

Report of the Directors



The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiary companies are

hotel ownership and management, property investment and other investments (including investment and trading in financial instruments and marketable securities).

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

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

	Turnover		Contribution	
	2000	1999	2000	1999
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
By activity:				
Hotel ownership and management	1,000.2	2,966.3	178.3	461.9
Property investment	1.0	33.5	-	7.5
Other operations and investments	64.7	73.8	35.5	(767.6)
	<u>1,065.9</u>	<u>3,073.6</u>	<u>213.8</u>	<u>(298.2)</u>
By geographical location:				
Hong Kong	909.6	807.5	143.8	(20.9)
The United States of America	-	2,098.4	68.3	(287.7)
Canada	127.3	134.8	10.0	14.2
Others	29.0	32.9	(8.3)	(3.8)
	<u>1,065.9</u>	<u>3,073.6</u>	<u>213.8</u>	<u>(298.2)</u>



FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2000 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 76.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow and Capital Structure

As the Group had substantially disposed of its hotel interests in the United States in December 1999, the turnover and gross profit contribution from hotel operating activities for the year under review were substantially lower than those in 1999. The Group's major activities are now focused on hotel operations in Hong Kong. Benefiting from the increased number of visitors to Hong Kong and the management efforts to enhance the hotel sales and marketing functions, contribution from hotel and other operations in Hong Kong reversed from a deficit of HK\$20.9 million in 1999 to a gain of HK\$143.8 million in 2000.

During the year under review, net cash inflow from operating activities totalled HK\$141.1 million (1999 - HK\$632.0 million) and, in addition, further sums in an aggregate of HK\$287.7 million from the disposal of the hotel interests in the United States were received. Net interest payment for the year amounted to HK\$442.1 million (1999 - HK\$657.8 million). The Group intends to reduce further the level of interest expense through the disposal of some of its non-core assets.

As at 31st December, 2000, gross borrowings of the Group amounted to HK\$5,110.9 million (1999 - HK\$5,220.7 million). After deducting the time deposits and cash balances of HK\$227.7 million

(1999 - HK\$549.5 million), net borrowings was HK\$4,883.2 million (1999 - HK\$4,671.2 million). The Group's gearing ratio based on the total assets of HK\$11,932.7 million (1999 - HK\$12,323.4 million) was about 41% (1999 - 38%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 37 and 38, respectively, to the financial statements.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Forward foreign exchange contracts and interest swaps are arranged, where appropriate, to hedge against the Group's currency and interest rate exposures.

Remuneration Policy

The Group employs approximately 2,200 staff in Hong Kong, approximately 400 staff in Canada and approximately 900 staff in The People's Republic of China.

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

The Company adopted in 1990 an Executive Share Option Scheme under which share options are granted to selected eligible executives.

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

**DIVIDENDS**

No interim dividend was paid during the year.

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

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Mr. Daniel Bong Shu Yin
Mr. Dominic Lai
Mrs. Kitty Lo Lee Kit Tai
Mr. Jimmy Lo Chun To
Mr. Kenneth Ng Kwai Kai
Mr. William Henry Woo

There have been no changes in Directors during the year.

In accordance with Bye-law 109(A) of the Company's Bye-laws, Messrs. Daniel Bong Shu Yin and Dominic Lai retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests,

whether direct or indirect, in any significant contract to which the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies was a party at the balance sheet date or at any time during the year.

