



Report of the Auditors



To the members
Century City International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 59 to 132 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Fundamental uncertainty - Provisions against investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in note 20 to the financial statements concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the recent resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying value of the Group's investments in the Investee Companies amounted to HK\$298.9 million as at 31st December, 2000 which has been classified under long term investments. As further explained in note 20 to the financial statements, the

Directors are currently unable to determine with reasonable certainty the outcome of the negotiations for the reversion of the land site to the Investee Companies. Accordingly, it is not possible to determine at this stage as to whether any provision against the Group's investments in the Investee Companies is necessary. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Fundamental uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:

- i. the outcome of the proposed restructuring of the existing outstanding indebtedness of the Group to replace the Group's existing standstill arrangement (the "Debt Restructuring");
- ii. the outcome of the discussions with the bondholders for the proposed restructuring of two outstanding bonds of Paliburg Holdings Limited, a principal listed subsidiary company of the Group, and its subsidiary companies (the "PHL Group") (the "Bonds Restructuring");
- iii. the outcome of the proposed bilateral facilities arrangement with the financial creditors of the PHL Group to replace its existing informal standstill arrangement (the "Bilateral Facilities Arrangement");
- iv. the continued successful implementation of the disposal of certain other identified assets of the PHL Group (the "Disposal Programme"); and
- v. the securing of the ongoing support of the relevant lenders of two loans aggregating HK\$4,894.1 million as at 31st December, 2000 (the "Regal Loans") following the non-compliance with certain loan covenants of the Regal Loans by Regal Hotels International Holdings Limited, another principal listed subsidiary company of the Group, and its subsidiary companies.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the Debt Restructuring, the Bonds Restructuring, the Bilateral Facilities Arrangement, the continued successful implementation of the Disposal Programme, and the non-issuance of the notice by the agents who act on behalf of the relevant lenders of the Regal Loans to declare the Regal Loans immediately due and repayable (the "Declaration Notice"). The financial statements do not include any adjustments that would result from the failure of the Debt Restructuring, the Bonds Restructuring, the Bilateral Facilities Arrangement, the continued implementation of the Disposal Programme or the issuance of the Declaration Notice.

We consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.



Disclaimer of opinion

On account of the foregoing fundamental uncertainties relating to the appropriateness of the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2000 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

17th April, 2001