

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, 2001.

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 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 are set out in note 5 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 60 to 119.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash Flow and Capital Structure

During the year under review, net cash inflow from operating activities totalled HK\$141.3 million (2000 – HK\$141.1 million). Net interest payment for the year amounted to HK\$253.3 million (2000 – HK\$442.1 million). The Group intends to reduce further the level of interest expense

through the disposal of some of its non-core assets and/or equity fund raising exercises.

As at 31st December, 2001, the Group's gross borrowings net of cash and bank balances amounted to HK\$5,055.2 million (2000 – HK\$4,883.2 million). The Group's gearing ratio based on the total assets of HK\$9,943.1 million (2000 – HK\$11,932.7 million) was about 51% (2000 – 41%). The increase in the Group's gearing ratio was primarily the result of a downward adjustment in the valuation of the hotel properties as at the balance sheet date.

Details of the Group's pledge of assets and contingent liabilities are shown in notes 38 and 39, respectively, to the financial statements.

The majority of the Group's borrowings are denominated in Hong Kong dollar currency and there is no material foreign exchange exposure. Details of the maturity profile of the Group's borrowings are set out in note 25 to the financial statements.

Subsequent to the balance sheet date, in March 2002, 90 million new ordinary shares were issued by the Company to Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of Paliburg Holdings Limited, at HK\$0.14 per ordinary share following a placement, through a placing agent, by Taylor of 150 million issued ordinary shares in the Company at HK\$0.14 per ordinary share. Cash inflow to the Company from the new share issue amounted to approximately HK\$12.3 million and was used for general working capital purposes.



Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations, and currency and interest rate exposures are hedged where circumstances are considered appropriate.

Remuneration Policy

The Group employs approximately 2,000 staff in Hong Kong, 300 staff in Canada and 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 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 had been 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.

No dividend was paid to preference shareholders for the year ended 31st December, 2001. Information relating to cumulative unpaid dividend in arrears as of 31st December, 2001 is set out in note 14 to the financial statements.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Mr. Daniel Bong Shu Yin
Mr. Dominic Lai
Mr. Tommy Lam Chi Chung
Mrs. Kitty Lo Lee Kit Tai
Mr. Jimmy Lo Chun To
Mr. Kenneth Ng Kwai Kai
Mr. Thomas Ng Wai Hung

On 21st February, 2002, Mr. William Henry Woo resigned as an Independent Non-Executive Director, and Messrs. Tommy Lam Chi Chung and Thomas Ng Wai Hung were appointed as an Executive Director and an Independent Non-Executive Director respectively.

In accordance with Bye-laws 100 and 109(A) of the Company's Bye-laws, Mr. Tommy Lam Chi Chung, Mrs. Kitty Lo Lee Kit Tai, Mr. Kenneth Ng Kwai Kai and Mr. Thomas Ng Wai Hung 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, 2001, 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	–	2,865,596,944	2,865,816,944
					(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 (Note i)	Ordinary	1,753	–	–	1,753



Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
			Personal Interests	Family Interests	Corporate Interests	
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	–	1,373,024,977 (Notes a & b)	1,373,247,742
	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. 8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary	–	–	1,000 (Note d)	1,000
5. 8D Matrix Limited ("8D Matrix")	Mr. Lo Yuk Sui	Ordinary	–	–	2,000,000 (Note e)	2,000,000
6. 8D International Limited ("8D")	Mr. Lo Yuk Sui	Ordinary	–	–	10,000 (Note f)	10,000
7. Argosy Capital Corporation	Mr. Lo Yuk Sui	Ordinary	–	–	1,130,349 (Note a)	1,130,349
8. Century Win Investment Limited	Mr. Lo Yuk Sui	Ordinary	–	–	9,000 (Note a)	9,000