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

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

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



DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2000, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance were as follows:

(A) Interests in Shares

	Name of Director	Class of Shares Held	Number of Shares Held			Total
			Personal Interests	Family Interests	Corporate Interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary	220,000	-	2,907,644,944	2,907,864,944
					(Notes a & c)	
		Preference	-	-	3,440	3,440
					(Note a)	
	Mr. Daniel Bong Shu Yin	Ordinary	1,440,000	-	-	1,440,000
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,370,000	-	-	2,370,000
	Mr. William Henry Woo	Ordinary	1,753	-	-	1,753
	Name of Associated Corporation					
2. CCIHL	Mr. Lo Yuk Sui	Ordinary	543,344,843	-	1,395,994,246	1,939,339,089
	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
3. PHL	Mr. Lo Yuk Sui	Ordinary	222,765	-	1,401,024,977	1,401,247,742
					(Notes a & b)	
	Mr. Daniel Bong Shu Yin	Ordinary	1,025,390	-	-	1,025,390
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	100,000	-	-	100,000
	Mr. Jimmy Lo Chun To	Ordinary	284,000	-	-	284,000
4. Argosy Capital Corporation	Mr. Lo Yuk Sui	Ordinary	-	-	1,130,349	1,130,349
					(Note a)	



Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
			Personal Interests	Family Interests	Corporate Interests	
5. Century King Investment Limited	Mr. Lo Yuk Sui	Ordinary	-	-	5,000 (Note a)	5,000
6. Century Win Investment Limited	Mr. Lo Yuk Sui	Ordinary	-	-	9,000 (Note a)	9,000
7. Cheerjoy Development Limited ("Cheerjoy")	Mr. Lo Yuk Sui	Ordinary	-	-	(Note d)	(Note d)
8. Chest Gain Development Limited	Mr. Lo Yuk Sui	Ordinary	-	-	7,000 (Note a)	7,000
9. Chinatrend (Holdings) Limited	Mr. Lo Yuk Sui	Ordinary	-	-	7,500 (Note a)	7,500
10. Chinatrend (Nankai) Limited	Mr. Lo Yuk Sui	Ordinary	-	-	85 (Note a)	85
11. Hanoi President Hotel Company Limited	Mr. Lo Yuk Sui	Ordinary	-	-	75 (Note a)	75
12. Polarfine Inc	Mr. Lo Yuk Sui	Ordinary	-	-	3,000,000 (Notes a & e)	3,000,000
13. Rapid Growth Holdings Limited	Mr. Lo Yuk Sui	Ordinary	-	-	25,000 (Note a)	25,000
14. Supreme Idea Enterprise Limited	Mr. Lo Yuk Sui	Ordinary	-	-	125 (Note a)	125
15. Villawood Developments Limited	Mr. Lo Yuk Sui	Ordinary	-	-	65 (Note a)	65
16. Wealth Link Investments Limited	Mr. Lo Yuk Sui	Ordinary	-	-	1 (Note a)	1

**Notes:**

- (a) The shares were held through companies controlled by CCIHL, of which Mr. Lo Yuk Sui is the Chairman and controlling shareholder.
- (b) Including the retained balance, i.e. 6,444,444 shares, (the "Retained Shares") of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly-owned subsidiary company of CCIHL from a wholly-owned subsidiary company of The New China Hong Kong Group Limited (the "NCHK Company") pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the "Completion Date"). The Retained Shares are retained by the CCIHL group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) A total of 536,755,200 shares (the "Exchange Property") were charged by a wholly-owned subsidiary company of PHL in favour of a trustee, covering the exchange rights of the holders of the Exchangeable Bonds issued by another wholly-owned subsidiary company of PHL. The Exchangeable Bonds are exchangeable into those existing ordinary shares of the Company during the period from 6th April, 1996 to 23rd January, 2001 (which period was extended by 90 days to 23rd April, 2001 pursuant to a second supplemental trust deed dated 23rd January, 2001) at an adjusted effective exchange price of HK\$2.0144 per share (cum entitlements as provided in the relevant trust deed). Subsequent to the year end date of 2000, a principal amount of US\$10,950,000 of the Exchangeable Bonds was exchanged into 42,048,000 shares. As a result, the number of shares comprising the Exchange Property was reduced to 494,707,200 shares.
- (d) A wholly-owned subsidiary company of PHL holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited ("Point Perfect") which is a 30% owned associate of such subsidiary company. 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 company of CCIHL.

