan will be waived, unless otherwise agreed by the Company, for an amount up to such portion of the present registered capital of the PRC Joint Venture represented by CDE's interest in the PRC Joint Venture.

In summary, we consider that the principal terms and structure of the Option Agreement and the Transaction are favourable to the Company having considered the following:

- no immediate capital commitment to the Project yet allowing the Company to capture the opportunity to raise fund in the equity market immediately;
- further participate in the high growth information technology business in the PRC;
- flexibility provided to the Group to participate in the Project; and
- no material adverse impact on the Group's financial position.

## III. EFFECTS OF THE TRANSACTION TO THE GROUP AND INDEPENDENT SHAREHOLDERS

**Effect on consolidated net tangible assets of the Group**

The Transaction will have no immediate effect on the net tangible asset value of the Group until the Option is exercised.

Based on the pro forma statement of unaudited adjusted consolidated net tangible assets of the Group set out in Appendix II of the Circular, the pro forma net tangible assets of the Group will be increased from approximately HK$1,768 million to approximately HK$1,789 million upon full exercise of the Option. As a result of the full exercise of the Option, approximately HK$2,454 million of goodwill will arise. As advised by the Directors, the full amount of the goodwill will be written off against reserves of the Group and hence the pro forma adjusted consolidated net tangible asset value per Share will be reduced from approximately HK$0.53 per Share prior to the exercise of the Option to approximately HK$0.23 per Share. The Independent Shareholders should also note that the Option may be exercised in tranches and the resulting dilution effect to the net tangible asset value per Share may be lesser.

Although the net tangible asset value per Share will be diluted as a result of the exercising of the Option, we consider that the Independent Shareholders should focus on the growth potential of the Group as a result of the increased effective equity interest in the PRC Joint Venture held by the Group. We are also of the view that the net tangible asset value per Share may not serve as a good reference to reflect the value of the Group in the future since apart from its present business, the Century Group will be able to further diversify its business and focus more in the area of high growth information technology.

**Effect on consolidated earnings of the Group**

The Transaction will have no immediate effect on the profit and loss account of the Group until the Option is exercised.

As mentioned above, the goodwill that will arise as a result of the exercise of the Option will be offset against the reserves of the Group and hence there will be no material adverse impact on the Group's operating results arising from the amortisation or write-off of such goodwill in subsequent years. However, long term profitability of the Group is expected to be enhanced should the Project be successfully implemented.

Independent Shareholders should also note that even though there is no immediate effect on the profit and loss account of the Group as a result of full exercise of the Option, should no vendor financing be arranged by CDE or the PRC Joint Venture, a greater amount of interest expenses will be incurred by E-Success (or a nominee of the Company) during the early phases of the Project since capital expenditure is expected to be required while significant cash inflow is not anticipated. However, if the Company is able to raise funds as a result of the Transaction, the overall gearing position of the Group is expected to reduce and the associated finance costs will fall accordingly.

**Dilution effect to Independent Shareholders**

If the Option is exercised in full, the equity interest being held by the existing Independent Shareholders will be diluted from approximately 42% to approximately 18%. The equity interest held by the existing Independent Shareholders will be further diluted to approximately 16% if new Shares are issued in order to maintain the minimum public float requirement of 25%.

We are however of the view that other factors such as the future business prospects of the Group are more important in this case. We consider that the further participation in the Project will provide opportunity to the Independent Shareholders to capture potential capital gain in the future should the Project be successfully implemented.

## IV. CONSIDERATION

**Business valuation**

Based on the independent valuation carried out by American Appraisal Hongkong Limited (the "Independent Valuer"), the business value of the entire interest in the PRC Joint Venture as at 31st July, 2000 amounted to RMB12.6 billion or equivalent to approximately HK$11.8 billion. According to the valuation report dated 15th August, 2000 prepared by the Independent Valuer (the "Valuation Report"), the valuation is based on the fair market value of the business enterprise of the PRC Joint Venture and is arrived at using the discounted cash flow method.

The valuation of the entire business value of the PRC Joint Venture according to the Valuation Report was based on the cash flow projection of the PRC Joint Venture. According to the Valuation Report, the discount rate of 25.5% adopted in arriving to the net present values of the future cash flows is considered appropriate based on the analyses they carried out.

The Independent Valuer also considers that since the ownership interest in the PRC Joint Venture is not readily marketable compared to similar interests in public companies, therefore the net present values of the future cash flows are further discounted by 20%. As stated in the Valuation Report, the discount for lack of marketability of 20% is considered appropriate based on the analyses they carried out.

Having considered the Independent Valuer's valuation methodology as referred to above, we consider the use of discounted cash flow method to derive the fair market value of the business enterprise of the PRC Joint Venture, the adoption of the discount rate for the net present values of the future cash flows and the discount for lack of marketability are appropriate given that these are commonly adopted valuation bases for high technology businesses.

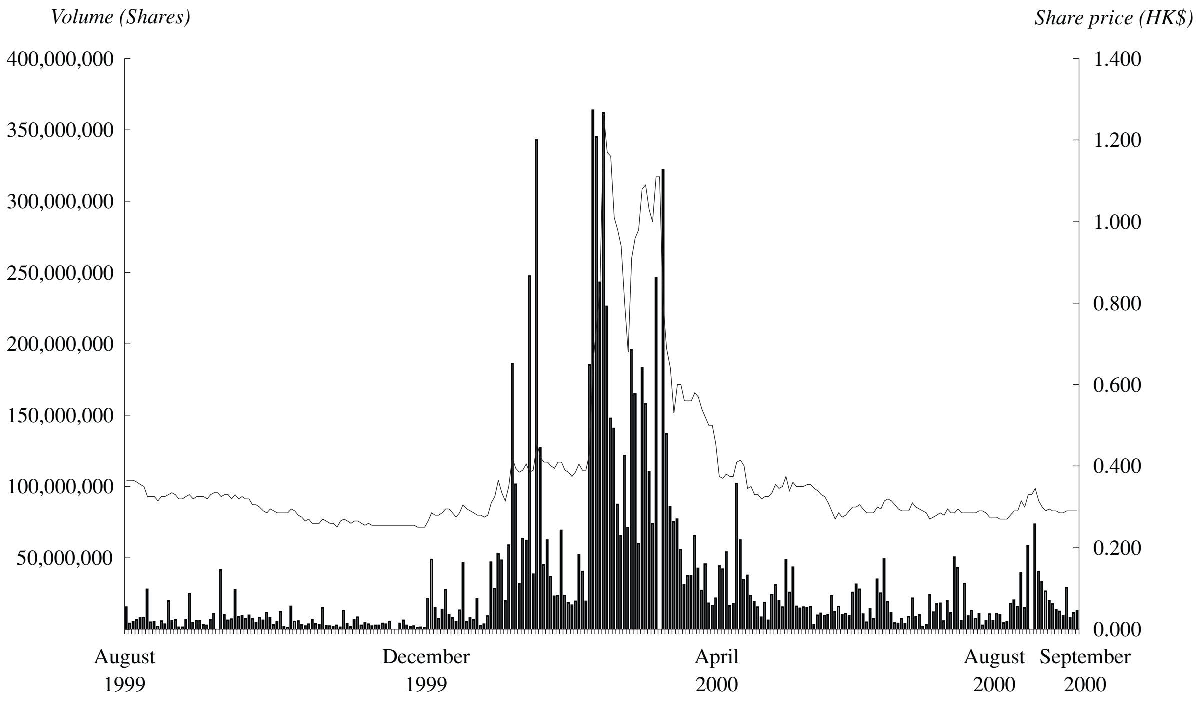
**Discount**

As advised by the Directors, the discount of 22.3% to the business valuation for the 27% effective interest in the PRC Joint Venture was arrived at after arms length negotiation between the Company and Founder Group. As stated above, the business valuation of the PRC Joint Venture was based on the opinion of the Independent Valuer. We further note that it is not uncommon to set the consideration of the acquisition or disposal of this kind of information technology business at a discount to its valuation. Therefore, we consider that the discount of 22.3% is fair and reasonable so far as the Independent Shareholders are concerned.

**Issue Price**

The chart below shows the daily turnover and closing price of the Shares quoted on the Stock Exchange from 2nd August, 1999 to the Latest Practicable Date:

**Price performance of the Share since 2nd August, 1999**




The Issue Price of HK$0.55 per Share represents:

a) the audited consolidated net asset value per Share of the Group as at 31st December, 1999;

b) a premium of approximately 66.67% over the closing price of the Shares of HK$0.33 on 14th August, 2000 (the "Reference Date"), being the last trading day prior to the suspension of trading in the Shares pending the release of the announcement in respect of the Option Agreement and the Transaction;

c) a premium of approximately 90.31% over the average closing price of the Shares of HK$0.289 for the 10 consecutive trading days up to and including the Reference Date;

d) a premium of approximately 92.31% over the average closing price of the Shares of HK$0.286 for the 30 consecutive trading days up to and including the Reference Date;

e) a premium of approximately 89.00% over the average closing price of the Shares of HK$0.291 for the 60 consecutive trading days up to and including the Reference Date; and

f) a premium of approximately 89.66% over the closing price of the Shares of HK$0.29 on the Latest Practicable Date.

From the above analysis, the Issue Price of the New Shares is set at a significant premium to the average closing price per Share for the 60, 30 and 10 consecutive trading days up to and including the Reference Date. As such, we consider the Issue Price of the New Shares is favourable since the dilution effect to the Independent Shareholders is reduced.

Based on the above analyses and taking into account the opinion of the Independent Valuer, the details of which are set out in Appendix III of the Circular, we are of the view that the consideration of HK$2,475 million for the 27% effective interest in the PRC Joint Venture to be satisfied by way of issue and allotment of 4,500 million New Shares is fair and reasonable so far as the interests of the Independent Shareholders are concerned.

## V. CONCLUSION AND RECOMMENDATION

Having considered the above principal factors and reasons and subject to the entry into any agreements as may be required in relation to the implementation of the Project and those referred to in the Valuation Report (including but not limited to a master service agreement to be entered into between the PRC Joint Venture and each of the joint ventures established by the PRC Partner and an entity related to the ministries/bureaus in relation to the provision of technical support by the PRC Joint Venture to such joint ventures), we consider that the terms of the Option Agreement and the Transaction are fair and reasonable so far as the interests of the Independent Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions approving the Option Agreement, the Transaction and all relevant matters to be proposed at the SGM.

Yours faithfully,
For and on behalf of
**Tai Fook Capital Limited**
**Derek C. O. Chan**
*Deputy Managing Director*

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

6th September, 2000

The Directors
Century City International Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Net Age Technology Limited ("Net Age") prepared on the basis set out in Section 1 below, for inclusion in the circular of Century City International Holdings Limited dated 6th September, 2000.

Net Age was incorporated with limited liability in the British Virgin Islands on 5th July, 2000. Net Age has not carried on any business since the date of its incorporation save for the acquisition on 3rd August, 2000 of a 30% equity interest in Century Digital Enterprise Limited ("CDE"), which, in turn, holds a 90% equity interest in Beijing Century Union Digital Technology Limited ("BCUDT"), as set out in Section 1 below. The aforesaid acquisition was satisfied by cash consideration.

As at the date of this report, no audited financial statements have been prepared for Net Age since the date of its incorporation. We have, however, performed our own independent review of all relevant transactions of Net Age since the date of its incorporation.

No separate audited financial statements have been prepared for the associates, CDE and BCUDT (hereinafter collectively referred to as the "CDE Group"). However, for the purpose of this report, we have acted as auditors of the CDE Group for the period from the dates of their incorporation/registration to 3rd August, 2000 in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants.

As Net Age has been dormant since its incorporation save for its acquisition of an interest in the CDE Group, no profit and loss account of Net Age has been prepared and presented for the period from 5th July, 2000 (date of incorporation) to 3rd August, 2000 (the "Relevant Period"). All the expenses of Net Age incurred during the Relevant Period, comprising mainly incorporation expenses, were not significant and were borne by its holding company. The supplementary information on the audited consolidated results of the CDE Group for the period from 6th January, 2000 (date of incorporation of CDE) to 3rd August, 2000 is set out in Section 3 to this report. The summaries of the cash flows of Net Age for the Relevant Period and of the balance sheet of Net Age as at 3rd August, 2000 (the "Summaries") set out in this report have been prepared based on the audited management accounts of Net Age and the CDE Group and are presented on the basis set out in Section 1 below. No adjustments have been made to the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the cash flows of Net Age for the Relevant Period and of the balance sheet of Net Age as at 3rd August, 2000.