	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
				Personal Interests	Family Interests	Corporate Interests	
9.	Cheerjoy Development Limited ("Cheerjoy")	Mr. Lo Yuk Sui	Ordinary	–	–	(Note g)	(Note g)
10.	Chest Gain Development Limited	Mr. Lo Yuk Sui	Ordinary	–	–	7,000 (Note a)	7,000
11.	Chinatrend (Holdings) Limited	Mr. Lo Yuk Sui	Ordinary	–	–	7,500 (Note a)	7,500
12.	Chinatrend (Nankai) Limited	Mr. Lo Yuk Sui	Ordinary	–	–	85 (Note a)	85
13.	Hanoi President Hotel Company Limited	Mr. Lo Yuk Sui	Ordinary	–	–	75 (Note a)	75
14.	Polarfine Inc	Mr. Lo Yuk Sui	Ordinary	–	–	3,000,000 (Notes a & h)	3,000,000
15.	Rapid Growth Holdings Limited	Mr. Lo Yuk Sui	Ordinary	–	–	25,000 (Note a)	25,000
16.	Talent Faith Investments Ltd.	Mr. Lo Yuk Sui	Ordinary	–	–	50 (Note a)	50
17.	Villawood Developments Limited	Mr. Lo Yuk Sui	Ordinary	–	–	65 (Note a)	65
18.	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 494,707,200 shares 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 April, 2001 (which period was extended by 90 days from 23rd January, 2001) at an adjusted effective exchange price of HK\$2.0144 per share (cum entitlements as provided in the relevant trust deed).
- (d) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (e) 800,000 shares were held through companies controlled by CCIHL and 1,200,000 shares were held through companies controlled by Mr. Lo Yuk Sui (including 8D-BVI).
- (f) 8D is a wholly-owned subsidiary Company of 8D Matrix.
- (g) 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.
- (h) Including security interest over 600,000 shares under a share mortgage held by a subsidiary company of CCIHL.
- (i) Mr. William Henry Woo resigned as a Director of the Company on 21st February, 2002.

(B) Interests in Share Options Granted by the Company

Details of Directors' interests in share options granted by the Company are set out in the section headed "Directors' Interests in and Movements in Share Options granted by the Company" below.

Save as disclosed in the section headed "Directors' Interests in and Movements in Share Options granted by the Company" below, 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, 2001, 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)	2,865,596,944
Century City BVI Holdings Limited (Notes ii and iii)	2,865,596,944
Century City Holdings Limited (Notes ii and iii)	2,865,596,944
PHL (Notes ii and iii)	2,865,596,944
Paliburg Development BVI Holdings Limited (Notes ii and iii)	2,865,596,944
Paliburg International Holdings Limited (Notes ii and iii)	2,462,252,820
Paliburg BVI Holdings Limited (Notes ii and iii)	2,462,252,820
Taylor Investments Ltd. (Note ii)	1,462,111,870
Glaser Holdings Limited ("Glaser") (Notes ii and iii)	533,480,286

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) 494,707,200 shares 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.

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



DIRECTORS' INTERESTS IN AND MOVEMENTS IN SHARE OPTIONS GRANTED BY THE COMPANY

During the year, details of Directors' interests in and movements in share options granted by the Company pursuant to the Executive Share Option Scheme of the Company (the "Share Option Scheme") approved by its shareholders on 28th June, 1990 are as follows:

