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**VERY SUBSTANTIAL DISPOSAL
(DEEMED DISPOSAL OF INTEREST IN REGAL)**

Issue of 2% Guaranteed Convertible Bonds due 2007 of Regal

Financial adviser to Century City International Holdings Limited

 **ERNST & YOUNG**

Ernst & Young Corporate Finance Limited

A notice convening a special general meeting of Century City International Holdings Limited to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 12:00 noon on Monday, 19th July, 2004 is set out on pages 169 to 170 of this circular. If you are not able to attend the meeting, please complete and return the form of proxy accompanying this circular in accordance with the instructions printed thereon to the branch share registrar of Century City International Holdings Limited in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	
Introduction	5
Subscription Agreements	6
Bonus Issue of Warrants by Regal	10
Deemed Disposal	12
Effect on the Shareholding Structure of Regal	14
Proposed Debt Restructuring	15
SGM	15
Recommendation	16
Appendix I — Accountants' Report	17
Appendix II — Pro forma Financial Information	126
Appendix III — Additional Information on Century City	136
Appendix IV — General Information	147
Notice of SGM	169

DEFINITIONS

In this circular the following expressions bear the following meanings, unless the context otherwise requires:

“2002 Circulars”	the circulars of Century City and Paliburg each dated 26th August, 2002
“Announcement”	the announcement jointly made by Century City, Paliburg and Regal dated 8th June, 2004 in relation to, among other things, issue of the Bonds and the Bonus Issue of Regal
“associates”	has the same meaning as defined in Chapter 1 of the Listing Rules
“Board”	the board of directors of Century City
“Bonds”	2% Guaranteed Convertible Bonds due 2007, comprising the Firm Bonds and any Optional Bonds, convertible into Regal Shares and guaranteed by Regal, and to be issued by the Issuer pursuant to the Subscription Agreements
“Bondholder(s)”	holder(s) of the Bonds
“Bonus Issue”	the proposed bonus issue of the Warrants
“CCIHL Group”	Century City and its subsidiaries (excluding the Regal Group)
“Century City”	Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Century City Group”	Century City and its subsidiaries
“Century City Shareholder(s)”	the holder(s) of the ordinary shares of HK\$0.10 each in the share capital of Century City
“Chasehill”	Chasehill Limited, a company wholly and directly owned by Dragon Root
“Closing Date”	the closing date for the issue of the Firm Bonds
“Conversion Price”	the conversion price of the Bonds, initially being HK\$0.25 per Regal Share, which is subject to adjustment as summarised in the Letter from the Board contained in this circular
“Dragon Root”	Dragon Root Inc., an indirect wholly owned subsidiary of Regal
“Firm Bonds”	Bonds in an aggregate principal amount of HK\$200 million which Subscriber A and Subscriber B have agreed to subscribe for, subject to the fulfillment and/or the waiver of the conditions precedent, on the Closing Date pursuant to the Subscription Agreements

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Issuer”	Cheerview Limited, a wholly-owned subsidiary of Regal
“Latest Practicable Date”	25th June, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	has the meaning ascribed to it under the paragraph headed “Maturity date” in the section headed “Principal terms of the Bonds” set out in the Letter from the Board in this circular
“Optional Bonds”	additional Bonds in an aggregate principal amount of up to HK\$200 million, which each of Subscriber A and Subscriber C has an option to subscribe for up to HK\$100 million in aggregate principal amount, in whole or in part (in integral multiples of HK\$1 million) and on one or more occasions, from the Closing Date to the date falling 90 days prior to the Maturity Date, pursuant to the Subscription Agreements
“Paliburg”	Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Paliburg Group”	Paliburg and its subsidiaries
“Paliburg Shareholders”	the holders of the ordinary shares of HK\$0.01 each in the share capital of Paliburg
“Paliburg SGM”	the special general meeting of Paliburg to be held for the purposes of seeking approvals from the Paliburg Shareholders for, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Paliburg to determine whether or not to exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue
“PHL Group”	Paliburg and its subsidiaries (excluding the Regal Group)
“Purchaser”	Sino Bright Group Limited, the purchaser under the SP Agreement, who is not, and whose controlling beneficial shareholders are not, connected person(s) (as defined under the Listing Rules) of Century City under the Listing Rules
“Record Date”	the record date for the determination of entitlements to the issue of the Warrants under the Bonus Issue, scheduled to be on Monday, 19th July, 2004

DEFINITIONS

“Regal”	Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Regal Convertible Preference Shares”	5¼% convertible cumulative redeemable preference shares of US\$10 each in the share capital of Regal
“Regal Group”	Regal and its subsidiaries
“Regal Oriental Hotel”	Regal Oriental Hotel, the hotel property and business in the name of “Regal Oriental Hotel” located at 30-38 Sa Po Road, Kowloon, Hong Kong
“Regal SGM”	the special general meeting of Regal to be held for the purposes of seeking approvals from the Regal Shareholders for, among other things, (i) the performance by Regal of the Subscription Agreements; (ii) the issue of the Bonds by the Issuer upon the terms and conditions as set out in the Subscription Agreements; and (iii) the Bonus Issue by Regal
“Regal Shares”	ordinary shares in the share capital of Regal, with par value of HK\$0.01 each
“Regal Shareholders”	holders of the Regal Shares
“ROH Termination Option”	Dragon Root’s option to terminate the SP Agreement pursuant to the terms thereunder
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of Century City to be held for the purposes of seeking approvals from the Century City Shareholders for, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Century City to determine whether to request Paliburg to, or whether to request Paliburg not to, exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue
“Shares”	shares of HK\$0.10 each in the share capital of Century City
“SP Agreement”	the sale and purchase agreement dated 29th August, 2003 entered into between Dragon Root, Regal and the Purchaser in respect of the sale by Dragon Root of its 100% interest in Chasehill which indirectly owns 100% interest in the Regal Oriental Hotel, as supplemented by a supplemental agreement dated 30th March, 2004
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Subscriber A, Subscriber B and Subscriber C

DEFINITIONS

“Subscriber A”	Clovering Enterprise Limited, which is not a connected person of Century City under the Listing Rules
“Subscriber B”	Finance Noble Limited, which is not a connected person of Century City under the Listing Rules
“Subscriber C”	Leader Advance Limited, which is not a connected person of Century City under the Listing Rules
“Subscription Agreements”	the two conditional subscription agreements, both dated 3rd June, 2004, one entered into between the Issuer, Regal and Subscriber A, and another entered into between the Issuer, Regal, Subscriber B and Subscriber C, in relation to the subscription of the Bonds
“Subscription Price”	the sum payable in respect of each Regal Share to which a holder of a Warrant will be entitled to subscribe for upon exercise of the Subscription Right represented thereby, initially being HK\$0.25 per Regal Share, which is subject to adjustment as summarised in the Letter from the Board contained in this circular
“Subscription Right”	in relation to each Warrant, means the right of the holder of the Warrant, in units of HK\$0.25, to subscribe for a certain number of new Regal Shares at the Subscription Price per Regal Share (subject to adjustment) at any time from the date falling 6 months after the issue date of the Warrants to the date falling 7 days prior to the third anniversary of the issue of the Warrants (both dates inclusive)
“US\$”	United States dollars, the lawful currency of the United States of America
“Warrants”	warrants to be issued by Regal under the Bonus Issue which carry the benefit of the Subscription Right

LETTER FROM THE BOARD



(Stock Code: 355)

Directors:

LO Yuk Sui (*Chairman and Managing Director*)

*Anthony CHUANG

Tommy LAM Chi Chung

#Kitty LO LEE Kit Tai

Jimmy LO Chun To

Kenneth NG Kwai Kai

*NG Siu Chan

*Head office and principal place
of business:*

18th Floor

Paliburg Plaza

68 Yee Wo Street

Causeway Bay

Hong Kong

* *Independent Non-Executive Directors*

Non-Executive Director

30th June, 2004

To the Century City Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL (DEEMED DISPOSAL OF INTEREST IN REGAL)

Issue of 2% Guaranteed Convertible Bonds due 2007 of Regal

INTRODUCTION

As disclosed in the Announcement, Regal, the Issuer and the Subscribers entered into the Subscription Agreements in relation to the issue of the Bonds, which will carry rights, subject to the terms and conditions as summarised in this circular, to convert into new Regal Shares at the Conversion Price, being initially HK\$0.25 per Regal Share. The issue of the Bonds by the Issuer is regarded as a deemed disposal for Century City of its indirect interest in Regal under the Listing Rules and such transaction constitutes a very substantial disposal for Century City under the Listing Rules. Accordingly, the issue of the Bonds is subject to the approval of, among other things, the Century City Shareholders at the SGM.

The board of directors of Regal has proposed a bonus issue of the Warrants to the Regal Shareholders on the basis of one unit of HK\$0.25 Subscription Right attaching to the Warrant for every 10 Regal Shares held on the Record Date, which is scheduled to be on 19th July, 2004. As at the Latest Practicable Date, Century City was the controlling shareholder of Paliburg beneficially holding approximately 64.8% of the issued ordinary share capital of Paliburg; while Paliburg had a beneficial

LETTER FROM THE BOARD

interests of approximately 44.9% in the issued ordinary share capital of Regal. The Board has proposed to obtain a general authority from the Century City Shareholders to determine whether to request Paliburg to, or whether to request Paliburg not to, exercise the Warrants which may be issued pursuant to the Bonus Issue.

On 3rd June, 2004, Dragon Root, a wholly owned subsidiary of Regal, exercised the ROH Termination Option and served the termination notice on the Purchaser to terminate the SP Agreement. The termination became effective on 24th June, 2004. Dragon Root has returned the HK\$30 million deposit and all interest earned thereon to the Purchaser in accordance with the terms of the SP Agreement. Pursuant to the terms of the SP Agreement, a termination fee of HK\$39 million is payable on or before 24th July, 2004 by Dragon Root to the Purchaser which will be satisfied by the issue of 195 million new Regal Shares to the Purchaser at an issue price of HK\$0.2 each, as agreed between the parties to the SP Agreement.

The new Regal Shares to be issued under the SP Agreement will rank *pari passu* with the Regal Shares in issue at the time such new Regal Shares are issued, including, among other things, in respect of entitlements to the Bonus Issue.

The purpose of this circular is to provide you with further information on the issue of the Bonds and the Warrants.

SUBSCRIPTION AGREEMENTS

On 3rd June, 2004, the Issuer, Regal and the Subscribers entered into the Subscription Agreements in relation to the proposed issue by the Issuer of the Bonds.

Subscribers

Pursuant to the Subscription Agreements, Subscriber A has agreed to subscribe for HK\$100 million Firm Bonds and has been granted an option to subscribe for up to HK\$100 million Optional Bonds; while Subscriber B has agreed to subscribe for another HK\$100 million Firm Bonds and Subscriber C has been granted an option to subscribe for up to another HK\$100 million Optional Bonds. Subscriber B and Subscriber C have the same group of ultimate beneficial shareholders. Save for Mr. Daniel Bong Shu Yin, who resigned as a director of Regal with effect from 6th January, 2004 and owns a shareholding interest of less than 30% in each of Subscriber B and Subscriber C, Subscriber A, Subscriber B, Subscriber C and their respective beneficial shareholders are not connected persons (as defined under the Listing Rules) of Century City under the Listing Rules. The two Subscription Agreements have substantially the same terms and conditions as described below.

Principal terms of the Bonds

Firm Bonds and Optional Bonds

The Bonds comprise:

- (i) the Firm Bonds in an aggregate principal amount of HK\$200 million; and

LETTER FROM THE BOARD

(ii) the Optional Bonds in an additional aggregate principal amount of up to HK\$200 million.

The Bonds will be issued in registered form, in the denomination of HK\$1 million each. The Bonds will be issued at 100% of their principal amount and will be guaranteed by Regal.

Conversion rights

The Bonds are convertible into Regal Shares at any time from and including the date falling 6 months after the Closing Date up to the close of business on the date falling 7 days prior to the Maturity Date.

Conversion price

The initial Conversion Price of the Bonds is HK\$0.25 per Regal Share, subject to adjustments as summarized below.

The initial Conversion Price was determined on an arm's length basis between Regal and the Subscribers with reference to the market price of the Regal Shares. The initial Conversion Price represents (i) a premium of approximately 7.3% over the closing price of HK\$0.233 per Regal Share as quoted on the Stock Exchange on 3rd June, 2004, being the last trading day of the Regal Shares immediately prior to date of the Announcement; (ii) a premium of approximately 2.0% over the average closing price of HK\$0.245 per Regal Share for the last five trading days as quoted on the Stock Exchange up to and including 3rd June, 2004; (iii) the equivalent of the closing price of HK\$0.25 per Regal Share as quoted on the Stock Exchange on the Latest Practicable Date; and (iv) a premium of approximately 1.6% over the average closing price of HK\$0.246 per Regal Share for the last five trading days quoted on the Stock Exchange up to and including the Latest Practicable Date.

The Conversion Price will be subject to adjustment for, amongst other things, consolidations/subdivisions of Regal Shares, capital distributions, bonus issues, rights issues and certain other events, including a downward adjustment to the effect that should Regal issue new Regal Shares (or securities convertible into new Regal Shares) at an issue price lower than the then prevailing Conversion Price of the Bonds, the Conversion Price shall be adjusted to such issue price (but such adjustment shall not be retroactive).

Subscription of the Optional Bonds

Each of Subscriber A and Subscriber C has been granted an option to subscribe for the Optional Bonds with an aggregate principal amount of up to HK\$100 million, which is exercisable on or before the day falling 90 days prior to the Maturity Date subject to the completion of the relevant Subscription Agreement. The Optional Bonds have the same terms and conditions as the Firm Bonds.

LETTER FROM THE BOARD

Deposit

Upon execution of the Subscription Agreements, Subscriber A has deposited the sum of HK\$20 million, and Subscriber B has deposited the sum of HK\$20 million, that is HK\$40 million in total, with Regal.

Interest

The Bonds carry interest at 2% per annum, payable semi-annually in arrear. The interest on each of the Bonds will accrue from the date of issue of such Bond.

Maturity date

The Maturity Date of the Bonds will be the date falling 36 months from the Closing Date. Any outstanding Bonds will be redeemed by the Issuer at 100% of their principal amount on the Maturity Date.

Transferability

The Bonds will be freely transferable. Century City will notify the Stock Exchange of any dealings in the Bonds by any connected persons (as defined under the Listing Rules) of Century City, so long as Regal remains a subsidiary of Century City, upon Century City becoming aware of such dealings.

Early redemption

Regal has the right, at any time prior to the Maturity Date by not less than 15 nor more than 30 business days' notice to the Bondholders, to redeem the Bonds at 100% of their principal amount, if the outstanding principal amount of the Bonds is less than HK\$10 million.

Voting rights at general meetings of Regal

The Bondholders will not be entitled to receive notice of, attend or vote at any general meeting of Regal.

Regal Shares to be issued upon conversion of the Bonds

Based on the initial Conversion Price, an aggregate number of 800 million new Regal Shares will fall to be issued upon full conversion of the Firm Bonds and if the Optional Bonds are fully subscribed and converted, an additional aggregate number of 800 million new Regal Shares will fall to be issued. The percentages in the issued ordinary share capital of Regal represented by the new Regal Shares falling to be issued upon full conversion of the Bonds at the initial Conversion Price and their impact on the shareholding structure of Regal are shown in the section headed "Effect on the shareholding structure of Regal" below.

LETTER FROM THE BOARD

The new Regal Shares falling to be issued upon exercise of the conversion rights attaching to the Bonds will in all respects rank pari passu with the then existing issued Regal Shares.

Use of proceeds from the issue of the Bonds

As stated in the audited consolidated financial statements of Regal, the Regal Group had bank indebtedness amounting to approximately HK\$4,450 million as at 31st December 2003. Regal intends to use the proceeds of approximately HK\$200 million receivable from the issue of the Firm Bonds substantially for reduction of the bank indebtedness of the Regal Group. Additional proceeds from any subscription of Optional Bonds are intended to be used by the Regal Group for general working capital purposes.

Conditions of the Subscription Agreements

Completion of the Subscription Agreements is subject to the fulfilment and/or the waiver (by the Subscribers) of, among other things, the following conditions precedent:

1. obtaining approvals from the shareholders of Regal at the Regal SGM for (a) the issue of the Bonds; (b) the grant of a specific mandate to the board of directors of Regal for the issue of the Regal Shares which may fall to be issued upon conversion of the Bonds; and (c) the increase of the authorised share capital of Regal from approximately HK\$101.3 million to approximately HK\$201.3 million;
2. obtaining approval from the Stock Exchange for the listing of, and permission to deal in, the new Regal Shares which may fall to be issued upon conversion of the Bonds; and
3. obtaining approvals from the Century City Shareholders at the SGM and the Paliburg Shareholders at the Paliburg SGM for the issue of the Bonds.

The Subscribers may terminate the Subscription Agreements, if there has been, in their reasonable opinion, a material adverse change since the date of the Subscription Agreements in the financial position or shareholding structure of Regal and its subsidiaries taken as a whole.

Completion of each Subscription Agreement shall take place on the second business day after all the conditions precedent have been met or waived, as the case may be, or on such other date as may be agreed between the parties to the relevant Subscription Agreements, which may not be later than 30th July, 2004, or such other date as may be agreed between the parties to the relevant Subscription Agreements. Conditions 1 and 3 above, however, cannot be waived by the Subscribers. In the event that the subscription of the Bonds (through no fault of the relevant Subscriber) is not completed, the deposit paid by the relevant Subscriber shall be refunded to the said Subscriber.

Application for listing

The Board understands that Regal has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Regal Shares which may fall to be issued upon conversion of the Bonds.

LETTER FROM THE BOARD

Reasons for the issue of the Bonds

As mentioned in the paragraph headed “Use of proceeds from the issue of the Bonds” above, the main reason for the issue of the Firm Bonds is to raise capital for repaying part of the Regal Group’s bank indebtedness. Net proceeds from the issue of the Optional Bonds will provide additional working capital for the Regal Group.

BONUS ISSUE OF WARRANTS BY REGAL

The Bonus Issue

The board of directors of Regal has proposed, subject to the satisfaction of the conditions described below, the Bonus Issue of Warrants to the Regal Shareholders on the basis of one unit of HK\$0.25 Subscription Right for every 10 Regal Shares held on the Record Date, currently scheduled to be on 19th July, 2004.

The Warrants

Based on the initial Subscription Price of HK\$0.25 per Regal Share, every unit of HK\$0.25 Subscription Right will give the holder of the Warrant the right to subscribe for one new Regal Share. Should the Subscription Price be adjusted pursuant to the terms of the Warrants, the number of Regal Shares that a holder of the Warrant is entitled to subscribe for will also be adjusted.

The Warrants will be exercisable at any time from the date falling 6 months after the issue date of the Warrants to the close of business on the date falling 7 days prior to the third anniversary of the issue of the Warrants (both dates inclusive). The expected expiry date of the Subscription Rights under the Warrants will be on 26th July, 2007.

Fractional entitlements to less than one unit of HK\$0.25 Subscription Right will not be issued to the Regal Shareholders but will be aggregated and sold for the benefit of Regal.

The initial Subscription Price of the Regal Shares to be issued upon exercise of the Warrants is equivalent to the initial Conversion Price, and the Subscription Price is subject to substantially the same adjustments as those applicable to the Conversion Price of the Bonds.

Regal Shares to be issued upon exercise of the Warrants

Based on the approximately 8,145.4 million Regal Shares in issue on the Latest Practicable Date and the 195 million Regal Shares to be issued pursuant to the termination of the SP Agreement, and assuming no other change to Regal’s issued ordinary share capital on or before the Record Date, Warrants in aggregate carrying Subscription Rights of approximately HK\$208.5 million will be issued pursuant to the Bonus Issue. Based on the initial Subscription Price of HK\$0.25, exercise of such Warrants in full would result in the issue of approximately 834 million new Regal Shares, representing approximately 10.2% of the issued ordinary share capital of Regal as at the Latest Practicable Date. As at the Latest Practicable Date, approximately 16,748 Regal Convertible Preference Shares were

LETTER FROM THE BOARD

outstanding which may be converted into approximately 76 million new Regal Shares at a conversion price of HK\$1.7037 per Regal Share, of which 3,440 Regal Convertible Preference Shares were held by Paliburg. For details of the effect of the Warrants on the shareholding structure of Regal, please refer to the section headed “Effect on the shareholding structure of Regal” below.

The new Regal Shares falling to be issued upon exercise of the Subscription Rights attaching to the Warrants will rank *pari passu* with the then existing issued Regal Shares.

Conditions of the Bonus Issue

The Bonus Issue is conditional on the followings:

1. passing of an ordinary resolution in relation to the Bonus Issue and the issue of new Regal Shares pursuant to the exercise of the Warrants at the Regal SGM;
2. the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Warrants and any new Regal Shares which may fall to be issued upon the exercise of the Subscription Rights attaching to the Warrants;
3. passing of requisite ordinary resolutions at the SGM, the Paliburg SGM and the Regal SGM in relation to the issue of the Bonds and the new Regal Shares which may fall to be issued upon conversion of the Bonds; and
4. obtaining approval from the shareholders of Regal at the Regal SGM for the increase of the authorised share capital of Regal from approximately HK\$101.3 million to approximately HK\$201.3 million.

As set out in the Announcement, it is the current intention of the directors of Regal that the Bonus Issue will proceed after satisfaction of all the conditions precedent above and may take place irrespective of the status of the completion of the Subscription Agreements.

The PHL Group’s entitlements to the Bonus Issue

As at the Latest Practicable Date, the PHL Group beneficially held approximately 3,653.8 million Regal Shares. Assuming there is no change in the PHL Group’s beneficial shareholding in Regal from the Latest Practicable Date to the Record Date, Warrants carrying aggregate Subscription Rights of approximately HK\$91.3 million will be issued to the PHL Group by Regal pursuant to the Bonus Issue. Based on the initial Subscription Price, such Subscription Rights will entitle the PHL Group to subscribe for approximately 365.4 million new Regal Shares.

LETTER FROM THE BOARD

Assuming that the beneficial shareholding interests of the PHL Group in Regal on the Record Date remains the same as that on the Latest Practicable Date, after the issue of the 195 million Regal Shares under the SP Agreement but before conversion of any of the Bonds, the beneficial shareholding interests of Paliburg in the issued ordinary share capital of Regal will:

- increase from approximately 43.8% to approximately 46.2% if all the Warrants which may be issued to the PHL Group under the Bonus Issue are exercised by the PHL Group and no other Warrants issued under the Bonus Issue is exercised; or
- decrease from approximately 43.8% to approximately 41.5% if all the Warrants which may be issued under the Bonus Issue, except for those which may be issued to the PHL Group, are exercised.

The PHL Group exercising or not exercising the Warrants may also constitute a notifiable transaction for Century City under the Listing Rules and may therefore be subject to, among other things, approval of the Century City Shareholders. In this regard, Century City will seek approval from the Century City Shareholders for the grant of a general authority to the directors of Century City for determining whether to request the PHL Group to, or whether to request the PHL Group not to, exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue.

DEEMED DISPOSAL

As at the Latest Practicable Date, Century City was the controlling shareholder of Paliburg beneficially holding approximately 64.8% of the issued ordinary share capital of Paliburg; while Paliburg was the controlling shareholder of Regal beneficially holding approximately 44.9% of the issued ordinary share capital of Regal, and Regal was a subsidiary of Century City. As stated in the section headed “Effect on the shareholding structure of Regal” below, as at the Latest Practicable Date, Paliburg held an aggregate of approximately 53.7% of the issued ordinary share capital of Regal, of which approximately 44.9% was beneficially owned by Paliburg and the remaining approximately 8.8% was held through a special purpose vehicle (the “SPV”) wholly owned by Paliburg. The Regal Shares held by the SPV are to be released subject to the arrangement under a settlement proposal as described in the 2002 Circulars. All the Regal Shares held by the SPV will be released by 31st July, 2004 and the aggregate shareholding interests of Paliburg in Regal will then decrease from approximately 53.7% (as at the Latest Practicable Date) to approximately 44.9%, before taking into account the issue of the new Regal Shares to the Purchaser for the termination of the SP Agreement, the new Regal Shares which may fall to be issued upon exercise of the conversion rights attaching to the Bonds and the Subscription Rights attaching to the Warrants and assuming that there are no other changes to the shareholding structure of Regal. Based on the current accounting policies of Century City, the Hong Kong Companies Ordinance, the generally accepted accounting principles in Hong Kong and assuming that the 195 million Regal Shares pursuant to the termination of the SP Agreement will have been issued, Regal will cease to be a subsidiary of Century City upon release of approximately 200.2 million Regal Shares held by the SPV. The Bonds and the Warrants will (in

LETTER FROM THE BOARD

accordance with their respective terms) only become exercisable subsequent to 31st July, 2004, when all the Regal Shares held by the SPV will have been released pursuant to the settlement proposal and Regal will have ceased to be a subsidiary and will have become an associated company of Century City (assuming there is no other change to the shareholding structure of Regal and Paliburg).

The issue of the Bonds is regarded as a deemed disposal for Century City under the Listing Rules and such transaction constitutes a very substantial disposal for Century City under the Listing Rules. Accordingly, the issue of the Bonds is subject to, among other things, the approval of the Century City Shareholders. Gain or loss may be recorded by Century City as a result of the conversion of the Bonds depending on the net asset value per Regal Share as at the date of exercise of such conversion rights. Century City will seek approval from the Century City Shareholders for the issue of the Bonds at the SGM.

The Regal Group is principally engaged in hotel ownership and management, property investment, and other investments. For the two years ended 31st December, 2002 and 2003, the audited profit before and after taxation and minority interests of the Regal Group were as follows:

	For the year ended	
	31st December,	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Profit/(loss) before taxation and minority interests	160.0	(767.0)
Profit/(loss) after taxation and minority interests	207.8	(780.8)

The Regal Group did not record any extraordinary or exceptional items for each of the years ended 31st December, 2002 and 2003. The audited consolidated net asset value of Regal as at 31st December, 2003 was HK\$4,040.5 million.

Apart from the business of the Regal Group, the Century City Group is principally engaged in investment holdings, property development and investment, property management, and construction and building-related businesses.

The Board understands that it is in the interests of Regal to enter into the Subscription Agreements with a view to allowing the Regal Group further to reduce its gearing level. After taking into account the benefits of the issue of the Bonds to Regal (which is one of the key members of the Century City Group), the Board considers that the terms of the Subscription Agreements and the Bonds are fair and reasonable and the issue of the Bonds is in the interests of Century City and the Century City Shareholders as a whole.