## 1. BASIS OF PRESENTATION

The Summaries, which are based on the audited management accounts of Net Age, include the balance sheet of Net Age as at 3rd August, 2000 and cash flows for the Relevant Period.

At the date of this report, Net Age had direct or indirect interests in the following associates, all of which are private companies (or, if incorporated/registered outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

| Name | Business structure | Place and date of incorporation/ registration | Issued and paid-up capital/ registered capital | Percentage of equity interest held by Net Age | Principal activities |
|---|---|---|---|---|---|
| Century Digital Enterprise Limited | Corporate | British Virgin Islands/ 6th January, 2000 | US$100 | 30% | Investment holding and information technology business |
| Beijing Century Union Digital Technology Limited | Corporate | People's Republic of China/ 24th April, 2000 | US$10,000,000* | 27% | Information technology business |

* At the date of this report, an amount of US$1,650,000 was paid-up.

## 2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by Net Age in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are set out below.

### Associates

An associate is a company, not being a subsidiary company, in which Net Age 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.

Net Age does not prepare consolidated financial statements because it has no subsidiary company. Accordingly, the interests in associates are stated at cost less any provisions for diminutions in values other than those considered to be temporary in nature deemed necessary by the directors. The results of the associates are included in Net Age's profit and loss account to the extent of dividends received and receivable.

Further financial information about the associates is separately disclosed in note (a) to the balance sheet.

**Foreign currency transactions**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

**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.

**3. RESULTS**

(a) **Profit and loss account of Net Age**

No profit and loss account has been prepared and presented by Net Age as it was dormant save for the acquisition of an interest in the CDE Group on 3rd August, 2000. All the expenses of Net Age incurred for the Relevant Period were borne by its holding company.

No director received any fees or emoluments in respect of their services rendered to Net Age during the Relevant Period.

(b) **Tax**

No provision for Hong Kong profits tax has been made as Net Age had no assessable profits for the Relevant Period.

(c) **Supplementary information - audited consolidated results of the CDE Group**

| | **Period from 6th January, 2000 (date of incorporation of CDE) to 3rd August, 2000** *HK$* |
|---|---|
| Turnover | — |
| Administrative expenses | (3,205,475) |
| Other operating expenses | (1,922,445) |
| Loss before minority interests | (5,127,920) |
| Minority interests | 5,568 |
| Net loss attributable to shareholders | (5,122,352) |

## 4. BALANCE SHEET

The following is the balance sheet of Net Age as at 3rd August, 2000 which is prepared on the basis set out in Section 1 above.

| | *Note* | *HK$* |
|---|---|---|
| NON-CURRENT ASSET | | |
| Interest in an associate | (a) | 780 |
| CAPITAL | | |
| Issued capital | | 780 |

Except for the issue of the above share capital, there were no other movements in equity and, accordingly, a statement of movements in equity is not presented.

*Note:*

(a) **Interest in an associate**

| | *HK$* |
|---|---|
| Unlisted shares, at cost | 780 |

Particulars of the associates are as follows:

| **Name** | **Business structure** | **Place and date of incorporation/ registration** | **Issued and paid-up capital/ registered capital** | **Percentage of equity interest held by Net Age Direct** | **Indirect** | **Principal activities** |
|---|---|---|---|---|---|---|
| Century Digital Enterprise Limited | Corporate | British Virgin Islands/ 6th January, 2000 | US$100 | 30% | — | Investment holding and information technology business |
| Beijing Century Union Digital Technology Limited | Corporate | People's Republic of China/ 24th April, 2000 | US$10,000,000* | — | 27%** | Information technology business |

* At the date of this report, an amount of US$1,650,000 was paid-up.

** The equity interest of BCUDT is directly held by CDE as to 90%.

A summary of the financial information of the CDE Group, based on its audited consolidated management accounts for the period from 6th January, 2000 (date of incorporation of CDE) to 3rd August, 2000, is as follows:

**Consolidated balance sheet**

| | **3rd August, 2000** *HK$* |
|---|---|
| Non-current assets | 6,217,812 |
| Current assets | 13,448,290 |
| Current liabilities | (7,122,252) |
| Net current assets | 6,326,038 |
| Total assets less current liabilities | 12,543,850 |
| Minority interests | (1,165,422) |
| | 11,378,428 |
| Issued capital | 780 |
| Reserves | 11,377,648 |
| | 11,378,428 |
| Net assets attributable to Net Age | 3,413,528 |

**Consolidated profit and loss account**

| | **Period from 6th January, 2000 (date of incorporation of CDE) to 3rd August, 2000** *HK$* |
|---|---|
| Turnover | — |
| Net loss attributable to shareholders | (5,122,352) |

As Net Age acquired a 30% interest in CDE on 3rd August, 2000, no results of the CDE Group were attributable to Net Age for the Relevant Period.

## 5. CASHFLOW STATEMENT

The cashflow statement of Net Age for the Relevant Period, prepared on the basis set out in Section 1 above, is as follows:

| | HK$ |
|---|---|
| INVESTING ACTIVITY | |
| Investment in an associate | (780) |
| Cash outflow from investing activity | (780) |
| CASH OUTFLOW BEFORE FINANCING ACTIVITY | (780) |
| FINANCING ACTIVITY | |
| Issue of share capital | 780 |
| Cash inflow from financing activity | 780 |
| CHANGE IN CASH AND CASH EQUIVALENTS | — |
| Cash and cash equivalents at beginning of period | — |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | — |

## 6. CONTINGENT LIABILITIES

As at 3rd August, 2000, Net Age and the CDE Group had no contingent liabilities.

## 7. COMMITMENTS

As at 3rd August, 2000, the CDE Group had the following commitments:

| | HK$ |
|---|---|
| Capital commitments in respect of renovation of a leasehold building | |
| Authorised and contracted for | 526,208 |
| Capital commitments in respect of acquisition of equipment | |
| Authorised and contracted for | 1,774,115 |
| | 2,300,323 |

As at 3rd August, 2000, Net Age had no material outstanding commitments.

## 8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Net Age and the CDE Group in respect of any period subsequent to 3rd August, 2000.

Yours faithfully
**Ernst & Young**
*Certified Public Accountants*

## 1. FINANCIAL STATEMENTS

The following is a summary of the audited consolidated profit and loss accounts of the Group for each of the three years ended 31st December, 1997, 1998 and 1999, extracted from the audited financial statements of the Group.

**Consolidated Profit and Loss Account**
*For the year ended 31st December,*

| | **1999** *HK$'million* | **1998** *HK$'million* | **1997** *HK$'million* |
|---|---|---|---|
| Turnover | 4,674.3 | 5,500.6 | 4,632.6 |
| Profit/(Loss) from operating activities | (647.0) | (3,834.5) | 1,932.8 |
| Finance costs | (1,267.7) | (1,207.5) | (756.9) |
| Share of profits less losses of | | | |
| — jointly controlled entity | (138.4) | (1,633.4) | — |
| — associates | 21.5 | (214.9) | (39.9) |
| Profit/(Loss) before tax | (2,031.6) | (6,890.3) | 1,136.0 |
| Tax | (54.7) | (70.0) | (81.2) |
| Profit/(Loss) before minority interests | (2,086.3) | (6,960.3) | 1,054.8 |
| Minority interests | 824.7 | 1,668.3 | (282.7) |
| Net profit/(loss) from ordinary activities attributable to shareholders | (1,261.6) | (5,292.0) | 772.1 |

Set out below are the text of the auditors' report and the audited financial statements of the Group for the two years ended 31st December, 1999 as extracted (and appropriately modified) from the annual report of the Company for the year ended 31st December, 1999.

ERNST & YOUNG
安永會計師事務所

**To the members**
**Century City International Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 38 to 97 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of Directors and auditors**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Fundamental uncertainties relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:

(i) the status of the standstill arrangements with the financial creditors of the Group and Paliburg Holdings Limited, a principal listed subsidiary company of the Group, together with its subsidiary companies (the "PHL Group") (collectively, the "Standstill Arrangements");

(ii) the possible outcome of the measures undertaken by the Directors to improve the financial position, profitability and operations of the Group;

(iii) the proposed restructuring of the Group's certain liabilities provided in the prior year (the "Restructuring");

(iv) the proposed long term mortgage-backed refinancing arrangement of the PHL Group (the "Refinancing Arrangement");

(v) the continued successful implementation of the disposals of certain other identified assets of the PHL Group (the "Disposal Programmes"); and

(vi) the proposed discussions with the relevant lenders of Regal Hotels International Holdings Limited, another principal listed subsidiary company of the Group, and its subsidiary companies, to obtain waivers for the failure to comply with certain loan covenants and/or secure their agreement not to enforce their rights (the "Waiver Discussions").

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Standstill Arrangements; the financial position and profitability improvement measures undertaken by the Directors of the Company; the Restructuring; the Refinancing Arrangement; the continued successful implementation of the Disposal Programmes; and the Waiver Discussions. The financial statements do not include any adjustments that would result from the failure of the Standstill Arrangements; the financial position and profitability improvement measures undertaken by the Directors of the Company; the Restructuring; the Refinancing Arrangement; the continued implementation of the Disposal Programmes; or the Waiver Discussions. We consider that appropriate disclosures and estimates have been made and our opinion is not qualified in this respect.

**Opinion**

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and of the Group as at 31st December, 1999 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*

Hong Kong
19th May, 2000

**Consolidated Profit and Loss Account**

*For the year ended 31st December, 1999*

| | Notes | 1999 HK$'million | 1998 HK$'million |
|---|---|---|---|
| TURNOVER | 5 | 4,674.3 | 5,500.6 |
| Cost of sales | | (3,618.2) | (4,532.0) |
| Gross profit | | 1,056.1 | 968.6 |
| Other revenue | 6 | 338.7 | 633.0 |
| Administrative expenses | | (205.7) | (268.2) |
| Other operating expenses | 6 | (822.1) | (5,167.9) |
| Loss on disposal of overseas subsidiary companies/partnerships | | (1,014,0) | — |
| LOSS FROM OPERATING ACTIVITIES | 7 | (647.0) | (3,834.5) |
| Finance costs | 8 | (1,267.7) | (1,207.5) |
| Share of profits less losses of: | | | |
| Jointly controlled entity | | (138.4) | (1,633.4) |
| Associates | | 21.5 | (214.9) |
| LOSS BEFORE TAX | | (2,031.6) | (6,890.3) |
| Tax | 11 | (54.7) | (70.0) |
| LOSS BEFORE MINORITY INTERESTS | | (2,086.3) | (6,960.3) |
| Minority interests | | 824.7 | 1,668.3 |
| NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | 12 | (1,261.6) | (5,292.0) |
| Retained profits/(Accumulated losses) at beginning of year | | (1,588.9) | 3,702.2 |
| | | (2,850.5) | (1,589.8) |
| Appropriations: | | | |
| Transfer from other reserves | 13 | 5.9 | 5.9 |
| Dividend | 14 | — | (5.0) |
| | | 5.9 | 0.9 |
| Accumulated losses at end of year | 15 | (2,844.6) | (1,588.9) |
| Loss per share (HK$): | 16 | | |
| Basic | | (0.41) | (1.86) |
| Diluted | | N/A | N/A |

**Consolidated Statement of Recognised Gains and Losses**
*For the year ended 31st December, 1999*

| | Notes | 1999 HK$' million | 1998 HK$' million |
|---|---|---|---|
| Deficit on revaluation of hotel properties | 41 | — | (1,723.1) |
| Surplus/(Deficit) on the Group's share of revaluation of hotel properties of associates | 41 | 0.6 | (5.0) |
| Deficit on revaluation of investment properties | 41 | (648.1) | (1,215.1) |
| Surplus/(Deficit) on revaluation of long term equity investments | 41 | 21.7 | (39.1) |
| Exchange differences on translation of the financial statements of foreign entities | 42 | 8.2 | 2.6 |
| Net losses not recognised in the profit and loss account | | (617.6) | (2,979.7) |
| Net loss for the year attributable to shareholders | | (1,261.6) | (5,292.0) |
| Total recognised gains and losses | | (1,879.2) | (8,271.7) |
| Capital reserve arising on increase in shareholding in subsidiary companies | 40 | 88.2 | 754.8 |
| Elimination of goodwill arising on acquisition of subsidiary companies | 40 | — | (166.5) |
| | | (1,791.0) | (7,683.4) |