		No. of Ordinary Shares under the Options			
Terms of Option	Grantee	Options Outstanding As at 1/1/2001	Lapsed during the Year	Options Outstanding As at 31/12/2001	
(A) Date of Grant: 22/2/1992 Exercise Price: HK\$0.7083 per share: Vesting Period: Note 1 Exercise Period: Note 1	Mr. Lo Yuk Sui	Vested: 20,160,000 Unvested: 6,720,000 Note 1(c)	— —	Vested: 26,880,000 Unvested: —	Notes 1(c)&2
	Mr. Daniel Bong Shu Yin	Vested: 4,320,000 Unvested: 2,880,000 Note 1(c)	— —	Vested: 7,200,000 Unvested: —	Notes 1(c)&2
	Mr. Kenneth Ng Kwai Kai	Vested: 6,480,000 Unvested: 1,920,000 Note 1(c)	— —	Vested: 8,400,000 Unvested: —	Notes 1(c)&2
	Employees (excluding Directors), in aggregate	Vested: 5,610,000 Unvested: 2,004,000 Note 1(c)	— —	Vested: 7,614,000 Unvested: —	Notes 1(c)&2
	Employees, in aggregate	Vested: 930,000 Unvested: 450,000 Note 1(b)	— —	Vested: 1,080,000 Unvested: 300,000 Note 1(b)	
(C) Date of Grant: 22/2/1997 Exercise Price: HK\$2.1083 per share: Vesting Period: Note 1 Exercise Period: Note 1	Employees, in aggregate	Vested: 864,000 Unvested: 2,016,000 Note 1(b)	(720,000) (1,080,000)	Vested: 432,000 Unvested: 648,000 Note 1(b)	

Notes:

1. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	2 years after Date of Grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after Date of Grant)
(b)	3 years to 9 years after Date of Grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after Date of Grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after Date of Grant) upon vesting (exercisable until 10 years after Date of Grant))
(c)	9½ years after Date of Grant	100%	100% (exercisable until 10 years after Date of Grant)

2. Lapsed after expiry of the relevant exercise period on 22nd February, 2002.



3. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted.

Save as disclosed above, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debenture of the Company and its subsidiary companies, and no option granted to such persons has been cancelled and lapsed:

- (i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;
- (ii) any participant with options granted in excess of the individual limit;
- (iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;
- (iv) any supplier of goods or services; and
- (v) any other participants.

The following summarised information on the Share Option Scheme is disclosed in compliance with the disclosure requirements under Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"):

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|---|--|
| 1. <i>Purpose:</i> | As incentive to selected eligible executives |
| 2. <i>Participants:</i> | Eligible executive means any director and any person who is an employee of the Group (including the Company, its subsidiary companies and other bodies corporate in which the Company or its subsidiary companies, or a combination of them, hold not less than 40% of the issued voting shares), or of any other company or corporation forming part of the Century City International Holdings Limited Group ("CCIHL Group"), for so long as the Company is part of the CCIHL Group, and (in the opinion of the Board) who devotes a material amount of time to the management of the affairs of the Group |
| 3. <i>Total number of ordinary shares subject to outstanding options under the Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2001:</i> | 52,554,000 ordinary shares (approximately 1.3%) |



- | | |
|--|--|
| 4. <i>Maximum entitlement of each participant under the Share Option Scheme:</i> | Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant |
| 5. <i>The period within which the shares must be taken up under an option:</i> | From the time when the options become vested to no later than ten years after the Date of Grant |
| 6. <i>Minimum period for which an option must be held before it can be exercised:</i> | Not less than one year following the Date of Grant |
| 7. <i>Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:</i> | N/A |
| 8. <i>The basis of determining the exercise price:</i> | At the discretion of the Board but shall not be less than the par value of the shares nor at a discount of more than 10% below the average closing prices of the ordinary shares on the Stock Exchange on the five dealing days immediately preceding the date on which the invitation to apply for an option is resolved by the Board to be given |
| 9. <i>The remaining life of the Share Option Scheme:</i> | The life of the Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000. |

ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE

Pursuant to a subscription agreement dated 21st February, 2002 made between the Company and Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of PHL, Taylor subscribed for 90 million new ordinary shares (the "Subscription Shares") of HK\$0.10 each in the share capital of the Company (the "Shares") in cash at a subscription price of HK\$0.14 per Share (the "Subscription"). The subscription price of HK\$0.14 per Share represented (i) a discount of approximately

9.09% to the closing price of HK\$0.154 per Share as quoted on the Stock Exchange on 21st February, 2002, being the last trading day of the Shares immediately prior to the suspension of trading of the shares on 22nd February, 2002; and (ii) a discount of approximately 6.91% to the average closing price of HK\$0.1504 per Share as quoted on the Stock Exchange from the last ten trading days up to and including 21st February, 2002.