LETTER FROM THE BOARD

EFFECT ON THE SHAREHOLDING STRUCTURE OF REGAL

The table below sets out the shareholding structure of Regal as at the Latest Practicable Date and the shareholding structure of Regal after (i) issue of 195 million new Regal Shares to the Purchaser for the termination of the SP Agreement; (ii) release of approximately 716.6 million Regal Shares held by the SPV in full by 31st July, 2004 as described in the 2002 Circulars; (iii) issue of 800 million new Regal Shares at the initial Conversion Price upon conversion of the Firm Bonds in full; (iv) issue of 800 million Regal Shares at the initial Conversion Price upon conversion of the Optional Bonds in full; and (v) issue of approximately 834 million new Regal Shares upon exercise of all the Warrants at the initial Subscription Price, and assuming that none of the outstanding Regal Convertible Preference Shares will be converted and there is no other change to the shareholding structure of Regal.

	As at the Latest Practicable Date		Upon issue of 195 million new Regal Shares to the Purchaser pursuant to the termination of the SP Agreement		Upon release of approximately 716.6 million Regal Shares by 31st July, 2004 pursuant to the settlement proposal as described in the 2002 Circulars		Upon full conversion of the Firm Bonds		Upon full conversion of the Firm Bonds and the Optional Bonds		Upon full conversion of the Bonds and exercise in full of the Warrants	
	Number of Regal Shares million	%	Number of Regal Shares million	%	Number of Regal Shares million	%	Number of Regal Shares million	%	Number of Regal Shares million	%	Number of Regal Shares million	%
The PHL Group	3,653.8	44.86%	3,653.8	43.81%	3,653.8	43.81%	3,653.8	39.97%	3,653.8	36.76%	4,019.2	37.30%
SPV	716.6	8.80%	716.6	8.59%	—	—	—	—	—	—	—	—
Sub-total	4,370.4	53.66%	4,370.4	52.40%	3,653.8	43.81%	3,653.8	39.97%	3,653.8	36.76%	4,019.2	37.30%
Directors of Regal	2.6	0.03%	2.6	0.03%	2.6	0.03%	2.6	0.03%	2.6	0.03%	2.9	0.03%
Subscribers and their ultimate beneficial shareholders/ Bondholders	48.0	0.59%	48.0	0.58%	48.0	0.58%	848.0	9.28%	1,648.0	16.58%	1,652.8	15.34%
Purchaser	—	—	195.0	2.34%	195.0	2.34%	195.0	2.13%	195.0	1.96%	214.5	1.99%
Holder of the Series B Bonds (as defined in the 2002 Circulars)	—	—	—	—	716.6	8.59%	716.6	7.84%	716.6	7.21%	788.3	7.32%
Existing public Regal Shareholders	3,724.4	45.72%	3,724.4	44.65%	3,724.4	44.65%	3,724.4	40.75%	3,724.4	37.46%	4,096.7	38.02%
Total	<u>8,145.4</u>	<u>100.00%</u>	<u>8,340.4</u>	<u>100.00%</u>	<u>8,340.4</u>	<u>100.00%</u>	<u>9,140.4</u>	<u>100.00%</u>	<u>9,940.4</u>	<u>100.00%</u>	<u>10,774.4</u>	<u>100.00%</u>

LETTER FROM THE BOARD

Based on the initial Conversion Price, if the Bonds are fully subscribed for and converted into Regal Shares, 1,600 million new Regal Shares will be issued by Regal. The number of Regal Shares which may fall to be issued by Regal as a result of the conversion of the Bonds depends on the prevailing Conversion Price when conversions of the Bonds take place. If the Conversion Price should be adjusted downward in accordance with the provisions under the Bonds, the number of Regal Shares which may fall to be issued by Regal as a result of the conversions of the Bonds would increase and the shareholding interests of the existing Regal Shareholders, including the PHL Group, in Regal would be further diluted than that set out in the table above.

PROPOSED DEBT RESTRUCTURING

As mentioned in the annual report of Century City for the year ended 31st December, 2003, the Accountants' Report in Appendix I to this circular and the Additional Information on Century City in Appendix III to this circular, Century City and its subsidiaries, excluding the PHL Group and the Regal Group (the "Group") has encountered financial problems and has been negotiating with its financial creditors with a view to finalising a restructuring plan in respect of the indebtedness of the Group. In October 2002, the Group, together with its independent financial adviser, presented a debt restructuring proposal to the financial creditors of the Group. Century City obtained in January 2004 the written in-principle approvals 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 Group by conversion into one or more financial instruments and convertible securities proposed to be issued by the 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. Century City is now in the final stage of negotiation with its financial creditors on a consensual debt restructuring proposal.

As mentioned in an announcement made by Century City dated 29th June, 2004, as it became evident that formal agreements for the debt restructuring proposed would not be able to be reached before 30th June, 2004, the parties to the Share Swap Agreement (as defined and described in the 2002 Circulars), including Century City, entered into a supplemental agreement (the "2004 Supplemental Agreement") to the Share Swap Agreement on 29th June, 2004. Under the Share Swap Agreement, Century City has been given a mechanism to maintain its majority shareholding interest in Paliburg pending finalisation of the debt restructuring. The expiry date of such mechanism under the Share Swap Agreement has previously been extended to 30th June, 2004. Under the 2004 Supplemental Agreement, such expiry date has been further extended to 30th September, 2004.

Further announcement regarding the proposed debt restructuring of Century City will be made as and when required.

SGM

Set out on pages 169 to 170 of this circular is a notice convening the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on 19th July, 2004 at which ordinary resolutions will be proposed to consider and, if thought fit, to approve, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Century

LETTER FROM THE BOARD

City to determine whether to request Paliburg to, or whether to request Paliburg not to, exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue. Any Subscribers or their respective associates holding any Shares will abstain from voting at the SGM in respect of the resolution for approving the issue of the Bonds.

Pursuant to the bye-laws of Century City, a poll may be demanded (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) by the chairman of the SGM or:

- (a) by at least three Century City Shareholders present in person (or in the case of a Century City Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the SGM;
- (b) by a Century City Shareholder or Century City Shareholders present in person (or in the case of a Century City Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Century City Shareholders having the right to vote at the SGM; or
- (c) by a Century City Shareholder or Century City Shareholders present in person (or in the case of a Century City Shareholder being a corporation by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the SGM being Shares in which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

RECOMMENDATION

The Board considers, that the issue of the Bonds and the granting of a general authority to the directors of Century City to determine whether to request Paliburg to, or whether to request Paliburg not to, exercise the Warrants which may be issued pursuant to the Bonus Issue are in the interests of Century City and the Century City Shareholders as a whole. Accordingly, the Board recommends the Century City Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM.

Your attention is drawn to the further information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Lo Yuk Sui
Chairman



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30th June, 2004

The Directors
Century City International Holdings Limited
18/F Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs,

We set out below our report on the financial information regarding Century City International Holdings Limited (the “Company”) and its subsidiary companies (hereinafter collectively referred to as the “Group”) for each of the three years ended 31st December, 2001, 2002 and 2003 (the “Relevant Periods”), prepared on the basis set out in Section (I) below, for inclusion in the circular of the Company dated 30th June, 2004 in connection with the very substantial disposal (deemed disposal) of interests in Regal Hotels International Holdings Limited (“RHIHL”), a listed subsidiary company of the Group, arising from the proposed issue of the 2% Guaranteed Convertible Bonds due 2007 of RHIHL.

The Company was incorporated in Bermuda with limited liability on 10th April, 1989 and is engaged in investment holding. As at the date of this report, the Company had direct and indirect interests in the principal subsidiary companies set out in Section (I) below.

We have acted as auditors of the Group for the Relevant Periods.

We have audited the financial statements of the Group for the three years ended 31st December, 2001, 2002 and 2003 in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants (“HKSA”), which were issued on 19th April, 2002, 17th April, 2003 and 15th April, 2004, respectively (the “Relevant Audited Financial Statements”). For the purpose of this report, we have carried out additional procedures to disclose separately the financial information attributable to the operations of RHIHL and its subsidiary companies and such other procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKSA (the “Auditing Guideline”). Accordingly, adjustments arising from the aforesaid procedures have been made to the Financial Information (as defined hereunder) set out in this report. However, in accordance with the Auditing Guideline, no adjustments have been made to the Financial Information for each of the three years ended 31st December, 2001, 2002 and 2003 in respect of events that had occurred subsequent to the respective dates of approval of the Relevant Audited Financial Statements.

The Relevant Audited Financial Statements were either modified or qualified in respect of fundamental uncertainties relating to the following:

- (a) Investments in two investee companies (Section (II) (note 20)); and/or
- (b) Provision against a receivable (Section (II) (note 28)); and/or
- (c) Going concern (Section (I)).

The fundamental uncertainty relating to item (b) was uplifted in the latest audited financial statements of the Group for the year ended 31st December, 2003. Details of the fundamental uncertainties relating to items (a) and (c) are set out in the sections headed “Fundamental uncertainty - Investments in two investee companies” and “Fundamental uncertainty relating to the going concern basis”, respectively, below.

The consolidated results, statements of changes in equity and cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31st December, 2001, 2002 and 2003 together with the notes thereon set out in this report (collectively the “Financial Information”) have been prepared based on the Relevant Audited Financial Statements, after making the adjustments described above, and on the basis set out in Section (I) below.

The Directors of the Company are responsible for the preparation of the Financial Information. It is our responsibility to form an independent opinion on the Financial Information.

Fundamental uncertainty - Investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in Section (II) (note 20) concerning the outcome of the negotiations with the relevant government authorities in the People’s Republic of China in respect of the resumption in 2000 of a land site beneficially and collectively held by two investee companies (the “Investee Companies”) of Paliburg Holdings Limited (“PHL”), a listed subsidiary company of the Group, and its subsidiary companies (the “PHL Group”). The carrying values of the PHL Group’s investments in the Investee Companies amounted to HK\$118.9 million as at 31st December, 2001 and HK\$56.9 million as at 31st December, 2002 and 2003, which are included in long term investments under non-current assets of the PHL Group. As further explained in Section (II) (note 20), the directors of PHL are not able to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies. Should the Investee Companies ultimately fail to secure the title to the land site or the PHL Group’s proposed disposal of its investments in the Investee Companies fail to materialise, appropriate adjustments against the carrying values of the PHL Group’s investments in the Investee Companies might be required. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have also considered the adequacy of the disclosures made in Section (I) below which explains the circumstances giving rise to the fundamental uncertainty relating to the successful implementation of the debt restructuring proposal (the “Debt Restructuring”) to replace the Group’s existing informal standstill arrangement.

The Financial Information has been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Debt Restructuring. The Financial Information does not include any adjustments that would result from the failure of the Debt Restructuring. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

In our opinion, the Financial Information prepared on the basis as explained above gives, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the Group for the Relevant Periods and of the consolidated balance sheets of the Group as at 31st December, 2001, 2002 and 2003.

(I) BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF THE GOING CONCERN

As at 31st December, 2003, the Group had consolidated net current liabilities of HK\$2,675.2 million and reported a deficiency in assets of HK\$732.9 million.

Since 2000, the Group, excluding Paliburg Holdings Limited (“PHL”) and its subsidiary companies, (the “CCIHL Group”), has been conducting discussions with its financial creditors with a view to formulating a consensual debt restructuring proposal to replace the current informal standstill arrangement under which repayment of their indebtedness has been suspended during the years. In October 2002, the CCIHL Group presented a debt restructuring proposal (the “Debt Restructuring”) to its financial creditors for their consideration. In January 2004, all the financial creditors confirmed their written in-principle support of the Debt Restructuring. The CCIHL Group is currently in the final stage of negotiation with its financial creditors on the detailed terms of the Debt Restructuring and the relevant documentation is being finalised. Details of corporate update of PHL and its subsidiary companies are set out in Section (II) (note 1) below.

On the basis that the Debt Restructuring will be successfully implemented, 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 Information 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.

The Financial Information, which is based on the Relevant Audited Financial Statements, and after making such adjustments described on page one of this report, includes the consolidated results, statements of changes in equity and cash flows for the Relevant Periods and the consolidated balance sheets of the Group as at 31st December, 2001, 2002 and 2003. All material intra-group transactions and balances have been eliminated on consolidation.

No adjustments have been made to the Financial Information for each of the three years ended 31st December 2001, 2002 and 2003 in respect of events that had occurred subsequent to the respective dates of approval of the Relevant Audited Financial Statements (the “Subsequent Events”),

as the Directors of the Company consider the inclusion of any adjustments with respect to the Subsequent Events on the Financial Information is not meaningful for the purpose of this report. Details of events that had occurred subsequent to the date of issue of the latest audited financial statements of the Group in respect of the year ended 31st December, 2003, i.e. 15th April, 2004 up to the date of this report are set out in Section (III) below.

As at the date of this report, the Company had direct and indirect interests in the principal subsidiary companies set out below:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Aikford Financial Services Limited	Hong Kong	HK\$2	100	Securities investment
Almighty International Limited ("Almighty")	British Virgin Islands	US\$1	100	Investment holding
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	Investment holding
Century City Finance Limited	Hong Kong	HK\$2	100	Financing
Century City Funds Management Limited	Hong Kong	HK\$2	100	Fund management
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	Investment holding
Century City (Nominees) Limited	Hong Kong	HK\$2	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	Secretarial services
Cityline Finance Limited	Hong Kong	HK\$2	100	Financing
Expert Link Technology Limited	British Virgin Islands	US\$1	100	Investment holding
Gentwin Investment Limited	Hong Kong	HK\$2	100	Financing

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Meylink Limited	British Virgin Islands	US\$1	100	Investment holding
Splendour Corporation	British Virgin Islands	US\$1	100	Investment holding
T.M. Nominees Limited	Hong Kong	HK\$2	100	Nominee services
Paliburg Holdings Limited (“PHL”)	Bermuda	Ordinary- HK\$50,584,975 Convertible preference- HK\$124,000,000	34.8 ⁽ⁱ⁾ — ⁽ⁱ⁾	Investment holding
303 Company Limited	Hong Kong	HK\$10,000	34.8 ⁽ⁱⁱ⁾	Security systems and software development and distribution
Capital Billion International Limited	British Virgin Islands	US\$10,000	34.8 ⁽ⁱⁱ⁾	Financing
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	34.8 ⁽ⁱⁱ⁾	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	34.8 ⁽ⁱⁱ⁾	Financing and property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	34.8 ⁽ⁱⁱ⁾	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	26.1 ⁽ⁱⁱ⁾	Investment holding

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Cosmos Best Development Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Investment holding
Finso Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Granco Development Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property development and investment

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Leading Technology Holdings Limited (“LTH”) ⁽ⁱⁱⁱ⁾	British Virgin Islands	US\$100	34.8 ⁽ⁱⁱ⁾	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Investment holding
Mira Technology Limited	Hong Kong	HK\$937,500	35.6 ⁽ⁱⁱ⁾	Software development
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	34.8 ⁽ⁱⁱ⁾	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Mechanical and electrical engineering services
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	34.8 ⁽ⁱⁱ⁾	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	34.8 ⁽ⁱⁱ⁾	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	34.8 ⁽ⁱⁱ⁾	Estate management
Paliburg Finance Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	34.8 ⁽ⁱⁱ⁾	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	34.8 ⁽ⁱⁱ⁾	Investment holding

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Power Faith Investments Limited	British Virgin Islands	US\$100	34.8 ⁽ⁱⁱ⁾	Financing
Rank Cheer Investment Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	34.8 ⁽ⁱⁱ⁾	Financing
Sanefix Development Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property investment
Shenzhen Leading Technology Co. Ltd	The People's Republic of China	RMB10,000,000	34.8 ⁽ⁱⁱ⁾	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Venture Perfect Investments Limited	British Virgin Islands	US\$34,500	34.8 ⁽ⁱⁱ⁾	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	34.8 ⁽ⁱⁱ⁾	Securities investment

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Weifang Yuanzhong Real Estate Development Co., Ltd.	The People's Republic of China	US\$8,130,000	18.3 ⁽ⁱⁱ⁾	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	34.8 ⁽ⁱⁱ⁾	Investment holding
Regal Hotels International Holdings Limited ("RHIHL") ^(vi)	Bermuda	Ordinary-HK\$81,454,392 Preference-US\$167,480	15.6 ^{(ii),(iv)} 7.1 ^{(ii),(iv)}	Investment holding
Bauhinia Hotels Limited	Hong Kong	HK\$2	15.6 ^(v)	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	15.6 ^(v)	Property investment
Charmwin Limited	Hong Kong	HK\$2	15.6 ^(v)	Distribution of beer
Cityability Limited	Hong Kong	HK\$10,000	15.6 ^(v)	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	15.6 ^(v)	Financing
Farah Investments Limited	Hong Kong	HK\$2	15.6 ^(v)	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	15.6 ^(v)	Financing
Gala Hotels Limited	Hong Kong	HK\$2	15.6 ^(v)	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	15.6 ^(v)	Securities investment
Kaifeng Yatai Brewery Co., Ltd.	The People's Republic of China	RMB35,923,300	14.1 ^(v)	Production and distribution of beer

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Kaifeng Yatai Brewery Second Co., Ltd.	The People's Republic of China	RMB30,576,700	14.1 ^(v)	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	15.6 ^(v)	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	15.6 ^(v)	Financing
Regal Century Investment Limited	Hong Kong	HK\$2	15.6 ^(v)	Investment holding and management services
Regal Estate Agents Limited	Hong Kong	HK\$2	15.6 ^(v)	Estate agents
Regal Estate Management Limited	Hong Kong	HK\$2	15.6 ^(v)	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	15.6 ^(v)	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	15.6 ^(v)	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	15.6 ^(v)	Hotel management
Regal International Limited	British Virgin Islands	US\$20	15.6 ^(v)	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	15.6 ^(v)	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	15.6 ^(v)	Laundry operations

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Regal Quality Foods Limited	Hong Kong	HK\$2	15.6 ^(v)	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	15.6 ^(v)	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	15.6 ^(v)	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	15.6 ^(v)	Trademark holding
Richtech Holdings Limited	Hong Kong	HK\$2	15.6 ^(v)	Financing
Ricobem Limited	Hong Kong	HK\$2	15.6 ^(v)	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	15.6 ^(v)	Management services

- (i) As at 25th June, 2004 (the “Latest Practicable Date”), the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein, the Company had a 64.8% voting interest and a 34.8% economic interest in PHL. Under a Share Swap Agreement as more fully described in note 39 to the Financial Information, Almighty issued 13,800.0 million Exchangeable Preference Shares (Section (II) (note 39)) to acquire 3,450.0 million Convertible Preference Shares (Section (II) (note 39)) of PHL and became a wholly owned subsidiary company of the Company on 31st December, 2002. Every four Exchangeable Preference Shares are exchangeable into one Convertible Preference Share or one ordinary share of PHL if so converted, held by Almighty. As at the Latest Practicable Date, 1,240.0 million Convertible Preference Shares and 1,910.0 million ordinary shares of PHL were held by Almighty while a total of 12,600.0 million Exchangeable Preference Shares were outstanding, of which 1,580.0 million were held by Century City BVI Holdings Limited (“CCBVI”), a wholly owned subsidiary company of the Company. On the basis that such Exchangeable Preference Shares held by CCBVI are exchangeable into 395.0 million ordinary shares of PHL held by Almighty, representing 7.8% of the issued ordinary shares of PHL, the Company had a total of 34.8% economic interest in PHL at the Latest Practicable Date.

- (ii) The percentages of equity interest represent those attributable to the Company through its shareholdings in PHL, except for the case of Mira Technology Limited, where the percentage of equity interest also includes a 10% directly attributable to the Company.
- (iii) On 2nd August, 2002, PHL entered into an agreement with Venture Perfect Investments Limited (“VPI”) and the shareholders of VPI (the “Vendors”) for the acquisition of the entire equity interest in VPI, including taking the benefit of an option (the “LTH Option”) to acquire all or part of the 50% equity interest in LTH owned by one of the Vendors in LTH (the “LTH Option Shares”), the remaining 50% equity interest of which is owned by VPI. Due to the adoption of Interpretation 18 “Consolidation and equity method — potential voting rights and allocation of ownership interests” during 2003, the potential voting rights of the LTH Option Shares should also be considered when assessing whether the PHL Group has control or significant influence on LTH and its subsidiary companies (collectively, the “LTH Group”). Taking into account the potential voting rights of the LTH Option Shares, the PHL Group is considered to have more than 50% voting interest in the LTH Group, which is then reclassified from interests in associates and is consolidated into the PHL Group’s financial statements with effect from 1st January, 2003.

On 29th January, 2004, the LTH Option was exercised by the PHL Group at a consideration of HK\$1.0 and the transaction was completed on 30th January, 2004. Thereafter, LTH became a wholly-owned subsidiary company of the PHL Group.

- (iv) As at the Latest Practicable Date, PHL had a 53.7% voting interest and a 44.9% economic interest in RHIHL. Pursuant to the Bonds Settlement (Section (II) (note 1)) completed in October 2002, 1,896.5 million ordinary shares of RHIHL (the “Relevant RHIHL Shares”) were transferred to a special purpose vehicle company (the “SPV”) wholly-owned by PHL, which are subject to a phased release to the bondholders. The rights to dividends relating to these shares are with the bondholders. The Relevant RHIHL Shares are to be held by the SPV for a period of 12 months, subject to certain early release provisions, after the completion of the Bonds Settlement (i.e. from 1st November, 2002 to 31st October, 2003) following which they will be released, subject to certain conditions, at the option of the bondholders in phases. Up to the Latest Practicable Date, a total of 1,179.9 million Relevant RHIHL Shares have been released to the bondholders while the remaining 716.6 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 8.8% of the total issued ordinary shares of RHIHL, continued to be held by the SPV at the Latest Practicable Date.

As set out in detail in a circular to the shareholders of PHL dated 26th August, 2002, except in certain limited circumstances, the voting rights attached to the Relevant RHIHL Shares remain vested with PHL until they are released to the bondholders. Accordingly, the directors of PHL consider PHL has control over RHIHL as at the Latest Practicable Date, as it controls more than half of the voting right in RHIHL.

- (v) The percentages of equity interest represent those attributable to the Company through its shareholdings in RHIHL.
- (vi) A company listed on The Stock Exchange of Hong Kong Limited.

(II) FINANCIAL INFORMATION

Consolidated Profit and Loss Accounts

The following is the consolidated results of the Group for the Relevant Periods prepared on the basis set out in Section (I) above:

	Notes	Year ended 31st December,		
		2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
TURNOVER	5			
Operations of the RHIHL Group*		1,057.1	988.6	774.9
Operations other than the RHIHL Group		<u>895.0</u>	<u>376.4</u>	<u>102.9</u>
		1,952.1	1,365.0	877.8
Cost of sales		<u>(1,623.4)</u>	<u>(969.2)</u>	<u>(623.9)</u>
Gross profit		328.7	395.8	253.9
Other revenue	5	152.7	34.9	401.5
Gain on settlement of exchangeable bonds and convertible bonds	1	—	2,180.2	—
Administrative expenses		(152.2)	(118.0)	(92.7)
Other operating expenses	6	(227.9)	(272.8)	(107.0)
Write-back of provisions/(Provisions) for write-downs and impairments, net	7	(1,367.3)	(656.6)	310.3
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	4	—	—	(9.7)
Impairment of an overseas hotel property attributable to discontinued operation	4	—	(437.0)	—
Write-back of impairment/(Impairment) of hotel properties	14	<u>—</u>	<u>(181.9)</u>	<u>11.4</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	(1,266.0)	944.6	767.7
Finance costs	9	(872.2)	(623.6)	(281.0)
Share of profits less losses of:				
Jointly controlled entity		(90.9)	—	206.6
Associates		<u>(6.5)</u>	<u>(19.5)</u>	<u>(3.3)</u>

	<i>Notes</i>	Year ended 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
PROFIT/(LOSS) BEFORE TAX				
Operations of the RHIHL Group*		(486.5)	(756.9)	160.5
Operations other than the RHIHL Group		<u>(1,749.1)</u>	<u>1,058.4</u>	<u>529.5</u>
		<u>(2,235.6)</u>	<u>301.5</u>	<u>690.0</u>
Tax	12			
Operations of the RHIHL Group*		(18.5)	(13.8)	47.8
Operations other than the RHIHL Group		<u>18.6</u>	<u>9.9</u>	<u>15.4</u>
		<u>0.1</u>	<u>(3.9)</u>	<u>63.2</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS				
Minority interests		<u>(2,235.5)</u>	<u>297.6</u>	<u>753.2</u>
		<u>587.7</u>	<u>(320.2)</u>	<u>(339.0)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS				
		<u>(1,647.8)</u>	<u>(22.6)</u>	<u>414.2</u>
Dividend [#]		<u>—</u>	<u>—</u>	<u>—</u>
Earnings/(Loss) per ordinary share (HK\$): 13				
— Basic		<u>(0.50)</u>	<u>(0.01)</u>	<u>0.10</u>
— Diluted		<u>—</u>	<u>—</u>	<u>0.01</u>

* Attributable to Regal Hotels International Holdings Limited and its subsidiary companies.

[#] No dividend has been paid or declared by the Company during the Relevant Periods.