**Consolidated Balance Sheet**
*As at 31st December, 1999*

| | *Notes* | **1999** *HK$'million* | **1998** *HK$'million* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets | 17 | 13,118.9 | 16,274.7 |
| Properties under development | 18 | 1,265.0 | 4,233.5 |
| Properties held for future development | 19 | 26.7 | 24.3 |
| Interests in a jointly controlled entity | 20 | 1,070.3 | 1,035.1 |
| Interests in associates | 21 | 224.0 | 614.1 |
| Long term investments | 22 | 211.8 | 235.0 |
| Loans and other long term receivables | 23 | 551.0 | 368.9 |
| Lease rights | 24 | — | 19.1 |
| Management contracts | 25 | — | 6.0 |
| Deferred expenditure | | 77.7 | 155.2 |
| Other assets | 26 | 17.5 | 20.5 |
| | | 16,562.9 | 22,986.4 |
| CURRENT ASSETS | | | |
| Short term loans receivable | 27 | 180.9 | 329.7 |
| Short term investments | 22 | 5.1 | 17.5 |
| Properties under development | 18 | 155.4 | 1,267.8 |
| Properties held for sale | | 389.2 | 557.6 |
| Hotel and other inventories | 28 | 36.9 | 82.5 |
| Debtors, deposits and prepayments | | 640.8 | 846.1 |
| Pledged time deposits | | 163.8 | 86.0 |
| Time deposits | | 582.9 | 704.3 |
| Cash and bank balances | | 122.1 | 292.6 |
| | | 2,277.1 | 4,184.1 |
| CURRENT LIABILITIES | | | |
| Creditors and accruals | | 1,833.9 | 2,315.5 |
| Tax payable | | 73.8 | 119.4 |
| Interest bearing bank and other borrowings | 30 | 2,221.1 | 2,522.5 |
| Deposits received | | 89.8 | 1,507.2 |
| | | 4,218.6 | 6,464.6 |
| NET CURRENT LIABILITIES | | (1,941.5) | (2,280.5) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 14,621.4 | 20,705.9 |

| | Notes | 1999 HK$'million | 1998 HK$'million |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 14,621.4 | 20,705.9 |
| NON-CURRENT LIABILITIES | | | |
| Interest bearing bank and other borrowings | 30 | (5,540.2) | (9,468.6) |
| Exchangeable bonds | 31 | (1,086.1) | (1,081.9) |
| Convertible bonds | 32 | (1,631.7) | (1,625.4) |
| Provision for premium on redemption of exchangeable bonds and convertible bonds | 33 | (563.9) | (365.5) |
| Deferred tax | 34 | (0.8) | (4.0) |
| Advances from minority shareholders of subsidiary companies | 35 | (132.9) | (130.5) |
| | | (8,955.6) | (12,675.9) |
| Minority interests | | (3,987.4) | (4,965.8) |
| | | 1,678.4 | 3,064.2 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 36 | 306.9 | 306.9 |
| Reserves | 37 | 1,371.5 | 2,757.3 |
| | | 1,678.4 | 3,064.2 |

**Consolidated Cash Flow Statement**
*For the year ended 31st December, 1999*

| | Notes | 1999 HK$'million | 1998 HK$'million |
|---|---|---|---|
| Net cash inflow from operating activities | 45(a) | 1,156.0 | 2,082.0 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 63.8 | 226.9 |
| Interest paid | | (942.9) | (1,221.4) |
| Dividends received from listed and unlisted investments | | 1.9 | 8.6 |
| Dividends paid | | — | (30.7) |
| Dividends paid to minority shareholders/partners and preference shareholders of subsidiary companies/partnerships | 45(b) | (2.3) | (44.4) |
| Net cash outflow from returns on investments and servicing of finance | | (879.5) | (1,061.0) |
| Taxation | | | |
| Hong Kong profits tax paid | | (45.7) | (60.5) |
| Overseas taxes paid | | (40.3) | (27.5) |
| Taxes paid | | (86.0) | (88.0) |
| Investing activities | | | |
| Acquisitions of additional interests in subsidiary companies/partnerships | | — | (779.5) |
| Acquisition of subsidiary companies | 45(c) | — | (630.3) |
| Disposal of subsidiary companies/partnerships | 45(d) | 684.5 | 31.8 |
| Proceeds from disposal of an associate | | 1.6 | — |
| Net proceeds from disposal of ordinary shares in listed subsidiary companies | | 7.4 | 879.1 |
| Additions to hotel property under development | | (191.6) | (954.6) |
| Purchases of fixed assets | | (107.6) | (186.1) |
| Net proceeds from disposal of investment properties | | 106.2 | 113.5 |
| Net proceeds from disposal of leasehold and freehold properties | | 94.8 | 29.6 |
| Proceeds from disposal of other fixed assets | | 1.4 | 3.9 |
| Purchases of long term investments | | — | (554.1) |
| Proceeds from disposal of long term investments | | 24.5 | 498.9 |
| Investments in associates | | (2.2) | (0.1) |
| Repayment of loans by associates | | 6.6 | 4.1 |
| Advances to associates | | — | (21.8) |
| Advance to a jointly controlled entity | | (178.6) | (142.1) |
| Decrease/(Increase) in long term loans receivable | | 261.7 | (532.7) |
| Decrease/(Increase) in other assets | | 3.0 | (0.3) |
| Settlement of swaps and options | | — | (946.1) |
| Net cash inflow/(outflow) from investing activities | | 711.7 | (3,186.8) |
| Net cash inflow/(outflow) before financing | | 902.2 | (2,253.8) |

| | Notes | 1999 HK$'million | 1998 HK$'million |
|---|---|---|---|
| Net cash inflow/(outflow) before financing | | 902.2 | (2,253.8) |
| Financing | | | |
| Proceeds from issue of shares by the Company | 45(b) | — | 535.0 |
| Proceeds from issue of ordinary shares by subsidiary companies | 45(b) | 0.1 | 9.2 |
| Repurchase of ordinary shares by subsidiary companies, including expenses | 45(b) | — | (39.0) |
| Draw down of loans and increase in notes payable | 45(b) | 429.5 | 6,052.2 |
| Repayment of long term loans and notes payable | 45(b) | (1,475.5) | (5,602.1) |
| Payment of deferred expenditure | | (62.9) | (90.6) |
| Repayment from minority shareholders of subsidiary companies | 45(b) | 2.4 | 2.0 |
| Increase in pledged time deposits | | (77.8) | (55.0) |
| Net cash inflow/(outflow) from financing | | (1,184.2) | 811.7 |
| Decrease in cash and cash equivalents | | (282.0) | (1,442.1) |
| Cash and cash equivalents at beginning of year | | 983.2 | 2,423.9 |
| Effect of foreign exchange rate changes, net | | (2.9) | 1.4 |
| Cash and cash equivalents at end of year | | 698.3 | 983.2 |
| Analysis of balances of cash and cash equivalents | | | |
| Cash and bank balances | | 122.1 | 292.6 |
| Time deposits with original maturity of less than three months when acquired | | 582.9 | 704.3 |
| | | 705.0 | 996.9 |
| Bank overdrafts | | (6.7) | (13.7) |
| | | 698.3 | 983.2 |

**Balance Sheet**
*As at 31st December, 1999*

| | *Notes* | **1999** *HK$'million* | **1998** *HK$'million* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Interests in subsidiary companies | 43 | 2,104.5 | 3,223.6 |
| CURRENT ASSETS | | | |
| Debtors, deposits, and prepayments | | 0.4 | 0.4 |
| Cash and bank balances | | 1.0 | 1.1 |
| | | 1.4 | 1.5 |
| CURRENT LIABILITIES | | | |
| Creditors and accruals | | (363.9) | (210.8) |
| Bank and other loans | | (58.1) | (173.0) |
| | | (422.0) | (383.8) |
| NET CURRENT LIABILITIES | | (420.6) | (382.3) |
| | | 1,683.9 | 2,841.3 |
| CAPITAL AND RESERVES | | | |
| Issued capital | 36 | 306.9 | 306.9 |
| Reserves | 37 | 1,377.0 | 2,534.4 |
| | | 1,683.9 | 2,841.3 |

## Notes to Financial Statements

*31st December, 1999*

### 1. CORPORATE INFORMATION

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

### 2. IMPACT OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

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

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

SSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The formats of the profit and loss account and the balance sheets, as set out on pages 38, 40, 41 and 44, respectively, have been revised in accordance with the SSAP, and a statement of recognised gains and losses, not previously required, is included on page 39. Additional disclosures as required are included in the supporting notes to the financial statements.

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

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

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

### 3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES

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

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

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

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

The Directors have also been taking steps to strengthen the equity base of the Group, with the objective of improving its financial position, profitability and operations. As part of the measures to achieve these objectives, the Group is working closely with its professional advisors with the objective of formulating a proposal for the acquisition of a further interest in a company, in which the Group has already had an indirect minority interest, which is involved in the development of internet related businesses based on a leased fibre network in the PRC.

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

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

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

The Directors consider that the indebtedness pressure of the Group has been moderately alleviated and the liquidity position of the PHL Group and the RHIHL Group have also improved during the year, as a result of the successful completion of the share placements of the Company and the substantial progress so far achieved on the Disposal Programmes, including those implemented by the PHL Group and the RHIHL Group. Notwithstanding this, certain bank and other borrowing agreements require specific loan covenants to be satisfied. At the balance sheet date, the non-compliance with certain loan covenants by the RHIHL Group on two loans totalling HK$4,893.2 million (the "Regal Loans") (note 30) still existed. Pursuant to the terms of the Regal Loans, as confirmed by a legal opinion obtained from RHIHL's legal advisors, upon the non-compliance with any borrowing covenants (after the expiry of any grace period applicable or the service of any required notice), the agents of the Regal Loans (the "Agents"), acting on the instructions of the specified majority of the lenders (the "Lenders"), may serve a notice to the RHIHL Group to declare the Regal Loans to be immediately due and repayable unless the cause for the non-compliance is remedied within a specified agreed upon period. However, unless and until such notice is served by the Agents, the Regal Loans remain repayable in accordance with their original stated maturity dates. As confirmed by the respective Agents of the Regal Loans, no such notice has been served to the RHIHL Group to date.

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

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

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

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

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of preparation

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

### (b) Basis of consolidation

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

### (c) Goodwill/Capital reserve on consolidation

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

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

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

### (d) Subsidiary companies/partnerships

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

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

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

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

### (e) Joint ventures

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

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

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

(f) **Associates**

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

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

(g) **Investment properties**

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

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

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

(h) **Hotel properties**

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

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

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

(i) **Properties under development**

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

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

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

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

Movements in the values of the hotel property under development are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred.

(j) **Properties held for future development**

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

(k) **Capitalised borrowing costs**

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

(l) **Lease rights**

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

(m) **Management contracts**

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

(n) **Deferred expenditure**

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

(o) **Properties held for sale**

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

(p) **Other assets**

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

(q) **Long term investments**

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

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

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

(r) **Short term investments**

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

(s) **Fixed assets and depreciation**

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset. As stated in (g) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of reclassification.

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

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

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

(t) **Construction in progress**

Construction in progress represents fixed assets under construction or renovation, and is stated at cost. Cost comprises the direct costs of construction or renovation and interest charges on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for commercial use.

No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

(u) **Inventories**

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

(v) **Construction contracts**

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

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

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

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

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

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

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

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

(x) **Revenue recognition**

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

(i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;

(iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (i) above;

(iv) fee income on short term construction contracts, on completion of the construction work;

(v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (v) above;

(vi) hotel and other service income, in the period in which such services are rendered;

(vii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;

(viii) dividend income, when the shareholders' right to receive payment is established;

(ix) proceeds from sale of short term investments and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and

(x) commission and brokerage income on dealings in securities, futures and other derivatives, on the transaction dates when the relevant contract notes are exchanged.

(y) **Foreign currencies**

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

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

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

(z) **Deferred tax**

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

(aa) **Operating leases**

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

(ab) **Off-balance sheet financial instruments**

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

(i) the net settlements arising from swaps undertaken are recognised on an accrual basis and are dealt with in the profit and loss account; and

(ii) net premium paid/received from the writing of options is dealt with in the profit and loss account and provision is made for any shortfall in the market prices of the underlying securities in respect of which the options are written below the contracted strike prices under the option agreements.

(ac) **Staff retirement scheme**

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

(ad) **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(ae) **Cash equivalents**

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

## 5. TURNOVER AND REVENUE

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

Revenue from the following activities has been included in turnover:

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

## 6. OTHER REVENUE/OTHER OPERATING EXPENSES

Other revenue/other operating expenses include the following items:

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

## 7. LOSS FROM OPERATING ACTIVITIES

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

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

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

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

## 8. FINANCE COSTS

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

## 9. DIRECTORS' REMUNERATION

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

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

The remuneration of the Directors fell within the following bands:

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

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

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

(b) Share options

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

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

**PHL**

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

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

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

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

(4) At the time of cancellation, the option for 0.1 million shares was exercisable at any time and the option for the remaining 0.2 million shares was exercisable in stages commencing eight years from the Original Grant Date.