The Subscription was subject to, inter alia, the placing of 150 million existing Shares held by Taylor through Uni-Alpha Securities Limited (the "Placing Agent") to independent investors, which was completed on 27th February, 2002. On 7th March, 2002, the Subscription Shares were issued to Taylor. The Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 12th June, 2001 and rank pari passu in all respects with the then existing issued Shares.

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 Listing Rules, pursuant to Rule 14.25(2)(b)(ii) of the Listing Rules:

- (1) Shareholders' loans in the aggregate amount of HK\$3,952.3 million were

The Subscription was to raise capital for the Company while broadening the shareholder and capital base of the Company. The net proceeds of approximately HK\$12.3 million from the Subscription Shares were used for general working capital purposes.

Details of the placing of 150 million existing Shares and the Subscription were disclosed in an announcement dated 22nd February, 2002 made by the Company.

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 39 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 would 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 2000 amounted to HK\$8.9 million. The consultancy fee paid in 2001 amounted to HK\$1.0 million.
- (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\$98.2 million, out of which HK\$13.0 million was paid in 2001 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 year 2000, 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 (the "Renovation Works"), 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 construction cost (excluding professional fees) of the works. The scale of the consultancy fees is based on the scope of services provided and the quantum of construction works involved. Based on the contracted construction cost of the works, the consultancy fee will amount to approximately HK\$3.8 million. The fee is payable upon the completion of the works or in stages according to the progress of the works. The terms of these

appointments are until completion of the works, including the making good of defects therein, if any. The renovation works were substantially completed during 2001 and an amount of HK\$3.8 million was paid to PD Consultants as consultancy fee for the renovation works.

- (4) During the year under review, Bauhinia appointed PD Consultants as the development consultant for co-ordinating and supervising the design and construction of the enclosure to the pedestrian footbridge which connects the passenger terminal building to the multi-storey carpark adjacent to the new Regal Airport Hotel (the "Footbridge Development") at a consultancy fee of 10% of the total construction cost of approximately HK\$13.0 million (excluding professional fees) of the works. The term of this appointment is until completion of the development including the making good of defects therein, if any. The total consultancy fee amounted to HK\$1.3 million was paid in lump sum during year 2001.

Construction Works

- (1) On 3rd March, 1997, Bauhinia issued a letter of intent to Chatwin Engineering Limited ("Chatwin"), an 80% owned subsidiary company of PHL, which letter was accepted by Chatwin on 5th March, 1997, in respect of the appointment of Chatwin as the contractor for the superstructure main contract works of the Carpark and Walkway Development at the contract sum of HK\$187.8 million. The contract sum was payable in stages in accordance with work progress. The development



was completed in June 1998. The total progress payments paid till 2000 amounted to HK\$172.1 million. The relevant progress payment paid in 2001 amounted to HK\$3.1 million.

- (2) On 3rd April, 1997, Bauhinia issued a letter of intent to Chatwin, which letter was accepted by Chatwin on 10th April, 1997, in relation to the appointment of Chatwin as the contractor for the foundation works for the Hotel Development (the "Hotel Foundation Construction") at the contract sum of HK\$82.4 million. The contract sum was payable in stages in accordance with the progress of the Hotel Foundation Construction. The construction work was completed in February 1998. The total progress payments paid till 2000 amounted to HK\$84.8 million. During the year, no further progress payment was paid.
- (3) During the year, Chatwin was appointed as the contractor for the construction works for the Footbridge Development (the "Footbridge Construction") at the contract sum of HK\$8.0 million. The contract sum was payable in stages in accordance with the progress of the Footbridge Construction. The relevant progress payment paid in 2001 amounted to HK\$2.4 million.