Consolidated Balance Sheets

The following is the consolidated balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section (I) above:

	<i>Notes</i>	At 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
NON-CURRENT ASSETS				
Fixed assets	14	11,497.8	6,770.7	7,186.6
Goodwill	15	—	—	260.5
Negative goodwill	15	—	(5.0)	(15.1)
Properties under development	16	50.1	16.7	7.2
Property held for future development	17	26.7	26.7	26.7
Interest in a jointly controlled entity	18	1,036.9	1,062.9	1,298.6
Interests in associates	19	260.9	525.3	250.2
Long term investments	20	161.3	144.8	163.5
Deposit for acquisition of interest in a hotel property		5.6	—	—
Loans and other long term receivable	21	303.3	116.7	109.1
Intangible assets	22	2.5	—	—
Deferred tax assets	23	—	—	10.4
Deferred expenditure		46.9	15.7	38.7
Other assets	24	0.3	0.3	0.3
		<u>13,392.3</u>	<u>8,674.8</u>	<u>9,336.7</u>
CURRENT ASSETS				
Short term loans receivable	25	0.9	—	—
Short term investments	20	9.9	8.2	18.1
Properties under development	16	117.0	94.4	—
Properties held for sale	26	209.2	194.3	215.1
Hotel and other inventories	27	29.4	24.4	23.0
Debtors, deposits and prepayments	28, 30	651.2	555.9	131.8
Pledged time deposits		3.8	43.8	25.9
Time deposits		169.8	72.0	112.4
Cash and bank balances		51.0	55.4	30.1
		<u>1,242.2</u>	<u>1,048.4</u>	<u>556.4</u>

	<i>Notes</i>	At 31st December,		
		2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
CURRENT LIABILITIES				
Creditors and accruals	29, 30	986.8	755.7	725.3
Tax payable		36.9	32.2	16.0
Interest bearing bank and other borrowings	31	2,197.8	4,235.9	2,053.3
Exchangeable bonds	32	1,004.9	—	—
Convertible bonds	33	1,620.8	—	—
Provision for premium on redemption of exchangeable bonds and convertible bonds	34	815.6	—	—
Deposits received		63.2	24.0	81.6
Provisions	35	<u>298.5</u>	<u>326.7</u>	<u>355.4</u>
		<u>7,024.5</u>	<u>5,374.5</u>	<u>3,231.6</u>
NET CURRENT LIABILITIES		<u>(5,782.3)</u>	<u>(4,326.1)</u>	<u>(2,675.2)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,610.0</u>	<u>4,348.7</u>	<u>6,661.5</u>
NON-CURRENT LIABILITIES				
Interest bearing bank and other borrowings	31	(5,536.5)	(2,034.5)	(3,546.7)
5% Convertible bonds	36	—	(50.0)	—
Advances from minority shareholders of subsidiary companies	37	(38.6)	(40.4)	(42.4)
Deferred tax liabilities	23	(155.0)	(102.2)	(64.4)
Other payable	38	<u>—</u>	<u>—</u>	<u>(28.7)</u>
		<u>(5,730.1)</u>	<u>(2,227.1)</u>	<u>(3,682.2)</u>
Minority interests	39	<u>(2,118.0)</u>	<u>(2,643.1)</u>	<u>(3,712.2)</u>
		<u>(238.1)</u>	<u>(521.5)</u>	<u>(732.9)</u>
CAPITAL AND RESERVES				
Issued capital	40	332.7	381.7	539.7
Reserves	41	<u>(570.8)</u>	<u>(903.2)</u>	<u>(1,272.6)</u>
		<u>(238.1)</u>	<u>(521.5)</u>	<u>(732.9)</u>

The carrying amounts of the total assets and liabilities of the RHIHL Group as at the end of each of the Relevant Periods are as follows:

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Total assets	9,943.1	8,529.9	8,793.3
Total liabilities	<u>(5,466.0)</u>	<u>(5,417.3)</u>	<u>(4,752.8)</u>
Net assets	<u>4,477.1</u>	<u>3,112.6</u>	<u>4,040.5</u>

Consolidated Summary Statements of Changes in Equity

The following is the consolidated summary statements of changes in equity of the Group for the Relevant Period prepared on the basis set out in Section (I) above:

	<i>Notes</i>	Year ended 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Total equity at beginning of year		1,474.5	(238.1)	(521.5)
Issue of shares	40	—	49.0	158.0
Deficit on revaluation of investment properties	45	(60.9)	—	—
Surplus/(Deficit) on revaluation of long term investment	45	(13.4)	0.1	(0.5)
Exchange differences on translation of the financial statements of foreign entities	46	<u>(1.1)</u>	<u>0.2</u>	<u>1.6</u>
Net gains/(losses) not recognised in the profit and loss account		<u>(75.4)</u>	<u>0.3</u>	<u>1.1</u>
Elimination of accumulated losses of a listed subsidiary company upon cancellation of its preference share premium	47	—	45.2	—
Revaluation deficit transferred to profit and loss account on impairment of long term investments	45	—	5.0	—
Share of impairment of goodwill of an associate previously eliminated against capital reserve	44	—	9.7	—
Investment property revaluation reserve released on disposal	45	—	(21.2)	—
Investment property revaluation reserve released on reclassification of investment properties as properties held for sale	45	7.3	—	—
Long term investments revaluation reserve released on disposal	45	61.2	2.5	0.2
Attributable reserves released on disposal of overseas subsidiary companies*		—	—	(11.0)

	<i>Notes</i>	Year ended 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Capital reserve released on disposal of ordinary shares in a listed subsidiary company		—	—	(4.7)
Exchange equalisation reserve released on disposal of a subsidiary company	46	—	—	(0.2)
Attributable reserves released on deemed disposal of the Group's interests in listed subsidiary companies*		—	—	(769.0)
Attributable reserves released on disposal of ordinary shares in a listed subsidiary company*		(57.9)	(351.3)	—
Net profit/(loss) for the year attributable to shareholders		<u>(1,647.8)</u>	<u>(22.6)</u>	<u>414.2</u>
Total equity at end of year		<u>(238.1)</u>	<u>(521.5)</u>	<u>(732.9)</u>

* The attributable reserves comprised capital reserve (note 44), revaluation reserves (note 45) and exchange equalisation reserve (note 46).

Consolidated Cash Flow Statements

The following is the consolidated cash flow statements of the Group for Relevant Periods prepared on the basis set out in Section (I) above:

	<i>Notes</i>	Year ended 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net cash inflow from operating activities	49(a)			
Operations of the RHIHL Group		135.2	203.3	148.3
Operations other than the RHIHL Group		<u>176.0</u>	<u>60.0</u>	<u>98.7</u>
		<u>311.2</u>	<u>263.3</u>	<u>247.0</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition/Consolidation of a subsidiary company	49(d)	—	70.0	0.1
Acquisition of additional interest in a listed subsidiary company		—	(10.1)	(2.9)
Acquisition of additional interest in a subsidiary company		—	(0.8)	—
Purchase of long term investments		—	(0.5)	—
Proceeds on disposal of other fixed assets		0.8	0.7	5.8
Proceeds on disposal of long term investments		77.6	40.5	0.1
Disposal of subsidiary companies	49(e)	3.4	(133.6)	6.7
Deposit received from disposal of an associate		—	—	40.0
Proceeds on disposal of ordinary shares in a listed subsidiary company		3.7	9.8	—
Proceeds on disposal of an associate		—	29.0	—
Prepayments of other loans and promissory notes receivable		—	46.6	—
Decrease in loans receivable		13.3	19.6	7.7
Purchases of fixed assets		(85.8)	(32.8)	(21.1)
Proceeds on settlement of deferred consideration in respect of the Group's disposal of its hotel interests in the United States of America in prior year		—	—	380.6

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Deposit for acquisition of interest in a hotel property	(3.1)	—	—
Net proceeds from disposal of an investment property	—	166.1	—
Advance to associates	(13.1)	(1.1)	(3.6)
Advance to a jointly controlled entity	(58.9)	(32.6)	(37.2)
Interest received	22.2	7.1	8.3
Dividends received from listed and unlisted investments	3.4	1.0	0.5
Decrease in other assets	0.4	—	—
Decrease/(Increase) in pledged time deposits	<u>118.3</u>	<u>(40.0)</u>	<u>17.9</u>
Net cash inflow from investing activities			
Operations of the RHIHL Group	(64.1)	(7.5)	370.4
Operations other than the RHIHL Group	<u>146.3</u>	<u>146.4</u>	<u>32.5</u>
	<u>82.2</u>	<u>138.9</u>	<u>402.9</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares by listed subsidiary companies	—	32.7	35.7
Share issue expenses	—	(0.6)	(0.8)
Issue of 5% convertible bonds	—	50.0	20.0
Repurchase of 5% convertible bonds	—	—	(30.0)
Advance from a minority shareholder of a subsidiary company	—	—	0.1
Drawdown of a new loan	67.5	—	1.9
Repayments of bank loans and other loans	(297.2)	(258.1)	(515.4)
Payment of deferred expenditure	(1.5)	(0.1)	—
Interest paid	(419.2)	(312.1)	(144.6)
Dividends paid to minority shareholders of a subsidiary company	<u>—</u>	<u>(4.7)</u>	<u>—</u>

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net cash outflow from financing activities			
Operations of the RHIHL Group	(260.0)	(213.1)	(517.8)
Operations other than the RHIHL Group	<u>(390.4)</u>	<u>(279.8)</u>	<u>(115.3)</u>
	<u>(650.4)</u>	<u>(492.9)</u>	<u>(633.1)</u>
Net increase/(decrease) in cash and cash equivalents	(257.0)	(90.7)	16.8
Cash and cash equivalents at beginning of year	473.0	215.8	125.1
Effect of foreign exchange rate changes, net	<u>(0.2)</u>	<u>—</u>	<u>0.4</u>
Cash and cash equivalents at end of year	<u>215.8</u>	<u>125.1</u>	<u>142.3</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances	51.0	55.4	30.1
Non-pledged time deposits with original maturity of less than three months when acquired	<u>169.8</u>	<u>72.0</u>	<u>112.4</u>
	220.8	127.4	142.5
Bank overdrafts	<u>(5.0)</u>	<u>(2.3)</u>	<u>(0.2)</u>
	<u>215.8</u>	<u>125.1</u>	<u>142.3</u>

Notes to the Financial Information

1. CORPORATE UPDATE

As detailed in the Group's audited financial statement for the years ended 31st December, 2001 and 2002, PHL and its subsidiary companies, excluding Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (the "RHIHL Group"), (the "PHL Group"), had US\$140 million 3½% Exchangeable Guaranteed Bonds (the "Exchangeable Bonds") (note 32) and US\$210 million Zero Coupon Guaranteed Convertible Bonds (the "Convertible Bonds") (note 33) (collectively the "Bonds") which either went into default, or cross-default in 2001. In October 2001, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Bonds. After protracted negotiations with the holders of the Bonds (the "Bondholders"), on 31st October, 2002, the PHL Group completed a settlement proposal for the Bonds (the "Bonds Settlement").

The Bonds Settlement involved the full settlement of the outstanding principal, accrued outstanding interest and any redemption premium of the Bonds aggregating HK\$3,820.7 million as at 31st October, 2002 by (i) the transfer of the PHL Group's entire equity interest in two principal investment properties, namely Kowloon City Plaza and Paliburg Plaza (together with the related securitised loans and interest attached aggregating HK\$1,231.3 million); and (ii) the phased release of 1,896.5 million ordinary shares in RHIHL, to the Bondholders. Details of the Bonds Settlement were set out in a circular to the shareholders of the Company dated 26th August, 2002. Following the completion of the Bonds Settlement, the indebtedness of the PHL Group has decreased significantly and the gearing and liquidity of the PHL Group have improved considerably.

To facilitate the completion of the Bonds Settlement, on 31st October 2002, the PHL Group transferred its 40% equity interest in the luxury residential development project in Stanley, Hong Kong (the "Regalia Bay Development Project") to the RHIHL Group for a consideration of HK\$470.0 million, which was satisfied by the subscription of 1,958.3 million ordinary shares in RHIHL, of which 1,896.5 million ordinary shares were issued directly to a subsidiary company of the Company for the aforementioned phased release, subject to certain conditions, to the Bondholders (see note 50(f) for further details thereof).

With a view to enhancing its property-related services businesses and cashflow position, the PHL Group completed the acquisition of Venture Perfect Investments Limited ("VPI") in 2002. The major assets of VPI comprised a 50% equity interest in Leading Technology Holdings Limited ("LTH") and cash deposits of approximately HK\$70.0 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related systems, software and products in the Greater China Region (the "Paliburg Acquisition"). The consideration for the Paliburg Acquisition was HK\$345.0 million which was satisfied by the issuance of 3,450.0 million convertible preference shares of the Company at HK\$0.10 each, convertible into the ordinary shares of the Company, subject to the applicable terms and conditions (see note 50(e) for further details thereof). Further details of the Paliburg Acquisition were set out in the Company's circular dated 26th August, 2002.

Since 1998, certain of the RHIHL Group's loan covenants for the maintenance of certain financial ratios, as specified in certain loan agreements, have not been complied with. The total outstanding loans affected in this respect amounted to HK\$4,901.6 million and HK\$4,816.6 million as at 31st December, 2001 and 2002 respectively, (the "Regal Loans").

In addition to the foregoing, certain principal instalments of the Regal Loans remained unpaid during 2002 prior to the implementation of the Standstill Agreement (as defined hereunder).

With respect to a term loan which was originally fully repayable by 30th September, 2002 and was secured by the RHIHL Group's hotel property in Canada (the "Canada Loan"), the outstanding principal of CAD34.5 million (approximately HK\$170.8 million) remained unpaid as at 31st December, 2002. In September 2002, the RHIHL Group entered into a sale and purchase agreement (the "Constellation Hotel Agreement") with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. On 25th June, 2003, the RHIHL Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding

the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the CH Purchaser. As the principal repayment obligations of the bank loans secured on the hotel property in the principal sum of CAD33.85 million (approximately HK\$195.9 million) were without recourse of the RHIHL Group, such bank loan had been taken off the RHIHL Group's consolidated balance sheet in 2003.

On 4th September, 2002, the RHIHL Group entered into a standstill agreement (the "Standstill Agreement") with its principal bank creditors, including the lenders of the Regal Loans, which became effective on 5th September, 2002 and expired on 4th September, 2003.

On 30th September, 2003, the RHIHL Group entered into a loan rescheduling agreement (the "Rescheduling Agreement") with the lenders of the Regal Loans with an aggregate amount of HK\$4,428.0 million as at 31st December, 2003, comprising a syndicated loan of HK\$3,373.8 million (the "Syndicated Loan") and a construction loan of HK\$1,054.2 million (the "Construction Loan"). The principal terms of the Rescheduling Agreement are as follows:

- (i) the existing security for the standstill arrangement (as more fully described in the audited financial statements for the year ended 31st December, 2002), comprising primarily security over the RHIHL Group's five hotels in Hong Kong, namely Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Riverside Hotel and Regal Oriental Hotel (until sold), the RHIHL Group's 70% interest in the Regalia Bay Development Project, and certain of the RHIHL Group's operating entities, continues to form the security for the restructured Regal Loans;
- (ii) the introduction of cash sweep arrangements on the operational income of the RHIHL Group's five hotels in Hong Kong (to the extent they remain as security for the restructured Regal Loans) and the surplus funds from the Regalia Bay Development Project which are distributable to the RHIHL Group for interest servicing and milestone payments under the restructured Regal Loans; and
- (iii) the final repayment date of the Syndicated Loan was extended from 8th September, 2003 to 31st December, 2006 and, in respect of the Construction Loan, to 31st December, 2012, subject to certain agreed milestone payments in respect of the Syndicated Loan and scheduled principal repayments in respect of the Construction Loan.

As contemplated under the financial restructuring proposal leading to the Rescheduling Agreement, a sale and purchase agreement (the "SP Agreement") was entered into by the RHIHL Group on 29th August, 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments) in respect of which a deposit of HK\$30.0 million was paid by the purchaser. The SP Agreement was originally scheduled to be completed on 31st March, 2004. At the initiation of the RHIHL Group, a supplemental agreement to the SP Agreement was entered into on 30th March, 2004 between the RHIHL Group and the purchaser for the extension of the completion date to 30th June, 2004, together with the reinstatement of an option (in a revised form) to the RHIHL Group for the termination of the SP Agreement exercisable at its discretion before the extended completion date on certain agreed terms. The arrangement under the supplemental agreement was intended to facilitate the RHIHL Group's formulation of alternative business plans whereby the relevant debt reduction milestones required under the Rescheduling Agreement could be met without the disposal of its hotel properties. As set out in Section (III) note (b) below, on 3rd June, 2004, the RHIHL Group served a notice to the purchaser for the exercise of the termination option and entered into subscription agreements with certain independent third parties in relation to the issue by the RHIHL Group of certain convertible bonds comprising (i) the firm bonds in an aggregate principal amount of HK\$200.0 million; and (ii) the optional bonds in an additional aggregate principal amount of up to HK\$200.0 million. The RHIHL Group intends to use the proceeds of the firm bonds substantially for the reduction of its bank indebtedness.

In addition, a settlement was concluded in September 2003 with respect to the RHIHL Group's legal proceedings for the recovery of the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest (the "Consideration Receivable") in relation to the RHIHL Group's disposal of its hotel interests in the United States of America in 1999. A settlement amount of US\$48.8 million (approximately HK\$380.6 million) was received under the settlement in September 2003, most of which was applied to reduce the RHIHL Group's bank indebtedness.

With the execution of the Rescheduling Agreement and the satisfactory resolution of the Consideration Receivable, as well as the much improved outlook of the local hotel business and the substantial surplus funds expected to be generated from the Regalia Bay Development Project, the financial and liquidity positions of the RHIHL Group are expected to further improve significantly.

2. PRINCIPAL ACCOUNTING POLICIES

This report has been prepared under the historical cost convention. The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

(a) Basis of consolidation

The Financial Information incorporate the audited financial statements of the Company and all of its subsidiary companies for the Relevant Periods, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the Relevant Periods 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiary companies.

(b) Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Negative goodwill arising on the acquisition of subsidiary companies and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any goodwill/negative goodwill not yet amortised/recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separate identified item on the consolidated balance sheet.

Prior to the adoption of Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 30 "Business combinations" in 2001, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. On the adoption of the SSAP, the Group applied the transitional provision of the SSAP that permitted such goodwill/negative goodwill to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill/negative goodwill accounting policies above. On

disposal of subsidiary companies or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill/negative goodwill which remains unamortised/has not been recognised in the consolidated profit and loss account and any relevant reserves, as appropriate. Any attributable goodwill/negative goodwill previously eliminated against consolidated reserves/credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(c) **Subsidiary companies**

A subsidiary company is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiary companies are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiary companies are stated in the Company's balance sheet at cost less any impairment losses.

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.

Where the Group's equity interest in a subsidiary company is diluted by virtue of the additional issue of shares by such subsidiary company (i.e. a deemed disposal), any gain or loss arising from the deemed disposal, including the realisation of the attributable reserves, is dealt with in the Group's consolidated profit and loss account, and an amount equal to the increase in the Group's share of the non-distributable reserves of the subsidiary company is transferred to the capital reserve.

(d) **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (i) a subsidiary company, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (ii) a jointly controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

- (iii) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (iv) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

(e) **Jointly controlled entity**

A jointly controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

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 impairment losses.

(f) **Associates**

An associate is a company, not being a subsidiary company or a jointly controlled entity, 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 impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in consolidated reserves, is included as part of the Group's interests in associates.

(g) **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(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 and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

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.

When an asset is reclassified from investment properties to leasehold properties, the asset is stated at the carrying value as at the date of the reclassification, and the revaluation reserve attributable to that asset is transferred to the leasehold property revaluation reserve. Depreciation on such an asset is calculated based on that carrying value, and the portion of the depreciation charge thereon attributable to the related revaluation surplus is transferred from the leasehold property revaluation reserve to retained profits. On disposal or retirement of such an asset, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

(i) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed fittings 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. When a hotel property is determined to be impaired, the cumulative gain or loss derived from the hotel property recognised in the hotel property revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

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 (r) 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.

(j) Properties under development

Properties under development intended for sale are stated at the lower of cost and net realisable value, which is determined by reference to the prevailing market prices, on an individual property basis. Other properties under development are stated at cost less any impairment losses. Cost includes all costs attributable to such development, including any related finance charges.

When a property under development is pre-sold, the attributable profit recognised on the pre-sold portion of the property is determined by the apportionment of the total estimated profit over the entire period of construction to reflect the progress of the development, and is calculated by reference to the proportion of construction costs incurred up to the balance sheet date to the estimated total construction costs to completion, but is limited to the amount of sales deposits received and with due allowances for contingencies.

Properties under development intended for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are classified under current assets.

Deposits received on properties pre-sold prior to their completion in excess of the attributable profit recognised are classified as current liabilities.

(k) Property held for future development

Property held for future development is stated at cost less any impairment losses. Cost includes all costs attributable to the acquisition and holding of such property, including any related finance charges.

(l) Capitalised borrowing costs

Interest incurred on borrowings to finance the construction and development of properties under development is capitalised and is included in the carrying value of these assets. 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.

(m) Deferred expenditure

Deferred expenditure represents expenses incurred in connection with the raising or rescheduling of long term finance and is amortised on the straight-line basis over the terms of the relevant underlying borrowings.

(n) 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 recently 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.

(o) 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 in the period in which they arise.

(p) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(q) Other assets

Other assets held on the long term basis are stated at cost less any impairment losses deemed necessary by the Directors.

(r) Fixed assets and depreciation

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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. As stated in (h) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of the reclassification.

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 net 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 on cost or valuations of buildings
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25% or replacement basis
Site equipment	20%
Motor vehicles	25%

(s) Construction in progress

Construction in progress represents fixed assets under construction or renovation, and is stated at cost less any impairment losses. 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.

(t) 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.

(u) Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads, including any related finance charges.

Revenue from short term construction contracts is recognised upon completion of the construction work.

Revenue from long term fixed price construction contracts is recognised on the percentage of completion method, measured by reference to the work certified by architects for each contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

(v) Premium on redemption of exchangeable bonds and convertible bonds

The premium on redemption of exchangeable bonds and convertible bonds represents the excess of the redemption price payable by the Group on the maturity of the bonds over the respective principal amounts of the bonds. Provision is made for the premium so as to provide a constant rate of charge to the profit and loss account over the respective tenure of the bonds. Upon the exchange/conversion of the bonds prior to maturity, the related premium provided is released and accounted for as part of the consideration for the shares into which the bonds are so exchanged/converted.

(w) 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) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (j) above;
- (iv) fee income on short term construction contracts, on completion of the construction work;
- (v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (u) above;
- (vi) hotel and other service income, in the period in which such services are rendered;
- (vii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;

(viii) dividend income, when the shareholders' right to receive payment has been established; and

(ix) 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.

(x) **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.

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences 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 to Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiary companies and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange equalisation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary companies denominated in foreign currencies are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary companies which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

(y) **Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiary companies, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiary companies, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

(z) **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(aa) **Employee benefits**

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment falls within the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

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. 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, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiary companies which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiary companies are required to contribute 29% of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The listed subsidiary companies of the Company operate executive share option schemes for the purpose of providing incentives and rewards to selected eligible participants. The financial impact of share options granted under the share option scheme is not recorded in the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting ordinary shares issued are recorded by the relevant subsidiary companies as additional ordinary share capital at the nominal value of the ordinary shares, and the excess of the exercise price per ordinary share over the nominal value of the ordinary shares is recorded by the relevant subsidiary companies in their respective share premium accounts. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(ab) 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.

(ac) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(ad) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the property development and investment segment comprises the development and sale of properties and the leasing of office and commercial premises;

- (b) the construction and building related segment is engaged in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and other software development and distribution;
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (d) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (e) the others segment mainly comprise the Group's securities trading, securities brokerage, financing, travel services, laundry services, restaurant operations, florist and wedding services.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

	Property development and investment		Construction and building related businesses			Hotel ownership and management			Brewery operations			Others			Eliminations			Consolidated							
	2001		2002		2003		2001		2002		2003		2001		2002		2003		2001		2002		2003		
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
	Year ended 31st December,																								
Segment revenue:	302.4	150.0	12.2	580.5	225.9	90.3	1,001.5	964.7	747.2	19.9	17.3	24.7	47.8	7.1	3.4	—	—	—	1,952.1	1,365.0	877.8	—	—	—	—
Sales to external customers	66.9	21.0	0.7	24.2	5.8	21.1	0.9	0.4	—	—	—	—	16.0	13.6	—	(108.0)	(40.8)	(21.8)	—	—	—	—	—	—	—
Inter-segment sales	369.3	171.0	12.9	604.7	231.7	111.4	1,002.4	965.1	747.2	19.9	17.3	24.7	63.8	20.7	3.4	(108.0)	(40.8)	(21.8)	1,952.1	1,365.0	877.8	—	—	—	—
Total	(364.9)	(71.4)	55.5	20.6	22.1	21.1	(577.1)	(941.5)	415.1	(69.0)	(16.4)	(3.0)	(36.2)	(1.7)	10.3	(46.9)	(5.1)	—	(1,073.5)	(1,014.0)	499.0	—	—	—	—
Interest income and unallocated non-operating and corporate gains																			125.0	2,206.1#	372.6				
Unallocated non-operating and corporate expenses, net																			(317.5)	(247.5)*	(103.9)				
Profit/(Loss) from operating activities																			(1,266.0)	944.6	767.7				
Finance costs																			(872.2)	(623.6)	(281.0)				
Share of profits less losses of:																									
Jointly controlled entity	(90.9)	—	206.6	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(90.9)	—	206.6				
Associates	—	—	—	—	—	—	—	(0.7)	(0.1)	—	—	—	(6.5)	(18.8)	(3.2)	—	—	—	(6.5)	(19.5)	(3.3)				
Profit/(Loss) before tax																			(2,235.6)	301.5	690.0				
Tax																			0.1	(3.9)	63.2				
Profit/(Loss) before minority interests																			(2,235.5)	297.6	753.2				
Minority interests																			587.7	(320.2)	(339.0)				
Net profit/(loss) from ordinary activities attributable to shareholders																			(1,647.8)	(22.6)	414.2				

Inclusive of a gain of HK\$2,180.2 million on the settlement of exchangeable bonds and convertible bonds.

* Inclusive of a write-back of provision against a loan receivable amounting to HK\$19.1 million (note 7).

(a) Business segments (Continued)

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations			Others			Eliminations			Consolidated					
	Year ended 31st December,																				
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003			
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m			
Segment assets	3,560.3	401.2	316.9	135.5	58.4	284.8	8,577.6	6,848.5	7,241.4	53.6	47.0	48.4	86.7	55.8	55.2	(62.9)	(43.3)	(30.3)	12,350.8	7,367.6	7,916.4
Interests in associates	215.8	223.5	223.4	—	—	1.4	—	5.0	5.1	—	—	45.1	296.8	20.3	—	—	—	—	260.9	525.3	250.2
Interest in a jointly controlled entity	1,036.9	1,062.9	1,298.6	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,036.9	1,062.9	1,298.6
Cash and unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	985.9	767.4	427.9
Total assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14,634.5	9,723.2	9,893.1
Segment liabilities	(102.3)	(33.7)	(23.2)	(245.3)	(166.1)	(120.7)	(157.2)	(161.9)	(116.8)	(19.3)	(22.6)	(20.5)	(12.9)	(8.8)	(0.4)	62.9	43.3	30.3	(474.1)	(349.8)	(251.3)
Bank and other borrowings and unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,280.5)	(7,251.8)	(6,662.5)
Total liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,754.6)	(7,601.6)	(6,913.8)
Other segment information:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Depreciation	12.7	7.9	0.2	0.5	0.4	0.5	37.5	36.9	35.1	5.3	5.0	4.9	3.9	0.7	0.1	—	—	—	—	—	—
Impairment losses/(Write-back of impairment losses) recognised in the profit and loss account	180.0	62.0	—	—	—	—	—	618.9	(11.4)	50.8	—	—	2.3	—	—	—	—	—	—	—	—
Write-down/(Write-back) in values of properties	353.7	67.5	(44.0)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Deficit/(Write-back of deficit) on revaluation of hotel properties	—	—	—	—	—	—	714.4	528.9	(266.1)	—	—	—	—	—	—	—	—	—	—	—	—
Capital expenditure	2.0	8.2	32.2	0.5	—	—	33.1	45.7	15.1	0.5	0.4	0.8	1.0	0.2	—	—	—	—	—	—	—
Other non-cash expenses	—	—	0.3	—	—	—	—	0.7	2.5	—	—	—	4.9	8.1	0.6	—	—	—	—	—	—

(b) **Geographical segments**

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments.

