



Chairman's Report



Dear shareholders,

I am presenting herewith the Annual Report of the Company for the year ended 31st December, 2003.

FINANCIAL RESULTS

For the year ended 31st December, 2003, the Group recorded an audited consolidated net profit attributable to shareholders of HK\$414.2 million, as compared with the net loss of HK\$22.6 million (as restated) incurred for the 2002 financial year.

The net profit attained for the year under review was largely the result of an accounting profit of HK\$358.6 million recognised on the deemed disposal of its shareholding interest in Paliburg Holdings Limited. However, on account of the diluted shareholding interest in Paliburg and the consequent reduction in the sharing of Paliburg's underlying net assets attributable to the Group, the net assets value of the Group has been adversely affected, as reflected in the Group's audited consolidated balance sheet as at 31st December, 2003.



DIVIDEND

The Directors have resolved not to recommend the payment of a final dividend for the year ended 31st December, 2003 (2002 - nil).

REVIEW OF OPERATIONS

The Group itself continues to hold beneficially an aggregate of approximately 1,366.8 million Paliburg ordinary shares, representing approximately 28.1% of the existing issued ordinary share capital of Paliburg, which were pledged to various financial creditors to secure credit facilities granted to the Century City Group. Moreover, Almighty International Limited presently owns an aggregate of 1,910.0 million Paliburg ordinary shares, representing approximately 39.3% of the existing issued ordinary share capital of Paliburg and, in addition, an aggregate of 1,240.0 million Paliburg Convertible Preference Shares which are convertible into a same number of new Paliburg ordinary shares. The Company currently owns the entire issued ordinary share capital of Almighty under the terms of the Share Swap Agreement.

As previously explained, the Share Swap Agreement was intended to provide to the Century City Group with a share swap mechanism such that, if a consensual debt restructuring is successfully implemented, it will maintain a majority beneficial interest in Paliburg. Under the original terms of the Share Swap Agreement, the period for the exercise of the share swap was to end on 31st December, 2003. As it became evident that a consensual financial restructuring would not have been able to be finalised before 31st December, 2003 and, in order to facilitate further negotiations with its financial creditors, the Company entered into a supplemental agreement with the other parties to the Share Swap Agreement on 30th December, 2003, pursuant to which the various rights provided under the Share Swap Agreement would continue to have effect until 30th June, 2004. Full details of this supplemental agreement were contained in an announcement by the Company dated 30th December, 2003.

Since the entering into of the supplemental agreement to the Share Swap Agreement, the Company has obtained in January 2004 the written in-principle approval of the debt restructuring proposal from all its financial creditors. The debt restructuring proposal presented primarily envisages the settlement of a large majority of the outstanding indebtedness of the Century City Group by conversion into one or more financial instruments and convertible securities proposed to be issued by the Century City Group and the remaining small minority portion of the outstanding indebtedness to be replaced by new loans. These in-principle approvals are not legally binding and are subject to finalisation and execution of the definitive legal agreements to give effect to the debt restructuring proposal.

If a consensual financial restructuring cannot be implemented, the Century City Group will cease to own the issued ordinary share capital of Almighty and the Paliburg ordinary shares and Paliburg Convertible Preference Shares presently owned by Almighty will be accounted to the holders of the Exchangeable Preference Shares of Almighty in accordance with their respective entitlements. In such event, Paliburg will be directly controlled by companies owned and controlled by myself instead of through the Company.



The operating highlights of Paliburg and Regal for the year under review are set out below.

PALIBURG HOLDINGS LIMITED

For the year ended 31st December, 2003, Paliburg achieved an audited consolidated net profit attributable to its shareholders of HK\$387.6 million, as compared with the net profit of HK\$1,704.1 million (as restated) for the 2002 financial year. It should be noted that the profit attained by Paliburg in the preceding financial year primarily arose from the net gain recorded under the Settlement Proposal in respect of the then outstanding Exchangeable Bonds and Convertible Bonds of Paliburg implemented in October 2002.

The Paliburg group has completed in 2002 most of the planned financial and corporate restructuring exercises. Full details of the restructurings undertaken were already reported in my last Chairman's Report dated 17th April, 2003.