Leasing of Spaces

The Group is currently leasing various office and commercial spaces in Paliburg Plaza and Kowloon City Plaza from Treasure Spot Investments Limited ("Treasure Spot") and Good Focus Holdings Limited, both wholly-owned subsidiary companies of PHL (the "Existing Leases"). There are six Existing Leases encompassing office spaces having a total gross floor area of approximately 4,400 sq. ft. and commercial spaces having a total lettable area of approximately 21,400 sq. ft. and the terms of which range from 6 months to eighteen years, apart from about 6 carparking spaces at Paliburg Plaza licensed on a monthly basis. The spaces are used for a number of different purposes which are within the ordinary course of businesses of the respective subsidiaries of the Company leasing or licensing such spaces. Rentals paid under the Existing Leases in 2001 amounted to about HK\$12.2 million.

During the year, the leases by the Group of certain other commercial spaces in Paliburg Plaza were terminated (the "Terminated Leases"). There were six Terminated Leases encompassing commercial spaces having a total lettable area of approximately 14,300 sq. ft.. Rentals paid under the Terminated Leases in 2001 amounted to about HK\$7.2 million.



Corporate Services Transactions

The present head office accommodation of the CCIHL Group is located at 18th to 22nd Floors of Paliburg Plaza, which, as mentioned above, is owned by the PHL Group, and is shared with the CCIHL Group by the PHL Group and the Group. The rental charge of such accommodation is allocated among CCIHL, PHL and the Company, according to the estimates from time to time by the directors of CCIHL, and, as appropriate, with the endorsement of the directors of PHL and the Directors, of fair proportional use, based on actual area occupied. The balance of the areas used in common as well as corporate management overheads are apportioned based on a sharing among the Group, the CCIHL Group and the PHL Group by reference to individual consolidated turnover, profit (as applicable) and asset values of the Company, CCIHL and PHL for each financial year.

The aggregate amount of such rentals and corporate management costs apportioned to the Company for 2001 was approximately HK\$27.4 million, comprising rentals of HK\$6.3 million, the payment obligation of which was assumed by the Company, and corporate management costs of HK\$21.1 million.

Miscellaneous Connected Transactions

- (1) An associate of the CCIHL Group provided advertising and promotion services to the Group on retainers of about HK\$2.3 million for the year

2001 and at a standard fee based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The associate is owned as to 10% by the CCIHL Group, 30% by the Group (the Group also holds an additional 6% attributable interest through its holding in 8D-BVI) and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI.

- (2) Spaces in Regal Hongkong Hotel were leased from the Group by the CCIHL Group as staff quarters. Rentals payable under such lease by the CCIHL Group in the year 2001 amounted to about HK\$2.1 million.

Compliance with the Waiver Conditions

The On-going Transactions were carried out on normal commercial terms and on an arm's length basis. The relevant amounts payable under the On-going Transactions for 2001 were within the respective caps set out in the Waiver, as detailed below:

- (a) the aggregate amount of HK\$19.1 million payable to PD Consultants for services rendered in the Carpark and Walkway Development, the Hotel Development, the Renovation Works and the Footbridge Development in 2001 did not exceed 1.5% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2000 adjusted to take into account of the results for the six-month period ended 30th June, 2001 (the "Consolidated NTA");



- (b) the contract progress payments of HK\$5.5 million payable to Chatwin for 2001 in respect of the superstructure main contract works of the Carpark and Walkway Development and the Footbridge Construction did not exceed 5% of the Consolidated NTA;
- (c) the aggregate annual rental of HK\$19.4 million payable to the PHL Group in respect of Leasing of Spaces by the Group from the PHL Group for 2001 did not exceed 0.5% of the Consolidated NTA;
- (d) the aggregate amount of corporate management costs of HK\$21.1 million payable to the CCIHL Group in respect of Corporate Services Transactions for 2001 did not exceed 0.5% of the Consolidated NTA; and
- (e) the aggregate amount of HK\$4.4 million payable for Miscellaneous Connected Transactions for 2001 did not exceed 0.25% of the Consolidated NTA.