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

Name of Director	Date of Grant (Exercise Price per Ordinary Share)	As at 1/1/2000		Options Outstanding As at 31/12/2000	
		Options Outstanding		Options Outstanding	
		(I) Vested	(II) Unvested	(I) Vested	(II) Unvested
Mr. Lo Yuk Sui	22/2/1992 (HK\$0.7083)	(I) 16,800,000		(I) 20,160,000	
		(II) 10,080,000		(II) 6,720,000	
			(Note 2)		(Note 3)
Mr. Daniel Bong Shu Yin	22/2/1992 (HK\$0.7083)	(I) 2,880,000		(I) 4,320,000	
		(II) 4,320,000		(II) 2,880,000	
			(Note 2)		(Note 3)
Mr. Kenneth Ng Kwai Kai	22/2/1992 (HK\$0.7083)	(I) 5,520,000		(I) 6,480,000	
		(II) 2,880,000		(II) 1,920,000	
			(Note 2)		(Note 3)

**Notes:**

- (1) The options are exercisable at any time.
- (2) The options are exercisable in stages commencing eight years from the date of grant.
- (3) The options are exercisable in stages commencing nine years from the date of grant.

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2000, the interests of those persons (other than the Directors) in the share capital of the Company as recorded in the register kept under Section 16 of the Securities (Disclosure of Interests) Ordinance were as follows:

Name of Shareholder	Number of Ordinary Shares Held
CCIHL (Notes i and iii)	2,907,644,944
Century City BVI Holdings Limited (Notes ii and iii)	2,907,644,944
Century City Holdings Limited (Notes ii and iii)	2,907,644,944
PHL (Notes ii and iii)	2,907,644,944
Paliburg Development BVI Holdings Limited (Notes ii and iii)	2,907,644,944
Paliburg International Holdings Limited (Notes ii and iii)	2,504,300,820
Paliburg BVI Holdings Limited (Notes ii and iii)	2,504,300,820
Taylor Investments Ltd. (Note ii)	1,462,111,870
Glaser Holdings Limited ("Glaser") (Notes ii and iii)	575,528,286

Notes:

- (i) These shares were shown in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under Interests in Shares of Directors' Interests in Share Capital.
- (ii) These companies are subsidiary companies of CCIHL and their interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) 536,755,200 shares (the "Exchange Property") were charged by Glaser in favour of a trustee, covering the exchange rights of the holders of the Exchangeable Bonds as disclosed under Interests in Shares of Directors' Interests in Share Capital. Subsequent to the year end date of 2000, a principal amount of US\$10,950,000 of the Exchangeable Bonds was exchanged into 42,048,000 shares. As a result, the number of shares comprising the Exchange Property was reduced to 494,707,200 shares.

Messrs. Lo Yuk Sui and Kenneth Ng Kwai Kai are directors of all the above-named companies. Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To are directors of CCIHL and PHL.



CONNECTED TRANSACTIONS FINANCIAL ASSISTANCE TO A JOINTLY CONTROLLED ENTITY

In June 1997, Chest Gain Development Limited ("Chest Gain") was established to bid for the site located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Stanley Site") at the public auction held on 3rd June, 1997. The Company holds 30% shareholding interests in Chest Gain, whilst PHL, the immediate listed holding company of the Company, and China Overseas Land & Investment Limited ("China Overseas"), an independent third party, hold 40% and 30% shareholding interests therein, respectively. Chest Gain was the successful bidder for the Stanley Site at a consideration of HK\$5,500 million (the "Consideration"). Listed below is information relating to the shareholders' loans to Chest Gain and guarantee from shareholders on external borrowings of Chest Gain, which constituted connected transactions for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), pursuant to Rule 14.25(2)(b)(ii) of the Listing Rules:

- (1) Shareholders' loans in the aggregate amount of HK\$3,780.7 million were provided for the working capital of Chest Gain, and for the payment of the Consideration and construction costs for the development of the Stanley Site not financed or refinanced by external borrowings. Such loans were all provided according to the proportion of the respective shareholding interests held by the shareholders in Chest Gain and upon normal commercial terms. The loans are unsecured and have no fixed term

of repayment, and related interest had been accrued at prime rate up to 31st December, 1998.