	Hong Kong			USA			Canada			Mainland China			Eliminations			Consolidated					
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003			
	Year ended 31st December,																				
	HK\$'m			HK\$'m			HK\$'m			HK\$'m			HK\$'m			HK\$'m			HK\$'m		
Segment revenue:	1,834.7	1,258.6	820.6	—	—	—	95.6	88.6	32.2	21.8	17.8	25.0	—	—	—	1,952.1	1,365.0	877.8			
Sales to external customers	11,764.2	6,895.1	7,787.9	117.0	78.4	—	205.2	233.7	—	264.4	160.4	128.5	—	—	—	12,350.8	7,367.6	7,916.4			
Other segment information:	34.0	53.8	47.0	—	—	—	2.1	0.3	0.3	1.0	0.4	0.8	—	—	—	—	—	—			
Capital expenditure																					

4. DISCONTINUED OPERATION

As detailed in the Group's audited financial statements for the year ended 31st December, 2002, on 3rd September, 2002, the RHIHL Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. Based on the expected amount recoverable from the disposal, an impairment loss relating to the hotel property amounting to HK\$437.0 million was included in the financial statements of 2002. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the RHIHL Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$9.7 million was accounted for in the profit and loss account of 2003. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.8 million) have no recourse against the RHIHL Group.

The carrying amounts of the total assets and liabilities relating to the discontinued operation at 31st December, 2001 and 2002 are as follows:

	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>
Total assets	200.6	226.9
Total liabilities	<u>(174.2)</u>	<u>(170.7)</u>
Net assets	<u>26.4</u>	<u>56.2</u>

The turnover, expenses and results attributable to the discontinued operation for the year ended 31st December, 2001 and 2002 and for the period from 1st January, 2003 to 25th June, 2003 (date of completion of disposal of the Canadian hotel operation) are as follows:

	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
TURNOVER	95.6	88.6	32.2
Cost of sales	<u>(91.4)</u>	<u>(87.4)</u>	<u>(37.3)</u>
Gross profit/(loss)	4.2	1.2	(5.1)
Administrative expenses	(3.8)	(3.5)	(1.9)
Other operating expenses	<u>(2.7)</u>	<u>(2.3)</u>	<u>(1.1)</u>
LOSS FROM OPERATING ACTIVITIES	(2.3)	(4.6)	(8.1)
Finance costs	<u>(10.0)</u>	<u>(6.4)</u>	<u>(4.2)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>(12.3)</u>	<u>(11.0)</u>	<u>(12.3)</u>

The net cash flows attributable to the discontinued operation are as follows:

Operating	5.8	5.1	0.1
Investing	(1.8)	(0.2)	(0.3)
Financing	<u>(19.7)</u>	<u>(11.4)</u>	<u>(5.4)</u>
Net cash outflows	<u>(15.7)</u>	<u>(6.5)</u>	<u>(5.6)</u>

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the gross amounts of rental income, fee income in respect of construction contracts (in the case of long term construction contracts, the fee income is adjusted to reflect the stage of completion to the extent that this was not previously recognised), proceeds from the sale of properties (in the case of pre-sale of properties, proceeds from the pre-sale are adjusted to reflect the stage of completion of construction to the extent that these were not previously recognised), estate management fees, property development consultancy and project management fees, building services income, income from security systems and other software development and distribution, hotel income, travel services revenue and commissions, florist income, restaurant revenue, wedding services revenue, laundry services revenue, income from brewery operations, and proceeds from the sale of short term listed investments, commission and brokerage income on dealings in securities, futures and other derivatives, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Rental income:			
Investment properties	178.4	135.9	0.3
Properties held for sale	6.7	9.5	8.8
Hotel properties	34.5	26.1	23.0
Construction and construction-related income	558.0	202.9	75.3
Proceeds from the sale of properties	113.9	0.2	—
Estate management fees	22.5	23.0	15.0
Property development consultancy and project management fees	3.4	4.4	3.1
Hotel operations and management services	967.0	938.6	724.2
Other operations, including travel services, laundry services, florist, restaurant operations, wedding services and brewery operations	48.3	24.4	28.1
Proceeds from the sale of short term investments	13.6	—	—
Commission and brokerage income on dealings in securities, futures and other derivatives	5.8	—	—
Turnover	<u>1,952.1</u>	<u>1,365.0</u>	<u>877.8</u>
Other revenue includes the following items:			
Gain on disposal of an associate	—	6.5	—
Gain on deemed disposal of the Group's interest in a listed subsidiary company	—	—	358.6
Profit of disposal of ordinary shares in a listed subsidiary company arising from exchange of exchangeable bonds	64.7	—	—
Gain on repurchase and cancellation of convertible bonds	13.4	—	—

6. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Provisions for guarantees and indemnity given	2.7	3.7	—
Loss on disposal of ordinary shares in a listed subsidiary company	8.5	53.7	—
Loss on deemed disposal of the Group's interest in a listed subsidiary company	—	—	39.4
Loss on disposal of an investment property	—	35.6	—
Loss on disposal of long term unlisted investments (after a transfer from the revaluation reserve of a deficit of HK\$1.2 million)	—	95.0	—
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$140.4 million for 2001; HK\$2.2 million for 2002 and HK\$0.2 million for 2003)	142.6	2.2	1.2
Loss on disposal of a subsidiary company	—	—	1.0
	<u> </u>	<u> </u>	<u> </u>

7. WRITE-BACK OF PROVISIONS/(PROVISIONS) FOR WRITE-DOWNS AND IMPAIRMENTS, NET

Write-back of provisions/(Provisions) for write-downs and impairments, net, represent the following items:

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Write-back/(Write-down) in values of properties	(61.9)	(67.4)	44.0
Impairment of fixed assets	(50.8)	—	—
Impairment of long term investments	(180.0)	(62.0)	—
Impairment of long term investments previously eliminated against long term investment revaluation reserve	—	(15.0)	—
Impairment of intangible assets	—	(2.3)	—
Provisions against other loans, promissory notes and interest receivable	(75.6)	—	—
Write-back of deficit/(Deficit) on revaluation of hotel properties	(710.4)	(528.9)	266.1
Write-back of provision against a loan receivable	—	19.1	0.2
Deficit on revaluation of investment properties	<u>(288.6)</u>	<u>(0.1)</u>	<u>—</u>
	<u>(1,367.3)</u>	<u>(656.6)</u>	<u>310.3</u>

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Cost of completed properties sold	112.9	0.2	—
Cost of inventories sold and services provided	633.0	524.7	397.6
Staff costs (exclusive of directors' remuneration disclosed in note 10):			
Wages and salaries*	538.2	435.0	312.9
Staff retirement scheme contributions	25.3	17.5	16.8
Less: Forfeited contributions	<u>(4.3)</u>	<u>(2.3)</u>	<u>(3.0)</u>
Net retirement scheme contributions	<u>21.0</u>	<u>15.2</u>	<u>13.8</u>
	559.2	450.2	326.7
Less: Staff costs capitalised in respect of property development projects and construction contracts:			
Wages and salaries	(45.9)	(33.5)	(18.6)
Staff retirement scheme contributions	(2.1)	(0.1)	(1.0)
Less: Forfeited contributions	<u>—</u>	<u>—</u>	<u>1.8</u>
	<u>511.2</u>	<u>416.6</u>	<u>308.9</u>
Amortisation of goodwill**	—	—	14.3
Auditors' remuneration	5.2	5.7	5.0
Depreciation	62.7	52.4	41.4
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(1.5)</u>	<u>(0.7)</u>	<u>(0.2)</u>
	<u>61.2</u>	<u>51.7</u>	<u>41.2</u>
Loss on disposal of fixed assets	3.3	1.0	—
Unrealised loss on revaluation of short term investments	5.7	1.7	—
Minimum lease payments under operating leases:			
Land and buildings	—	2.8	9.8
Other equipment	1.0	1.0	0.5
Amortisation of trading rights	0.6	0.2	—

* Inclusive of an amount of HK\$263.8 million (2002 - HK\$339.1 million; 2001 - HK\$410.9 million) classified under cost of inventories sold and services provided.

** The amortisation of goodwill for the Relevant Periods is included in "Other operating expenses" on the face of the consolidated profit and loss account.

Year ended 31st December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
and after crediting:			
Gross rental income	219.6	171.5	32.1
Less: Outgoings	<u>(62.6)</u>	<u>(53.3)</u>	<u>(6.9)</u>
Net rental income	<u>157.0</u>	<u>118.2</u>	<u>25.2</u>
Interest income from:			
Associates	9.9	7.5	—
Bank balances	13.7	2.7	0.6
Other loans and receivables	<u>32.9</u>	<u>5.7</u>	<u>7.7</u>
	<u>56.5</u>	<u>15.9</u>	<u>8.3</u>
Dividend income from:			
Listed investments	2.1	0.3	0.5
Unlisted investments	<u>1.3</u>	<u>0.7</u>	<u>—</u>
	<u>3.4</u>	<u>1.0</u>	<u>0.5</u>
Unrealised gain on revaluation of short term investments	—	—	6.9
Gain on disposal of fixed assets	—	—	5.4
Negative goodwill recognised as income during the year***	<u>—</u>	<u>1.1</u>	<u>0.4</u>

*** The movements in negative goodwill recognised in the consolidated profit and loss account for the Relevant Periods are included in "Other revenue" on the face of the consolidated profit and loss account.

9. FINANCE COSTS

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Interest in respect of:			
Bank loans and overdrafts	402.0	262.5	195.1
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<u>384.1</u>	<u>348.8</u>	<u>80.9</u>
	786.1	611.3	276.0
Premium provided on exchangeable bonds and convertible bonds	<u>60.6</u>	<u>—</u>	<u>—</u>
	846.7	611.3	276.0
Interest capitalised in respect of property development projects and construction contracts	<u>(2.5)</u>	<u>(0.4)</u>	<u>(0.7)</u>
	844.2	610.9	275.3
Amortisation of deferred expenditure	16.5	12.3	5.7
Write-off of deferred expenditure	10.0	0.3	—
Other loan costs	<u>1.5</u>	<u>0.1</u>	<u>—</u>
Total finance costs	<u><u>872.2</u></u>	<u><u>623.6</u></u>	<u><u>281.0</u></u>

10. DIRECTORS' REMUNERATION

Details of Directors' remuneration charged to the Group's profit and loss account are set out below:

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Fees	1.6	1.8	1.8
Salaries and other allowances	8.6	9.2	9.6
Performance related/discretionary bonuses	—	0.1	0.8
Staff retirement scheme contributions	<u>0.6</u>	<u>0.6</u>	<u>0.7</u>
	<u><u>10.8</u></u>	<u><u>11.7</u></u>	<u><u>12.9</u></u>

The remuneration of the Directors fell within the following bands:

HK\$	Year ended 31st December,		
	2001 Number of Directors	2002 Number of Directors	2003 Number of Directors
Nil - 1,000,000	4	4	4
1,000,001 - 1,500,000	—	1	1
2,000,001 - 2,500,000	1	1	1
6,500,001 - 7,000,000	1	1	—
7,500,001 - 8,000,000	—	—	1
	—	—	1

The above Directors' remuneration includes the remuneration received by certain Directors of the Company from PHL and RHIHL, the listed subsidiary companies of the Company, in connection with the management of their affairs during the Relevant Periods.

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2002 - HK\$0.4 million; 2001 - HK\$0.4 million) as Directors' fees, including the Director's fee from PHL to an independent Non-Executive Director who is also an independent Non-Executive Director of PHL and the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2003.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the Relevant Periods.

During the Relevant Periods, no share options were granted to the Directors in respect of their services to the Group (2002 and 2001 - Nil). Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 40 to the Financial Information.

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included two (2002 - two; 2001 - two) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other three (2002 - three; 2001 - three) individuals, who were not Directors, are as follows:

	Year ended 31st December,		
	2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
Salaries and other allowances	4.5	4.2	4.1
Performance related/discretionary bonuses	—	—	0.3
Staff retirement scheme contributions	0.3	0.2	0.2
	4.8	4.4	4.6

The emoluments of the three (2002 - three; 2001 - three) individuals fell within the following bands:

	Year ended 31st December,		
	2001	2002	2003
HK\$	Number of individuals	Number of individuals	Number of individuals
1,000,001 - 1,500,000	2	2	1
1,500,001 - 2,000,000	<u>1</u>	<u>1</u>	<u>2</u>

The emoluments included the emoluments received by those individuals from PHL and RHIHL in connection with the management of the affairs of these subsidiary companies for the years ended 31st December, 2001, 2002 and 2003.

During the Relevant Periods, no share options were granted to the above non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 40 to the Financial Information.

12. TAX

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Group:			
Current - Hong Kong			
Provision for tax in respect of profits for the year	2.3	1.0	4.1
Overprovisions in prior years	(5.0)	(2.2)	(19.5)
Current - Overseas			
Provision for tax in respect of profits for the year	0.3	0.3	0.3
Overprovisions in prior years	(1.6)	(0.2)	—
Deferred tax expenses/(income) (note 23)	<u>3.6</u>	<u>4.9</u>	<u>(48.2)</u>
	(0.4)	3.8	(63.3)
Associates:			
Hong Kong	0.2	0.1	0.1
Overseas	<u>0.1</u>	<u>—</u>	<u>—</u>
	<u>0.3</u>	<u>0.1</u>	<u>0.1</u>
Total tax charge/(credit) for the year	<u>(0.1)</u>	<u>3.9</u>	<u>(63.2)</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002 and 2001 - 16%) on the estimated assessable profits arising in Hong Kong for 2003. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31st December, 2003.

Taxes on the profits of subsidiary companies operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the Relevant Periods.

A reconciliation of the tax expenses/(income) applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiary companies, jointly controlled entity and associates are domiciled to the tax expenses/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	Year ended 31st December,					
	2001		2002		2003	
	HK\$'million	%	HK\$'million	%	HK\$'million	%
Profit/(Loss) before tax	<u>(2,235.6)</u>		<u>301.5</u>		<u>690.0</u>	
Tax at the statutory tax rate	(357.7)	16.0	48.2	16.0	120.8	17.5
Effect on opening deferred tax of increase in rates	—	—	—	—	9.6	1.4
Adjustments in respect of current tax of previous years	(6.6)	0.3	(2.4)	(0.8)	(19.5)	(2.8)
Higher tax rates of other countries	(10.3)	0.5	(10.1)	(3.3)	4.3	0.6
Income not subject to tax	(64.6)	2.9	(404.9)	(134.3)	(262.4)	(38.0)
Expenses not deductible for tax	330.9	(14.8)	358.0	118.7	44.2	6.4
Tax losses utilised from previous periods	(9.5)	0.4	(41.9)	(13.9)	(7.0)	(1.0)
Increase in deferred tax assets not recognised during the year	111.9	(5.0)	54.0	17.9	46.6	6.7
Others	<u>5.8</u>	<u>(0.3)</u>	<u>3.0</u>	<u>1.0</u>	<u>0.2</u>	<u>—</u>
Tax charge/(credit) at the Group's effective rate	<u>(0.1)</u>	<u>—</u>	<u>3.9</u>	<u>1.3</u>	<u>(63.2)</u>	<u>(9.2)</u>

13. EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for 2003 of HK\$414.2 million (2002 - net loss of HK\$22.6 million; 2001 - net loss of HK\$1,647.8 million) and on the weighted average of 4,056.8 million (2002 - 3,649.1 million; 2001 - 3,326.8 million) ordinary shares of the Company in issue during the Relevant Periods.

(b) Diluted earnings/(loss) per share

No diluted earnings/(loss) per share was presented for the years ended 31st December, 2001 and 2002 as there were no dilutive events for those years.

The calculation of diluted earnings per share for the year ended 31st December, 2003 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$171.4 million as adjusted for the deemed changes in the Group's interests in the listed subsidiary companies and on the adjusted weighted average of 17,216.8 million ordinary shares of the Company that would have been in issue during the year assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of RHIHL were converted into ordinary

shares of RHIHL at the beginning of the year; and (ii) all the 3,450.0 million convertible preference shares of PHL were converted into the same number of ordinary shares of PHL, of which 3,350.0 million shares were acquired by the Company through issuing 13,400.0 million shares of the Company pursuant to the relevant terms under a Share Swap Agreement, at the beginning of the year.

The exercise prices of share options of PHL and RHIHL outstanding during the year are higher than the average market prices of the respective ordinary shares of PHL and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per share.

14. FIXED ASSETS

	1st January, 2001	Exchange adjustments	Additions/ Depreciation for the year	Impairment during the year recognised in the profit and loss account	Transfer to properties held for sale	Transfer from leasehold properties	Disposals/ write-off	Deficit on revaluation	31st December, 2001
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At valuation:									
Investment properties	3,155.2	—	1.9	—	(63.2)	121.1	—	(590.1)	2,624.9
Hotels, including furniture, fixtures and equipment	10,092.0	(15.1)	32.6	—	—	—	(0.1)	(1,485.8)	8,623.6
	13,247.2	(15.1)	34.5	—	(63.2)	121.1	(0.1)	(2,075.9)	11,248.5
At cost:									
Leasehold properties	635.0	—	—	—	—	(143.1)	(0.2)	—	491.7
Leasehold improvements, furniture, fixtures and equipment	126.2	—	2.6	—	—	—	(16.5)	—	112.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	28.2	—	0.2	—	—	—	—	—	28.4
Motor vehicles	6.5	—	0.2	—	—	—	(0.7)	—	6.0
	14,044.8	(15.1)	37.5	—	(63.2)	(22.0)	(17.5)	(2,075.9)	11,888.6
Accumulated depreciation and impairment:									
Hotel furniture, fixtures and equipment	156.2	(2.4)	36.5	—	—	—	—	—	190.3
Leasehold properties	85.1	—	13.8	—	—	(22.0)	—	—	76.9
Leasehold improvements, furniture, fixtures and equipment	67.1	—	11.5	22.4	—	—	(12.7)	—	88.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	—	—	—	28.4	—	—	—	—	28.4
Motor vehicles	5.0	—	0.9	—	—	—	(0.7)	—	5.2
	315.1	(2.4)	62.7	50.8	—	(22.0)	(13.4)	—	390.8
Net book value	13,729.7								11,497.8

* The impairment loss for construction in progress and certain equipment represented the write-down in values to their recoverable amounts due to the unused excess production capacity of the Group's brewery operations which, in the opinion of the Directors, neither had a value in use nor a value for resale.

	1st January, 2002 <i>HK\$'million</i>	Exchange adjustments <i>HK\$'million</i>	Additions/ Depreciation for the year <i>HK\$'million</i>	Transfer from leasehold properties <i>HK\$'million</i>	Disposals/ Write-off <i>HK\$'million</i>	Deficit on revaluation <i>HK\$'million</i>	31st December, 2002 <i>HK\$'million</i>
At valuation:							
Investment properties	2,624.9	—	2.7	50.6	(2,676.3)	(0.2)	1.7
Hotels, including furniture, fixtures and equipment	8,623.6	2.0	47.3	—	—	(1,728.6)	6,944.3
	11,248.5	2.0	50.0	50.6	(2,676.3)	(1,728.8)	6,946.0
At cost:							
Leasehold properties	491.7	0.1	—	(60.6)	(389.4)	—	41.8
Leasehold improvements, furniture, fixtures and equipment	112.3	0.2	1.1	—	(22.0)	—	91.6
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	6.0	—	—	—	(1.8)	—	4.2
	11,888.6	2.3	51.1	(10.0)	(3,089.5)	(1,728.8)	7,113.7
Accumulated depreciation and impairment:							
Hotel furniture, fixtures and equipment	190.3	0.4	36.0	—	—	—	226.7
Leasehold properties	76.9	—	9.0	(10.0)	(68.6)	—	7.3
Leasehold improvements, furniture, fixtures and equipment	88.3	0.1	7.1	—	(20.3)	—	75.2
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	5.2	—	0.3	—	(1.8)	—	3.7
	390.8	0.5	52.4	(10.0)	(90.7)	—	343.0
Net book value	11,497.8						6,770.7

	1st January, 2003	Exchange adjustments	Additions/ Depreciation for the year	Arising from consolidation of a former associate	Disposal of subsidiary companies	Other disposals	Surplus on revaluation	31st December, 2003
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At valuation:								
Investment properties	1.7	—	—	—	—	—	—	1.7
Hotels, including furniture, fixtures and equipment	6,944.3	45.3	15.1	—	(312.9)	—	663.2	7,355.0
	6,946.0	45.3	15.1	—	(312.9)	—	663.2	7,356.7
At cost:								
Leasehold properties	41.8	—	—	—	—	—	—	41.8
Leasehold improvements, furniture, fixtures and equipment	91.6	—	1.0	1.0	(0.1)	(0.8)	—	92.7
Site equipment	1.7	—	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	(19.8)	—	8.6
Motor vehicles	4.2	—	0.1	—	(0.7)	(0.5)	—	3.1
	7,113.7	45.3	16.2	1.0	(313.7)	(21.1)	663.2	7,504.6
Accumulated depreciation and impairment:								
Hotel furniture, fixtures and equipment	226.7	7.6	34.4	—	(53.3)	—	—	215.4
Leasehold properties	7.3	—	1.0	—	—	—	—	8.3
Leasehold improvements, furniture, fixtures and equipment	75.2	—	5.7	0.6	(0.1)	(0.4)	—	81.0
Site equipment	1.7	—	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	(19.8)	—	8.6
Motor vehicles	3.7	—	0.3	—	(0.5)	(0.5)	—	3.0
	343.0	7.6	41.4	0.6	(53.9)	(20.7)	—	318.0
Net book value	6,770.7							7,186.6

Analysis of net book value by geographical location:

	At 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Leasehold land and buildings situated in Hong Kong:			
Investment properties, at valuation at balance sheet date:			
Long term	499.9	1.7	1.7
Medium term	2,125.0	—	—
Hotel properties, at valuation at balance sheet date:			
Long term	3,426.0	2,598.0	2,738.0
Medium term	4,811.0	3,897.0	4,401.6
Leasehold properties, at cost or deemed cost:			
Long term	379.0	—	—
Medium term	4.8	4.7	4.6
	<u>11,245.7</u>	<u>6,501.4</u>	<u>7,145.9</u>
Properties situated in Mainland China:			
Medium term leasehold properties, at cost	<u>31.0</u>	<u>29.8</u>	<u>28.9</u>
Properties situated overseas:			
Freehold land and hotel property in Canada, at valuation at balance sheet date	<u>196.3</u>	<u>222.6</u>	<u>—</u>
	<u>11,473.0</u>	<u>6,753.8</u>	<u>7,174.8</u>

As at 31st December, 2001, certain investment properties and leasehold properties situated in Hong Kong, certain leasehold properties situated in Mainland China and all of the hotel properties situated in Hong Kong and overseas were mortgaged to secure banking and other credit facilities granted to the Group.

As at 31st December, 2002, certain leasehold properties situated in Mainland China and all of the hotel properties situated in Hong Kong and overseas were mortgaged to secure banking and other credit facilities granted to the Group.

As at 31st December, 2003, all of the hotel properties and certain leasehold properties situated in Hong Kong and Mainland China were mortgaged to secure banking and other credit facilities granted to the Group.

As at 31st December, 2001, all the hotel properties and investment properties were performed by independent valuers with either an RICS or an AACI qualification on an open market, existing use basis.

As at 31st December, 2002, the hotel property situated overseas, representing the major asset in the RHIHL Group's discontinued operation as detailed in note 4 to the Financial Information, was stated at its expected recoverable amount as, in the opinion of the directors of RHIHL, this approximated the open market value as at that date.

In 2002, the RHIHL Group had intended to dispose of two of its hotel properties in Hong Kong which were contemplated as part of its financial restructuring proposal. Accordingly, these hotels were stated at their then expected realisable amounts on a quick sale basis, calculated at a discount to their valuation at 31st December, 2002 performed by an independent valuer with an RICS qualification on an open market, existing use basis. The discount rate was determined by the directors of RHIHL based on professional advice obtained from the independent valuer and the resultant revaluation deficit of HK\$181.9 million was charged to the 2002's profit and loss account as an impairment loss. The valuations of the remaining hotel properties and investment properties in Hong Kong as at 31st December, 2002 were also performed by independent valuers with an RICS qualification on an open market, existing use basis.

As further explained in note 1 to the Financial Information, the SP Agreement was entered into by the RHIHL Group in 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the SP Agreement entered into in March 2004, the completion date under the SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option was reinstated for the RHIHL Group to terminate the SP Agreement, exercisable by the RHIHL Group prior to the extended completion date. While the SP Agreement continued to subsist, the directors of RHIHL considered it appropriate to state the Regal Oriental Hotel at its carrying value of HK\$286.6 million, which approximated the net amount realisable by the RHIHL Group under the SP Agreement should it proceed to completion (the option to terminate the SP Agreement was exercised on 3rd June, 2004 as detailed in Section (III) below). In light of the enhancement achieved in the overall financial position of the RHIHL Group since the loans rescheduling arrangement was implemented in September 2003, the RHIHL Group has been exploring alternative proposals for a further rescheduling and/or refinancing of its outstanding bank loans, with a view to preserving its hotel properties in Hong Kong. Accordingly, the directors of RHIHL consider it appropriate that all the other hotel properties of the RHIHL Group should be stated at their valuations as at 31st December, 2003, which were performed by an independent valuer with an RICS qualification on an open market, existing use basis. Consequently, a write-back of impairment loss of HK\$11.4 million was recognised in the profit and loss account for 2003. The valuations of the investment properties in Hong Kong as at 31st December, 2003 were also performed by an independent valuer with an RICS qualification on an open market, existing use basis.

Certain of the RHIHL Group's shop units in the hotel properties and certain of the PHL Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 53(a) to the Financial Information.