The above transactions have been reviewed by the Directors and separately by the independent Non-executive Directors, and the independent Non-executive Directors have confirmed that they consider that the above transactions were entered in the ordinary and usual course of business, on normal commercial terms and on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The Auditors of the Company have confirmed to the Directors in writing in respect of the On-going Transactions that they consider that the transactions have been entered into on normal commercial terms and in accordance with the terms of the agreement relating to the transaction in question or, if there is no such agreement, on terms no less favourable than terms available to or from independent third parties.

Main Hotel Contract

By way of a letter of intent dated 30th December, 1997 issued by Bauhinia and accepted by Chatwin, the main contract work for the Hotel Development (the "Main Hotel Contract") was awarded to Chatwin at the contract sum of HK\$1,180 million, conditional upon the approval by independent shareholders of the Company. At the SGM, the award of the Main Hotel Contract and the relevant authority to the Directors in relation to the implementation of the Main Hotel Contract were approved by independent shareholders of the Company. The contract sum is payable in stages in accordance with the progress of the Main Hotel Contract. The progress payment for 2001 amounted to HK\$27.7 million. The final contract sum is still subject to final account adjustment and the total progress payments up to 31st December, 2001 amounted to HK\$971.2 million.

Information relating to the On-going Transactions and the Main Hotel Contract is also contained in note 37 to the financial statements.



DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Practice Note 19 ("PN19") of the Listing Rules:

Advances to an Entity (Paragraph 3.2.1 of PN19)

Details of the advances made to Chest Gain by the Company and its subsidiary companies (the "Group") as at 31st December, 2001 are set out below:

Advances	Group (HK\$'million)
(A) Principal Amount of Advances	1,185.7
(B) Interest Receivable	162.5
(C) Several Guarantees for:	
(a) Principal Amount of Bank Facilities	990.0
(b) Amount of Bank Facilities Drawdown	753.3
Total: (A)+(B)+(C)(a)	2,338.2
(A)+(B)+(C)(b)	2,101.5

The above advances to Chest Gain in an aggregate sum of HK\$1,348.2 million (before a provision of HK\$700.0 million representing the Group's attributable share of the provision for foreseeable loss in respect of the property development at the Stanley Site of Chest Gain) were provided by the Group. Further details of the advances to and the guarantee given for Chest Gain are set out in the sub-section headed "Financial Assistance to a Jointly Controlled Entity" under "Connected Transactions" above.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 2001 provided by the Group to Chest Gain in the respective sums of (a) HK\$2,338.2 million (based on the total available amount of the bank facilities) and (b) HK\$2,101.5 million (based on the amount of bank facilities drawdown) represented (a) 51.5% and (b) 46.3% of the consolidated net tangible assets of the Company of HK\$4,540.5 million (the "Regal NTA"), by reference to its latest audited financial statements for the year ended 31st December, 2001.



Financial Assistance provided to and Guarantees given for Affiliated Companies (Paragraph 3.3 of PN19)

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the Group as at 31st December, 2001 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)		Interest Receivable (HK\$'million)		Guarantee given for Bank Facilities	
					(i) Principal Amount of Bank Facilities (HK\$'million)	(ii) Amount of Bank Facilities Drawdown (HK\$'million)
Chest Gain	(A)	1,185.7	(B)	162.5	(C)(i) 990.0	(C)(ii) 753.3
8D International (BVI) Limited	(D)	27.9		–	Nil	Nil
8D Matrix Limited	(E)	0.8		–	Nil	Nil
Total:					(A)+(B)+(C)(i)+(D)+(E)	2,366.9
					(A)+(B)+(C)(ii)+(D)+(E)	2,130.2

Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Paragraph 3.2.1 of PN19 of the Listing Rules.