As at 1st January, 2003, the Paliburg group held an aggregate of 4,717.1 million ordinary shares in Regal Hotels International Holdings Limited, representing approximately 74.9% of the then issued ordinary share capital of Regal, including the 1,706.5 million shares due to be distributed to the holders of the Exchangeable Bonds and Convertible Bonds in stages under the Settlement Proposal. If the shares deliverable to the bondholders are excluded, the Paliburg group's beneficial shareholding interest in Regal would have been approximately 47.8%, before taken into account any dilution effect from the conversion of the then outstanding convertible bonds of Regal.

As it has always been the intention of the Paliburg group to maintain its effective controlling interest in Regal, the Paliburg group acquired from an independent third party in January and February of 2004 convertible bonds of Regal in an aggregate principal amount of HK\$28.0 million. The Paliburg group has subsequently converted these acquired convertible bonds into 583.3 million new ordinary shares of Regal. As of the date of this report, the Paliburg group holds an aggregate of 4,866.2 million ordinary shares in Regal, representing approximately 59.8% of the existing issued ordinary share capital of Regal. Even if the 1,212.3 million shares remaining to be delivered to the bondholders are excluded, the Paliburg group's beneficial shareholding interest in Regal is now still being maintained at approximately 45.0%.

In October 2003, Paliburg undertook a placement and new subscription of 150.0 million ordinary shares, raising net proceeds of approximately HK\$16.6 million for its general working capital. The Paliburg group may consider other proposals for the further expansion of its capital base in conjunction with its business development plans.

PROPERTIES

HONG KONG

Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East

The Paliburg group has a 30% interest in the joint venture for the development of this site. The Town Planning Board has formally approved the rezoning of the subject site at a review hearing in January 2004. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet with certain ancillary retail, recreational and car parking facilities. Formal application for lease modification has also been submitted.

**Rainbow Lodge, 9 Ping Shan Lane, Yuen Long, New Territories**

The occupation permit and the certificate of compliance for the residential project have respectively been issued in October 2003 and January 2004. The project comprises 16 duplex units with total gross area of about 30,800 square feet with ancillary car parking facilities. The sale programme has been launched recently and profit contribution from this project is anticipated.

211 Johnston Road, Wanchai

The Paliburg group still owns in this commercial building, for rental purposes, all the office floors with total gross area of about 60,900 square feet and certain ground floor shops with total gross area of about 2,200 square feet. The Paliburg group is considering the sale of these properties, either en bloc or in separate units, due to the improved demand for office and commercial premises.

Various lots in Demarcation District No. 251, Sharp Island, Sai Kung

To fit in with the government's objective of developing the region into a large scale water sports and spa center, the Paliburg group is formulating a revised proposal for a comprehensive resort development on Sharp Island centering on the subject properties owned by the Paliburg group. Due to many planning aspects involved, the progress on the formulation of the revised proposal has been relatively gradual.

THE PEOPLE'S REPUBLIC OF CHINA**Development site at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing**

As reported in the Interim Report for 2003, the Paliburg group has entered into a new agreement for the effective sale of its entire equity interest in the joint venture for a gross consideration of about HK\$181.9 million. Though certain deposits and part payments have been received from the purchaser, the purchaser has failed to comply with the stipulated schedule for the full settlement of the consideration payable under the agreement. While the Paliburg group is legally retaining the equity interest owned in this joint venture project, the Paliburg group is actively negotiating with the purchaser regarding the remedy of its default.

Development site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing

The development plan for the entire project has recently been approved by the Beijing Municipal Commission of Urban Planning in December 2003 and further negotiations are being conducted with the relevant local government authorities for the formal vesting of the requisite land title. In the meantime, while active negotiations are continuing with the other parties involved in the joint venture with a view to resolving outstanding issues and disputes, the Paliburg group is holding sale negotiations with prospective investors at an indicative price which is substantially higher than the written down carrying value of the Paliburg group's investment in this project. It is the intention of the Paliburg group to sell its interest in this project if the final offered terms are considered to be favourable.



UNITED STATES OF AMERICA

As formerly reported, a formal settlement has been reached with the Unified School District for the determination of the final compensation for its compulsory acquisition of the Crown Hill site in Los Angeles previously owned by the Paliburg group at approximately US\$13.9 million. The compensation money has since been received by the Paliburg group, most of which was applied for repayment of the Paliburg group's borrowings. A write back of the provision previously made has been reflected in the results for the year under review.