If the carrying value of the revalued properties had been reflected in the Financial Information at cost less accumulated depreciation and impairment losses, the following amounts would have been shown:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Investment properties	1,125.8	0.8	0.8
Hotel properties	5,405.5	4,978.3	4,859.6
Leasehold properties	112.0	—	—
	<u>6,643.3</u>	<u>4,979.1</u>	<u>4,860.4</u>

15. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the consolidation of a former associate and the acquisition of additional interest in a listed subsidiary company, respectively, are as follows:

	Goodwill <i>HK\$' million</i>	Negative goodwill <i>HK\$' million</i>
Cost:		
At 31st January, 2001, 31st December, 2001 and 1st January, 2002	—	—
Arising from the acquisition of additional interest in a listed subsidiary company	<u>—</u>	<u>(5.0)</u>
At 31st December, 2002 and 1st January, 2003	—	(5.0)
Released on deemed disposal of the Group's interests in a listed subsidiary company	—	0.7
Arising from consolidation of a former associate (note 19)	274.8	—
Arising from the increase in additional interest in a listed subsidiary company	<u>—</u>	<u>(11.0)</u>
At 31st December, 2003	<u>274.8</u>	<u>(15.3)</u>
Recognition as income/(Accumulated amortisation and impairment):		
Recognised as income/(Amortisation provided) for the year ended and balance at 31st December, 2003	<u>(14.3)</u>	<u>0.2</u>
Net book value:		
At 31st December, 2003	<u><u>260.5</u></u>	<u><u>(15.1)</u></u>
At 31st December, 2002	<u><u>—</u></u>	<u><u>(5.0)</u></u>

The negative goodwill as at 31st December, 2002 was attributable to an additional interest acquired near the year end of 2002 and, accordingly, no amount was recognised as income during that year.

16. PROPERTIES UNDER DEVELOPMENT

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Balance at beginning of year	214.1	167.1	111.1
Other additions in development costs	—	5.4	32.1
Interest capitalised	—	0.4	0.7
Disposal of a subsidiary company	—	—	(23.9)
Other disposals	—	—	(108.0)
Transfer to properties held for sale	—	—	(48.8)
Write-back/(Write-down) in values of properties	<u>(47.0)</u>	<u>(61.8)</u>	<u>44.0</u>
Balance at end of year	167.1	111.1	7.2
Properties under development included in current assets	<u>(117.0)</u>	<u>(94.4)</u>	<u>—</u>
Non-current portion	<u>50.1</u>	<u>16.7</u>	<u>7.2</u>
Analysis by geographical location:			
Leasehold land and buildings in Hong Kong held under medium term leases, at cost less write-down in value	<u>14.2</u>	<u>16.0</u>	<u>—</u>
Freehold land in the U.S.A., at cost less write-down in value	<u>117.0</u>	<u>78.4</u>	<u>—</u>
Leasehold land and buildings in Mainland China, at cost less write-down in value:			
Long term	25.5	9.5	—
Medium term	<u>10.4</u>	<u>7.2</u>	<u>7.2</u>
	<u>35.9</u>	<u>16.7</u>	<u>7.2</u>
	<u>167.1</u>	<u>111.1</u>	<u>7.2</u>

As at 31st December, 2001 and 2002, certain of the Group's properties under development were pledged to secure banking facilities granted to the Group.

17. PROPERTY HELD FOR FUTURE DEVELOPMENT

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Medium term leasehold land in Hong Kong, at cost:			
Balance at beginning and at end of year	<u>26.7</u>	<u>26.7</u>	<u>26.7</u>

As at 31st December, 2001 and 2002, the Group's property held for future development was pledged to secure the banking facilities granted to the Group.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Share of net liabilities	(2,005.0)	(2,005.0)	(1,798.4)
Loans to the jointly controlled entity	2,674.9	2,700.9	2,730.3
Amount due from the jointly controlled entity	<u>367.0</u>	<u>367.0</u>	<u>366.7</u>
	<u>1,036.9</u>	<u>1,062.9</u>	<u>1,298.6</u>

The share of net liabilities in 2001 and 2002 included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million, of which an amount of HK\$225.7 million was reversed in 2003. As at 31st December, 2003, the provision for foreseeable loss included in the share of net liabilities was HK\$1,407.6 million.

The loans to the jointly controlled entity are unsecured, bear interest at Hong Kong prime rate per annum and are not repayable within one year. The amount due from the jointly controlled entity is unsecured, interest free and has no fixed terms of repayment.

Details of the Group's interest in the jointly controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group			Principal activity
			2001	2002	2003	
			Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	

As at 31st December, 2001, the percentage of equity interest represented the aggregate of the 40% and the 30% held by a wholly-owned subsidiary company of PHL and RHIHL, respectively, which were in turn 59.2% and 43.1% owned by the Group, respectively.

On 31st October, 2002, the 40% equity interest in Chest Gain held by a wholly-owned subsidiary company of PHL was disposed of to RHIHL. Accordingly, the percentage of equity interest as at 31st December, 2002 and 2003 represented the 70% held by RHIHL, which was in turn 28.3% and 18.3% beneficially owned by the Group as at 31st December, 2002 and 2003, respectively.

Despite the RHIHL Group's holding of 70% interest in Chest Gain, the directors of RHIHL confirm that neither the RHIHL Group nor the other shareholder of Chest Gain has unilateral control over the operating and financing decisions of Chest Gain in accordance with the agreed terms under the shareholders' agreement of Chest Gain. Accordingly, the directors of RHIHL consider it appropriate to continue to account for the RHIHL Group's interest therein as a jointly controlled entity.

The summarised state of affairs and income and losses of Chest Gain are as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
State of affairs			
Non-current assets	3,934.6	—	—
Current assets	0.4	4,534.7	5,486.8
Current liabilities	(151.5)	(232.3)	(3,547.0)
Non-current liabilities	<u>(7,818.0)</u>	<u>(8,336.9)</u>	<u>(5,835.6)</u>
Net liabilities attributable to venturers	<u>(4,034.5)</u>	<u>(4,034.5)</u>	<u>(3,895.8)</u>
Income and losses			
Income	<u>—</u>	<u>—</u>	<u>648.2</u>
Net profit/(loss) from ordinary activities attributable to venturers	<u>(665.9)</u>	<u>—</u>	<u>138.7</u>

At the balance sheet date, the Group's share of capital commitments of Chest Gain in respect of a property development project was as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Authorised and contracted for	562.8	359.0	15.1
Authorised, but not contracted for	<u>—</u>	<u>16.4</u>	<u>—</u>
	<u>562.8</u>	<u>375.4</u>	<u>15.1</u>

19. INTERESTS IN ASSOCIATES

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Unlisted companies:			
Share of net liabilities	(3.2)	(24.5)	(28.4)
Goodwill on acquisition	—	274.8	—
Negative goodwill on acquisition	—	(3.0)	(2.8)
	<u> </u>	<u> </u>	<u> </u>
	(3.2)	247.3	(31.2)
Loans to associates	254.8	270.8	273.9
Amounts due from associates	9.7	7.6	7.9
	<u> </u>	<u> </u>	<u> </u>
	261.3	525.7	250.6
Less: Provision for impairment	(0.4)	(0.4)	(0.4)
	<u> </u>	<u> </u>	<u> </u>
	<u>260.9</u>	<u>525.3</u>	<u>250.2</u>
At the balance sheet date:			
Share of post-acquisition undistributed reserves	<u>(308.8)</u>	<u>(323.6)</u>	<u>(327.0)</u>

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of associates, are as follows:

	Goodwill <i>HK\$'million</i>	Negative Goodwill <i>HK\$'million</i>
Cost:		
Arising from the acquisition of associates in 2002 and balance at 31st December, 2002	274.8	(3.1)
Recognition as income:		
Recognised as income in 2002 and balance at 31st December, 2002	<u>—</u>	<u>0.1</u>
Net book value:		
At 31st December, 2002	<u>274.8</u>	<u>(3.0)</u>
Cost:		
At 1st January, 2003	274.8	(3.1)
Reclassification to goodwill (<i>note 15</i>)	<u>(274.8)</u>	<u>—</u>
At 31st December, 2003	<u>—</u>	<u>(3.1)</u>
Recognition as income:		
At 1st January, 2003	—	0.1
Recognised as income during the year	<u>—</u>	<u>0.2</u>
At 31st December, 2003	<u>—</u>	<u>0.3</u>
Net book value:		
At 31st December, 2003	<u>—</u>	<u>(2.8)</u>

The loans to associates are unsecured and not repayable within one year. Except for an amount of HK\$147.7 million which bore interest at Hong Kong prime rate in 2001 and 2002, the remaining balances are interest free.

The amounts due from associates are unsecured, interest free and have no fixed terms of repayment.

The share of net liabilities and post-acquisition undistributed reserves represent the share attributable to the Group before the Group's minority interests therein.

Details of the Group's principal associates as at 31st December, 2001 were as follows:

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group	Principal activities
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽¹⁾	Property development
Weifang Futuan Building Materials Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	25.00 ⁽²⁾	Cement production
8D International (BVI) Limited	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽³⁾	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 ⁽⁴⁾	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 ⁽⁴⁾	Promotions, communications and information technology

* Not audited by Ernst & Young

- (1) The percentage of equity interest represented equity interest attributable to PHL.
- (2) The percentage of equity interest represented equity interest attributable to a 75% owned subsidiary company of PHL.
- (3) The percentage of equity interest represented the aggregate of the 10% and the 30% equity interests attributable to the Company and RHIHL, respectively. RHIHL was in turn 43.1% owned by the Group as at 31st December, 2001.
- (4) The percentage of equity interest represented the aggregate of the 12% (including a 2% attributable interest held by the Company through 8D-BVI) and the 36% (including a 6% attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.

Details of the Group's principal associates as at 31st December, 2002 were as follows:

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group	Principal activities
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽¹⁾	Property development
Leading Technology Holdings Limited*	Corporate	British Virgin Islands	Ordinary shares	56.67 ⁽²⁾	Investment holding
303 Company Limited	Corporate	Hong Kong	Ordinary shares	56.67 ⁽²⁾	Development and distribution of security systems and software
Shenzhen Leading Technology Company Limited*	Corporate	The People's Republic of China	Equity joint venture interest	53.83 ⁽³⁾	Development and distribution of security systems and software
Mira Technology Limited	Corporate	Hong Kong	Ordinary shares	74.00 ⁽⁴⁾	Software development
8D International (BVI) Limited	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽⁵⁾	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 ⁽⁶⁾	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 ⁽⁶⁾	Promotions and information technology
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁷⁾	Investment holding

* Not audited by Ernst and Young

(1) The percentage of equity interest represented equity interest attributable to PHL.

(2) The percentages of equity interest represented the aggregate of the 1.67% attributable interest held by the Company through 8D-BVI, the 50% equity interest attributable to PHL and the 5% attributable equity interest held by RHIHL through 8D-BVI. RHIHL was in turn 28.3% owned by the Group as at 31st December, 2002.

(3) The percentage of equity interest represented the aggregate of the 1.58% attributable interest held by the Company through 8D-BVI, the 47.5% equity interest attributable to PHL and the 4.75% attributable equity interest held by RHIHL through 8D-BVI.

- (4) The percentage of equity interest represented the aggregate of the 11% (including a 1% attributable interest held by the Company through 8D-BVI) attributable interest held by the Company, the 30% equity interest attributable to PHL through LTH and the 33% (including a 3% attributable equity interest held by RHIHL through 8D-BVI) equity interest attributable to RHIHL.
- (5) The percentage of equity interest represented the aggregate of the 10% and the 30% equity interests attributable to the Company and RHIHL, respectively.
- (6) The percentages of equity interest represented the aggregate of the 12% (including a 2% attributable interest held by the Company through 8D-BVI) and the 36% (including a 6% attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.
- (7) The percentage of equity interest represented equity interest attributable to RHIHL.

Details of the Group's principal associates as at 31st December, 2003 were as follows:

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group	Principal activities
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	100.00 ^{(1),(2)}	Investment holding
Beijing Hengfu Plaza Development Co., Ltd. ("Beijing Hengfu")*	Corporate	The People's Republic of China	Equity joint venture interest	45.50 ^{(1),(2)}	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽²⁾	Property development
Smart Tactic Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽²⁾	Distribution of security systems and software
8D International (BVI) Limited	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽³⁾	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 ⁽⁴⁾	Promotions and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 ⁽⁴⁾	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁵⁾	Investment holding
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	50.00 ⁽⁶⁾	Light refreshment operation

* Not audited by Ernst and Young.

- (1) As at 31st December, 2002, the PHL Group held a 50% beneficial interest in Talent Faith which indirectly held a 45.5% beneficial interest in Beijing Hengfu. The other 50% beneficial interest in Talent Faith was then held by the purchaser (the "Purchaser") under a sale and purchase agreement for the sale by the PHL Group of a 50% interest in Talent Faith entered into in 2000 (the "Former SP Agreement"). Due to the default by the Purchaser under the Former SP Agreement, the PHL Group has enforced its rights during 2003 to repossess the 50% interest in Talent Faith previously sold to the Purchaser under the Former SP Agreement. In July 2003, the PHL Group entered into a new sale and purchase agreement with the Purchaser for the sale of the PHL Group's 100% interest in Talent Faith for a gross consideration of HK\$181.9 million (the "New SP Agreement"), with completion stipulated for November 2003. Though the PHL Group has received from the Purchaser certain deposits and part payments, the Purchaser has failed to comply with the stipulated schedule for the full settlement of the consideration payable under the New SP Agreement. While the PHL Group is legally retaining the entire shareholding ownership in Talent Faith, the PHL Group is negotiating with the Purchaser for its remedy of the default. Under these circumstances, despite the holding of a 100% shareholding interest in Talent Faith as at 31st December, 2003, the directors of PHL consider it appropriate to continue to account for the PHL Group's interest therein as an associate, as the PHL Group's control over Talent Faith may be temporary, subject to the outcome of the New SP Agreement.
- (2) The percentage of equity interest represents equity interest attributable to PHL.
- (3) The percentage of equity interest represents the aggregate of the 10% and the 30% equity interests attributable to the Company and RHIHL, respectively.
- (4) The percentage of equity interest represents the aggregate of the 12% (including a 2% attributable interest held by the Company through 8D-BVI) and the 36% (including a 6% attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.
- (5) The percentage of equity interest represents equity interest attributable to RHIHL.
- (6) The percentage of equity interest represents the aggregate of the 25% equity interest attributable to PHL and the 25% equity interest attributable to RHIHL.

20. INVESTMENTS

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Long term investments			
Listed equity investments, at market value:			
Hong Kong	34.3	30.6	42.9
Elsewhere	<u>7.8</u>	<u>7.8</u>	<u>0.1</u>
	<u>42.1</u>	<u>38.4</u>	<u>43.0</u>
Unlisted equity investments, at fair value:			
Carrying value	392.7	441.9	367.5
Provision for impairment	<u>(273.5)</u>	<u>(335.5)</u>	<u>(247.0)</u>
	<u>119.2</u>	<u>106.4</u>	<u>120.5</u>
	<u><u>161.3</u></u>	<u><u>144.8</u></u>	<u><u>163.5</u></u>

Long term listed investments with an aggregate market value at 31st December, 2003 amounting to HK\$42.9 million (2002 - HK\$29.5 million; 2001 - HK\$33.1 million) were pledged to secure general credit facilities granted to the Group.

Included in the unlisted long term investments is an amount of HK\$56.9 million as at 31st December, 2003 (2002 - HK\$56.9 million; 2001 - HK\$118.9 million) which represents the PHL Group's investments comprising a 23% interest in each of two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"). Despite the PHL Group's holding of 23% interests in the Investee Companies, the directors of PHL confirm that the PHL Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a previous contractual arrangement made with the independent third parties to exchange the PHL Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the directors of PHL consider it appropriate to account for the investments therein as long term investments.

In November 2000, the land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on the grounds of its prolonged idle condition. The PHL Group and the other investor parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. An impairment loss of HK\$180.0 million and a further impairment loss of HK\$62.0 million were made against the investments in 2001 and 2002, respectively, by reference to independent valuations of the hotel portion of the land site at the respective year end dates. The valuations were conducted on the assumption that the PHL Group had enforceable title to the land site.

In December 2003, approval on the overall development plan on the subject land site was obtained from the relevant government authorities. However, in the opinion of the directors of PHL, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies.

In the meantime, the PHL Group is also holding negotiations with prospective investors for the possible disposal of its investments in the Investee Companies at an indicative price which is substantially higher than its written down carrying value. Having regard to the circumstances developed to date, the directors of PHL consider that no further provision is required to be made against the PHL Group's investments in the Investee Companies in 2003.

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Short term investments			
Listed equity investments in Hong Kong, at market value	<u>9.9</u>	<u>8.2</u>	<u>18.1</u>

21. LOANS AND OTHER LONG TERM RECEIVABLE

	<i>Notes</i>	At 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Promissory notes receivable	(a)	168.0	—	—
Long term mortgage loans	(b)	57.3	38.7	31.1
Other loans	(c)	<u>78.0</u>	<u>78.0</u>	<u>78.0</u>
		<u>303.3</u>	<u>116.7</u>	<u>109.1</u>

- (a) The balance for 2001, which was repayable on demand, represented the promissory notes receivable in the aggregate amount of HK\$180.0 million and net of a provision of HK\$12.0 million as further explained below. Apart from an amount of HK\$50.0 million which was secured and bore interest at 11.5% per annum, the remaining amount of HK\$130.0 million was unsecured and bore interest at 1.5% to 2.5% over Hong Kong prime rate per annum. On 7th March, 2002, a settlement agreement was entered into between the RHIHL Group and the borrowers, under which the promissory notes together with the interest accrued thereon was settled and satisfied by (i) a cash payment of HK\$36.0 million; and (ii) a 3-year convertible note with a face value of HK\$132.0 million (the "Convertible Note") issued by one of the borrowers (collectively, the "Entitlements"). The Convertible Note, which the RHIHL Group intended to hold as held-to-maturity securities and would otherwise be due in 2005 (the "Initial Maturity Date") (subject to an extension for further 2 years due 2007 (the "Final Maturity Date") upon fulfillment of certain conditions), bore interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and was convertible into shares of the issuer during the period from the Initial Maturity Date to the Final Maturity Date. The loss arising on the settlement agreement of HK\$38.0 million, representing the shortfall of HK\$12.0 million in the fair value of the Entitlements aggregating HK\$168.0 million received by the RHIHL Group and the carrying value of the promissory notes receivable of HK\$180.0 million and accrued interest of HK\$26.0 million (included in debtors, deposits and prepayments under current assets), was provided for in 2001.

On 8th November, 2002, the RHIHL Group disposed of the Convertible Note with all rights attached thereto (including accrued interest receivable of HK\$1.3 million) at a cash consideration of HK\$40.0 million, resulting in a loss of HK\$93.3 million which was recorded in 2002.

- (b) The long term mortgage loans represent loans granted by the PHL Group to purchasers in connection with the sale of its properties. The loans are secured by the second mortgages over the properties sold and are repayable by instalments. The long term mortgage loans bear interest at Hong Kong prime rate plus 1.75% to 2% per annum.

- (c) The balance represents a loan of US\$10.0 million (HK\$78.0 million) (2002 - HK\$78.0 million; 2001 - HK\$78.0 million) advanced to a hotel owner to assist financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the RHIHL Group. The loan is unsecured, interest free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

22. INTANGIBLE ASSETS

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Cost:			
At beginning of year	7.5	3.0	—
Disposal of subsidiary companies	<u>(4.5)</u>	<u>—</u>	<u>—</u>
At end of year	<u>3.0</u>	<u>3.0</u>	<u>—</u>
Accumulated amortisation and impairment:			
At beginning of year	0.5	0.5	—
Provided during the year	0.6	0.2	—
Disposal of subsidiary companies	(0.6)	—	—
Impairment during the year recognised in the profit and loss account	<u>—</u>	<u>2.3</u>	<u>—</u>
At end of year	<u>0.5</u>	<u>3.0</u>	<u>—</u>
Net book value	<u><u>2.5</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

23. DEFERRED TAX

The movement in deferred tax assets and liabilities of the Group during the Relevant Periods is as follows:

Deferred tax assets

	Losses available for offset against future taxable profits At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Deferred tax credited to the profit and loss account during the year and gross deferred tax assets at end of year	<u>—</u>	<u>—</u>	<u>70.1</u>

Deferred tax liabilities

Accelerated tax depreciation
At 31st December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	151.4	155.0	102.2
Deferred tax charged to the profit and loss account during the year	3.6	4.9	21.9
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	<u>—</u>	<u>(57.7)</u>	<u>—</u>
Gross deferred tax liabilities at end of year	<u>155.0</u>	<u>102.2</u>	<u>124.1</u>
Net deferred tax liabilities at end of year	<u>(155.0)</u>	<u>(102.2)</u>	<u>(54.0)</u>
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:			
Deferred tax assets	—	—	10.4
Deferred tax liabilities	<u>(155.0)</u>	<u>(102.2)</u>	<u>(64.4)</u>
Net deferred tax liabilities at end of year	<u>(155.0)</u>	<u>(102.2)</u>	<u>(54.0)</u>

The Group had tax losses arising in Hong Kong, Mainland China and the United States of America amounting to HK\$3,974.4 million (2002 - HK\$3,901.9 million; 2001 - HK\$4,314.0 million), HK\$21.1 million (2002 - HK\$15.9 million; 2001 - HK\$2.1 million) and HK\$293.4 million (2002 - HK\$17.9 million; 2001 - HK\$16.0 million), respectively, as at 31st December, 2003. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in Mainland China and the United States are available for a maximum period of five and twenty years, respectively. No deferred tax assets in respect of the RHIHL Group's tax losses had been recognised in prior years on account of the unpredictability of future profit streams due primarily to the uncertainty over the outcome of the financial restructuring then being undertaken by the RHIHL Group. As detailed in note 1 to the Financial Information, while the RHIHL Group has successfully concluded a financial restructuring proposal with its bank creditors, the financial and liquidity positions of the RHIHL Group have also been significantly improved in 2003 and expected to be further enhanced in the foreseeable future. In the opinion of the directors of RHIHL, future profit streams of the RHIHL Group became more predictable and, accordingly, deferred tax assets have been recognised for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised.

At 31st December, 2003, deferred tax assets in respect of tax losses not recognised in the financial statements amounted to HK\$735.1 million (2002 - HK\$635.8 million; 2001 - HK\$696.6 million).

At 31st December, 2003, there is no significant unrecognised deferred tax liability (2001 and 2002 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary companies, associates or jointly controlled entity as the Group has no liability to additional tax should such amounts be remitted.

24. OTHER ASSETS

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
At cost:			
Deposits with the SEHK	0.1	0.1	0.1
Others	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>

25. SHORT TERM LOANS RECEIVABLE

The short term loans receivable of the Group as at 31st December, 2001 represented an unsecured and interest free loan to a consortium in the amount of HK\$0.9 million. The balance was reclassified to debtors, deposits and prepayments in 2002.

26. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$207.6 million as at 31st December, 2003 (2002 - HK\$158.8 million; 2001 - HK\$158.9 million) were pledged to secure banking facilities granted to the Group.

On 10th March, 2003, the RHIHL Group disposed of its properties held for sale in Mainland China to an independent third party at a consideration of HK\$28.0 million.

At 31st December, 2002, these properties held for sale were stated at their subsequent selling price which was below cost and the sale proceeds in respect of these properties were assigned to lenders to secure loan facilities granted to the RHIHL Group. Such properties were stated at HK\$42.7 million at 31st December, 2001.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 53(a) to the Financial Information.

27. HOTEL AND OTHER INVENTORIES

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Hotel merchandise	21.1	19.8	13.4
Raw materials	2.9	1.6	5.8
Work in progress	4.4	2.3	2.2
Finished goods	<u>1.0</u>	<u>0.7</u>	<u>1.6</u>
	<u>29.4</u>	<u>24.4</u>	<u>23.0</u>

The carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$6.6 million, HK\$21.8 million and HK\$20.9 million as at 31st December, 2001, 2002 and 2003, respectively.

28. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance as at 31st December, 2001, 2002 and 2003 is an amount of HK\$163.0 million, HK\$79.3 million and HK\$49.3 million, respectively, representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:			
Within 3 months	112.9	72.4	44.0
Between 4 to 6 months	7.2	2.5	3.0
Between 7 to 12 months	5.3	2.4	3.2
Over 1 year	<u>56.8</u>	<u>19.8</u>	<u>18.6</u>
	182.2	97.1	68.8
Provisions	<u>(19.2)</u>	<u>(17.8)</u>	<u>(19.5)</u>
	<u>163.0</u>	<u>79.3</u>	<u>49.3</u>

The debtors, deposits and prepayments of the RHIHL Group as at 31st December, 2001 and 2002 also included a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) which arose in connection with the RHIHL Group's disposal of its hotel interests in the United States of America to a third party purchaser (the "Purchaser") in December 1999 (the "Disposal"); and (ii) certain interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Under the Disposal agreement, the deferred consideration and the interest accrued thereon were due to be paid by the Purchaser on 17th December, 2001.

In September 2003, a settlement agreement was concluded with the Purchaser and a settlement amount of US\$48.8 million (approximately HK\$380.6 million) was received by the RHIHL Group in total resolution and release of all claims by and between the RHIHL Group and the Purchaser under or in connection with the Disposal agreement.

The RHIHL Group's receipt of the settlement amount effectively settled the Consideration Receivable and certain other related receivable of HK\$0.7 million, and at the same time eliminated a provision made against certain tax indemnity in the amount of HK\$24.2 million included in the creditors and accruals under current liabilities as at 31st December, 2001 and 2002.

Credit Terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amount less provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

As at 31st December, 2001, the Group's trade debtors include an amount due from the Group's jointly controlled entity of HK\$34.0 million which was repayable on negotiated terms and was settled in 2002.

29. CREDITORS AND ACCRUALS

Included in the balance as at 31st December, 2001, 2002 and 2003 is an amount of HK\$110.9 million, HK\$100.7 million and HK\$60.0 million, respectively, representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:			
Within 3 months	84.3	82.8	47.6
Between 4 to 6 months	3.6	12.4	6.0
Between 7 to 12 months	1.4	1.3	0.7
Over 1 year	<u>21.6</u>	<u>4.2</u>	<u>5.7</u>
	<u>110.9</u>	<u>100.7</u>	<u>60.0</u>

30. CONSTRUCTION CONTRACTS

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Gross amount due from contract customers included in debtors, deposits and prepayments	—	—	1.7
Gross amount due to contract customers included in creditors and accruals	<u>(110.1)</u>	<u>(60.4)</u>	<u>(4.8)</u>
	<u>(110.1)</u>	<u>(60.4)</u>	<u>(3.1)</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,406.3	1,441.4	1,503.2
Less: Progress billings	<u>(1,516.4)</u>	<u>(1,501.8)</u>	<u>(1,506.3)</u>
	<u>(110.1)</u>	<u>(60.4)</u>	<u>(3.1)</u>

As at 31st December, 2001, 2002 and 2003, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$25.9 million, HK\$24.9 million and HK\$9.0 million, respectively.

