1. CORPORATE INFORMATION

During the year, the Group was principally engaged in hotel ownership and management, property development and investment, 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 UNCERTAINTY IN RESPECT OF GOING CONCERN

The Group sustained a net loss from ordinary activities attributable to shareholders of HK$227.5 million for the year ended 31st December, 2000 (1999 - HK$1,085.7 million). Since 1998, the net asset value attributable to the Group's shareholders has declined significantly which is largely attributable to the revaluation deficits arising in respect of the Group's hotel properties in that year. At 31st December, 2000, the net asset value attributable to the Group's shareholders amounted to HK$6,486.8 million. As a result of the foregoing, since 1998, certain of the Group's loan covenants for the maintenance of certain fianancial ratios, as specified in certain loan agreements, have not been complied with. The total outstanding loans affected in this manner amounted to HK$4,894.1 million as at 31st December, 2000, comprising a syndicated loan of HK$3,822.1 million (the "Syndicated Loan") and a construction loan of HK$1,072.0 million (the "Construction Loan") (collectively, the "Loans") (see note 25 for further details thereof).

Pursuant to the terms of the loan agreements, as confirmed in a legal opinion obtained from the Group's legal advisers, upon receiving notice as to the non-compliance with these loan covenants, the agents (the "Agents") who act on behalf of the relevant lenders of the Loans (the "Lenders"), may require remedy of such breach and after lapse of a specified period of time for the remedy of the cause of such non-compliance and on the instruction of the specified majority of the Lenders, may serve notice to the Group to declare the Loans immediately due and repayable (the "Declaration Notice"). Unless and until the Declaration Notice is served by the Agents, the Loans remain repayable in accordance with their original stated maturity dates.

The Group has been in discussions with the Lenders of the Loans with a view to obtaining waivers in respect of the Group's non-compliance with the relevant loan covenants and/or to secure their agreement not to enforce their rights to declare the Loans immediately due and repayable 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 the Group (the "Waiver Discussions"). To date, no written indication from the Agents has been received by the Group in respect of the successful outcome of the Waiver Discussions. However, the Directors are confident that the Group will be able to obtain the ongoing support from the Lenders, because (i) the Group has continued to fulfill the ongoing requirements of the Lenders consequent to the Group's non-compliance with the loan covenants, including the Arrangements further described below; and (ii) the Group has continued to service the payments of interest and principal of the Loans on schedule.

To date, as confirmed by the respective Agents of the Syndicated Loan and the Construction Loan, no Declaration Notice has been served to the Group. The Directors therefore consider it appropriate to continue to classify the Loans as current or non-current liabilities as at 31st December, 2000 in accordance with their original maturity terms under the loan agreements, after taking into account the prepayment of a certain portion of the Syndicated Loan as mentioned below.

Following the substantial disposal of its hotel interests in the United States of America in December 1999 (the "Disposal"), during the year, the Group successfully completed the disposal of its remaining interest in its US hotel operations, namely Bostonian Hotel Limited Partnership, an associate of the Group. The net proceeds generated therefrom amounted to approximately US$13.6 million (HK$106.1 million) which was used for working capital purposes.

In connection with the Disposal, arrangements were made by the 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 the Syndicated Loan and to prepay a portion of certain loan instalment payments of the Syndicated Loan due up to September 2002 out of the proceeds received and receivable from the Disposal (the "Arrangements"). In addition to the above, the Group continues to service interest and loan principal payments of the Loans on schedule. Despite these Arrangements, the non-compliance with certain financial ratios specified in the loan covenants of the Loans still exists.

On the basis that the Agents will not serve the Declaration Notice to the Group to enforce their security or demand repayment of the Loans, 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 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 investment properties, hotel properties, property under development and certain 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.

(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) 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 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 (n) 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.

(h) 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.

(i) Property under development

Property under development is stated at open market value for its intended use on completion, on the basis of professional valuation.

Movements in the values of property under development are dealt with in the property under development 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) Capitalised borrowing costs

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

(k) 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.

(l) 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.

(m) 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.

(n) 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 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.

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
Leasehold improvements	Over the remaining lease terms
Other furniture, fixtures and equipment	10% - 25% or replacement basis
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.

(o) 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.

(p) 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.

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

(ii) rental income, in the period in which the property is let and on the straight-line basis over the lease terms;

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

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

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

(r) 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.

(s) 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.

(t) 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.

(u) Staff retirement scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme became effective from 1st December, 2000. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme being effective, the Group operated a defined contributions retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contriubtions.

For certain subsidiary companies of the Group operating in Mainland China, contributions to the government retirement benefits scheme are charged to the profit and loss account as incurred.

(v) 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.

(w) 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.

4. TURNOVER AND REVENUE

Turnover represents the aggregate of gross hotel income, rental income, travel services revenue and commissions, plant nursery and florist income, restaurant revenue, wedding services revenue, karaoke club revenue, income from brewery operations, proceeds from the sale of short term listed investments, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	GROUP	
	2000 HK$'million	**1999 HK$'million**
Hotel operations and management services	972.3	2,939.6
Other operations, including travel services, plant nursery and florist, restaurant operations, wedding services, karaoke club operations and brewery operations	53.6	73.7
Rental income:		
Hotel properties	27.9	26.7
Investment properties	1.0	33.5
Proceeds from the sale of short term listed investments	11.1	0.1
Turnover	1,065.9	3,073.6

5. OTHER REVENUE/OTHER OPERATING EXPENSES

Other revenue/other operating expenses include the following items:

	GROUP	
	2000 HK$'million	**1999 HK$'million**
Other revenue:		
Compensation received from cancellation of a tenancy agreement	-	22.8
Other operating expenses:		
Provision for tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in the prior year	24.2	-
Deficit on revaluation of investment properties (note 15)	5.2	13.1
Write off/Provisions against other loans and interest receivable	-	57.3
Provisions for impairments in values of long term investments	-	27.5

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	GROUP	
	2000 HK$'million	1999 HK$'million
Cost of inventories sold and services provided	598.8	1,507.7
Staff costs (exclusive of directors' remuneration disclosed in note 8(a)):		
Wages and salaries*	344.8	1,180.0
Staff retirement scheme contributions	15.0	15.3
Less: Forfeited contributions	(5.7)	(5.7)
Net retirement scheme contributions	9.3	9.6
	354.1	1,189.6
Auditors' remuneration	3.7	8.1
Write down in value of short term investments	4.6	-
Loss on disposal of fixed assets	1.5	0.5
Operating lease rentals:		
Land and buildings	23.5	60.3
Other equipment	1.1	10.1
Depreciation	41.9	127.0
Amortisation of lease rights	-	1.2
Amortisation of management contracts	-	0.4
and after crediting:		
Gross rental income	28.9	60.2
Less: Outgoings	(6.3)	(27.2)
Net rental income	22.6	33.0
Dividend income from listed investments	0.8	-
Interest income from:		
Bank balances	21.2	32.7
Other loans and receivable	25.3	19.6
Associates	0.2	1.6
	46.7	53.9
Write back of value of short term investments	-	0.1
Gain on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK$0.9 million (1999 - surplus of HK$9.3 million))	0.7	6.8

* Inclusive of an amount of HK$332.6 million (1999 - HK$1,121.4 million) classified under cost of inventories sold and services provided.