CONSTRUCTION AND BUILDING RELATED BUSINESSES

Construction Business

The construction business of the Paliburg group undertaken through Chatwin Engineering Limited, the Paliburg group's wholly owned construction arm. Due to the overall contraction in the local construction industry, Chatwin has for the time being directed its focus, for the securing of new contracts, on interior fitting out works as well as minor building works, pending the recovery of the local construction industry. Though these works are normally of smaller contract size, the profit margins are relatively more lucrative than those available under construction contracts. Chatwin will continue to actively seek new opportunities for the possible expansion and diversification of its existing businesses.

Building Related Businesses

As mentioned in the last Annual Report, the Paliburg group has acquired, through the Paliburg Acquisition completed in December 2002, a 50% interest in the Leading Technology group. The Leading Technology group is principally engaged in the design, development, integration and distribution of innovative and technologically advanced security and building related systems, software and products. In 2003, the Leading Technology group has commercialized and launched a second generation version of its fingerprint access control system and, at the same time, has successfully developed and launched a property management system for hotels. While the Leading Technology group will continue to expand, develop and refine the commercial application of its own designed products, it is also considering to diversify into other manufacturers' products customised and marketed under its own brand name, and to be undertaken in conjunction with the planned expansion of its sales and marketing network both locally and in the PRC market. Though still in its early stage of development, the Leading Technology group has attained for the year under review positive EBITDA on its business operations.

In January 2004, the Paliburg group exercised the LTH Option to acquire the remaining 50% interest in the Leading Technology group at a nominal consideration pursuant to the provisions of the Paliburg Acquisition Agreement, and the Leading Technology group has since then become a wholly owned subsidiary of the Paliburg group.

The Paliburg group also operates a comprehensive range of other building related businesses including development consultancy with architectural, engineering and interior design services, project management, building services and estate management.



With a view to achieving improved operational efficiency and the better use of available resources, the Paliburg group is in the course of setting up a separate division that will amalgamate the Paliburg group's building construction and other building related businesses with those undertaken by the Leading Technology group, all of which are complementary in nature. This will enable the provision under one sub-group of a full range of services encompassing building construction, other building related services as well as security and building related systems, software and products, integrating conventional technologies with modern and technologically advanced applications and systems. To facilitate the further expansion and diversification of its businesses, the Paliburg group is currently considering the possibility of seeking a separate listing for this sub-group.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

Regal achieved a turnaround in the financial year ended 31st December, 2003 and recorded an audited consolidated net profit attributable to its shareholders of HK\$207.8 million (2002 - net loss of HK\$780.8 million (as restated)), having sustained operating losses for five years since 1998.

With a view to restoring its financial stability and, more importantly, to provide it with a solid platform for its continuing recovery going forward, Regal finalised and concluded a loan rescheduling agreement with its principal lenders in September 2003. Under the loan rescheduling agreement, the final repayment dates of the two principal outstanding loans of the Regal group have been extended to 2006 and 2012, respectively, with interim milestone payments and principal amortisation schedule having been set with reference to its expected cash inflows.

Hotels

Due to the outbreak of the Severe Acute Respiratory Syndrome, the tourism and hotel businesses in Hong Kong were drastically affected with the total number of visitors to Hong Kong having plunged by 20% in the first half of 2003, as compared with the same period in 2002. Since the delisting of Hong Kong as a SARS-affected area in late June, the local tourism and hotel markets staged a relatively rapid recovery. Aided by the new rules allowing residents of certain affluent Mainland cities to travel to Hong Kong as individuals and the implementation of the Closer Economic Partnership Arrangement, visitors from Mainland China for the year as a whole have climbed to over 8.4 million, representing an increase of some 24% as compared with 2002. However, due to the substantial negative growth recorded in all other major markets, the total number of incoming visitors in 2003 still declined by 6.2%, as compared with the preceding year. Given the longer lead-time between planning and traveling for most business and long-haul travelers, some of whom have actually cancelled their scheduled trips to Hong Kong in 2003 due to SARS scare, it can be anticipated that visitors from the other major markets would gradually pick up in 2004.



On account of the serious disruption caused by the SARS outbreak, the combined average occupancy for the five Regal Hotels in Hong Kong for the year under review has trailed behind 2002 by about 19.3%, but in terms of the combined average room rate, an increase of over 2% was attained. Except for the period affected by the SARS outbreak, the Regal Hotels in Hong Kong have in fact been able to achieve continuous improvements in their gross operating profit margins during the past few years, despite the competitive market conditions.