(5) At the time of cancellation, the option for 3.0 million shares was exercisable at any time and the option for the remaining 5.1 million shares was exercisable in stages commencing six years from the Original Grant Date.

(6) At the time of cancellation, the option for 0.5 million shares was exercisable at any time and the option for the remaining 2.0 million shares was exercisable in stages commencing three years from the date of grant.

**RHIHL**

| | **Number of ordinary shares under options** | | | |
|---|---|---|---|---|
| | **Granted on 22nd February, 1992** | **Granted on 28th August, 1992** | **Granted on 22nd February, 1997** | **Total** |
| | *'million* | *'million* | *'million* | *'million* |
| Balance at beginning of year | 44.3 | 1.9 | 7.2 | 53.4 |
| Options held by Directors resigned during the year | (9.0) | (1.9)[(2)] | (7.2)[(3)] | (18.1) |
| Balance at end of year | 35.3[(1)] | — | — | 35.3 |
| Outstanding rights vested with the Directors at end of year | 22.3 | — | — | |
| Exercise price per ordinary share (HK$) | 0.7083 | 0.9250 | 2.1083 | |

(1) The options for 22.3 million ordinary shares are exercisable at any time. The options for the remaining 13.0 million ordinary shares are exercisable in stages commencing eight years from the date of grant.

(2) At the time of cancellation, the option for 1.2 million ordinary shares was exercisable at any time and the option for the remaining 0.7 million ordinary shares was exercisable in stages commencing eight years from the date of grant.

(3) At the time of cancellation, the option for 1.4 million ordinary shares was exercisable at any time and the option for the remaining 5.8 million ordinary shares was exercisable in stages commencing three years from the date of grant.

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

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

**10. SENIOR EXECUTIVES' EMOLUMENTS**

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

| | **GROUP** | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$' million* | *HK$' million* |
| Salaries and other emoluments | 8.8 | 6.9 |
| Performance related/discretionary bonuses | 0.5 | 0.1 |
| Staff retirement scheme contributions | 0.1 | — |
| | 9.4 | 7.0 |

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

| **HK$** | **1999 Number of individuals** | **1998 Number of individuals** |
|---|---|---|
| 2,500,001 - 3,000,000 | 2 | 1 |
| 3,500,001 - 4,000,000 | 1 | — |
| 4,500,001 - 5,000,000 | — | 1 |

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

(b) Share options

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

**11. TAX**

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

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

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

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

**12. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

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

### 13. TRANSFER FROM OTHER RESERVES

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

### 14. DIVIDEND

| | COMPANY | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$'million* | *HK$'million* |
| Adjustment for final dividend for 1997 | — | 5.0 |

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

### 15. ACCUMULATED LOSSES AT END OF YEAR

Accumulated losses at end of year accumulated in:

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

### 16. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK$1,261.6 million (1998 - HK$5,292.0 million) and on the weighted average of 3,068.8 million (1998 - 2,841.5 million) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 1998 and 1999 as the exercise of the warrants of the Company then outstanding was anti-dilutive.

## 17. FIXED ASSETS

| | GROUP | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **1st January, 1999** | **Exchange adjustments** | **Additions** | **Transfer from property under development** | **Transfer from properties held for sale** | **Disposal of subsidiary compaines/ partnerships** | **Other disposals** | **Surplus/ (Deficit) on revaluation** | **31st December, 1999** |
| | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* | *HK$' million* |
| At valuation: | | | | | | | | | |
| Investment properties | 4,636.0 | 0.8 | — | — | 81.2 | (209.7) | (106.5) | (1,076.0) | 3,325.8 |
| Hotels, including furniture, fixtures and equipment | 11,075.4 | 38.0 | 84.8 | 2,601.3 | — | (4,896.6) | (1.3) | 285.9 | 9,187.5 |
| | 15,711.4 | 38.8 | 84.8 | 2,601.3 | 81.2 | (5,106.3) | (107.8) | (790.1) | 12,513.3 |
| At cost: | | | | | | | | | |
| Leasehold properties | 825.1 | 0.3 | — | — | — | — | (103.0) | — | 722.4 |
| Leasehold improvements, furniture, fixtures and equipment | 239.6 | 0.6 | 28.1 | — | — | (97.6) | (31.6) | — | 139.1 |
| Site equipment | 1.7 | — | — | — | — | — | — | — | 1.7 |
| Construction in progress | 28.8 | 0.1 | — | — | — | — | — | — | 28.9 |
| Motor vehicles | 10.8 | — | 0.3 | — | — | — | (3.8) | — | 7.3 |
| | 16,817.4 | 39.8 | 113.2 | 2,601.3 | 81.2 | (5,203.9) | (246.2) | (790.1) | 13,412.7 |
| Accumulated depreciation: | | | | | | | | | |
| Hotel furniture, fixtures and equipment | 354.0 | 3.4 | 106.6 | — | — | (338.7) | (0.8) | — | 124.5 |
| Leasehold properties | 82.8 | — | 20.0 | — | — | — | (8.2) | — | 94.6 |
| Leasehold improvements, furniture, fixtures and equipment | 98.3 | 0.2 | 29.5 | — | — | (42.9) | (16.6) | — | 68.5 |
| Site equipment | 1.4 | — | 0.3 | — | — | — | — | — | 1.7 |
| Motor vehicles | 6.2 | — | 1.6 | — | — | — | (3.3) | — | 4.5 |
| | 542.7 | 3.6 | 158.0 | — | — | (381.6) | (28.9) | — | 293.8 |
| Net book value | 16,274.7 | | | | | | | | 13,118.9 |

Analysis of net book value by geographical location:

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

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

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

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

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

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

| | 1999 | 1998 |
|---|---|---|
| | *HK$' million* | *HK$' million* |
| Investment properties | 1,159.8 | 1,428.2 |
| Hotel properties | 4,658.2 | 6,845.0 |
| Leasehold properties | 167.2 | 266.1 |
| | 5,985.2 | 8,539.3 |

**18. PROPERTIES UNDER DEVELOPMENT**

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

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

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

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

**19. PROPERTIES HELD FOR FUTURE DEVELOPMENT**

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

**20. INTERESTS IN A JOINTLY CONTROLLED ENTITY**

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

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

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

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

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

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

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

| | 1999<br>*HK$' million* | 1998<br>*HK$' 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 | (2,825.2) | (2,333.4) |
| **Income and losses** | | |
| Income | — | — |
| Net loss from ordinary activities attributable to venturers | (491.8) | (2,333.4) |

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<br>*HK$' million* | 1998<br>*HK$' million* |
|---|---|---|
| Authorised and contracted for | 58.2 | 63.9 |
| Authorised, but not contracted for | 480.6 | 483.2 |
| | 538.8 | 547.1 |

**21. INTERESTS IN ASSOCIATES**

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

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

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

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

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

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

* not audited by Ernst and Young.

(1) The percentage of equity interest represents equity interest attributable to a wholly-owned subsidiary company of PHL. Cheerjoy was previously a wholly-owned subsidiary company of PHL. Following the partial disposal of the 70% interest in Cheerjoy by PHL during the year, it became an associate of PHL. The sole asset of Cheerjoy is the holding of a property development project.

(2) The percentage of equity interest represents equity interest attributable to a 75% owned subsidiary company of PHL.

(3) As at 31st December, 1998, these associates were held by Richfield Holdings, Inc. ("Richfield Holdings"), a then wholly-owned subsidiary company of RHIHL, which was in turn a 74.2% and 74.0% owned by PHL as at 31st December, 1998 and 1999, respectively. Richfield Holdings was disposed of by the Group during the year.

(4) The percentages of equity interests represent those attributable to RHIHL.

All associates are indirectly held by the Company.

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

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

## 22. INVESTMENTS

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

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

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

### 23. LOANS AND OTHER LONG TERM RECEIVABLES

| | | GROUP | |
|---|---|---|---|
| | | **1999** | **1998** |
| | *Notes* | *HK$' million* | *HK$' million* |
| Other receivable | (a) | 349.7 | — |
| Long term mortgage loans, secured | (b) | 123.6 | 190.7 |
| Other loans, unsecured | (c) | 77.7 | 178.2 |
| | | 551.0 | 368.9 |

(a) The other receivable represents a deferred consideration of US$45 million (HK$349.7 million) in respect of the Group's disposal of its hotel interests in the United States (the "Disposal"). The amount is receivable, together with interest accrued thereon at 7% per annum, on the second anniversary of the completion date of the Disposal which was 17th December, 1999.

(b) The long term mortgage loans represent loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by the second mortgages over the properties sold and are repayable by installments. HK$0.2 million (1998 - HK$3.1 million) of the long term mortgage loans is interest-free, while the remaining HK$123.4 million (1998 - HK$187.6 million) bears interest at Hong Kong prime rate plus 1.75%-2% per annum with certain of the loans having interest free periods of up to thirty-six months from the respective drawdown dates of such loans.

(c) The current year's other loans represent a loan of US$10 million (HK$77.7 million) (1998 - HK$77.4 million) advanced to a hotel owner in Shanghai, the People's Republic of China (the "PRC"), to assist financing the interior decoration and pre-operating expenditure of the hotel, which is managed by a subsidiary company of the Group. The loan is unsecured, interest free and is repayable commencing from the date of opening of the hotel, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

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

### 24. LEASE RIGHTS

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

### 25. MANAGEMENT CONTRACTS

| | GROUP 1999 *HK$' million* | GROUP 1998 *HK$' 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 |
| Provision during the year | 0.4 | 0.5 |
| Disposal of subsidiary companies/partnerships | (10.9) | — |
| Write off during the year | — | (0.5) |
| Balance at end of year | — | 10.5 |
| Net book value at balance sheet date | — | 6.0 |

**26. OTHER ASSETS**

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

**27. SHORT TERM LOANS RECEIVABLE**

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

(a) An unsecured and interest-free loan to a consortium in the amount of HK$0.9 million (1998 - HK$48.9 million);

(b) Promissory notes receivable in the aggregate amount of HK$180.0 million (1998 - HK$180.0 million) which are repayable on demand. Apart from an amount of HK$50.0 million which is secured and bears interest at 11.5% per annum, the remaining amount of HK$130.0 million is unsecured and bears interest at 1.5% to 2.5% over Hong Kong prime rate per annum; and

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

**28. HOTEL AND OTHER INVENTORIES**

| | GROUP | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$' million* | *HK$' million* |
| Hotel merchandise and restaurant supplies | 23.3 | 64.9 |
| Raw materials | 6.3 | 3.2 |
| Work in progress | 6.2 | 11.7 |
| Finished goods | 1.1 | 2.7 |
| | 36.9 | 82.5 |

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

**29. CONSTRUCTION CONTRACTS**

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

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

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

## 30. INTEREST BEARING BANK AND OTHER BORROWINGS

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

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

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

**31. EXCHANGEABLE BONDS**

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

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

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

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

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

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

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

**32. CONVERTIBLE BONDS**

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

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

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

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

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

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

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

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

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

## 34. DEFERRED TAX

| | GROUP | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$' million* | *HK$' million* |
| Balance at beginning of year | 4.0 | 10.5 |
| Release to profit and loss account *(note 11)* | (3.2) | (6.5) |
| Balance at end of year | 0.8 | 4.0 |

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

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

### 35. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

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

### 36. SHARE CAPITAL

**Shares**

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

**Warrants**

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

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

### 37. RESERVES

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

## 38. SHARE PREMIUM

| | COMPANY | |
|---|---|---|
| | 1999 | 1998 |
| | *HK$' million* | *HK$' million* |
| Balance at beginning of year | 747.0 | 262.0 |
| Premium on issue of shares | — | 485.0 |
| Balance at end of year | 747.0 | 747.0 |

## 39. CAPITAL REDEMPTION RESERVE

| | COMPANY | |
|---|---|---|
| | 1999 | 1998 |
| | *HK$' million* | *HK$' million* |
| Balance at beginning and at end of year | 4.4 | 4.4 |

