



Notes to Financial Statements

31st December, 2000

1. CORPORATE INFORMATION

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

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

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

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$641.3 million for the year ended 31st December, 2000 (1999 - HK\$1,363.6 million). As at that date, the Group had consolidated accumulated losses of HK\$2,501.9 million (1999 - HK\$1,874.7 million) and consolidated net current liabilities of HK\$3,588.3 million (1999 - HK\$275.0 million).

Since October 1998, the Group has encountered liquidity problems and has conducted discussions with its financial creditors for the purpose of implementing a standstill arrangement in order to permit the Group to suspend the repayment of its outstanding indebtedness (the "Standstill Arrangement"). Since the Standstill Arrangement last expired on 30th September, 1999, in lieu thereof, an informal Standstill Arrangement has been in operation to allow the Group to complete a Securitisation Loan and continue with the Disposal Programme, which are further described below.

In September 2000, the Group successfully completed a long term refinancing programme which involved a mortgage-backed securitisation of the Group's two principal investment properties, namely Paliburg Plaza and Kowloon City Plaza. The refinancing arrangement generated proceeds from a new mortgage loan of HK\$1,247 million (the "Securitisation Loan") which were used (i) to refinance the then existing indebtedness attached to these two properties aggregating HK\$773.6 million; and (ii) with the majority of the remaining balance of HK\$473.4 million to repay borrowings to other financial creditors of the Group.

Since the completion of the Securitisation Loan, the Group has also been conducting discussions with its financial creditors to replace the existing informal Standstill Arrangement with new bilateral facilities (the "Bilateral Facilities Arrangement") which have been agreed in principle by the relevant financial creditors. The finalisation of the Bilateral Facilities Arrangement will, to a significant extent, depend on the satisfactory progress of the Bonds Restructuring as detailed below.

As at 31st December, 2000, the Group had US\$140 million 3 $\frac{1}{2}$ % Exchangeable Guaranteed Bonds which matured on 6th February, 2001 (the "Exchangeable Bonds") (note 28) and US\$210 million Zero Coupon Guaranteed Convertible Bonds due to mature on 12th March, 2002 (the "Convertible Bonds") (note 29) (collectively the "Bonds"). The principal, interest and accrued redemption premium in respect of the Bonds outstanding as at 31st December, 2000 were HK\$3,507.5 million. In October 2000, the Group appointed financial and legal advisors in relation to a proposed restructuring of the Bonds, which included, among other terms proposed, a deferral of the maturity dates of the Bonds to February 2004. Since October 2000, informal meetings and discussions have been held with the holders of the Bonds with a view to securing their agreement to the restructuring of the terms and deferral of the repayments of the Bonds.

On 6th February, 2001, the Company announced that the Exchangeable Bonds had matured on 6th February, 2001 and remained unpaid. The outstanding principal, redemption premium and interest accrued of the Exchangeable Bonds as at that date amounted to US\$161.5 million (HK\$1,259.7 million). On 15th March, 2001, the trustee of the Convertible Bonds served a notice to the Group to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. The Group is currently in continuing discussions with the holders of the Bonds with an objective of achieving a consensual restructuring of the terms of the Bonds (the "Bonds Restructuring").

The Group continued to implement an orderly asset disposal programme (the "Disposal Programme"). In December 2000, the Group completed the disposal of a 50% interest in a wholly-owned subsidiary company which in turn holds an effective 45.5% interest in a property development project in the People's Republic of China. In March 2001, the Group entered into a sale and purchase agreement for the disposal of a commercial property at Shau Kei Wan, Hong Kong, with completion scheduled in June 2001. The Group will continue to implement the Disposal Programme to dispose of certain other identified assets. Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of the Group, and its subsidiary companies (collectively the "RHIHL Group"), also implemented similar measures. Following the substantial disposal of its hotel interests in the United States of America in December 1999 (the "Disposal"), during the year, the deferred disposal of RHIHL's remaining interest in its US hotel operations, namely Bostonian Hotel Limited Partnership, an associate of RHIHL, was also completed. The net proceeds generated therefrom amounted to approximately US\$13.6 million (HK\$106.1 million) which was used for working capital purposes.

Notwithstanding the successful implementation of the Disposal of the RHIHL Group, certain of its bank and other borrowing agreements require specific loan covenants to be satisfied. At the balance sheet date, the non-compliance with certain loan covenants by the RHIHL Group on two loans totalling HK\$4,894.1 million (the "Regal Loans") (note 27) 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 RHIHL



to declare the Regal Loans to be immediately due and repayable (the "Declaration Notice") unless the cause for the non-compliance is remedied within a specified agreed upon period. However, unless and until such Declaration Notice is served by the Agents, the Regal Loans remain repayable on their original stated maturity dates. As confirmed by the respective Agents of the Regal Loans, no such Declaration Notice has been served to the RHIHL Group to date. The directors of RHIHL consider it appropriate to continue to classify the Regal Loans as current and non-current liabilities, in accordance with their original maturity terms under the Regal Loans Agreement, after taking into account the prepayment of a certain portion of the Regal Loans as noted below. The Directors of the Group have also adopted such classification for the same reasons.

In connection with the Disposal, arrangements were made by the RHIHL Group in December 1999 to replace the negative pledge attached to certain hotel properties in Hong Kong by a first legal mortgage over the respective hotel properties in favour of the lenders of one of the Regal Loans and to prepay a certain portion of the loan outstanding out of the proceeds received and receivable from the Disposal (the "Arrangements"). In addition to the above, the RHIHL Group continues to service interest and loan principal payments of the Regal Loans on schedule.

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

On the bases that the Bonds Restructuring and the Bilateral Facilities Arrangement will be successful, the Disposal Programme will continue to be successfully implemented, and the Agents of the Regal Loans will not serve the Declaration Notice to the RHIHL Group, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the period remeasurement of the Group's 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 for the year ended 31st December, 2000, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and joint ventures. The results of subsidiary companies, associates and joint ventures acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

(c) Goodwill/Capital reserve on consolidation

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

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

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

(d) Subsidiary companies

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

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

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

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



(e) Joint ventures

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

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

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

(f) Associates

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

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

(g) Investment properties

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

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

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

(h) Hotel properties

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

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

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

(i) Properties under development

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

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

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

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

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

(j) Properties held for future development

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



(k) Capitalised borrowing costs

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

(l) Deferred expenditure

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

(m) Properties held for sale

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

(n) Long term investments

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

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

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

(o) 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.

(p) 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 the reclassification.

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

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

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

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

(q) 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.



(r) Inventories

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

(s) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise 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 profit less recognised losses, the surplus is treated as an amount due to contract customers.

(t) 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.

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

(v) Foreign currencies

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

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

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

(w) 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.

(x) Operating leases

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

(y) Off-balance sheet financial instruments

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

- (i) the net settlements arising from swaps undertaken are recognised on an accrual basis and are dealt with in the profit and loss account; and
- (ii) the net premium paid/received from the writing of options is dealt with in the profit and loss account, and provision is made for any shortfall in the market prices of the underlying securities in respect of which the options are written below the contracted strike prices under the option agreements.