As at 31st December, 2001, 2002 and 2003, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$22.8 million, HK\$18.3 million and HK\$3.0 million, respectively.

31. INTEREST BEARING BANK AND OTHER BORROWINGS

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Bank loans and overdrafts:			
Secured	5,922.4	5,689.5	5,013.6
Unsecured	256.5	231.0	228.8
Other loans wholly repayable within five years:			
Secured	1,243.8	25.9	21.2
Unsecured	311.6	324.0	336.4
	<u>7,734.3</u>	<u>6,270.4</u>	<u>5,600.0</u>
Portion of borrowings due within one year included under current liabilities:			
Bank loans and overdrafts	(1,829.4)	(3,886.0)	(1,695.7)
Other loans	(368.4)	(349.9)	(357.6)
	<u>(2,197.8)</u>	<u>(4,235.9)</u>	<u>(2,053.3)</u>
Long term borrowings	<u>5,536.5</u>	<u>2,034.5</u>	<u>3,546.7</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:			
On demand or not exceeding 1 year	2,197.8	4,235.9	2,053.3
More than 1 year but not exceeding 2 years	1,895.0	1,670.1	360.0
More than 2 years but not exceeding 5 years	3,342.0	364.4	2,622.5
More than 5 years	299.5	—	564.2
	<u>7,734.3</u>	<u>6,270.4</u>	<u>5,600.0</u>

The other loans carried interest rates ranging from 7.97% to 12% (2002 - 8.05% to 12%; 2001 - 8.78% to 13.5%) per annum as at 31st December, 2003.

As at 31st December, 2001, secured bank loans of the RHIHL Group in an aggregate amount of HK\$4,901.6 million were classified as current and non-current liabilities in accordance with their original maturity terms.

As at 31st December, 2002, the RHIHL Group was under a standstill arrangement with its bank creditors with respect to such loans in a then aggregate amount of HK\$4,816.6 million and, accordingly, they were classified as current or non-current liabilities in accordance with their original maturity terms under the loan agreements, as adjusted for the revised terms pursuant to the standstill agreement.

As at 31st December, 2003, secured bank loans in an aggregate amount of HK\$4,428.0 million were classified as current and non-current liabilities in accordance with the terms in the Rescheduling Agreement entered into by the RHIHL Group as described in note 1 to the Financial Information.

32. EXCHANGEABLE BONDS

In 1996, the PHL Group issued US\$140.0 million 3½% guaranteed exchangeable bonds (the "Exchangeable Bonds") which fell due in 2001. The Exchangeable Bonds remained unpaid on the due date. As explained in note 1, on 31st October, 2002, the PHL Group completed the Bonds Settlement and the remaining outstanding Exchangeable Bonds in the amount of US\$128.8 million (approximately HK\$1,004.9 million) as at that date was fully settled.

33. CONVERTIBLE BONDS

In 1997, the PHL Group issued US\$210.0 million zero coupon guaranteed convertible bonds (the "Convertible Bonds") which would otherwise fall due in 2002. As a result of the maturity default of the Exchangeable Bonds (note 32), the Convertible Bonds became immediately due and payable by virtue of cross default in March 2001. As explained in note 1, on 31st October, 2002, the PHL Group completed the Bonds Settlement and the remaining outstanding Convertible Bonds in the amount of US\$207.8 million (approximately HK\$1,620.8 million) as at that date was fully settled.

34. PROVISION FOR PREMIUM ON REDEMPTION OF EXCHANGEABLE BONDS AND CONVERTIBLE BONDS

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	779.2	815.6	—
Provision during the year	60.6	—	—
Provision released upon the exchange of Exchangeable Bonds prior to maturity	(18.3)	—	—
Provision released upon the repurchase of Convertible Bonds	(5.9)	—	—
Provision released upon completion of the Bonds Settlement	—	(815.6)	—
	<u>815.6</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>815.6</u>	<u>—</u>	<u>—</u>

35. PROVISIONS

	Guarantee on bank loan granted to an independent third party and an associate		
	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	376.5	298.5	326.7
Additional provision	40.8	28.2	28.7
Reclassification as a bank loan	(118.8)	—	—
	<u>298.5</u>	<u>326.7</u>	<u>355.4</u>
Balance at end of year	<u>298.5</u>	<u>326.7</u>	<u>355.4</u>

The amounts of the provisions for guarantee were provided based on the net exposure of the Group on the outstanding loan balance drawn down by the borrowers at the balance sheet dates.

36. 5% CONVERTIBLE BONDS

On 15th October, 2002, the RHIHL Group issued HK\$50.0 million 5% guaranteed convertible bonds (the "RHIHL Convertible Bonds"), with an option to the bondholder to subscribe, on the same terms, for further RHIHL Convertible Bonds in an additional principal amount of HK\$50.0 million (the "RHIHL Optional Bonds") in whole or in part (the "Subscription Option"), which would mature on 15th April, 2004. The issue price of the RHIHL Convertible Bonds was 100% of their principal amount.

When the RHIHL Convertible Bonds were first issued, the RHIHL Convertible Bonds were convertible, at the option of the bondholder, into an aggregate of 500.0 million fully paid ordinary shares of HK\$0.01 each in RHIHL at a conversion price of HK\$0.10 per ordinary share, subject to adjustments. The conversion period for the RHIHL Convertible Bonds was from 15th October, 2002 to 14th April, 2004, both dates inclusive. The conversion price of HK\$0.10 per ordinary share was first adjusted to HK\$0.065 per ordinary share following the issue of 310.0 million new ordinary shares of RHIHL at a price of HK\$0.065 per ordinary share upon a share placement completed on 9th December, 2002, and was further adjusted to HK\$0.048 per ordinary share following the issue of 210.0 million new ordinary shares of RHIHL at a price of HK\$0.048 per ordinary share upon a share placement completed on 16th June, 2003.

In January 2003, the RHIHL Convertible Bonds in the principal amount of HK\$30.0 million (together with interest accrued thereon) were repurchased and cancelled by the RHIHL Group. In the respective months of June and July, the RHIHL Convertible Bonds in the principal amounts of HK\$1.0 million and HK\$19.0 million were converted into new ordinary shares of RHIHL at HK\$0.048 each. In addition, in the months of July and August, the Subscription Option was partially exercised by the bondholder to subscribe for additional RHIHL Optional Bonds in a total principal amount of HK\$20.0 million, which were subsequently converted into new ordinary shares of RHIHL at HK\$0.048 each. RHIHL has in total issued 833.3 million new ordinary shares as a result of the conversions of the RHIHL Convertible Bonds during 2003.

Subsequent to 31st December, 2003, in January 2004, the Subscription Option for the remaining RHIHL Optional Bonds was exercised and further RHIHL Optional Bonds in a principal amount of HK\$30.0 million were issued. Part of these RHIHL Optional Bonds in a principal amount of HK\$28.0 million were subsequently acquired by a wholly owned subsidiary company of PHL. All such RHIHL Optional Bonds in a principal amount of HK\$30.0 million have since been converted into 625.0 million new ordinary shares of RHIHL at HK\$0.048 each.

The RHIHL Convertible Bonds were secured by certain receivables, fixed time deposits, interests in associates and shares in certain subsidiary companies of RHIHL. Security over such assets had been released in January 2004.

37. ADVANCES FROM MINORITY SHAREHOLDERS OF SUBSIDIARY COMPANIES

All advances from minority shareholders of subsidiary companies are unsecured and have no fixed terms of repayment. Apart from an amount of HK\$30.6 million, HK\$32.4 million and HK\$34.4 million as at 31st December, 2001, 2002 and 2003, respectively, which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

38. OTHER PAYABLE

The other payable as at 31st December, 2003 represents loan restructuring fees payable to the bank creditors due on 31st December, 2006 pursuant to the terms of the Rescheduling Agreement entered into by the RHIHL Group as more fully described in note 1 to the Financial Information. Accordingly, it is classified as a non-current liability as at 31st December, 2003.

39. MINORITY INTERESTS

Included in the minority interests as at 31st December, 2002 was an amount of HK\$345.0 million which was attributable to 3,450.0 million convertible preference shares of HK\$0.10 each issued by PHL (the "Convertible Preference Shares") as the consideration for the acquisition of Venture Perfect Investments Limited (the "Paliburg Acquisition") on 31st December, 2002 (the "Issue Date"), details of which are set out in note 50(e) to the Financial Information. Each Convertible Preference Share is convertible into one ordinary share of PHL of HK\$0.01 each at any time within 3 years after the Issue Date.

On 31st December, 2002, the Company completed a share swap agreement with Almighty International Limited ("Almighty") and the vendors in the Paliburg Acquisition (the "Vendors") (the "Share Swap Agreement"). Under the Share Swap Agreement, (i) the Vendors sold their Convertible Preference Shares to Almighty; (ii) Almighty issued four exchangeable preference shares (the "Exchangeable Preference Shares") for every Convertible Preference Share acquired; and (iii) the Company agreed to acquire the entire issued ordinary share capital of Almighty from one of the Vendors at a nominal value. Every four Exchangeable Preference Shares are exchangeable into one Convertible Preference Share, or one ordinary share of PHL if so converted, within a period of 18 months (as extended from the original term of 12 months) after the Issue Date (the "Exchange Period"). Under the Share Swap Agreement and pursuant to the terms of the Exchangeable Preference Shares, the Company may, through the exercise of rights to call (the "Rights to Call") subject to certain conditions, acquire from one of the Vendors up to 11,000.0 million Exchangeable Preference Shares while the Vendors may, through the exercise of rights to put (the "Rights to Put"), require the Company to acquire up to 13,800.0 million Exchangeable Preference Shares, by the issue of one new ordinary share of the Company for every Exchangeable Preference Share acquired.

Further details of the Share Swap Agreement, and the terms of the Convertible Preference Shares and Exchangeable Preference Shares were set out in the Company's circular dated 26th August, 2002.

During 2003, 1,200.0 million Exchangeable Preference Shares were exchanged into (i) 100.0 million Convertible Preference Shares for conversion into 100.0 million ordinary shares of PHL and (ii) 200.0 million ordinary shares of PHL resulting from the conversion of the same number of Convertible Preference Shares by Almighty. In addition, a further 1,160.0 million Convertible Preference Shares were converted into 1,160.0 million ordinary shares of PHL by Almighty. Consequently, an amount of HK\$199.0 million attributable to 1,990.0 million outstanding Convertible Preference Shares held by Almighty was included in the minority interests as at 31st December, 2003.

Moreover, during 2003, the Company issued 1,580.0 million new ordinary shares to acquire 1,580.0 million Exchangeable Preference Shares upon their exercise of the rights to put by the holders of such Exchangeable Preference Shares. On the basis that these Exchangeable Preference Shares are exchangeable into 395.0 million ordinary shares of PHL held by Almighty, such ordinary shares of PHL are deemed to be beneficially held by the Company while the balance of the 765.0 million ordinary shares of PHL held by Almighty continue to be deemed to be beneficially held by the relevant Vendors.

Subsequent to 31st December, 2003, on 8th March, 2004, 750.0 million Convertible Preference Shares were converted into 750.0 million ordinary shares of PHL by Almighty.

40. SHARE CAPITAL

	Notes	At 31st December,		
		2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
Authorised:				
20,000.0 million ordinary shares of HK\$0.10 each		<u>2,000.0</u>	<u>2,000.0</u>	<u>2,000.0</u>
Issued and fully paid:				
3,816.8 million (2002 and 2001 - 3,326.8 million) ordinary shares of HK\$0.10 each		332.7	332.7	381.7
Issue of 490.0 million new shares for acquisition of a long term investment	(i)	—	49.0	—
Issue of 1,580.0 million new shares for exchange for Exchangeable Preference Shares	(ii)	<u>—</u>	<u>—</u>	<u>158.0</u>
Balance at end of year		<u>332.7</u>	<u>381.7</u>	<u>539.7</u>

There were no movements in the Company's share capital during 2001. The movements in the Company's share capital during the period from 1st January, 2002 to 31st December, 2003 were as follows:

- (i) Pursuant to the share exchange agreement dated 18th February, 2002 (the "Agreement"), a total of 250.0 million new shares of the Company of HK\$0.10 each were issued on 8th March, 2002 to a nominee of Prism Communications International Limited ("Prism") as the consideration for subscription of 10.0 million ordinary shares of HK\$0.01 each in Prism (the "Prism Shares"). According to the Agreement, an option was granted by Prism to the Company to subscribe for up to a further 30.0 million shares in Prism at an exercise price of 25 new shares of the Company (the "Exercise Price") per Prism Share (the "Option"). On 23rd July, 2002, the Company partially exercised the Option to subscribe for an additional 9.6 million Prism Shares at the Exercise Price and, accordingly, 240.0 million new shares of the Company of HK\$0.10 each were issued on the same date. The remaining Option expired on 1st October, 2002.
- (ii) From September to December 2003, the Company issued 1,580.0 million new ordinary shares of HK\$0.10 each to acquire 1,580.0 million Exchangeable Preference Shares upon the exercise of the rights to put by the holders of such Exchangeable Preference Shares (note 39).

The Company does not maintain any share option scheme during the Relevant Periods.

Share options granted by Paliburg Holdings Limited

PHL operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by PHL's shareholders on 23rd November, 1993 and subsequently approved by the independent shareholders of Paliburg International Holdings Limited ("PIHL"), formerly the immediate listed holding company of PHL, on 15th December, 1993. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The summarised information on the PHL Share Option Scheme is set out as follows:

- | | |
|--|--|
| (i) Purpose: | As incentive to selected eligible executives |
| (ii) Participants: | Eligible executive means any director, officer and any person who is an employee of PHL and its subsidiary companies |
| (iii) Total number of ordinary shares subject to outstanding options under the PHL Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2003 and at the date of this report: | <p>At 31st December, 2003:
14,562,500 ordinary shares
(approximately 0.4%)</p> <p>At the date of this report:
2,500,000 ordinary shares
(approximately 0.05%)</p> |
| (iv) Maximum entitlement of each participant under the PHL Share Option Scheme: | Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant |
| (v) The period within which the shares must be taken up under an option: | From the time when the options become vested to no later than ten years after the date of grant |
| (vi) Minimum period for which an option must be held before it can be exercised: | Not less than one year following the date of grant |
| (vii) 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: | N/A |
| (viii) The basis of determining the exercise price: | At the discretion of the board of PHL but shall not be less than the par value of the shares nor at a discount of more than 20% 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 of PHL to be given |
| (ix) The remaining life of the PHL Share Option Scheme: | The life of the PHL Share Option Scheme commenced from 23rd November, 1993, date of adoption, and ended on 23rd November, 2003 |

During 2001, movements in share options granted by PHL pursuant to the PHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001 HK\$		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	2,737,500	—	3,193,750	Note 3	10.40
	Unvested:	<u>1,825,000</u>	<u>—</u>	<u>1,368,750</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	600,000	—	700,000	Note 3	10.40
	Unvested:	<u>400,000</u>	<u>—</u>	<u>300,000</u>		
	Other Employees					
	Employees, in aggregate					
	Vested:	3,375,000	(306,250)	3,631,250	Note 3	10.40
Unvested:	<u>2,250,000</u>	<u>(131,250)</u>	<u>1,556,250</u>			
		<u>11,187,500</u>	<u>(437,500)</u>	<u>10,750,000</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1992)	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	14,062,500	—	18,750,000	Notes 4 & 5	0.6656
	Unvested:	<u>4,687,500</u>	<u>—</u>	<u>—</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	3,076,872	—	5,127,656	Notes 4 & 5	0.6656
	Unvested:	<u>2,050,784</u>	<u>—</u>	<u>—</u>		
	Other Employees					
	Employees, in aggregate					
	Vested:	10,969,912	—	16,887,892	Notes 4 & 5	0.6656
Unvested:	<u>5,917,980</u>	<u>—</u>	<u>—</u>			
		<u>40,765,548</u>	<u>—</u>	<u>40,765,548</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001 HK\$		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	Other Employees Employees, in aggregate					
	Vested:	1,230,468	—	1,406,249	Note 6	1.1571
	Unvested:	<u>527,344</u>	<u>—</u>	<u>351,563</u>	Note 6	
		<u>1,757,812</u>	<u>—</u>	<u>1,757,812</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Other Employees Employees, in aggregate					
	Vested:	1,875,000	—	2,187,500	Note 7	3.5392
	Unvested:	<u>1,250,000</u>	<u>—</u>	<u>937,500</u>	Note 7	
		<u>3,125,000</u>	<u>—</u>	<u>3,125,000</u>		
22nd February, 1997	Other Employees Employees, in aggregate					
	Vested:	1,687,500	(1,000,000)	1,250,000	Note 3	6.672
	Unvested:	<u>3,937,500</u>	<u>(1,500,000)</u>	<u>1,875,000</u>	Note 3	
		<u>5,625,000</u>	<u>(2,500,000)</u>	<u>3,125,000</u>		
	Total:	<u>62,460,860</u>	<u>(2,937,500)</u>	<u>59,523,360</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and PHL on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, PHL granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of PHL under the PHL Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.

2. The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.

3. 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)

4. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	4 years after Original Grant Date	1/7 x 100%	1/7 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	5 years to 9 years after Original Grant Date	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage vested each subsequent year (commencing from 5 years after Original Grant Date))	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage exercisable each subsequent year (commencing from 5 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

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

6. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	4 years to 9 years after Original Grant Date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year)	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

7. Vesting/Exercise Periods of Options:

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

8. 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.

During 2002, movements in share options granted by PHL pursuant to the PHL Share Option scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	3,193,750	—	3,650,000	Note 3	10.40
	Unvested:	<u>1,368,750</u>	<u>—</u>	<u>912,500</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	700,000	—	800,000	Note 3	10.40
	Unvested:	<u>300,000</u>	<u>—</u>	<u>200,000</u>		
	Other Employees					
	Employees, in aggregate					
	Vested:	3,631,250	(350,000)	3,800,000	Note 3	10.40
Unvested:	<u>1,556,250</u>	<u>(87,500)</u>	<u>950,000</u>			
		<u>10,750,000</u>	<u>(437,500)</u>	<u>10,312,500</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1992)	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	<u>18,750,000</u>	<u>(18,750,000)</u>	<u>—</u>	Note 4	0.6656
	Mr. Kenneth Ng Kwai Kai					
	Vested:	<u>5,127,656</u>	<u>(5,127,656)</u>	<u>—</u>	Note 4	0.6656
	Other Employees					
	Employees, in aggregate					
	Vested:	<u>16,887,892</u>	<u>(16,887,892)</u>	<u>—</u>	Note 4	0.6656
		<u>40,765,548</u>	<u>(40,765,548)</u>	<u>—</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	Other Employees Employees, in aggregate					
	Vested:	1,406,249	—	1,757,812	Notes 5 & 6	1.1571
	Unvested:	<u>351,563</u>	<u>—</u>	<u>—</u>	Notes 5 & 6	
		<u>1,757,812</u>	<u>—</u>	<u>1,757,812</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Other Employees Employees, in aggregate					
	Vested:	2,187,500	—	2,500,000	Note 7	3.5392
	Unvested:	<u>937,500</u>	<u>—</u>	<u>625,000</u>	Note 7	
		<u>3,125,000</u>	<u>—</u>	<u>3,125,000</u>		
22nd February, 1997	Other Employees Employees, in aggregate					
	Vested:	1,250,000	(312,500)	1,250,000	Note 3	6.672
	Unvested:	<u>1,875,000</u>	<u>(312,500)</u>	<u>1,250,000</u>	Note 3	
		<u>3,125,000</u>	<u>(625,000)</u>	<u>2,500,000</u>		
	Total:	<u>59,523,360</u>	<u>(41,828,048)</u>	<u>17,695,312</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of PHL.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and PHL on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, PHL granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of PHL under the PHL Share Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.

3. 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)

4. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	4 years after Original Grant Date	1/7 x 100%	1/7 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	5 years to 9 years after Original Grant Date	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage vested each subsequent year (commencing from 5 years after Original Grant Date))	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage exercisable each subsequent year (commencing from 5 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date).

5. Lapsed after expiry of the relevant exercise period on 22nd February, 2003.

6. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	4 years to 9 years after Original Grant Date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year (commencing from 4 years after Original Grant Date))	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year (commencing from 4 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

7. Vesting/Exercise Periods of Options:

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

8. 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.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of PHL, resulted in the issue of 13.6 million additional ordinary shares and share premium of HK\$116.4 million (before issue expenses).

During 2003, movements in share options granted by PHL pursuant to the PHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options**
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui					
	Vested:	3,650,000	—	4,562,500	Notes 2 & 3	10.40
	Unvested:	<u>912,500</u>	<u>—</u>	<u>—</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	800,000	—	1,000,000	Notes 2 & 3	10.40
	Unvested:	<u>200,000</u>	<u>—</u>	<u>—</u>		
	Other Employees					
	Employees, in aggregate					
	Vested:	3,800,000	(1,375,000)	3,375,000	Notes 2 & 3	10.40
Unvested:	<u>950,000</u>	<u>—</u>	<u>—</u>			
		<u>10,312,500</u>	<u>(1,375,000)</u>	<u>8,937,500</u>		
15th September, 1995 (Original Grant Date (Note 1) 22nd February, 1993);	Other Employees					
	Employees, in aggregate					
Vested:	<u>1,757,812</u>	<u>(1,757,812)</u>	<u>—</u>	Note 4	1.1571	
15th September, 1995 (Original Grant Date (Note 1) 22nd February, 1994):	Other Employees					
	Employees, in aggregate					
	Vested:	2,500,000	—	3,125,000	Notes 2 & 5	3.5392
	Unvested:	<u>625,000</u>	<u>—</u>	<u>—</u>	Notes 2 & 5	
		<u>3,125,000</u>	<u>—</u>	<u>3,125,000</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options**
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1997	Other Employees Employees, in aggregate					
	Vested:	1,250,000	—	1,500,000	Note 3	6.672
	Unvested:	<u>1,250,000</u>	<u>—</u>	<u>1,000,000</u>	Note 3	
		<u>2,500,000</u>	<u>—</u>	<u>2,500,000</u>		
	Total:	<u>17,695,312</u>	<u>(3,132,812)</u>	<u>14,562,500</u>		

HK\$

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the share capital of PHL.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and PHL on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, PHL granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of PHL under the PHL Share Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- Lapsed after expiry of the relevant exercise period on 22nd February, 2004.
- 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)

4. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	4 years to 9 years after Original Grant Date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year (commencing from 4 years after Original Grant Date))	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year (commencing from 4 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

5. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	2 years after Original Grant Date	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after Original Grant Date)

(b)	3 years to 9 years after Original Grant Date	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after Original Grant Date))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(c)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

6. 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.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of PHL, resulted in the issue of 1.8 million additional ordinary shares and share premium of HK\$11.7 million (before issue expenses).

Share options granted by Regal Hotels International Holdings Limited

RHIHL operates an executive share option scheme (the "RHIHL Share Option Scheme"). The RHIHL Share Option Scheme was approved by RHIHL's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The summarised information on the RHIHL Share Option Scheme is set out as follows:

- | | | |
|-------|--|---|
| (i) | Purpose: | As incentive to selected eligible executives |
| (ii) | Participants: | Eligible executive means any director and any person who is an employee of the RHIHL Group (including RHIHL, its subsidiary companies and other bodies corporate in which RHIHL 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 RHIHL 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 RHIHL Group. |
| (iii) | Total number of ordinary shares subject to outstanding options under the RHIHL Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2003 and at the date of this report: | 1,080,000 ordinary shares (approximately 0.01%) |
| (iv) | Maximum entitlement of each participant under the RHIHL Share Option Scheme: | Not exceeding 25% of the total number of ordinary shares included in options outstanding at the time of grant |

(v)	The period within which the shares must be taken up under an option:	From the time when the options become vested no later than ten years after the date of grant.
(vi)	Minimum period for which an option must be held before it can be exercised:	Not less than one year following the date of grant
(vii)	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:	N/A
(viii)	The basis of determining the exercise price:	At the discretion of the Board of RHIHL 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 of RHIHL to be given.
(ix)	The remaining life of the RHIHL Share Option Scheme:	The life of the RHIHL Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000.

During 2001, movements in share options granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001		
22nd February, 1992	Directors					
	Mr. Lo Yuk Sui					
	Vested:	20,160,000	—	26,880,000	Notes 1 & 2	0.7083
	Unvested:	<u>6,720,000</u>	<u>—</u>	<u>—</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	6,480,000	—	8,400,000	Notes 1 & 2	0.7083
	Unvested:	<u>1,920,000</u>	<u>—</u>	<u>—</u>		
	Other Employees					
	Employees, in aggregate					
	Vested:	9,930,000	—	14,814,000	Notes 1 & 2	0.7083
Unvested:	<u>4,884,000</u>	<u>—</u>	<u>—</u>			
		<u>50,094,000</u>	<u>—</u>	<u>50,094,000</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001		
5th August, 1993	Other Employees Employees, in aggregate					
	Vested:	930,000	—	1,080,000	Note 1	1.1083
	Unvested:	<u>450,000</u>	<u>—</u>	<u>300,000</u>	Note 1	
		<u>1,380,000</u>	<u>—</u>	<u>1,380,000</u>		
22nd February, 1997	Other Employees Employees, in aggregate					
	Vested:	864,000	(720,000)	432,000	Note 1	2.1083
	Unvested:	<u>2,016,000</u>	<u>(1,080,000)</u>	<u>648,000</u>	Note 1	
		<u>2,880,000</u>	<u>(1,800,000)</u>	<u>1,080,000</u>		
	Total:	<u>54,354,000</u>	<u>(1,800,000)</u>	<u>52,554,000</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.

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.

