

with the accelerated programme, was paid to Chatwin in 1998. Part of the advance payment has been deducted against the Group's subsequent payments of the hotel construction work certified by the architects. Subsequent to the balance sheet date, the balance of the advance payment was (1) applied to settle the outstanding construction costs and related expenses incurred to date of HK\$31.6 million; (2) set aside as a reserve fund maintained by Chatwin against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of the Regal Airport Hotel of HK\$36.5 million and (3) to be refunded by Chatwin to the extent of HK\$28.0 million.

In addition, there was another outstanding amount existing at the balance sheet date which was included in creditors and accruals amounting to HK\$25.3 million (1999 - HK\$46.3 million). This represented construction costs payable to Chatwin and consultancy fees payable to certain other subsidiary companies of PHL in connection with the construction and development of the hotel property at the new airport in Chek Lap Kok. The amounts are unsecured and payable in accordance with the terms of the respective contracts under which such amounts are incurred.

- (b) The rental expenses related to the leasing of various offices and commercial spaces. The rental was determined by reference to market rental for offices and commercial spaces of similar qualities in the same district obtained from independent sources.
- (c) The consultancy fees related to services provided by a subsidiary company of PHL which include, inter alia, advising on, co-ordinating, supervising the construction and the professional services provided by architects, structural engineers and interior designer of the new airport hotel in Chek Lap Kok. The fees were charged at 5% of the total construction cost of the hotel development project. Where there were services not covered by the original appointment, additional fees were negotiated on a case by case basis.
- (d) The advertising and promotion fees 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.
- (e) The management costs included rentals and other overheads allocated from CCIHL either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group, the CCIHL group (excluding the PHL group and the Group) and the PHL group (excluding the Group) for each financial year.
- (f) Details of the guarantee are disclosed in note 38(a) to the financial statements.

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 36(a) to (e) above also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") to the Company. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2000 accompanying the financial statements.

The related party transaction set out in note 36(f) also constituted connected transaction to the Company under Rule 14.25(2)(b) of the Listing Rules. Relevant details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2000 accompanying the financial statements, according to the disclosure requirement under Rule 14.25(2)(b)(ii).



37. PLEDGE OF ASSETS

Certain of the Group's long and short term investments, hotel properties, property under development, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$10,166.5 million (1999 - HK\$10,130.0 million) and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

38. CONTINGENT LIABILITIES

- (a) At the balance sheet date, a corporate guarantee in the amount of HK\$990.0 million (1999 - HK\$990.0 million) had been given by the Company in respect of banking facilities granted to a jointly controlled entity. The amount drawn against these facilities attributable to the Company at the year end amounted to HK\$753.3 million (1999 - HK\$753.3 million).
- (b) On 18th November, 1999, Regal International (BVI) Holdings Limited ("Regal BVI"), a wholly-owned subsidiary company of the 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 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.

39. 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 interest in a hotel property in the PRC:		
Authorised and contracted for	6.5	-
Capital commitments in respect of 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 the hotel property under development:		
Authorised and contracted for	-	167.4
Authorised, but not contracted for	-	43.3
	<u>-</u>	<u>210.7</u>
	<u>113.5</u>	<u>210.7</u>
Annual commitments payable in the following year under non-cancellable operating leases in respect of:		
Land and buildings expiring:		
Within one year	6.1	1.7
In the second to fifth years, inclusive	6.9	17.4
	<u>13.0</u>	<u>19.1</u>
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>17.5</u>	<u>22.6</u>

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



40. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, on 14th March, 2001, the Group entered into a preliminary sale and purchase agreement with an independent third party to dispose of the Group's investment properties in the PRC at a consideration of HK\$63.2 million. The resultant loss of HK\$5.2 million has been provided for in the current year financial statements (note 5).

41. APPROVAL OF THE FINANCIAL STATEMENTS

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