The Regal Airport Hotel remains highly regarded by international travelers and was for the third consecutive year awarded the "Best Airport Hotel Asia-Pacific" by Business Traveller Asia-Pacific Magazine in 2003. In March 2003, an overall settlement was concluded with the Hong Kong Airport Authority and the term of the sub-lease for this hotel has been agreed to be for a period of 25 years commencing from 31st December, 2003.

As mentioned in the Interim Report for the year under review, the Regal group entered into an agreement with an independent third party purchaser on 29th August, 2003 for the sale of its interests in the Regal Oriental Hotel for a consideration of HK\$350.0 million, subject to adjustments (including holdback and retention amounts for outstanding commitments and rectification works and warranties provided in respect of the hotel and its operations), with completion originally scheduled to take place on 31st March, 2004. The Regal group also had an option to terminate the sale agreement, subject to payment of certain agreed liquidated damages, but the latest time for the exercise of such option had since expired.

In view of the changed circumstances and the improved prospects for the local hotel sector since the entering into of the sale agreement of the Regal Oriental Hotel, the Regal group has been reconsidering the relative merits of selling the Regal Oriental Hotel, particularly having regard to the long held objective of positioning itself as one of the largest hotel owners and operators in Hong Kong. In order to provide the Regal group with additional time and flexibility for its contemplation of other alternative proposals and arrangements which may serve better commercial benefits to the Regal group than the disposal of the Regal Oriental Hotel under the sale agreement, the Regal group initiated discussions with the purchaser and, on 30th March, 2004, a supplemental agreement was finalised and signed. Under the supplemental agreement, the completion date was extended to 30th June, 2004 and an option (in a revised form) was reinstated for the Regal group, exercisable at its sole discretion, to terminate the sale agreement before the extended completion date, subject to the giving of requisite advance notice and the payment of an agreed termination fee. Further details of this supplemental agreement were contained in a joint announcement dated 31st March, 2004 published by the Company.

Similarly, in light of its enhanced financial position, the Regal group has also been reviewing the merits and, indeed, the need for the disposal of the Regal Riverside Hotel previously contemplated, particularly that the operating performance of this hotel has achieved substantial improvement since the second half of 2003. Therefore, the previous proposal for the sale of this hotel has been put in abeyance pending the mapping out of the overall business plans by the Regal group.



As disclosed in a joint announcement by the Company dated 2nd October, 2003, the Regal group had formally concluded a settlement agreement with the purchaser under the agreement entered into in December 1999 relating to the disposal of its hotel interests in the United States of America. The settlement agreement provided for the payment by the purchaser to the Regal group of a settlement amount of US\$48.8 million in full and final settlement of the legal proceedings and the total resolution and mutual release of all claims by and between the parties under or in connection with the 1999 sale agreement. Before accounting for any further related legal and other expenses, the settlement amount reflected a surplus of approximately HK\$4.0 million over the Group's net carrying value of the receivable amount as at 31st December, 2002. The settlement amount has since been duly received, most of which was applied towards reduction of the outstanding bank loans of the Regal group.

Regarding the Regal Constellation Hotel in Toronto, Canada, which was previously owned by the Regal group, the circumstances surrounding the divesture by the Regal group of its interests in this hotel in June 2003 had been reported in the Interim Report released in September 2003. The loss on disposal of the Group's investment in this hotel has been fully accounted for in the results for the year under review.

The year round operating results of the two hotels in Shanghai managed by the Regal group had similarly been adversely affected by the outbreak of SARS. Having regard to the buoyant economic condition presently prevailing in Shanghai and Mainland China overall, their operating results and, hence, the management fee income attributable to the Regal group, are anticipated to improve in 2004. With its strong operating base in Hong Kong and the established presence in Shanghai, the Regal group is planning to expand its hotel management network in Mainland China as and when suitable opportunities arise. In this regard, the Regal group has recently entered into a preliminary agreement for the provision of hotel management and technical assistance services for a 5-star hotel project in Shenzhen being undertaken by a third party investor group.

Properties - Regalia Bay

The Regal group now owns a 70% jointly controlled interest in Regalia Bay, which is a luxury residential development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong. The project is developed in 2 phases comprising a total of 139 luxury residential houses. The occupation permits for Phase I and Phase II have been issued in March 2003 and January 2004, respectively, and the requisite certificate of compliance for the project issued in March 2004.