During 2002, movements in share options granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1992	Directors					
	Mr. Lo Yuk Sui					
	Vested:	<u>26,880,000</u>	<u>(26,880,000)</u>	<u>—</u>	Note 1	0.7083
	Mr. Kenneth Ng Kwai Kai					
	Vested:	<u>8,400,000</u>	<u>(8,400,000)</u>	<u>—</u>	Note 1	0.7083
	Other Employees					
	Employees, in aggregate					
	Vested:	<u>14,814,000</u>	<u>(14,814,000)</u>	<u>—</u>	Note 1	0.7083
		<u>50,094,000</u>	<u>(50,094,000)</u>	<u>—</u>	Note 1	0.7083
5th August, 1993	Other Employees					
	Employees, in aggregate					
	Vested:	1,080,000	—	1,230,000	Note 1	1.1083
	Unvested:	<u>300,000</u>	<u>—</u>	<u>150,000</u>	Note 1	
		<u>1,380,000</u>	<u>—</u>	<u>1,380,000</u>		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	432,000	—	540,000	Note 1	2.1083
	Unvested:	<u>648,000</u>	<u>—</u>	<u>540,000</u>	Note 1	
		<u>1,080,000</u>	<u>—</u>	<u>1,080,000</u>		
	Total:	<u>52,554,000</u>	<u>(50,094,000)</u>	<u>2,460,000</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.

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

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of RHIHL, resulted in the issue of 2.0 million additional ordinary shares and share premium of HK\$2.9 million (before issue expenses).

During 2003, movements in share options granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
5th August, 1993	Other Employees Employees, in aggregate					
	Vested:	1,230,000	(1,380,000)	—	Note 1	1.1083
	Unvested:	<u>150,000</u>	<u>—</u>	<u>—</u>	Note 1	
		<u>1,380,000</u>	<u>(1,380,000)</u>	<u>—</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1997	Other Employees Employees, in aggregate					
	Vested:	540,000	—	648,000	Note 1	2.1083
	Unvested:	<u>540,000</u>	<u>—</u>	<u>432,000</u>	Note 1	
		<u>1,080,000</u>	<u>—</u>	<u>1,080,000</u>		
	Total:	<u>2,460,000</u>	<u>(1,380,000)</u>	<u>1,080,000</u>		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.

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

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of RHIHL, resulted in the issue of 0.8 million additional ordinary shares and share premium of HK\$1.6 million (before issue expenses).

41. RESERVES

	<i>Notes</i>	At 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Share premium	42	888.4	888.4	888.4
Capital redemption reserve	43	4.4	4.4	4.4
Capital reserve	44	3,325.9	2,980.3	2,191.6
Revaluation reserves	45	53.9	(7.9)	(5.9)
Exchange equalisation reserve	46	(4.2)	(2.2)	0.9
Accumulated losses	47	<u>(4,839.2)</u>	<u>(4,766.2)</u>	<u>(4,352.0)</u>
		<u>(570.8)</u>	<u>(903.2)</u>	<u>(1,272.6)</u>

42. SHARE PREMIUM

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>888.4</u>	<u>888.4</u>	<u>888.4</u>

43. CAPITAL REDEMPTION RESERVE

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>4.4</u>	<u>4.4</u>	<u>4.4</u>

44. CAPITAL RESERVE

Year ended 31st December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	3,383.4	3,325.9	2,980.3
Release on disposal of ordinary shares in a listed subsidiary company	(43.1)	(46.3)	(4.7)
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	(14.4)	—	—
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	—	(309.0)	—
Release on deemed disposal of the Group's interest in listed subsidiary companies	—	—	(771.7)
Release on disposal of overseas subsidiary companies	—	—	(12.3)
Share of impairment of goodwill of an associate previously eliminated against capital reserve	—	9.7	—
	<u>3,325.9</u>	<u>2,980.3</u>	<u>2,191.6</u>
Balance at end of year	<u>3,325.9</u>	<u>2,980.3</u>	<u>2,191.6</u>

As further explained below, the carrying amounts of the capital reserve included goodwill and negative goodwill arising from the acquisitions of subsidiary companies and the share of goodwill of an associate in prior years. As detailed in note 2(b) to the Financial Information, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against or credited to the capital reserve, respectively.

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiary companies and that of an associate shared by the Group prior to the adoption of SSAP 30 in 2001, are as follows:

	Share of goodwill of an associate eliminated against capital reserve	Goodwill eliminated against capital reserve	Negative goodwill credited to capital reserve
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Cost:			
At 1st January, 2001	10.0	156.5	(2,168.3)
Release on disposal of ordinary shares in a listed subsidiary company	—	—	43.1
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	<u>—</u>	<u>—</u>	<u>14.4</u>
At 31st December, 2001	10.0	156.5	(2,110.8)
Accumulated impairment:			
At 1st January, 2001 and at 31st December, 2001	<u>—</u>	<u>(156.5)</u>	<u>—</u>
Net amount:			
At 31st December, 2001	<u><u>10.0</u></u>	<u><u>—</u></u>	<u><u>(2,110.8)</u></u>
Cost:			
At 1st January, 2002	10.0	156.5	(2,110.8)
Release on disposal of ordinary shares in a listed subsidiary company	(0.3)	—	46.6
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	<u>—</u>	<u>—</u>	<u>309.0</u>
At 31st December, 2002	<u>9.7</u>	<u>156.5</u>	<u>(1,755.2)</u>
Accumulated impairment:			
At 1st January, 2002	—	(156.5)	—
Impairment provided during the year	<u>(9.7)</u>	<u>—</u>	<u>—</u>
At 31st December, 2002	<u><u>(9.7)</u></u>	<u><u>(156.5)</u></u>	<u><u>—</u></u>
Net amount:			
At 31st December, 2002	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(1,755.2)</u></u>

	Share of goodwill of an associate eliminated against capital reserve	Goodwill eliminated against capital reserve	Negative goodwill credited to capital reserve
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Cost:			
At 1st January, 2003	9.7	156.5	(1,755.2)
Release on disposal of overseas subsidiary companies	—	—	12.3
Release on deemed disposal of the Group's interests in listed subsidiary companies	—	—	771.7
Release on disposal of ordinary shares in a listed subsidiary company	<u>—</u>	<u>—</u>	<u>4.7</u>
At 31st December, 2003	9.7	156.5	(966.5)
Accumulated impairment:			
At 1st January, 2003 and at 31st December, 2003	<u>(9.7)</u>	<u>(156.5)</u>	<u>—</u>
Net amount:			
At 31st December, 2003	<u>—</u>	<u>—</u>	<u>(966.5)</u>

The remaining balance of the capital reserve arose as a result of the Group reorganisations in prior years.

45. REVALUATION RESERVES

	Investment properties <i>HK\$'million</i>	Leasehold properties <i>HK\$'million</i>	Long term investments <i>HK\$'million</i>	Total <i>HK\$'million</i>
At 1st January, 2001	2.1	130.2	(67.6)	64.7
Movement in fair value	—	—	(13.4)	(13.4)
Reclassification of leasehold properties as investment properties	51.5	(51.5)	—	—
Reclassification of investment properties as properties held for sale	7.3	—	—	7.3
Release on disposal of ordinary shares in a listed subsidiary company	—	(2.6)	1.3	(1.3)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	—	—	0.8	0.8
Release on disposal	—	—	61.2	61.2
Transfer to retained profits (<i>note 48</i>)	—	(4.5)	—	(4.5)
Deficit on revaluation	<u>(60.9)</u>	<u>—</u>	<u>—</u>	<u>(60.9)</u>
At 31st December, 2001 and at 1st January, 2002	—	71.6	(17.7)	53.9
Movement in fair value	—	—	0.1	0.1
Transfer to profit and loss account on impairment	—	—	5.0	5.0
Reclassification of leasehold properties as investment properties	21.2	(21.2)	—	—
Release on disposal of ordinary shares in a listed subsidiary company	—	—	0.5	0.5
Release on disposal of ordinary shares in a listed subsidiary company upon the completion of the Bonds Settlement	—	—	1.7	1.7
Release on disposal of subsidiary companies upon the completion of the Bonds Settlement	(21.2)	(47.8)	—	(69.0)
Release on disposal	—	—	2.5	2.5
Transfer to retained profits (<i>note 48</i>)	<u>—</u>	<u>(2.6)</u>	<u>—</u>	<u>(2.6)</u>
At 31st December, 2002 and at 1st January, 2003	—	—	(7.9)	(7.9)
Movement in fair value	—	—	(0.5)	(0.5)
Release on deemed disposal of the Group's interests in listed subsidiary companies	—	—	2.3	2.3
Release on disposal	<u>—</u>	<u>—</u>	<u>0.2</u>	<u>0.2</u>
At 31st December, 2003	<u>—</u>	<u>—</u>	<u>(5.9)</u>	<u>(5.9)</u>

46. EXCHANGE EQUALISATION RESERVE

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Balance at beginning of year	(3.2)	(4.2)	(2.2)
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	0.1	—	—
Release on disposal of ordinary shares in a listed subsidiary company	—	0.2	—
Release on disposal of ordinary shares in a listed subsidiary company upon completion of the Bonds Settlement	—	1.6	—
Release on deemed disposal of the Group's interest in listed subsidiary companies	—	—	0.4
Release on disposal of overseas subsidiary companies	—	—	1.3
Release on disposal of a subsidiary company	—	—	(0.2)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	(1.1)	0.2	1.6
Balance at end of year	<u>(4.2)</u>	<u>(2.2)</u>	<u>0.9</u>

47. ACCUMULATED LOSSES

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Balance at beginning of year:	(3,195.9)	(4,839.2)	(4,766.2)
Net profit/(loss) for the year	(1,647.8)	(22.6)	414.2
Elimination of accumulated losses of a listed subsidiary company upon cancellation of its preference share premium	—	45.2	—
Transfer from other reserves (note 48)	4.5	50.4	—
Balance at end of year	<u>(4,839.2)</u>	<u>(4,766.2)</u>	<u>(4,352.0)</u>

Year ended 31st December,

2001 2002 2003

HK\$'million HK\$'million HK\$'million

Accumulated losses at end of year accumulated in:

The Company and subsidiary companies	(3,586.2)	(3,507.2)	(3,129.6)
Associates	(198.6)	(204.6)	(205.9)
Jointly controlled entity	<u>(1,054.4)</u>	<u>(1,054.4)</u>	<u>(1,016.5)</u>
Balance at end of year	<u>(4,839.2)</u>	<u>(4,766.2)</u>	<u>(4,352.0)</u>

48. TRANSFER FROM OTHER RESERVES

Year ended 31st December,

2001 2002 2003

HK\$'million HK\$'million HK\$'million

Transfer from revaluation reserve of the portion of depreciation charge on leasehold property attributable to the revaluation surplus in relation thereto (*note 45*)

4.5 2.6 —

Transfer from revaluation reserve upon disposal of leasehold properties (*note 45*)

— 47.8 —4.5 50.4 —

49. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit/(loss) before tax to net cash inflow from operating activities

Year ended 31st December,

2001 2002 2003

HK\$'million HK\$'million HK\$'million

Profit/(Loss) before tax	(2,235.6)	301.5	690.0
Adjustments for:			
Finance costs	872.2	623.6	281.0
Share of profits less losses of a jointly controlled entity and associates	97.4	19.5	(203.3)
Interest income	(56.5)	(15.9)	(8.3)
Dividend income	(3.4)	(1.0)	(0.5)
Gain on settlement of Exchangeable Bonds and Convertible Bonds	—	(2,180.2)	—
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of Exchangeable Bonds	(64.7)	—	—

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Loss/(Gain) on deemed disposal of the Group's interests in listed subsidiary companies	6.2	53.7	(319.2)
Loss on disposal of unlisted subsidiary companies	2.7	—	—
Write-off of ordinary shares in a listed subsidiary company	—	—	(1.8)
Loss on disposal of a subsidiary company	—	—	1.0
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	—	—	9.7
Gain on disposal of an associate	—	(6.5)	—
Loss/(Gain) on disposal of fixed assets	3.3	1.0	(5.4)
Loss on disposal of an investment property	—	35.6	—
Depreciation	61.2	51.7	41.2
Amortisation of trading rights	0.6	0.2	—
Amortisation of goodwill	—	—	14.3
Negative goodwill recognised as income	—	(1.1)	(0.4)
Write-down/(Write-back) in values of properties	61.9	67.4	(44.0)
Deficit on revaluation of investment properties	288.6	0.1	—
Write-back of provision against a loan receivable	—	(19.1)	(0.2)
Provisions for guarantee and indemnity given	2.7	3.7	—
Impairment of fixed assets	50.8	—	—
Write-back of impairment of hotel properties	—	—	(11.4)
Impairment of hotel properties previously eliminated against hotel property revaluation reserve	—	618.9	—
Deficit/(Write-back of deficit) on revaluation of hotel properties	710.4	528.9	(266.1)
Impairment of long term investments	180.0	62.0	—
Impairment of long term investments previously eliminated against long term investment revaluation reserve	—	15.0	—
Impairment of intangible assets	—	2.3	—
Provisions for doubtful debts	12.1	8.8	3.4
Provisions against other loans, promissory notes and interest receivable	75.6	—	—
Profit on sale of properties	(0.3)	—	—
Loss on disposal of long term investments	142.6	97.2	1.2
Gain on repurchase and cancellation of Convertible Bonds	(13.4)	—	—
Net proceeds from sale of properties	123.4	9.3	136.0
Additions to properties under development	—	(5.4)	(32.1)
Operating profit before working capital changes	<u>317.8</u>	<u>271.2</u>	<u>285.1</u>

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Operating profit before working capital changes	317.8	271.2	285.1
Decrease/(Increase) in short term investments	17.8	1.7	(9.9)
Decrease in debtors, deposits and prepayments	35.5	76.4	42.8
Decrease/(Increase) in hotel and other inventories	15.5	5.8	(2.5)
Decrease in creditors and accruals	(43.2)	(91.6)	(95.6)
Increase/(Decrease) in deposits received	(10.0)	3.1	28.9
Exchange difference	<u>(0.2)</u>	<u>0.3</u>	<u>(0.7)</u>
Cash generated from operations	333.2	266.9	248.1
Hong Kong profits tax paid	(21.5)	(8.4)	(1.3)
Hong Kong profits tax refunded	—	2.1	0.3
Overseas taxes paid	(0.5)	(0.4)	(0.1)
Overseas taxes refunded	<u>—</u>	<u>3.1</u>	<u>—</u>
Net cash inflow from operating activities	<u>311.2</u>	<u>263.3</u>	<u>247.0</u>

(b) **Major non-cash transactions**

During the Relevant Periods, the Group had the following major non-cash transactions:

- (i) Part of the promissory notes receivable of HK\$180.0 million as at 31st December, 2001 together with the interest accrued thereon was settled in 2002, involving, inter alia, a 3-year convertible note of HK\$132.0 million issued by one of the borrowers of the promissory notes.
- (ii) In 2002, the PHL Group acquired a 100% interest in Venture Perfect Investments Limited at a consideration of HK\$345.0 million which was satisfied by the issue of 3,450.0 million convertible preference shares of PHL.
- (iii) As detailed in note 40(i) to the Financial Information, in 2002, a total of 490.0 million new shares of HK\$0.10 each of the Company were issued in exchange for 19.6 million shares of HK\$0.01 each in Prism Communications International Limited.
- (iv) On 24th January, 2003 and 23rd May, 2003, a total of 100.0 million and 1,360.0 million convertible preference shares of PHL of HK\$0.10 each were converted into 100.0 million and 1,360.0 million ordinary shares of PHL, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.
- (v) As detailed in note 40(ii) to the Financial Information, a total of 1,580.0 million new shares of the Company of HK\$0.10 each were issued during 2003 in exchange for 1,580.0 million Exchangeable Preference Shares of HK\$0.10 each.

(c) **Restricted cash and cash equivalent balances**

At 31st December, 2001, 2002 and 2003, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$4.6 million, HK\$29.9 million and HK\$6.3 million, respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

(d) **Acquisition/Consolidation of a subsidiary company**

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net assets acquired:			
Fixed assets	—	—	0.4
Interest in an associate	—	275.0	—
Time deposits	—	70.0	—
Cash and bank balances	—	—	0.1
Debtors, deposits and prepayments	—	—	6.1
Inventories	—	—	0.1
Creditors and accruals	—	—	(6.1)
Minority interests	—	—	(0.2)
	<u>—</u>	<u>—</u>	<u>—</u>
	—	345.0	0.4
Goodwill on consolidation	—	—	274.8
	<u>—</u>	<u>345.0</u>	<u>275.2</u>
	<u>—</u>	<u>345.0</u>	<u>275.2</u>
Satisfied by:			
Issue of convertible preference shares	—	345.0	—
Reclassification of interest in an associate	—	—	275.2
	<u>—</u>	<u>345.0</u>	<u>275.2</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition/consolidation of subsidiary company is as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Cash and bank balances acquired	<u>—</u>	<u>70.0</u>	<u>0.1</u>

The results of the subsidiary company consolidated in 2003 contributed HK\$4.9 million to turnover and net loss of HK\$7.3 million to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003. These turnover and profit after tax amounts exclude the former associate's contribution to the results prior to its becoming a subsidiary company.

The results of the subsidiary company acquired in 2002 had no impact on the Group's consolidated turnover and profit after tax for that year. Refer to note 50(e) to the Financial Information for details of the acquisition.

(e) Disposal of subsidiary companies

	At 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Net assets disposed of:			
Fixed assets	—	2,792.3	259.8
Property under development	—	—	23.9
Deferred expenditure	—	18.6	—
Hotel and other inventories	—	—	4.7
Debtors, deposits and prepayments	—	10.1	5.1
Cash and bank balances	—	110.8	2.7
Creditors and accruals	—	(400.3)	(18.0)
Provision for premium on redemption of			
Exchangeable Bonds and Convertible Bonds	—	(815.6)	—
Deposits received	—	(42.3)	(11.3)
Deferred tax liabilities	—	(57.7)	—
Loans and other borrowings	—	(3,842.7)	(195.8)
Bank overdrafts	—	(0.3)	—
	—	(2,227.1)	71.1
Capital reserve realised on disposal	—	—	(12.3)
Investment property revaluation reserve released on disposal	—	(645.9)	—
Exchange equalisation reserve released on disposal	—	—	1.1
Release of reserves attributable to minority shareholders	—	—	(25.6)
Gain/(Loss) on disposal	—	2,849.9*	(10.7)
	—	(23.1)	23.6
Satisfied by:			
Cash	—	(23.1)#	9.4
Reclassification to long term investments	—	—	14.2
	—	(23.1)	23.6

* The gain on disposal of subsidiary companies was included as part of the gain on settlement of Exchangeable Bonds and Convertible Bonds. The Bonds Settlement involved, inter alia, the disposal of the subsidiary companies owning the two principal investment properties and the issuers of the Exchangeable Bonds and Convertible Bonds, and the phased release of certain shares in RHIHL, to the bondholders. Accordingly, the gain on completion of the Bonds Settlement of HK\$2,180.2 million comprised the gain on disposal of subsidiary companies amounting to HK\$2,849.9 million above and the loss on disposal of ordinary shares in RHIHL amounting to HK\$669.7 million.

The cash outflow of HK\$23.1 million represented payment for the incidental legal and professional fees incurred in respect of the Bonds Settlement.

An analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiary companies is as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Cash and bank balances disposed of	—	(110.8)	(2.7)
Bank overdrafts disposed of	—	0.3	—
Cash consideration	—	(23.1)	9.4
	<u>—</u>	<u>(133.6)</u>	<u>9.4</u>
Net inflow/(outflow) of cash and cash equivalents in respect of disposal of subsidiary companies	<u>—</u>	<u>(133.6)</u>	<u>6.7</u>

The subsidiary companies disposed of in 2003 contributed HK\$32.2 million (2002 - HK\$88.6 million; 2001 - HK\$95.6 million) to the Group's turnover and net loss of HK\$12.4 million (2002 - HK\$27.1 million; 2001 - HK\$15.0 million) to the consolidated profit after tax and before minority interests for the year ended 31st December, 2003.

The subsidiary companies disposed of in 2002 contributed HK\$128.4 million (2001 - HK\$162.7 million) to the Group's turnover and a loss of HK\$210.3 million (2001 - HK\$270.4 million) to the consolidated profit after tax and before minority interests for that year.

50. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to the Financial Information, the Group had the following material connected and related party transactions during the Relevant Periods:

	<i>Notes</i>	Year ended 31st December,		
		2001	2002	2003
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(a)	20.8	12.8	7.6
Gross construction fee income from a jointly controlled entity	(b)	2.4	0.2	31.1
Interest on loans to associates	(c)	9.9	7.5	—
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	<u>2,310.0</u>	<u>2,310.0</u>	<u>2,359.0</u>

Notes:

- (a) The advertising and promotion fees were paid to 8D International Limited and 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. In 2001, information technology services were also provided, the fees for which were charged on project basis.

- (b) The gross construction fee income from a jointly controlled entity was charged to Chest Gain in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process.

Details of the Group's trade balances with its jointly controlled entity as at the balance sheet date are disclosed in note 28 to the Financial Information.

- (c) The interest income from associates arose from loans to Cheerjoy Development Limited ("Cheerjoy"), details of which are disclosed in note 19 to the Financial Information. With effect from 1st January, 2003, such interest income was waived by mutual agreement among the shareholders of Cheerjoy.
- (d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain (also see note (f) below).
- (e) On 2nd August, 2002, PHL entered into an agreement with Venture Perfect Investments Limited ("VPI") and the shareholders of VPI (the "Vendors") for the acquisition of the entire equity interest in VPI, including taking the benefit of an option to acquire all or part of the 50% equity interest owned by one of the Vendors in Leading Technology Holdings Limited ("LTH"), the remaining 50% equity interest of which is owned by VPI (the "Paliburg Acquisition").

The Vendors are connected persons (as defined in the Listing Rules) of the Company and PHL. The assets of the VPI group comprised a 50% equity interest in LTH and cash deposits of approximately HK\$70.0 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related system, software and products in the Greater China region.

The consideration for the Paliburg Acquisition was HK\$345.0 million which was determined by reference to an independent professional business valuation and was satisfied by the issuance of 3,450.0 million convertible preference shares of PHL at HK\$0.10 each (the "Paliburg Convertible Preference Shares"). Each Paliburg Convertible Preference Share can be converted into an ordinary share of PHL (subject to adjustment) within three years after completion of the Paliburg Acquisition and the conversion will become mandatory after the three-year period. The Paliburg Acquisition, further details of which were set out in the circular dated 26th August, 2002, was completed on 31st December, 2002.

- (f) On 2nd August, 2002, RHIHL entered into a sale and purchase agreement (the "Stanley Transfer Agreement") with PHL and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of PHL, for the acquisition of its 40% interest in a property development project in Stanley, Hong Kong, in which the RHIHL Group had a then existing 30% interest (the "Stanley Transfer"). PHL has agreed to continue to provide, after completion of the Stanley Transfer, a limited several guarantee in respect of 40% of the bank borrowings for the project pursuant to the Stanley Transfer Agreement.

The consideration for the acquisition was HK\$470.0 million which was determined by reference to an independent professional valuation and was satisfied by the issuance of 1,958.3 million ordinary shares of RHIHL at HK\$0.24 each. In addition, PHL has agreed to continue to provide, after completion of the Stanley Transfer, a limited several guarantee in respect of 40% of the bank borrowings for the project pursuant to the Stanley Transfer Agreement. The Stanley Transfer, details of which were set out in the circular dated 26th August, 2002, was completed on 31st October, 2002.

The related party transactions set out in note 50(a), (e) and (f) above also constituted connected transactions as defined in the Listing Rules to the Company.

51. PLEDGE OF ASSETS

At 31st December, 2001, 2002 and 2003, certain of the Group's time deposits, properties held for sale, listed investments, interests in associates, fixed assets including properties and equipment, inventories and receivables with a total carrying value of HK\$12,160.0 million, HK\$7,801.1 million and HK\$7,732.4 million, respectively, and the shares in certain subsidiary companies, including certain ordinary shares in the listed subsidiary companies, and the shares in a jointly controlled entity were pledged to secure (i) general banking facilities granted to the Group and the jointly controlled entity; and (ii) the RHIHL Convertible Bonds.

52. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
(a) Corporate guarantees provided in respect of:			
Attributable share of outstanding bank and other borrowings of:			
— a jointly controlled entity	<u>1,757.7</u>	<u>1,938.4</u>	<u>2,255.4</u>
(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$15.6 million and HK\$13.1 million as at 31st December, 2002 and 2003, respectively, as further explained in note 2(aa) to the Financial Information. The contingent liability has arisen because, at each of the balance sheet dates, a number of current employees having achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.			
(c) As further explained in note 28 to the Financial Information, the RHIHL Group entered into a securities purchase agreement (the "U.S. Sale Agreement") with an independent party (the "Purchaser") with respect to the disposal by the RHIHL Group to the Purchaser of its interests in hotel ownership and hotel management in the United States of America in December 1999.			

The U.S. Sale Agreement contained representations, warranties and indemnification given by the RHIHL Group which were normal and usual for transactions of similar nature. As disclosed in note 28, the RHIHL Group was relieved from all the related contingent liabilities after a settlement agreement was concluded with the Purchaser in September 2003.

53. OPERATING LEASE ARRANGEMENTS**(a) As lessor**

The Group leases certain of its properties (notes 14 and 26) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years (2002 - 1 year to 5 years; 2001 - 3 months to 7 years) for 2003. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	125.4	21.2	15.8
In the second to fifth years, inclusive	<u>119.5</u>	<u>8.7</u>	<u>12.7</u>
	<u><u>244.9</u></u>	<u><u>29.9</u></u>	<u><u>28.5</u></u>

In 2001 and 2002, the Group recognised HK\$0.4 million and HK\$0.1 million, respectively, in respect of contingent rentals receivable.

(b) **As lessee**

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms of 6 months for 2003 (2002 - 6 months), except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Leases for office equipment in respect of the RHIHL Group's discontinued operation in 2002 were negotiated for terms ranging from 5 months to 9 years (2001 - 1 month to 9 years).