- (2) On 28th October, 1997, the Company, PHL and China Overseas granted a guarantee on a several basis in accordance with their respective shareholdings in Chest Gain as security for the bank loan facilities of HK\$3,300 million made available to Chest Gain for the purposes of refinancing and/or financing part of the Consideration and the construction costs for the development of the Stanley Site.

Information relating to this jointly controlled entity and the guarantee is also contained in notes 17 and 38, respectively, to the financial statements.

ON-GOING TRANSACTIONS AND MAIN HOTEL CONTRACT

For the purpose of this sub-section, the "PHL Group" refers to PHL and its subsidiary companies other than those comprising the Group, the "CCIHL Group" refers to CCIHL and its subsidiary companies other than those comprising the PHL Group and the Group.

On 9th February, 1998, the Company issued a circular (the "Circular") regarding various on-going transactions ("On-going Transactions") and future similar transactions ("Future Connected Transactions") between respective subsidiary companies of the CCIHL Group, the PHL Group and the Group, and the award of the Main Hotel Contract (referred to below) by the Group to the PHL Group (collectively, the "Connected Transactions"), all conducted within their ordinary and normal course of businesses.

The Connected Transactions constituted or will constitute connected transactions for the Company under the Listing Rules. The Stock Exchange, on application by the Company, issued a letter to the Company granting a waiver (the "Waiver") of strict compliance by the Company with the announcing requirement under the Listing Rules in respect of Future Connected Transactions, subject to, inter alia, the approval by independent shareholders of the Company of the authority to be granted to the Directors in relation to such transactions. At the Special General Meeting held on 26th February, 1998 (the "SGM"), the required approvals were given by independent shareholders in respect of the Future Connected Transactions and the award of the Main Hotel Contract.

Development Consultancy Services

- (1) On 13th August, 1997, Bauhinia Hotels Limited ("Bauhinia"), a wholly-owned subsidiary company of the Company, formally appointed Paliburg Development Consultants Limited ("PD Consultants"), a wholly-owned subsidiary company of PHL, as the development consultant for co-ordinating and supervising the construction of the multi-storey carpark and walkway development adjacent to the new Regal Airport Hotel (the "Carpark and Walkway Development") at a consultancy fee of 5% of the total construction cost (excluding professional fees) of this development. Based on the contracted construction cost of the development, the consultancy fee was estimated to be approximately HK\$9.4 million. The fee was payable in stages according to the progress of the development. The term of this appointment was until completion of the development, including the making good of defects therein, if any. The development was completed in June 1998. The total consultancy fee paid till 1999 amounted to HK\$8.9 million. During the year, no further consultancy fee was paid.
- (2) On 13th August, 1997, Bauhinia formally appointed PD Consultants as the development consultant for architectural design, and co-ordinating and supervising the construction of the development of the new Regal Airport Hotel (the "Hotel Development") at a consultancy fee of 5% of the total construction cost (excluding professional fees) of this development. Based on the contracted construction cost of the development, the consultancy fee will amount to approximately HK\$86.3 million. The fee is payable in stages according to the progress of the development. The term of this appointment is until completion of the development including the making good of defects therein, if any. The consultancy fee already paid amounted to HK\$85.2 million, out of which HK\$15.0 million was paid in 2000 as additional fee, which was agreed on a negotiated basis for additional costs and services incurred due to revision of designs and extension of completion time.
- (3) During the year, Cityability Limited, Gala Hotels Limited, Ricobem Limited and Regal Riverside Hotel Limited, wholly-owned subsidiary companies of the Company, appointed PD Consultant as the development consultant for providing architectural design and project co-ordination and supervision services for certain renovation works of their respective hotels, namely Regal Hongkong Hotel, Regal Kaitak Hotel, Regal Kowloon Hotel and Regal Riverside Hotel, at consultancy fees ranging from 8% to 12.5% of the total