The sale programme for this development was first launched in September 2003. The development has gained general recognition as one of the most prestigious luxury residential estates and the sale progress achieved so far has been most satisfactory. Up to the date of this report, a total of 88 houses has been contracted to be sold for an aggregate gross sale consideration of HK\$3.8 billion. It is anticipated that, by the third quarter of 2004, all the project loans outstanding on the development would have been fully repaid through the net proceeds receivable from the sale of the houses and further proceeds thereafter will accrue to the joint venture partners in accordance with their respective entitlements.



The Regal group has in the financial year under review written back a minority portion of the provision previously made against the Regal group's investment in this development project by reference to the sales achieved. Based on the latest transacted price, the going market trend as well as the growing demand for quality luxurious residential properties in Hong Kong Island, it is expected that the sale price for the remaining houses should be significantly higher than the average selling price achieved for the houses sold to date. Accordingly, it can be anticipated that, when the remaining houses are sold, a substantially larger write back amount will be recognised as profit contribution in the financial year ending 31st December, 2004.

OUTLOOK

Regal group

Business operations at the five Regal Hotels in Hong Kong for the first quarter of 2004 were very encouraging, with total gross operating profits having surpassed what were attained in the first quarter of 2003 by more than 50%. Based on the current forecast and barring any unforeseen circumstances, the operating results for the Regal Hotels in Hong Kong for 2004 are anticipated to fare far better than those attained in the year under review.

The Regal group expects that, on further sale of the remaining houses in Regalia Bay, there will be significant cash flows attributable to the Regal group starting from the latter part of 2004, which will help to greatly strengthen its overall financial and liquidity position. The Regal group is presently exploring alternative proposals for a further rescheduling and/or refinancing of its outstanding bank loans, with a view to preserving its hotel assets in Hong Kong and to providing the Regal group with added flexibility in its forward business planning.

Given the anticipated enhancement in the operating results of the Regal Hotels in Hong Kong and the significant profit contribution expected from the Regalia Bay development, the overall results of the Regal group for the financial year ending 31st December, 2004 should be even more promising.

To capitalise on Regal's established brand name, business network and operational and management expertise, the Regal group is actively looking to expand its presence in the PRC through management contracts and, if circumstances are considered to be appropriate, with equity participation.

On the whole, the general economic conditions in Hong Kong have been gradually recovering since the second half of 2003. Moreover, the continuing relaxation of the individual traveling by PRC residents, the coming into effect of the Closer Economic Partnership Arrangement with Mainland China, as well as the scheduled opening of the Disney World and the new International Exhibition Center at the Hong Kong International Airport at Chek Lap Kok in 2005 are all conducive to the creation of a favourable economic and business environment for Hong Kong. As the overall financial stability of the Regal group has now been restored, the Regal group is optimistic on the prospects of its continuing business revival and sustained growth.



Paliburg group

Having completed the series of comprehensive corporate and financial restructurings in 2002, the Paliburg group has fully recuperated from the financial difficulties encountered in the previous years. The indebtedness gearing of the Paliburg group is now at a very low level. Capitalising on its vast experience and expertise on the development of real estate projects, particularly in the design and construction of quality buildings within defined budgets, the Paliburg group is well poised to undertake new investments that may serve to expand or complement its existing business base, in Hong Kong as well as the PRC.

The Paliburg group believes that the profitable results achieved for the year under review should only mark the beginning of a new phase for its recovery and the Paliburg group is committed to a proactive and yet prudent plan for its restated growth in the years ahead.

Century City Group

Following the in-principle approval obtained from all the financial creditors earlier this year, the Company has recently circulated the requisite documentation for the debt restructuring proposal to the financial creditors and these documentation are being reviewed by the financial creditors with the assistance of the independent financial adviser previously appointed.

While Regal and Paliburg have each achieved very satisfactory progress in the year under review, the clear advantages of sustained stability have been reflected in the marked improvement in the market price of the listed shares of all the three listed group companies as compared with a year before. In this regard, the Company hopes to be able to see that the debt restructuring proposal can ultimately be finalised and implemented, which should be beneficial to both the financial creditors as well as shareholders.

DIRECTORS AND STAFF

On behalf of the Board, I wish to thank all management and staff member for their devoted commitment and I would also like to take this opportunity to express my gratitude to all my fellow Directors for their support all through these years.

LO YUK SUI

Chairman

Hong Kong
15th April, 2004