

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

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

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

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



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



(c) Disposal of subsidiary companies/partnerships

| | 2000 HK\$'million | 1999 HK\$'million |
|--|----------------------|----------------------|
| Net assets disposed of: | | |
| Fixed assets | 0.5 | 4,822.3 |
| Properties under development | 596.8 | - |
| Interests in associates | - | 510.3 |
| Long term investments | - | 1.6 |
| Lease rights | - | 17.9 |
| Management contracts | - | 5.6 |
| Deferred expenditure | - | 45.3 |
| Hotel and other inventories | - | 41.1 |
| Debtors, deposits and prepayments | 7.7 | 215.0 |
| Cash and bank balances | 0.5 | 427.4 |
| Creditors and accruals | (23.5) | (349.7) |
| Tax payable | (0.2) | (15.5) |
| Interest bearing bank and other borrowings | - | (3,200.2) |
| Advances from minority shareholders | (98.9) | - |
| Minority interests | - | (1.4) |
| | <u>482.9</u> | <u>2,519.7</u> |
| Goodwill released on disposal | - | 473.4 |
| Revaluation reserves realised on disposal | - | (55.0) |
| Exchange equalisation reserve realised on disposal | (1.4) | (4.5) |
| Release of reserves attributable to minority shareholders | (0.9) | 115.2 |
| Loss on disposal | (13.8) | (1,014.0) |
| | <u>466.8</u> | <u>2,034.8</u> |
| Satisfied by: | | |
| Cash | 77.1 | 1,111.9 |
| Debtors | 8.2 | 183.2 |
| Long term loan receivable | - | 349.7 |
| Decrease in other loans | - | 218.0 |
| Decrease in creditors and accruals | - | 172.0 |
| Reclassification to long term investments | 298.9 | - |
| Reclassification to interests in associates | 82.6 | - |
| | <u>466.8</u> | <u>2,034.8</u> |



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

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

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

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

- (d) The prior year net cash inflow from operating activities of HK\$1,156.0 million included a cash inflow of HK\$22.8 million relating to compensation received from the cancellation of a tenancy agreement as disclosed in note 5 to the financial statements.
- (e) Major non-cash transaction

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

45. CONNECTED AND RELATED PARTY TRANSACTIONS

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

| | Notes | 2000 HK\$'million | 1999 HK\$'million |
|---|-------|----------------------|----------------------|
| Advertising and promotion fees (including cost reimbursements) paid to an associate | (a) | 29.7 | - |
| Gross construction fee income from a jointly controlled entity | (b) | - | 47.8 |
| Interest on loans to associates | (c) | 11.8 | 4.7 |
| Guarantees given in respect of a banking facility of a jointly controlled entity | (d) | 2,310.0 | 2,310.0 |
| Guarantee given in respect of a banking facility of an associate | (e) | 109.0 | 246.6 |
| | | <u>2,460.5</u> | <u>2,608.6</u> |

Notes:

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



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

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

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

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

46. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's time deposits, listed investments, fixed assets including properties and equipment, properties under development, inventories and receivables with a total book value of HK\$14,235.0 million (1999 - HK\$14,448.6 million) and certain ordinary shares in two listed subsidiary companies and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity and to secure exchange rights under the exchangeable bonds issued by the PHL Group.

47. CONTINGENT LIABILITIES

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

| | GROUP | | COMPANY | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2000 HK\$ million | 1999 HK\$ million | 2000 HK\$ million | 1999 HK\$ million |
| (a) Corporate guarantees provided in respect of: | | | | |
| Attributable share of outstanding bank and other borrowings of: | | | | |
| - a jointly controlled entity | 1,757.7 | 1,757.7 | - | - |
| - subsidiary companies | - | - | 880.9 | 835.5 |
| Obligations under an indemnity agreement entered into by a subsidiary company | - | - | - | 340.3 |
| | <u>1,757.7</u> | <u>1,757.7</u> | <u>880.9</u> | <u>1,175.8</u> |

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

The SP Agreement also contains representations, warranties and indemnification given by Regal BVI which are normal and usual for transactions of similar nature. At the date of this report, the Directors of the Company are unable either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amounts thereof with reasonable accuracy.

48. COMMITMENTS

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

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

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

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

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

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

50. POST BALANCE SHEET EVENTS

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

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

51. APPROVAL OF THE FINANCIAL STATEMENTS

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