## 40. CAPITAL RESERVE

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

**41. REVALUATION RESERVES**

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

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

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

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

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

## 42. EXCHANGE EQUALISATION RESERVE

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

## 43. INTERESTS IN SUBSIDIARY COMPANIES

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

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 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| **Subsidiary companies** | | | | | |
| 8D International Limited | Hong Kong | HK$10,000 | 100 | 100 | Promotions and communications |
| Aikford Financial Services Limited | Hong Kong | HK$2 | 100 | 100 | Securities investment |
| Century City BVI Holdings Limited | British Virgin Islands | HK$10 | 100 | 100 | Investment holding |
| Century City (F.S.) Management Limited | Hong Kong | HK$2 | 100 | 100 | Management services |
| Century City Finance Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Century City Funds Management Limited | Hong Kong | HK$2 | 100 | 100 | Fund management |
| Century City Financial Services Limited | British Virgin Islands | US$56,000 | 100 | 100 | Investment holding |
| Century City Futures Limited | Hong Kong | HK$10,000,000 | 100 | 100 | Brokerage services |
| Century City Holdings Limited | Hong Kong | HK$264,488,059 | 100 | 100 | Investment holding |
| Century City International Limited | British Virgin Islands | US$700,000 | 100 | 100 | Financial and consultancy services |
| Century City Investment Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Century City (Nominees) Limited | Hong Kong | HK$2 | 100 | 100 | Nominee services |
| Century City (Secretaries) Limited | Hong Kong | HK$2 | 100 | 100 | Secretarial services |
| Century City Securities Limited | Hong Kong | HK$88,500,000 | 100 | 100 | Brokerage services |
| Century Pacific Development Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Cityline Finance Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Gentwin Investment Limited | Hong Kong | HK$2 | 100 | 100 | Financing |
| Meylink Limited | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| Splendour Corporation | British Virgin Islands | US$1 | 100 | 100 | Investment holding |
| T.M. Nominees Limited | Hong Kong | HK$2 | 100 | 100 | Nominee services |
| Wise Assets Holdings Limited | British Virgin Islands | US$1 | 100 | 100 | Securities investment |
| Paliburg Holdings Limited | Bermuda | HK$2,318,497,452 | 60.4 | 58.9 | Investment holding |

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

| Name | Place of incorporation/ registration | Issued share capital/ registered capital | Percentage of equity interest attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Farich Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Investment holding |
| Fine Cosmos Development Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property development and investment |
| Finso Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Investment holding |
| Firstway Holdings Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Restaurant operations |
| Gain World Investments Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |
| Glaser Holdings Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |
| Good Focus Holdings Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Property investment |
| Granco Development Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property development and investment |
| H.P. Nominees Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Investment holding and nominee services |
| Honour Charm Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property investment |
| Key Choice Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property development and investment |
| Landstar Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Financing, property development and investment |
| Lead Fortune Development Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property development and investment |
| Linkprofit Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Investment holding |
| Paliburg BVI Holdings Limited | British Virgin Islands | HK$10 | 60.4 | 58.9 | Investment holding |
| Paliburg Building Services Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Mechanical and electrical engineering services |
| Paliburg Company Limited | Hong Kong | HK$1,000 | 60.4 | 58.9 | Investment holding |
| Paliburg Development BVI Holdings Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |

| Name | Place of incorporation/ registration | Issued share capital/ registered capital | Percentage of equity interest attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Paliburg Development Consultants Limited | Hong Kong | HK$100,000 | 60.4 | 58.9 | Development consultants |
| Paliburg Development Finance Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Financing |
| Paliburg Estate Agents Limited | Hong Kong | HK$20 | 60.4 | 58.9 | Estate agent |
| Paliburg Estate Management Limited | Hong Kong | HK$20 | 60.4 | 58.9 | Estate management |
| Paliburg Finance (C.B. 2002) Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Financing |
| Paliburg Finance Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Financing |
| Paliburg International Finance Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Financing |
| Paliburg International Holdings Limited | Bermuda | HK$100,000 | 60.4 | 58.9 | Investment holding |
| Paliburg Investments Limited | Hong Kong | HK$526,506,860 | 60.4 | 58.9 | Investment holding |
| Perfect Grand Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Karaoke club operations |
| Polarfine Inc | British Virgin Islands | HK$3,000,000 | 48.3 | 46.7 | Investment holding |
| Rank Cheer Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Financing |
| Real Charm Investment Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property investment |
| Rich Pearl Limited | Hong Kong | HK$10,000 | 60.4 | 58.9 | Financing |
| Sanefix Development Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property investment |
| Shenyang Paliburg Plaza Limited | The People's Republic of China | US$9,820,000 | 60.4 | 58.9 | Property development and investment |
| Smart Base Holdings Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Restaurant operations |
| Sonnix Limited | Hong Kong | HK$2 | 60.4 | 58.9 | Property development and investment |
| Taylor Investments Ltd. | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |
| Tianjin Haihe Palace Of Entertainment Co., Ltd. | The People's Republic of China | RMB7,000,000 | 25.0 | 24.3 | Restaurant operations |

| Name | Place of incorporation/ registration | Issued share capital/ registered capital | Percentage of equity interest attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Transcar Investments Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |
| Weifang Yuanzhong Real Estate Development Co., Ltd. | The People's Republic of China | US$8,130,000 | 31.7 | 30.9 | Property development and investment |
| Yield Star Limited | British Virgin Islands | US$1 | 60.4 | 58.9 | Investment holding |
| Regal Hotels International Holdings Limited | Bermuda | Ordinary - HK$392,874,310 | 44.7 | 43.7 | Investment holding |
| | | Preference - US$189,480 | 11.0 | 10.7 | |
| Bauhinia Hotels Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Hotel ownership |
| Camomile Investments Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Property investment |
| Century Win Investment Limited | Hong Kong | HK$10,000 | 40.2 | — | Restaurant operations |
| Charter Capital Development Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Property investment |
| Chicago Hotel Holdings, Inc.* | U.S.A. | US$1 | — | 43.7 | Hotel ownership |
| Cityability Limited | Hong Kong | HK$10,000 | 44.7 | 43.7 | Hotel ownership |
| Come On Investment Company Limited | Hong Kong | HK$10,000 | 44.7 | 43.7 | Securities investment and trading |
| Cranfield Investments Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Wedding services |
| Fortune Nice Investment Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Financing |
| Gala Hotels Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Hotel ownership |
| Gateway Hotel Holdings, Inc.* | U.S.A. | US$1 | — | 43.7 | Hotel ownership |
| Gaud Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Plant nursery and florist |
| Honrich Investment Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Car leasing |
| Kaifeng Yatai Brewery Co., Ltd. | The People's Republic of China | RMB35,923,300 | 40.2 | 39.4 | Production/ distribution of beer |
| Kaifeng Yatai Brewery Second Co., Ltd. | The People's Republic of China | RMB30,576,700 | 40.2 | 39.4 | Production/ distribution of beer |
| Key Winner Investment Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Financing |
| Kingford View Investments Limited | British Virgin Islands | US$1 | 44.7 | 43.7 | Securities investment |

| Name | Place of incorporation/ registration | Issued share capital/ registered capital | Percentage of equity interest attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Park Plaza Hotel Corporation* | U.S.A. | US$14 | — | 43.7 | Investment holding |
| Ragout Investments Limited | British Virgin Islands | US$1 | 44.7 | 43.7 | Securities investment |
| Regal Century Investment Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Investment holding and management services |
| Regal Constellation Hotel Limited | Canada | CAN$1 | 44.7 | 43.7 | Hotel ownership |
| Regal Hotels Company Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Financing |
| Regal Hotels (Holdings) Limited | Hong Kong | HK$1,151,598,638 | 44.7 | 43.7 | Investment holding |
| Regal Hotels International Limited | Hong Kong | HK$100,000 | 44.7 | 43.7 | Hotel management |
| Regal Hotels Management (BVI) Limited | British Virgin Islands | US$1 | 44.7 | 43.7 | Hotel management |
| Regal Hotel Management, Inc.* | U.S.A. | US$1 | — | 43.7 | Hotel ownership |
| Regal International Limited | British Virgin Islands | US$20 | 44.7 | 43.7 | Investment and trademark holding |
| Regal International (BVI) Holdings Limited | British Virgin Islands | HK$10.1 | 44.7 | 43.7 | Investment holding |
| Regal Laundry Services Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Laundry operations |
| Regal Pacific (Holdings) Limited | Canada | CAN$2,005,200 | 44.7 | 43.7 | Investment holding |
| Regal Riverside Hotel Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Hotel ownership |
| Regal Supplies Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Bakery operations |
| R.H.I. Licensing B.V. | The Netherlands | NLG40,000 | 44.7 | 43.7 | Trademark holding |
| RHM-88, LLC* | U.S.A. | US$51,566,000 | — | 43.7 | Hotel ownership |
| Richfield Holdings, Inc.* | U.S.A. | US$10,750 | — | 43.7 | Investment holding |
| Richfield Hospitality Services, Inc* | U.S.A. | US$10 | — | 43.7 | Hotel management services |
| Ricobem Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Hotel ownership |
| Stareast Travel Limited | Hong Kong | HK$800,000 | 44.7 | 43.7 | Travel services |
| Tenshine Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Restaurant operations |
| Unicorn Star Limited | British Virgin Islands | US$1 | 44.7 | 43.7 | Securities investment |
| WHB Corporation* | U.S.A. | US$1 | — | 43.7 | Hotel ownership |
| Widebase Limited | British Virgin Islands | US$1 | 44.7 | 43.7 | Securities investment |
| Winner Team Investment Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Securities investment |

| Name | Place of incorporation/ registration | Issued share capital/ registered capital | Percentage of equity interest attributable to the Company 1999 | 1998 | Principal activities |
|---|---|---|---|---|---|
| Winplex Company Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Karaoke club operations |
| World Way Management Limited | Hong Kong | HK$2 | 44.7 | 43.7 | Management services |
| **Partnerships** | | | | | |
| Aircoa Hotel Partners, L.P.* | U.S.A. | — | — | 43.7 | Hotel ownership |
| Anchorage - Lakefront Limited Partnership* | U.S.A. | — | — | 43.7 | Hotel ownership |
| BHA - Stonehouse Associates GP* | U.S.A. | — | — | 43.7 | Hotel ownership |
| Bradenton Hotel L.P.* | U.S.A. | — | — | 39.8 | Hotel lessee |
| Cincinnati S.I. Co.* | U.S.A. | — | — | 43.7 | Hotel ownership |
| Minneapolis Hotel L.P.* | U.S.A. | — | — | 42.0 | Hotel lessee |
| Wynfield One, Ltd L.P.* | U.S.A. | — | — | 43.7 | Hotel ownership |

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

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

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

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

## 44. CONTRIBUTED SURPLUS

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

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

## 45. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

(b) Analysis of changes in financing

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

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

(c) Acquisition of subsidiary companies

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

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

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

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

(d) Disposal of subsidiary companies/partnerships

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

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

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

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

(e) The net cash inflow from operating activities of HK$1,156.0 million included a cash inflow of HK$22.8 million relating to compensation received from the cancellation of a tenancy agreement as disclosed in note 6 to the financial statements in accordance with SSAP 2.

(f) Major non-cash transactions

(i) The consideration for the disposal of a subsidiary company in the amount of HK$390 million was satisfied by discharge of certain other loans and creditors and accruals.

(ii) A provision for loss in short term investments and interest payable totalling HK$208.3 million were capitalised as bank and other loans during the year.

**46. CONNECTED AND RELATED PARTY TRANSACTIONS**

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

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

(a) The gross construction fee income from a jointly controlled entity was charged to Chest Gain Development Limited ("Chest Gain") in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process.

(b) The interest income from the jointly controlled entity was charged to Chest Gain. The details of the Group's interest in and the terms of the loans due from this jointly controlled entity are disclosed in note 20 to the financial statements.

(c) The interest income from associates in the prior year arose from loans to Bostonian Hotel Limited Partnership ("Bostonian"), The EI Dorado Partnership, Limited ("EI Dorado"), Century King Investment Limited ("Century King") and Chi Cheung Investment Company, Limited ("Chi Cheung"). The current year's amount arose from loans to Bostonian, EI Dorado, Century King and Cheerjoy Development Limited. The details of the terms of such loans are disclosed in note 21 to the financial statemnts.

(d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain.

(e) The corporate guarantee was given by PHL in respect of a banking facility granted to Rapid Growth Holdings Limited, the holding company of Chi Cheung. The obligation under the guarantee was fully provided for in the prior year.