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which is involved in information technology businesses in connection with a broadband fibre optic network project in The People's Republic of China and information technology systems development, and promotions and communications businesses. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo Yuk Sui. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest free and have no fixed term of repayment.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company (the Company also holds an additional 6% attributable interest through its holding in 8D-BVI), which is involved in promotions, communications and information technology businesses. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix. The advances are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 31st December, 2001, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group in the respective sums of (a) HK\$2,366.9 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$2,130.2 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 52.1% and (b) 46.9% of the Regal NTA.

Regal Hotels International Holdings Limited



A pro-forma combined balance sheet of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies are presented below:

	Pro-forma combined balance sheet (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	3,987.4	1,196.2
Current assets	6.8	2.0
Current liabilities	(154.6)	(46.4)
Non-current liabilities	(7,913.5)	(2,374.0)
Net liabilities	<u>(4,073.9)</u>	<u>(1,222.2)</u>

Loan agreements with covenants relating to specific performance obligation of the controlling shareholders (Paragraphs 3.7.1 and 3.7.2 of PN19)

Paragraph 3.7.1 of PN19

The agreements for the following loans to the Group impose specific performance obligations on the controlling shareholders of the Company:

		Outstanding Balance of Bank Facilities as at 31st December, 2001 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
The Group	(a)	1,079.5	July 2007	Note (i)
	(b)	<u>3,822.1</u>	September 2004	Note (ii)
Total:		<u>4,901.6</u>		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL, which owns a 59.2% shareholding interest in PHL (which in turn owns a 69.6% shareholding interest in the Company), and/or members of his immediate family, or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control of the Company.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in the Company.

Breach of the above specific performance obligations will constitute events of default of the bank facilities. As a result, the bank facilities may become immediately due and payable on demand by the relevant lenders according to the respective terms and conditions of the bank facilities.

Paragraph 3.7.2 of PN19

Details of the breach of certain terms and financial covenants of the above loan agreements are set out in note 3 to the financial statements.

CORPORATE GOVERNANCE

The Company has during the year complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the independent Non-Executive Directors of the Company were not appointed for specific terms. However, they were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the Byelaws of the Company.

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee, which previously comprised Mr. William Henry Woo (Chairman of the Committee) and Mr. Dominic Lai, both independent Non-Executive Directors of the Company, and Mr. Daniel Bong Shu Yin, a Non-Executive Director of the Company. Following the resignation of Mr. William Woo as the Chairman of the Committee in conjunction with his resignation as a Director of the Company on 21st February, 2002, Mr. Dominic Lai was appointed as the Chairman of the Committee in place of Mr. Woo on 8th April, 2002. In addition, Mr. Thomas Ng Wai Hung, the newly appointed independent Non-Executive Director, became a member of the Committee on 8th April, 2002. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiary companies, of the listed securities of the Company.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's 5 largest suppliers and the percentage of turnover or sales attributable to the Group's 5 largest customers combined in respect of goods and services was in each case less than 30% of the total amount involved.

FIXED ASSETS

The details of movements in the Group's fixed assets during the year are set out in note 16 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 25 to the financial statements.



SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company during the year are set out in note 26 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 28 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in note 29 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 30 to the financial statements.

REVALUATION RESERVES

The details of movements in the revaluation reserve account during the year are set out in note 31 to the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2001, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$2,501.1 million.

In addition, the Company's share premium account may be distributed in the form of fully paid bonus shares.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 33 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly controlled entity and associates are set out in notes 17 and 18 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 34 to the financial statements.

INTEREST CAPITALISED

Interest expenses in the amount of HK\$32.4 million were capitalised during the prior year in respect of the Group's property under development.

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 42 to the financial statements.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong

19th April, 2002