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

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

**47. PLEDGE OF ASSETS**

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

**48. CONTINGENT LIABILITIES**

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

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

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

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

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

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

**49. COMMITMENTS**

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

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

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

**50. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS**

| | GROUP | |
|---|---|---|
| | **1999** | **1998** |
| | *HK$' million* | *HK$' million* |
| Notional amount of options | 41.0 | 487.5 |

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

**51. SUBSEQUENT EVENTS**

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

(a) On 27th January, 2000, 138 million shares of HK$0.10 each of the Company were issued to Mr. Lo, a controlling shareholder of the Company, at HK$0.37 per share for a total consideration of HK$51 million, following a placing of the same number of shares at the same price by Mr. Lo to an independent placee on 19th January, 2000.

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

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

**52. COMPARATIVE AMOUNTS**

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

**53. APPROVAL OF THE FINANCIAL STATEMENTS**

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

## 2. PRO FORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

| | *HK$' million* | *HK$' million* |
|---|---|---|
| Net tangible assets based on the audited consolidated balance sheet of the Group as at 31st December, 1999 | | 1,601 |
| Net proceeds from placing of 138,000,000 new Shares in January 2000 | | 50 |
| Net proceeds from placing of 120,000,000 new Shares in March 2000 | | 117 |
| Pro forma adjusted consolidated net tangible assets of the Group prior to the Transaction | | 1,768 |
| Acquisition of Net Age by way of issuance of 4,500,000,000 New Shares at HK$0.55 per New Share upon exercise of the Option in full | 2,475 | |
| Write-off of goodwill on consolidation of Net Age arising from the Transaction | (2,454) | |
| Net increase in the pro forma adjusted consolidated net tangible assets upon exercise of the Option in full | | 21 |
| Pro forma adjusted consolidated net tangible assets of the Group upon exercise of the Option in full | | 1,789 |
| Pro forma adjusted consolidated net tangible asset value per Share prior to the Transaction based on 3,326,773,953 Shares as at the Latest Practicable Date | | 0.53 |
| Pro forma adjusted consolidated net tangible asset value per Share based on 7,826,773,953 Shares upon exercise of the Option in full after taking into account the issuance of 4,500,000,000 New Shares | | 0.23 |

## 3. INDEBTEDNESS

As at the close of business on 31st July, 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings (including overdue normal contractual interest payable but excluding default interest payable on the borrowings of the Century Group and the PHL Group) of approximately HK$10,293,984,000, comprising:

(1) secured bank loans of approximately HK$6,973,234,000;

(2) unsecured bank loans of approximately HK$280,305,000;

(3) secured other loans of approximately HK$5,075,000;

(4) unsecured other loans of approximately HK$307,086,000; and

(5) convertible bonds and exchangeable bonds in the amount of approximately HK$1,638,000,000 and HK$1,090,284,000, respectively.

As at the close of business on 31st July, 2000, the Group had contingent liabilities in respect of guarantees for bank loans made available to a jointly controlled entity, an associate and a third party, together with related overdue normal contractual interest payable of, in aggregate, approximately HK$2,306,560,000, and other contingent liabilities in relation to other guarantee and indemnities in the amount of approximately HK$340,353,000.

Save as disclosed above and apart from intra-group liabilities, the Group did not have, as at the close of business on 31st July, 2000, any outstanding bank loans and overdrafts, mortgages, charges, debentures and other loan capital, or similar indebtedness, finance leases or hire-purchase commitments, guarantees or other material contingent liabilities.

Save as disclosed herein, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31st July, 2000.

## 4. WORKING CAPITAL

In October 1998, the Company and Paliburg separately announced that Century Group and PHL Group were both experiencing liquidity problems and that they were respectively in discussions with their relevant financial creditors for the purpose of implementing standstill arrangements in order to permit Century Group and PHL Group to suspend the repayment of their respective outstanding indebtedness (the "Standstill Arrangements"). A majority of the financial creditors of Century Group agreed to the Standstill Arrangement, which was last extended to 31st October, 2000. In respect of PHL Group, an informal Standstill Arrangement is presently in place.

Since October 1998, Century Group, PHL Group and Regal Group have respectively been implementing an orderly asset disposal programme (the "Disposal Programme") in order to stabilise their financial positions and/or reduce their gearing levels. As detailed in the Company's annual report for the year ended 31st December, 1999, published in May 2000 (the "1999 Annual Report"), Century Group, PHL Group and Regal Group successfully disposed of certain of their respective assets including all of Regal Group's hotel interests in the United States. A majority part of the proceeds generated from the Disposal Programme was applied towards the repayment of certain loan principals and interests.

To stabilise Century Group's financial position, the Company completed in January and March 2000 respectively two separate placements of new Shares and a majority part of the cash proceeds generated therefrom was applied to reduce outstanding borrowings of Century Group.

In addition, the Company is in discussions with a party for the settlement of certain contingent liabilities of Century Group for which a provision in the amount of HK$340 million has been made in the previous accounts (the "Settlement Discussions"). The Directors expect that such settlement will be favourably resolved shortly.

With a view to improving the financial position, profitability and operations of Century Group, the Company has been working actively to expand and diversify its investments in information technology businesses which pose high growth potential. The Transaction being proposed is aimed to provide an opportunity to Century Group to revitalize its business prospects.

In March 2000, PHL Group mandated a financial institution to arrange for a long term refinancing involving mortgage-backed securitisation for PHL Group's two principal properties (the "Refinancing Arrangement"). The Refinancing Arrangement is in an advanced stage and is expected to be completed by late September to early October 2000. After redemption of the indebtedness currently attached to those two properties, the surplus proceeds from the Refinancing Arrangement is estimated to be in excess of HK$400 million, and will primarily be used to reduce or repay borrowings owing to the financial creditors of PHL Group. PHL Group has commenced discussions with its financial creditors with a view to replacing the informal Standstill Arrangement presently in place with new bilateral facilities upon completion of the Refinancing Arrangement.

Due mainly to the decline in hotel values and as noted in the 1999 Annual Report, the non-compliance with certain loan covenants by Regal Group on two loans totalling HK$4,897.1 million as at 31st July, 2000 (the "Regal Loans") still exists. Regal Hotels is continuing discussions with the relevant lenders of the Regal Loans for a revision of the terms of the loan covenants which includes, inter alia, the relaxation of the financial ratios specified in the loan covenants currently required to be maintained by Regal Group (the "Waiver Discussions").

The 3.5 per cent. Exchangeable Guaranteed Bonds (the "Exchangeable Bonds") issued by PHL Group will fall due in February 2001. In accordance with the Disposal Programme, PHL Group is continuing with the contemplated disposals of certain of its assets in order to raise sufficient funds to redeem the Exchangeable Bonds on or before their maturity date. However, in the event that the contemplated disposals could not be realised in time, Paliburg may enter into discussions with the bondholders with a view to restructuring the terms of the Exchangeable Bonds (the "Bonds Settlement").

On the bases that the Standstill Arrangements will remain in place; the Settlement Discussions, the Refinancing Arrangement, the Waiver Discussions, the Disposal Programme, the Bonds Settlement and the proposed Transaction will be successful or successfully implemented; the existing banking facilities of the Group will continue to be available; and taking into account the internal resources of the Group, the Directors are of the opinion that the Group as a whole has sufficient working capital for its present requirements.

## 5. MATERIAL ADVERSE CHANGE

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st December, 1999, the date to which the latest published audited accounts of the Company have been made up.

美國評值有限公司
American Appraisal Hongkong Limited
Suite 2901, 29/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道18號中環廣場29樓2901室
Telephone 電話： (852) 2511 5200 Facsimile 傳真： (852) 2511 9626

Hong Kong 香港 25 years 1975 ~ 2000
Founded 1896

15th August, 2000

The Directors
Century City International Holdings Limited
Century Digital Enterprise Limited
18/F., Paliburg Plaza
68 Yee Wo Street
Causeway Bay, Hong Kong

Dear Sirs/Madams,

## APPRAISAL SUMMARY LETTER

In accordance with your authorizations, we have made an appraisal of the fair market value of the business enterprise of a 100% equity interest of 北京世紀中海聯數碼技術有限公司 (Beijing Century Union Digital Technology Limited or the "PRC Joint Venture") as of 31st July, 2000. The PRC Joint Venture is principally involved in an information technology business in connection with the broadband national railway fibre optic network in the PRC.

Business enterprise value is defined for this appraisal as the total invested capital, excluding debts but including shareholders' loans, and is equivalent to shareholders' equity plus shareholders' loans. The fair market value of the business enterprise of the PRC Joint Venture is derived based on the expected free cash flows to which the owner(s) of the PRC Joint Venture will be entitled to after taking into account the effect of a discount for lack of marketability of the shares in the PRC Joint Venture.

The purpose of this appraisal is to express an independent opinion of the fair market value of a 100 per cent equity interest in the business enterprise of the PRC Joint Venture as of 31st July, 2000. It is our understanding that this appraisal will be used for acquisition and equity financing purposes.

### INTRODUCTION

北京世紀中海聯數碼技術有限公司, incorporated in April 2000, is an equity joint venture company formed by Century Digital Enterprise Limited ("CDE") and 北京中海聯數碼技術有限公司 (Beijing CSU Digital Technologies Limited or the "PRC Partner"), with 90% and 10% interests respectively. According to the Business License of the PRC Joint Venture, the operation period is 25 years starting from April 2000 to April 2025. The PRC Joint Venture is a sino-foreign equity joint venture company incorporated in the PRC and has a registered capital of US$10 million (approximately HK$77.5 million).

The PRC Partner has built up a strategic relationship with an entity of each of the Ministry of Railway, State Forestry Administration and State Administration of Metallurgical Industry and has set up joint ventures with each of these entities to offer industry specific information technology services to entities related to the ministries/bureaus through a fibre optic network (the "Project"). The PRC Joint Venture will enter into a master service agreement with such joint ventures, pursuant to which the PRC Joint Venture will be appointed by such joint ventures as their exclusive technical support provider for a period of 20 years commencing from the date of such master service agreement. The spectrum of services to be provided by the PRC Joint Venture entails equipment supply and system integration, software design and application, system maintenance and upgrading as well as consultancy service on technology aspects and business planning of the Project. Such arrangement serves to secure a group of domestic joint ventures related to the respective ministries/bureaus as core customers of the PRC Joint Venture. The PRC Partner is planning to form similar strategic relationships with entities related to other ministries and bureaus.

It is proposed that the fibre optic network, which is the subject of a master lease agreement entered into between an entity of the Ministry of Railway as lessor and the PRC Partner as lessee, will serve as the backbone for the provision of technical, consultancy and other services by the PRC Joint Venture. Such network is configured along the national railway system of the PRC. The Project is targeted to exploit the ubiquity of this network to provide national coverage allowing access to the targeted users in the PRC. As such, it will allow instant access by the target market without the need to negotiate the right of way to construct the network. In addition, the network junctions of the network in each locality are usually located near the center of the community such as railroad stations. Thus, the network will be strategically and conveniently placed to interconnect with its targeted users. Under the existing development plan, the Project is expected to deploy a pair of fibre strand with a total of 37,500 km in three stages. It is expected that stage 1 of the network connecting 5 cities with a total length of 2,351 km will be equipped for service by the end of 2000. Stage 2 of the network connecting an additional 84 cities with a total length of 17,950 km will be equipped for service in 2001. Stage 3 of the network connecting the last additional 40 cities with a total length of 17,199 km will be equipped for service in 2002. The Project will be fully operational by 2003.

## BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the business enterprise of the PRC Joint Venture on the basis of fair market value. Fair market value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the management of the PRC Joint Venture with regards to its history, operations and prospects of the business. We also studied the current condition of the telecommunications industry in the PRC and reviewed the Business Plan (defined below) that was furnished to us by management. During the valuation research, we reviewed other relevant legal documents. We assumed that the data we obtained in the course of the valuation, along with the opinions and representations provided to us by the PRC Joint Venture are true and accurate. We reviewed the Business Plan; however, due to the nature, the uniqueness and the lack of a performance record of the PRC Joint Venture, we are not in a position to comment on the Business Plan at this time. It is reasonable to assume that the Business Plan provided by the management of the PRC Joint Venture was prepared with due care and consideration. We see no reason, nor are we aware of any condition, to cause us to doubt the appropriateness of the bases and assumptions adopted in the Business Plan. Before arriving at our opinion of value, we have considered the following principal factors:

— the nature and the prospect of the telecommunications industry in the PRC;

— the financial condition of the PRC Joint Venture;

— the historical operating results and book value of the PRC Joint Venture;

— the economic outlook in general and the specific economic and competitive elements affecting the PRC Joint Venture's business, its industry and its market in the PRC;

— the market-derived investment returns of entities engaged in a similar line of business;

— the 10th draft of the legal opinion issued by Jingtian & Gongcheng on 15th August, 2000 with regards to the legitimacy of the PRC Joint Venture's operations in the PRC;

— the draft business plan of the PRC Joint Venture dated 8th August, 2000 prepared by Cap Gemini Ernst & Young (the "Business Plan");

— major agreements that the PRC Joint Venture and the PRC Partner have entered into for the implementation of the Project; and

— the business risks of the PRC Joint Venture.

Due to the changing environment in which the PRC Joint Venture is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

— there will be no major adverse changes in the existing political, legal, and economic conditions in the PRC in which the PRC Joint Venture will carry on its business;

— there will be no major changes in the current taxation law in the PRC, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;

— exchange rates and interest rates will not differ materially from those presently prevailing;

— the operating period of the PRC Joint Venture will be extended upon the expiration;

— the leasing period of the fibre optic network will be extended upon the expiration;

— the PRC Joint Venture can keep abreast of the latest technological development in the telecommunications market such that its competitiveness and profitability can be sustained;

— the availability of finance will not be a constraint on the forecast growth of the PRC Joint Venture's operations in accordance with the Business Plan;

— in consideration of the joint venture agreements entered into between the PRC Partner and the information technology entities of the three ministries/bureaus and the undertakings given by these entities, it is assumed that the Project is secured with ready users to commence operation and start generating revenues as soon as in the fourth quarter in 2000;

— certain other ministries and bureaus in the PRC will form strategic partnerships with the PRC Partner to engage in the development of the similar business in the near future;

— the Business Plan in respect of certain proposed business aspects which have been taken into account in preparing this valuation has been prepared on a reasonable basis, reflecting estimates which have been arrived at after due and careful consideration by the management of the PRC Joint Venture;

— the Business Plan in respect of certain proposed business aspects which have been taken into account in preparing this valuation provided by the PRC Joint Venture to us will materialize;

— the technology to be utilized by the PRC Joint Venture in implementing its Business Plan in respect of certain proposed business aspects which have been taken into account in preparing this valuation will be viable and successfully deployed;

— the PRC Joint Venture will retain and have competent management, key personnel, and technical staff to implement its business plan and to support its ongoing operation; and

— industry trends and market conditions for the relevant industries in the PRC will not deviate significantly from economic forecasts.

## VALUATION METHODOLOGY

The fair market value of the business enterprise of the PRC Joint Venture is developed through the application of the income approach technique commonly known as the discounted cash flow method. In this method, the value depends on the present worth of future economic benefits to be derived from ownership of equity and shareholders' loans. Thus, an indication of value is developed by discounting future free cash flows available for distribution to shareholders and for servicing shareholders' loans to their present worth at market-derived rates of return appropriate for the risks and hazards of the PRC Joint Venture.

A major requirement of the discounted cash flow approach is an earning forecast. A financial projection for the PRC Joint Venture has been established for use. The basis for the forecast is a 10-year projection, from July 2000 to December 2009, provided by the management of the PRC Joint Venture. We reviewed such projection and made changes to various assumptions adopted in the projection after discussions with management of the PRC Joint Venture. Since a business enterprise is assumed to be a going concern entity, the value beyond 2009, which is known as the residual value was calculated by capitalization of long term stabilized earnings in 2009. The business enterprise value is then calculated by adding the present values of the interim cash flow and the terminal cash flow at 2009. The forecast and its many associated assumptions are largely relied upon our research findings and the representations of the PRC Joint Venture's management.

The free cash flow in each of the projected years is derived by adjusting profit after taxation to the same year's non-cash expenses (including depreciation expenses and amortization expenses), financial charges of total debt (if any), increments in net working capital excluding short term debt and capital expenditures. The net present value of the future free cash flows is then discounted by a discount rate appropriate for the risks of the investment.

A discount rate is the expected rate of return (or yield) that an investor would have to give up by investing in the subject investment instead of in available alternative investments that are comparable in terms of risk and other investment characteristics. When developing a discount rate to apply to the free cash flows from operation, the discount rate is the cost of equity.

The cost of equity of the PRC Joint Venture was developed through the application of the Capital Asset Pricing Model ("CAPM") on listed comparative companies in Hong Kong. CAPM states that the cost of equity is the risk-free rate plus a linear function of a measure of systematic risk ("Beta") times equity market premium in general. Beta was computed by regressing returns on a comparable security on returns for the market index. Before deriving the discount rate appropriate for the PRC Joint Venture, we have taken into consideration its financial structure, exchange rate risk, country risk and the stage of development of the PRC Joint Venture. Our analyses concluded that a discount rate of 25.5% was considered appropriate for the valuation of the PRC Joint Venture.

**Additional valuation consideration**

To reflect the relative non-liquidity of the shares in the PRC Joint Venture as opposed to a publicly traded corporation, a discount for lack of marketability should be considered.

*Discount for Lack of Marketability*

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted into cash if the owner chooses to sell. The discount for lack of marketability reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of two basic categories, depending on the type of market transaction data on which they are based:

- Restricted ("letter") stock studies
- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

Our analyses concluded that a discount for lack of marketability of 20% was considered appropriate for the valuation of the PRC Joint Venture.

**RISK FACTORS**

Readers of this report should note that this valuation is based on many assumptions that could not be easily assessed due to the limited operating history of the PRC Joint Venture and lack of truly comparable companies. The success of the PRC Joint Venture will largely hinge on the ability of the PRC Joint Venture to gain market penetration in the telecommunications market in the PRC, the acceptance of the PRC Joint Venture's services by its customers and the determination of the entities under the ministries/bureaus to carry out the electronization of their operations. The risks associated with the business relate to the successful establishment and implementation of the Business Plan in respect of certain proposed business aspects. Uncertainties result from limited operating history, technology and implementation risks, qualities of services to be delivered, increasing competition and other risks that may not currently be contemplated. This valuation is based on the hypothesis that the PRC Joint Venture will operate in accordance with its projected timetable as prescribed in the Business Plan in respect of certain proposed business aspects.

**CONCLUSION OF VALUE**

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of 31st July 2000, the fair market value of a 100 percent. equity interest in the business enterprise of the PRC Joint Venture is reasonably stated by the amount of RENMINBI TWELVE BILLION AND SIX HUNDRED MILLION (RMB12,600,000,000) ONLY.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the securities of Century City International Holdings Limited and its subsidiaries, CDE and PRC Joint Venture or the value reported.

Respectfully submitted,
For and on behalf of
**AMERICAN APPRAISAL HONGKONG LIMITED**
**Keith C.C. Yan, ASA**
*Senior Vice President*

*Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation in the Greater China region for various purposes since 1988.*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

(a) As at the Latest Practicable Date, the interests of the Directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 or Part I of the Schedule of the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:—

(i) **Interests in Shares**

| | | | Number of Shares Held | | | |
|---|---|---|---|---|---|---|
| | **Name of Director** | **Class of Shares Held** | **Personal Interests** | **Family Interests** | **Corporate Interests** | **Total** |
| 1. **The Company** | Mr. Lo | Ordinary | 538,434,843 | — | 1,395,994,246 | 1,934,429,089 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 2,510,000 | — | — | 2,510,000 |
| | Mr. Jimmy Lo Chun To | Ordinary | 1,659,800 | — | — | 1,659,800 |
| | Mr. Ng Siu Chan | Ordinary | — | 15,453,000 | — | 15,453,000 |
| **Name of Associated Corporation** | | | | | | |
| 2. Paliburg | Mr. Lo | Ordinary | 222,765 | — | 1,401,024,977 (Notes a & b) | 1,401,247,742 |
| | 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 | Name of Director | Class of Shares Held | Number of Shares Held: Personal Interests | Family Interests | Corporate Interests | Total |
|---|---|---|---|---|---|---|
| 3. Regal Hotels | Mr. Lo | Ordinary | 220,000 | — | 2,907,644,944 (Notes a & c) | 2,907,864,944 |
| | | Preference | — | — | 3,440 (Note a) | 3,440 |
| | Mrs. Kitty Lo Lee Kit Tai | Ordinary | 2,370,000 | — | — | 2,370,000 |
| 4. Argosy Capital Corporation | Mr. Lo | Ordinary | — | — | 1,130,349 (Note a) | 1,130,349 |
| 5. Century King Investment Limited | Mr. Lo | Ordinary | — | — | 5,000 (Note a) | 5,000 |
| 6. Century Win Investment Limited | Mr. Lo | Ordinary | — | — | 9,000 (Note a) | 9,000 |
| 7. Cheerjoy Development Limited (“Cheerjoy”) | Mr. Lo | Ordinary | — | — | (Note d) | (Note d) |
| 8. Chest Gain Development Limited | Mr. Lo | Ordinary | — | — | 7,000 (Note a) | 7,000 |
| 9. Chi Cheung Investment Company, Limited | Mr. Lo | Ordinary | — | — | 209,918,951 (Note a) | 209,918,951 |
| 10. Chinatrend (Holdings) Limited | Mr. Lo | Ordinary | — | — | 7,500 (Note a) | 7,500 |
| 11. Chinatrend (Nankai) Limited | Mr. Lo | Ordinary | — | — | 85 (Note a) | 85 |
| 12. Hanoi President Hotel Company Limited | Mr. Lo | Ordinary | — | — | 75 (Note a) | 75 |
| 13. Polarfine Inc | Mr. Lo | Ordinary | — | — | 3,000,000 (Notes a & e) | 3,000,000 |

| Name of Associated Corporation | Name of Director | Class of Shares Held | Number of Shares Held<br>Personal Interests | Family Interests | Corporate Interests | Total |
|---|---|---|---|---|---|---|
| 14. Rapid Growth Holdings Limited | Mr. Lo | Ordinary | — | — | 25,000 (Note a) | 25,000 |
| 15. Supreme Idea Enterprise Limited | Mr. Lo | Ordinary | — | — | 125 (Note a) | 125 |
| 16. Villawood Developments Limited | Mr. Lo | Ordinary | — | — | 65 (Note a) | 65 |
| 17. Wealth Link Investments Limited | Mr. Lo | Ordinary | — | — | 1 (Note a) | 1 |

*Notes:*

(a) The shares were held through companies controlled by the Company, of which Mr. Lo 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 the Company 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 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 of Paliburg in favour of a trustee, covering the exchange rights of the holders of the Exchangeable Bonds issued by another wholly-owned subsidiary of Paliburg. The Exchangeable Bonds are exchangeable into those existing ordinary shares of Regal Hotels 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) A wholly-owned subsidiary of Paliburg holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited ("Point Perfect") which is a 30% owned associated company of such subsidiary. Point Perfect holds all the issued shares of Cheerjoy, i.e. 2 shares.

(e) Including security interest over 600,000 shares under a share mortgage held by a subsidiary of the Company.

(ii) **Interests in share options**

| | Name of Associated Corporation | Name of Director | | Date of Grant (Original Grant Date) (Exercise Price per Share) | Number of Shares under the options | Options Outstanding (I) Vested (Note 1) (II) Unvested |
|---|---|---|---|---|---|---|
| 1. | Paliburg | Mr. Lo | (a) | 22/2/1994 | (I) | 2,737,500 |
| | | | | (HK$10.40) | (II) | 1,825,000 |
| | | | | | | (Note 2) |
| | | | (b) | 15/9/1995 | (I) | 14,062,500 |
| | | | | (22/2/1992) | (II) | 4,687,500 |
| | | | | (HK$0.6656) | | (Note3) |
| | | Mr. Kenneth Ng Kwai Kai | (a) | 22/2/1994 | (I) | 600,000 |
| | | | | (HK$10.40) | (II) | 400,000 |
| | | | | | | (Note2) |
| | | | (b) | 15/9/1995 | (I) | 3,076,872 |
| | | | | (22/2/1992) | (II) | 2,050,784 |
| | | | | (HK$0.6656) | | (Note3) |
| 2. | Regal Hotels | Mr. Lo | | 22/2/1992 | (I) | 20,160,000 |
| | | | | (HK$0.7083) | (II) | 6,720,000 |
| | | | | | | (Note4) |
| | | Mr. Kenneth Ng Kwai Kai | | 22/2/1992 | (I) | 6,480,000 |
| | | | | (HK$0.7083) | (II) | 1,920,000 |
| | | | | | | (Note4) |

*Notes:*

(1) The options are exercisable at any time.

(2) The options are exercisable in stages commencing seven years from the date of grant.

(3) The options are exercisable in stages commencing nine years from the Original Grant Date.

(4) The options are exercisable in stages commencing nine years from the date of grant.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interest in the securities of the Company or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to the Company and the Stock Exchange pursuant to section 28 of that Ordinance (including interests which they are taken or deemed to have under section 31 or Part I of the Schedule to that Ordinance) or which are required, pursuant to section 29 of that Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to the Company and the Stock Exchange.

(b) As at the Latest Practicable Date, the following persons (not being a director or chief executive of the Company), so far as are known to any Director, were directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

| Name of Shareholder | Number of Shares Held | Approximate percentage of the issued Shares as at the Latest Practicable Date |
|---|---|---|
| Shui To Co., Limited *(Note)* | 440,269,831 | 13.23% |
| YSL International Holdings Limited ("YSL International") *(Note)* | 931,998,340 | 28.02% |

*Note:* These companies are controlled by Mr. Lo and their said shareholdings were included in the corporate interests of Mr. Lo in the Company as disclosed under the paragraph headed "Interests in Shares" of the section entitled "Disclosure of Interests".

Save as disclosed herein, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10 per cent. or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital.

(c) As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any other member of the Group which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(d) As at the Latest Practicable Date, none of Tai Fook, Ernst & Young and American Appraisal Hongkong Limited was interested either beneficially or non-beneficially in the securities of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

(e) The Group is leasing space in Regal Hongkong Hotel from the Regal Group as staff quarters. The Regal Group is also currently leasing various office and commercial spaces in Paliburg Plaza and Kowloon City Plaza from the PHL Group. Mr. Lo is deemed to be interested in the Regal Hongkong Hotel, Paliburg Plaza and Kowloon City Plaza by virtue of his indirect interests in Paliburg and Regal Hotels respectively.

(f) Save as disclosed above, none of the Directors, Tai Fook, Ernst & Young or American Appraisal Hongkong Limited is interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31st December, 1999, being the date to which the latest published audited financial statements of the Company were made up.

(g) Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

## 3. MATERIAL CONTRACTS

(a) a securities purchase agreement dated 18th November, 1999 entered into between Regal International (BVI) Holdings Limited ("Regal BVI", a member of the Group) and CDL Hotels USA, Inc. ("CDL-USA", an independent third party) for the disposal by Regal BVI to CDL-USA of all of its hotel ownership and management interests in the United States;

(b) a subscription agreement dated 14th January, 2000 entered into between Mr. Lo and the Company for the subscription of 138,000,000 Shares at HK$0.37 per Share;

(c) a subscription agreement dated 10th March, 2000 entered into between YSL International, a company controlled by Mr. Lo, and the Company for the subscription of 120,000,000 Shares at HK$1.00 per Share; and

(d) the Option Agreement.

Save as disclosed herein, no member of the Group has entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material, within the two years preceding the date of this circular.

## 4. CONSENTS

Tai Fook, Ernst & Young and American Appraisal Hongkong Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of and references to their names and letters in the form and context in which they respectively appear.

## 5. LITIGATION

Pursuant to an escrow agreement (the "Escrow Agreement") dated 30th October, 1994 entered into between the then shareholders of The New China Hong Kong Highway Limited ("NCHKH"), approximately 12.6% of the shares in NCHKH (the "Escrow Shares") then held and registered in the name of The NCHK Highway (Chengdu Mianyang) Limited ("NCHKCM") were deposited with an escrow agent to be held under the terms of the Escrow Agreement as a means of ensuring, inter alia, the timely completion of the Chengdu Mianyang Expressway, an expressway owned by a sino-foreign co-operative joint venture in which NCHKH has a 60% joint venture interest. In January 1999, the Company disposed of its entire interest in Evercheer Holdings Limited ("Evercheer") to Crux Assets Limited ("Crux"), a wholly-owned subsidiary of Shenyin Wanguo (H.K.) Limited ("Shenyin"). Evercheer wholly owned NCHKCM, which in turn held 34.44% equity interest in NCHKH at the relevant time. As part of the terms of the disposal, the Company entered into a deed of indemnity dated 30th December, 1998 (the "Deed of Indemnity") under which it agreed to indemnify Crux and Evercheer for any diminution in value of the share(s) of Evercheer or NCHKCM in the event that the Escrow Shares were distributed to the shareholders of NCHKH. As a result of 65.56% of the Escrow Shares ("Distributed Escrow Shares") having been distributed among the shareholders of NCHKH other than NCHKCM in or about July 1999, Crux claimed against the Company an amount equivalent to about HK$93,500,000 plus interest under the Deed of Indemnity. In May 2000, a settlement agreement was entered into between the Company and Crux in settlement of Crux's claim under the Deed of Indemnity and for the purpose of facilitating the Company to take legal action, if considered appropriate, for the recovery of the Distributed Escrow Shares. The Directors after taking legal advice are of the opinion that there are strong grounds to contest the aforesaid distribution of the Distributed Escrow Shares which both the Directors and Crux believe to be wrongful and in breach of the Escrow Agreement. The Directors intend to take legal action against the relevant parties for the recovery of the Distributed Escrow Shares (in specie or value).

Century City Securities Limited ("CCSL"), which was acquired by the Company on 7th September, 1998, had previously entered into a subordinated loan agreement (the "Loan Agreement") on 16th April, 1998 under which CCSL's former ultimate holding company, The New China Hong Kong Group Limited ("NCHKG", currently in liquidation), granted to CCSL a HK$50,000,000 subordinated loan facility (the "Subordinated Loan"). The loan was advanced by NCHKG to CCSL in cash in the amount of HK$1,900,000. The balance of the loan of HK$48,100,000 claimed as having been advanced to CCSL, was advanced by NCHKG to The New China Hong Kong Capital Limited ("NCHKC", the then immediate holding company of CCSL and also currently in liquidation), which is strongly disputed by CCSL. The liquidators of NCHKG has claimed that CCSL owes HK$50,000,000 plus interest to NCHKG pursuant to the Loan Agreement. Having obtained legal advice, the board of directors of CCSL is of the view that CCSL has a good defence to the claim made by the liquidators of NCHKG.

Century City Holdings Limited ("CCHL") is a wholly owned subsidiary of the Company. By a Writ of Summons issued from the High Court of Hong Kong on 27th February, 1990 in High Court Action No. A1343 of 1990, Con-Tech Franchise Asia Limited ("Con-Tech") sought payment from CCHL of a total of HK$12,253,600.00 plus interest accrued thereon at 3 per cent. per month compounded monthly from 27th February, 1990 until payment, plus damages and costs. Con-Tech claims payment pursuant to a loan agreement between Con-Tech and CCHL dated 6th October, 1983 and a supplementary agreement between Con-Tech and CCHL dated 12th January, 1984. CCHL has defended the High Court action on the basis that the debt due by CCHL to Con-Tech was assigned by Con-Tech to a third party in consideration for payment of a sum of money of which Con-Tech has acknowledged receipt, and that the debt was thereafter, following a further assignment, discharged. CCHL also relies on a defence pursuant to the Money Lenders Ordinance. In addition to filing a defence, CCHL has filed a counterclaim against Con-Tech and two other parties seeking declarations, damages or indemnities for misrepresentation and/or breach of warranties, restitution and costs. The case has not been actively pursued for many years. On 15th August, 2000, CCHL was served with a Notice of Intention to Proceed by Con-Tech. Based on the legal opinion previously obtained, the board of directors of CCHL is of the view that there is a good defence to the claims made by Con-Tech. The case will be vigorously defended if it proceeds further.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim known to the Directors to be pending or threatened by any member of the Group which in the opinion of the Directors would be or is likely to be of material importance.

## 6. GENERAL

(a) The registered office of the Company is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.

(b) The share registrars of the Company in Hong Kong are Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

(c) The secretary of the Company is Ms. Eliza Lam Sau Fun, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(d) The English text of this circular shall prevail over the Chinese text.

## 7. DOCUMENTS FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Linklaters at 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 22nd September, 2000:-

(a) the memorandum of association and new bye-laws of the Company;

(b) the 1998 and 1999 annual reports of the Company containing, inter alia, the audited accounts of the Group for the two respective financial years ended 31st December, 1998 and 31st December, 1999;

(c) the letter from Tai Fook, the text of which is set out on pages 19 to 27 of this circular;

(d) the valuation report of the PRC Joint Venture, the text of which set out on pages 101 to 106 of this circular;

(e) the material contracts referred to in the section headed "Material Contracts" in this appendix;

(f) the written consents referred to in the section headed "Consents" in this appendix; and

(g) all notifiable transaction circulars issued by the Company since 31st December, 1999.

世紀城市國際控股有限公司
**Century City International Holdings Limited**
(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of the shareholders of Century City International Holdings Limited (the "Company") will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 22nd September, 2000 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions which will be proposed as ordinary resolutions:

**ORDINARY RESOLUTION NO.1**

"THAT the authorised share capital of the Company be and is hereby increased from HK$400,000,000 to HK$2,000,000,000 by the creation of an additional 16,000,000,000 new shares of HK$0.10 each, ranking pari passu in all respects with the existing shares of the Company."

**ORDINARY RESOLUTION NO.2**

"THAT:

(a) the Option Agreement (as defined in the circular dated 6th September, 2000 (the "Circular") and despatched to the shareholders of the Company, copies of such Option Agreement and Circular having been produced to this meeting and marked "A" and "B" respectively and signed by the Chairman of this meeting for the purpose of identification) and the Transaction (as defined in the Circular) in accordance with the Option Agreement, together with all other transactions contemplated under the Option Agreement, be and are hereby approved and confirmed;

(b) the issue and allotment of the New Shares (as defined in the Circular) upon exercise of the Option (as defined in the Circular) as consideration pursuant to the terms of the Option Agreement be and is hereby approved; and

(c) any one director of the Company ("Director") be authorised to sign, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as he may in his discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the implementation of the Transaction including the allotment and issue of any or all of the New Shares pursuant thereto and to make and agree such variations as he may in his discretion consider to be desirable and in the interests of the Company and any two Directors of the Company be authorised to sign any instrument to which the Common Seal of Company may be required to be affixed for the above purposes."

By order of the Board
**Eliza Lam Sau Fun**
*Secretary*

Hong Kong, 6th September, 2000

*Head office and principal place of business in Hong Kong:*

18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

**Notes:**

1. Any member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the Company's share registrars in Hong Kong, Tengis Limited, at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong in accordance with the instructions printed thereon as soon as possible but in any event not later than 48 hours before the time of the meeting (or any adjournment thereof). Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

世紀城市國際控股有限公司
**Century City**
**International Holdings Limited**
(Incorporated in Bermuda with limited liability)

# Form of Proxy for the Special General Meeting

I/We[1] ____________________

of ____________________

being the registered holder(s) of[2] __________ shares of HK$0.10 each in the capital of Century City International Holdings Limited ("the Company") hereby appoint[3] the Chairman of the Meeting

or[3] ____________________

of ____________________

as my/our proxy to attend and vote for me/us and on my/our behalf at the Special General Meeting of the Company to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, 22nd, September, 2000 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the Ordinary Resolutions set out in the Notice convening the said Meeting and at such Meeting (and at any adjournment thereof) to vote for me/us and in my/our name(s) as indicated below in respect of the said Resolutions:—

| | **FOR[4]** | **AGAINST[4]** |
|---|---|---|
| Ordinary Resolution No. 1 | | |
| Ordinary Resolution No. 2 | | |

Signed this . . . . . . . . . . . . . . . . . . . . . day of . . . . . . . . . . . . . . . . . . . . . 2000

Signature[5] . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .

*Notes:—*

1. Full name(s) and address(es) to be inserted in BLOCK CAPITALS. The names of all joint holders should be stated.

2. Please insert the number of shares of HK$0.10 each registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all such shares of the Company registered in your name(s).

3. If any proxy other than the Chairman of the Meeting is appointed, strike out "the Chairman of the Meeting" and insert the name and address of the proxy desired in the space provided. A proxy need not be a member of Company.

4. **IMPORTANT: If you wish to vote for the Resolution, place a "√" in the box marked "FOR". If you wish to vote against the Resolution, place a "√" in the box marked "AGAINST".** Failure to complete a box will entitle your proxy to cast your vote(s) or abstain at his discretion. Your proxy will also be entitled to vote or abstain at his discretion on any resolution properly put to the Meeting other than that referred to in the Notice convening the Meeting.

5. This form of proxy must be signed by you or your attorney duly authorised in writing, or in the case of a corporation, must be either under its common seal or under the hand of an officer or attorney duly authorised.

6. In order to be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be lodged with the Company's share registrars in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong not less than 48 hours before the time fixed for holding the Meeting (or any adjournment thereof).

7. Any alteration made to this form of proxy must be initialled by the person who signs it.