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Land and buildings:			
Within one year	—	9.5	4.7
In the second to fifth years, inclusive	—	27.6	10.1
After the fifth year	<u>—</u>	<u>15.0</u>	<u>2.5</u>
	<u>—</u>	<u>52.1</u>	<u>17.3</u>
Other equipment:			
Within one year	3.9	3.6	—
In the second to fifth years, inclusive	<u>1.2</u>	<u>0.6</u>	<u>—</u>
	<u>5.1</u>	<u>4.2</u>	<u>—</u>
	<u><u>5.1</u></u>	<u><u>56.3</u></u>	<u><u>17.3</u></u>

54. COMMITMENTS

In addition to the operating lease commitments detailed in note 53(b) above, the Group had the following outstanding commitments at the balance sheet date:

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Capital commitments in respect of acquisition of interest in a hotel property in Mainland China:			
Authorised and contracted for	3.4	—	—
Capital commitments in respect of the renovation of or improvements to the hotel properties:			
Authorised and contracted for	22.2	12.5	3.4
Authorised, but not contracted for	<u>51.4</u>	<u>82.9</u>	<u>86.9</u>
	<u>73.6</u>	<u>95.4</u>	<u>90.3</u>
Capital commitments in respect of a property development project:			
Authorised and contracted for	2.4	22.5	—
Authorised, but not contracted for	<u>28.3</u>	<u>1.8</u>	<u>—</u>
	<u>30.7</u>	<u>24.3</u>	<u>—</u>
	<u>107.7</u>	<u>119.7</u>	<u>90.3</u>

(III) SUBSEQUENT EVENTS

The subsequent events that occurred from 1st January, 2004 to 15th April, 2004, the date of approval of the Group's latest published audited financial statements for the year ended 31st December, 2003 and as included in those financial statements, are set out in notes 1, 14, 36 and 39 to the Financial Information and the footnote item (iii) under the list of principal subsidiary companies in Section (I) above. Subsequent to 15th April, 2004, the Group also had the following significant transactions:

- (a) On 17th May, 2004, a total of 200 million new ordinary shares of HK\$0.01 each were issued by Paliburg Holdings Limited to Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of the Company, at HK\$0.21 per share for a total consideration of HK\$42.0 million (before expenses), following a placement of the same number of shares at the same price by Almighty to independent investors on 4th May, 2004.

- (b) On 3rd June, 2004, the RHIHL Group served a notice to the purchaser (the “Purchaser”) for the exercise of the termination option under the sale and purchase agreement (the “SP Agreement”) in relation to the disposal of the Regal Oriental Hotel to terminate the SP Agreement. Pursuant to the terms of the SP Agreement, a HK\$30.0 million deposit was returned to the Purchaser and in addition, a termination fee of HK\$39.0 million will be paid to the Purchaser, which will be satisfied by the issue of 195 million new ordinary shares of RHIHL to the Purchaser at an issue price of HK\$0.20 per share.
- (c) On 3rd June, 2004, the RHIHL Group entered into subscription agreements with certain independent third parties in relation to the issue by the RHIHL Group of certain bonds comprising (i) the firm bonds in an aggregate principal amount of HK\$200.0 million; and (ii) the optional bonds in an additional aggregate principal amount of up to HK\$200.0 million (collectively the “Bonds”). The Bonds, which are due 2007, will bear interest at 2% per annum and carry rights to convert into new ordinary shares of RHIHL at an initial conversion price of HK\$0.25 per share (subject to adjustments). The issue of the Bonds is subject to, inter alia, shareholders’ approvals of RHIHL, PHL and the Company at its special general meeting to be convened on 19th July, 2004.
- (d) On 29th June, 2004, the parties to the Share Swap Agreement (as described in note 39 to the Financial Information), including the Company, entered into the third supplemental agreement (the “2004 Supplemental Agreement”) to the Share Swap Agreement. Pursuant to the 2004 Supplemental Agreement, the expiry date of the Exchange Period, the last exercise date of the Rights to Call and the last exercise date of the Rights to Put have been further extended from 30th June, 2004 to 30th September, 2004.

(IV) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiary companies in respect of any period subsequent to 31st December, 2003.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

I. Unaudited Pro forma Consolidated Balance Sheet

The following is the unaudited pro forma consolidated balance sheet of the Century City Group assuming that the maximum amount of the Bonds had been issued and fully converted as at 31st December, 2003 at the Initial Conversion Price of HK\$0.25 per Regal Share. The unaudited pro forma consolidated balance sheet was prepared based on the audited consolidated balance sheet of the Century City Group as at 31st December, 2003 as set out in the accountants' report on Century City in Appendix I to this circular.

This unaudited pro forma consolidated balance sheet was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Century City Group at any future date.

	31st December,	Pro forma	Adjusted
	2003	adjustments	balances
<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
NON-CURRENT ASSETS			
Fixed assets	7,186.6		7,186.6
Goodwill	260.5		260.5
Negative goodwill	(15.1)	(4.4)	(19.5)
Properties under development	7.2		7.2
Property held for future development	26.7		26.7
Interest in a jointly controlled entity	1,298.6		1,298.6
Interests in associates	250.2		250.2
Long term investments	163.5		163.5
Loans and other long term receivable	109.1		109.1
Deferred tax assets	10.4		10.4
Deferred expenditure	38.7		38.7
Other assets	0.3		0.3
	<u>9,336.7</u>		<u>9,332.3</u>
CURRENT ASSETS			
Short term investments	18.1		18.1
Properties held for sale	215.1		215.1
Hotel and other inventories	23.0		23.0
Debtors, deposits and prepayments	131.8		131.8
Pledged time deposits	25.9		25.9
Time deposits	112.4		112.4
Cash and bank balances	30.1	400.0	430.1
	<u>556.4</u>		<u>956.4</u>

		31st December, 2003	Pro forma adjustments	Adjusted balances
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
CURRENT LIABILITIES				
Creditors and accruals		725.3		725.3
Tax payable		16.0		16.0
Interest bearing bank and other borrowings		2,053.3		2,053.3
Deposits received		81.6		81.6
Provisions		<u>355.4</u>		<u>355.4</u>
		<u>3,231.6</u>		<u>3,231.6</u>
NET CURRENT LIABILITIES		<u>(2,675.2)</u>		<u>(2,275.2)</u>
TOTAL ASSETS LESS				
CURRENT LIABILITIES		<u>6,661.5</u>		<u>7,057.1</u>
NON-CURRENT LIABILITIES				
Interest bearing bank and other borrowings		(3,546.7)		(3,546.7)
Advances from minority shareholders of subsidiary companies		(42.4)		(42.4)
Deferred tax liabilities		(64.4)		(64.4)
Other payable		<u>(28.7)</u>		<u>(28.7)</u>
		<u>(3,682.2)</u>		<u>(3,682.2)</u>
Minority interests	3	<u>(3,712.2)</u>	(469.3)	<u>(4,181.5)</u>
DEFICIENCY IN NET ASSETS		<u>(732.9)</u>		<u>(806.6)</u>
SHAREHOLDERS' DEFICIT	4	<u>(732.9)</u>	(73.7)	<u>(806.6)</u>

II. Unaudited Pro forma Consolidated Profit and Loss Account

The following is the unaudited pro forma consolidated profit and loss account of the Century City Group assuming that the maximum amount of the Bonds had been issued and fully converted as at 1st January, 2003 at the Initial Conversion Price of HK\$0.25 per Regal Share. The unaudited pro forma consolidated profit and loss account was prepared based on the audited consolidated profit and loss account of the Century City Group for the year ended 31st December, 2003 as set out in the accountants' report on Century City in Appendix I to this circular.

This unaudited pro forma consolidated profit and loss account was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the results of the Century City Group for any future financial periods.

		Year ended		
		31st December,	Pro forma	Adjusted
		2003	adjustments	balances
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Turnover		877.8		877.8
Cost of sales		<u>(623.9)</u>		<u>(623.9)</u>
Gross profit		253.9		253.9
Other revenue	5	401.5	(19.8)	381.7
Administrative expenses		(92.7)		(92.7)
Other operating expenses	6	(107.0)	(0.1)	(107.1)
Write-back of provisions for write-downs and impairments	7	310.3	(46.7)	263.6
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	8	(9.7)	(4.8)	(14.5)
Write-back of impairment of a hotel property		<u>11.4</u>		<u>11.4</u>
Profit from operating activities		767.7		696.3
Finance costs		(281.0)		(281.0)
Share of profits less losses of:				
Jointly controlled entity		206.6		206.6
Associates		<u>(3.3)</u>		<u>(3.3)</u>
Profit before tax		690.0		618.6
Tax		<u>63.2</u>		<u>63.2</u>
Profit before minority interests		753.2		681.8
Minority interests	9	<u>(339.0)</u>	21.3	<u>(317.7)</u>
Net profit from ordinary activities attributable to shareholders		<u>414.2</u>		<u>364.1</u>

III. Unaudited Pro forma Consolidated Cash Flow Statement

The following is the unaudited pro forma consolidated cash flow statement of the Century City Group assuming that the maximum amount of the Bonds had been issued and fully converted as at 1st January, 2003 at the Initial Conversion Price of HK\$0.25 per Regal Share. The unaudited pro forma consolidated cash flow statement was prepared based on the audited consolidated cash flow statement of the Century City Group for the year ended 31st December, 2003 as set out in the accountants' report on Century City in Appendix I to this circular.

This unaudited pro forma consolidated cash flow statement was prepared for illustrative purposes only and because of its nature, it may not give a true picture of the cash flows of the Century City Group for any future financial periods.

		Year ended		
		31st December,	Pro forma	Adjusted
		2003	adjustments	balances
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Profit before tax	5, 6, 7, 8	690.0	(71.4)	618.6
Adjustments for:				
Finance costs		281.0		281.0
Share of profits less losses of a jointly controlled entity and associates		(203.3)		(203.3)
Interest income		(8.3)		(8.3)
Dividend income		(0.5)		(0.5)
Gain on deemed disposal of the Century City Group's interests in listed subsidiary companies	5, 6	(319.2)	19.9	(299.3)
Write-off of ordinary shares in a listed subsidiary company		(1.8)		(1.8)
Loss on disposal of a subsidiary company		1.0		1.0
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	8	9.7	4.8	14.5
Gain on disposal of fixed assets		(5.4)		(5.4)
Depreciation		41.2		41.2
Amortisation of goodwill		14.3		14.3
Negative goodwill recognised as income		(0.4)		(0.4)
Write-back in values of properties		(44.0)		(44.0)
Write-back of provision against a loan receivable		(0.2)		(0.2)
Write-back of impairment of hotel properties		(11.4)		(11.4)

	Year ended	Pro forma	Adjusted
	31st December,	adjustments	balances
<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
	2003		
Write-back of deficit on revaluation of hotel properties	7	(266.1)	46.7
Provisions for doubtful debts		3.4	3.4
Loss on disposal of long term investments		1.2	1.2
Net proceeds from sale of properties		136.0	136.0
Additions to properties under development		<u>(32.1)</u>	<u>(32.1)</u>
Operating profit before working capital changes		285.1	285.1
Increase in short term investments		(9.9)	(9.9)
Decrease in debtors, deposits and prepayments		42.8	42.8
Increase in hotel and other inventories		(2.5)	(2.5)
Decrease in creditors and accruals		(95.6)	(95.6)
Increase in deposits received		28.9	28.9
Exchange difference		<u>(0.7)</u>	<u>(0.7)</u>
Cash generated from operations		248.1	248.1
Hong Kong profits tax paid		(1.3)	(1.3)
Hong Kong profits tax refunded		0.3	0.3
Overseas taxes paid		<u>(0.1)</u>	<u>(0.1)</u>
Net cash inflow from operating activities		<u>247.0</u>	<u>247.0</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Consolidation of a subsidiary company		0.1	0.1
Acquisition of additional interest in a listed subsidiary company		(2.9)	(2.9)
Proceeds on disposal of other fixed assets		5.8	5.8
Proceeds on disposal of long term investments		0.1	0.1
Disposal of subsidiary companies		6.7	6.7
Deposit received from disposal of an associate		40.0	40.0

		Year ended		
		31st December,	Pro forma	Adjusted
		2003	adjustments	balances
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Decrease in loans receivable		7.7		7.7
Purchases of fixed assets		(21.1)		(21.1)
Proceeds on settlement of deferred consideration in respect of the Century City Group's disposal of its hotel interests in the United States of America in a prior year		380.6		380.6
Advance to associates		(3.6)		(3.6)
Advance to a jointly controlled entity		(37.2)		(37.2)
Interest received		8.3		8.3
Dividends received from listed and unlisted investments		0.5		0.5
Decrease in pledged time deposits		<u>17.9</u>		<u>17.9</u>
Net cash inflow from investing activities		<u>402.9</u>		<u>402.9</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of ordinary shares by listed subsidiary companies		35.7		35.7
Share issue expenses		(0.8)		(0.8)
Issue of 5% convertible bonds		20.0		20.0
Repurchase of 5% convertible bonds		(30.0)		(30.0)
Advance from a minority shareholder of a subsidiary company		0.1		0.1
Drawdown of a new loan		1.9		1.9
Repayments of bank loans and other loans		(515.4)		(515.4)
Interest paid		<u>(144.6)</u>		<u>(144.6)</u>
Net cash outflow from financing activities		<u>(633.1)</u>		<u>(633.1)</u>
Net increase in cash and cash equivalents		16.8		16.8
Cash and cash equivalents at beginning of year	2	125.1	400.0	525.1
Effect of foreign exchange rate changes, net		<u>0.4</u>		<u>0.4</u>
Cash and cash equivalents at end of year		<u>142.3</u>		<u>542.3</u>

		Year ended		
	31st December,	2003	Pro forma	Adjusted
	<i>Notes</i>	<i>HK\$'million</i>	<i>adjustments</i>	<i>balances</i>
			<i>HK\$'million</i>	<i>HK\$'million</i>
Analysis of balances of cash and cash equivalents				
Cash and bank balances	2	30.1	400.0	430.1
Non-pledged time deposits with original maturity of less than three months when acquired		<u>112.4</u>		<u>112.4</u>
		142.5		542.5
Bank overdrafts		<u>(0.2)</u>		<u>(0.2)</u>
		<u>142.3</u>		<u>542.3</u>

IV. Notes to Pro forma Financial Information

1. The adjustment reflects the increase in negative goodwill due to changes in Paliburg's net assets as a result of the Paliburg Group's adjusted economic interest in Regal.
2. The adjustment represents the cash proceeds (before expenses) generated assuming that the maximum amount of the Bonds had been issued. No application of such cash proceeds is assumed.
3. The adjustment reflects the Century City Group's minority interest in Paliburg after adjustments to Paliburg's net assets based on the Paliburg Group's adjusted economic interest in Regal as at 31st December, 2003.
4. The adjustment reflects the changes in the Century City Group's reserves after adjustments to Paliburg's reserves as a result of the Paliburg Group's adjusted economic interest in Regal.
5. The adjustment is to record the adjusted gain on the Century City Group's deemed disposal of interest in Paliburg due to changes in Paliburg's net assets as a result of the Paliburg Group's adjusted economic interest in Regal.

6. The adjustment is to record the adjusted loss arising from the Paliburg Group's actual deemed disposal of interest in Regal during the year, based on the Paliburg Group's adjusted economic interest in Regal.
7. The adjustment reflects the decrease in the write-back of the attributable deficit on revaluation of hotel properties based on the Paliburg Group's adjusted economic interest in Regal as at 31st December, 2003.
8. The adjustment reflects the additional loss incurred due to less attributable reserves released upon the disposal as a result of the Paliburg Group's adjusted economic interest in Regal.
9. The adjustment reflects the changes in minority interests in the Paliburg Group's adjusted profit for the year.

B. LETTER FROM ERNST & YOUNG

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

30th June, 2004

The Directors
Century City International Holdings Limited
18/F Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs,

We report on the unaudited pro forma financial information of Century City International Holdings Limited (the “Company”) and its subsidiary companies (the “Group”) set out on pages 126 to 133 of the circular of the Company dated 30th June, 2004 (the “Circular”) in connection with the very substantial disposal (deemed disposal) of interests in Regal Hotels International Holdings Limited (“Regal”), a listed subsidiary company of the Company, relating to the proposed issue of 2% Guaranteed Convertible Bonds due 2007 of Regal (the “Bonds”). The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the assumed full conversion of the Bonds might have affected the financial information presented in respect of the Group.

Responsibilities of Directors and reporting accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the historical financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants and, accordingly, we do not express any such assurance on the unaudited pro forma financial information.

Opinion

In our opinion:

- a. the unaudited pro forma financial information has been properly compiled by the Directors on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

A. INDEBTEDNESS

Below is the unaudited indebtedness statement of the Century City Group as at 31st May, 2004.

As at the close of business on 31st May, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Century City Group had outstanding borrowings (including overdue normal contractual interest payable but excluding default interest payable on the borrowings of the Century City Group) of approximately HK\$5,874,214,000, comprising:

- (1) secured bank loans of approximately HK\$5,050,956,000;
- (2) unsecured bank loans of approximately HK\$296,543,000;
- (3) secured other loans of approximately HK\$81,691,000; and
- (4) unsecured other loans of approximately HK\$445,024,000.

As at the close of business on 31st May, 2004, the Century City Group had contingent liabilities in respect of guarantees for bank loans (including related overdue normal contractual interest payable) made available to (i) a jointly controlled entity of approximately HK\$1,433,346,000 and (ii) a third party of approximately HK\$349,210,000.

Save as disclosed above and apart from intra-group liabilities, the Century City Group did not have, as at the close of business on 31st May, 2004, any outstanding bank loans and overdrafts, mortgages, charges, debentures and other loan capital, or similar indebtedness, finance leases or hire-purchase commitments, guarantees or other material contingent liabilities.

Subsequent to 31st May, 2004, the Century City Group's contingent liabilities in respect of guarantees for a bank loan (including related overdue normal contractual interest payable) made available to a jointly controlled entity has decreased by approximately HK\$543,058,000 to approximately HK\$890,288,000 as a result of a partial repayment of the bank loan by that jointly controlled entity.

Save as disclosed herein, the directors of Century City have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Century City Group since 31st May, 2004.

B. WORKING CAPITAL

The Century City Group, excluding Paliburg Holdings Limited and its subsidiary companies (the "Group"), has been conducting discussions with its financial creditors with a view to formulating a consensual debt restructuring proposal to replace the current informal standstill arrangement under which repayment of their indebtedness has been suspended. In October 2002, the Group presented a

debt restructuring proposal (the “Debt Restructuring”) to its financial creditors for their consideration. In January 2004, all the financial creditors confirmed their written in-principle support of the Debt Restructuring. The Group is currently in a final stage of negotiation with its financial creditors on the Debt Restructuring.

The Directors are of the opinion that, on the basis that the Debt Restructuring will be successfully implemented, and taking into account the Century City Group’s existing cash and bank balances as well as the present available banking facilities, with the loan rescheduling agreement entered into by Regal on 30th September, 2003 with the lenders of two bank loans with an aggregate amount of HK\$4,428.0 million as at 31st December, 2003, comprising a syndicated loan of HK\$3,373.8 million and a construction loan of HK\$1,054.2 million, in place, together with the surplus funds expected to be generated from the Regalia Bay development project in Stanley, Hong Kong, the Century City Group will have sufficient working capital to satisfy its present requirements in the absence of unforeseen circumstances.

C. MATERIAL ADVERSE CHANGE

Up to the Latest Practicable Date, the Board is not aware of any material adverse change in the financial or trading position of the Century City Group since 31st December, 2003, the date to which the latest audited consolidated financial statements of the Century City Group were made up.

D. MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

For the year ended 31st December, 2003, the Century City 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. 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 Century City Group, the net assets value of the Century City Group has been adversely affected, as reflected in the Century City Group’s audited consolidated balance sheet as at 31st December, 2003.

The Group itself continues to hold beneficially an aggregate of approximately 1,366.8 million ordinary shares of Paliburg (“Paliburg Shares”), representing approximately 27.0% of the issued Paliburg Shares as at the Latest Practicable Date, which were pledged to various financial creditors to secure credit facilities granted to the Group. Moreover, Almighty International Limited (“Almighty”) presently owns an aggregate of 1,910 million Paliburg Shares, representing approximately 37.8% of the issued ordinary share capital of Paliburg and, in addition, an aggregate of 1,240 million convertible preference shares (the “Paliburg Convertible Preferences Shares”) of Paliburg which are convertible into a same number of new Paliburg Shares. Century City currently owns the entire issued ordinary share capital of Almighty under the terms of the Share Swap Agreement (as defined in the 2002 Circulars).

The Share Swap Agreement was intended to provide the 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 as supplemented by a supplemental agreement dated 30th December, 2003 (the “2003 Supplemental Agreement”), the period for the exercise of the share swap was extended from 31st December, 2003 to 30th June, 2004.

Since the entering into of the 2003 Supplemental Agreement, Century City has obtained in January 2004 the written in-principle approvals 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 Group by conversion into one or more financial instruments and convertible securities proposed to be issued by the 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.

As it became evident that a consensual financial restructuring would not be able to be finalised before 30th June, 2004, Century City entered into the 2004 Supplemental Agreement with the other parties to the Share Swap Agreement on 29th June, 2004, pursuant to which the various rights provided under the Share Swap Agreement will continue to have effect until 30th September, 2004.

Century City is currently in the final stage of negotiation with its financial creditors on a consensual debt restructuring proposal. If a consensual financial restructuring cannot be implemented, the Group will cease to own the issued ordinary share capital of Almighty and the Paliburg 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 Mr. Lo Yuk Sui, the ultimate controlling shareholder of Century City, instead of through Century City.

The PHL Group

I. Properties

(a) Hong Kong

(1) *Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East*

The PHL 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.

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

The occupation permit and the certificate of compliance for this 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 and profit contribution from this project is anticipated.

(3) *211 Johnston Road, Wanchai*

The PHL 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 PHL 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.

(4) *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 PHL Group is formulating a revised proposal for a comprehensive resort development on Sharp Island centering on the subject properties owned by the PHL Group. Due to many planning aspects involved, the progress on the formulation of the revised proposal has been relatively gradual.

(b) *The People's Republic of China*

(1) *Development Site at Gong Ren Ti Yu Chang Street East, Chao Yang District, Beijing*

The PHL Group has entered into a new agreement for the effective sale of the PHL Group's entire equity interest in this joint venture project 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 PHL Group is legally retaining the equity interest owned in this joint venture project, the PHL Group is actively negotiating with the purchaser regarding the remedy of its default.

(2) *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. The PHL Group is holding sale negotiations with prospective investors at an indicative price which is substantially higher than the written down carrying value of the PHL Group's investment in this project. It is the intention of the PHL Group to sell its interest in this project if the final offered terms are considered to be favourable.

(c) *United States of America*

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 PHL Group at approximately US\$13.9 million. The compensation money has since been received by the PHL Group, most of which was applied for repayment of the PHL Group's borrowings. A write back of the provision previously made has been reflected in the results for the year 2003.

II. Construction and building related businesses

(a) *Construction Business*

The construction business of the PHL Group is mainly undertaken through Chatwin Engineering Limited (“Chatwin”), the PHL 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.

(b) *Building Related Businesses*

The PHL Group has acquired, through the Paliburg Acquisition (as defined in the 2002 Circulars) completed in December 2002, a 50% interest in the Leading Technology Holdings Limited and its subsidiaries (together, 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 commercialised 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 (earnings before interests, taxation, depreciation and amortisation) on its business operations.

In January 2004, the PHL Group exercised the LTH Option (as defined in the 2002 Circulars) to acquire the remaining 50% interest in the Leading Technology Group at a nominal consideration pursuant to the provisions of the Paliburg Acquisition Agreement (as defined in the 2002 Circulars), and the Leading Technology Group has since then become a wholly owned subsidiary of the PHL Group.

The PHL 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 PHL Group is in the course of setting up a separate division that will amalgamate the PHL 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 these businesses, the PHL Group has appointed financial advisers to assess the possibility of seeking a separate listing for this sub-group.

The Regal Group

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 the 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.

I. Hotels

Due to the outbreak of the Severe Acute Respiratory Syndrome (“SARS”), 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 2003, 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 2003 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.

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.

The Regal Group entered into the SP Agreement with the Purchaser in August 2003 for the sale of its interests in the Regal Oriental Hotel. In view of the changed circumstances and the improved prospects for the local hotel sector since the entering into of the SP Agreement, the Regal Group reconsidered 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, in March 2004, a supplemental agreement was finalised and signed. Under the supplemental agreement, the completion date was extended from 31st March, 2004 to 30th June, 2004 and the ROH Termination 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. As set out in the Letter from the Board continued in this circular, the Regal Group exercised the ROH Termination Option to terminate the SP Agreement in June 2004.

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.

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 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.

II. Properties - Regalia Bay

The Regal Group 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. 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 year 2003 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.

Cash Flow and Capital Structure

Net cash inflow from operating activities during the year under review amounted to HK\$247.0 million (comprising approximately HK\$98.7 million from the CCIHL Group and approximately HK\$148.3 million from the Regal Group) (2002 - HK\$263.3 million (comprising approximately HK\$60.0 million from the CCIHL Group and approximately HK\$203.3 million from the Regal Group)). Net interest payment for the year amounted to HK\$136.3 million (2002 - HK\$305.0 million).

As at 31st December, 2003, the Century City Group had time deposits of approximately HK\$112.4 million, pledged time deposits of approximately HK\$25.9 million and cash and bank balances of approximately HK\$30.1 million. Approximately 86% of the above balances was denominated in Hong Kong dollars with the remaining balances denominated in Renminbi or United States dollars.

In October 2003, 150 million new Paliburg Shares were issued by Paliburg to Almighty at HK\$0.113 each following a placement by Almighty of 150 million Paliburg Shares at HK\$0.113 each.

In January 2004, 180 million new Paliburg Shares were issued by Paliburg to Almighty at HK\$0.128 each following a placement by Almighty of 180 million Paliburg Shares in Paliburg at HK\$0.128 each.

In May 2004, 200 million new Paliburg Shares were issued by Paliburg to Almighty at HK\$0.21 each following a placement by Almighty of 200 million Paliburg Shares at HK\$0.21 each.

Net cash inflows to the PHL Group from the above new issues of Paliburg Shares amounted to an aggregate sum of approximately HK\$81.0 million and were used for general working capital purposes.

In June 2003, 210 million new Regal Shares were issued by Regal to Guo Yui Investments Limited (“Guo Yui”), a wholly-owned subsidiary company of Paliburg, at HK\$0.048 per Regal Shares following a placement by Guo Yui of 150 million Regal Shares at HK\$0.048 each.

In July 2003, a total of 180 million new Regal Shares were issued by Regal through placement to certain independent investors at a price of HK\$0.048 each.

Net cash inflows to the Regal Group from the above new issues of Regal Shares amounted to an aggregate sum of approximately HK\$18.4 million and were used for general working capital purposes.

Borrowings

Based on the audited financial statements of the Century City Group, as at 31st December, 2003, the Century City Group’s gross borrowings net of cash and bank balances amounted to HK\$5,431.6 million, as compared to HK\$6,149.2 million in 2002. Gearing ratio based on total assets of HK\$9,893.1 million (2002 - HK\$9,723.2 million) was 54.9% (2002 - 63.2%).

Out of the above borrowings, the Regal Group’s gross borrowings net of cash and bank balances amounted to HK\$4,401.5 million (2002 - HK\$4,993.0 million). The Regal Group’s gearing ratio based on the total assets of HK\$8,793.3 million (2002 - HK\$8,529.9 million) was about 50.1% (2002 - 58.5%).

The Century City Group expects that with the much improved outlook of the local hotel business and the substantial surplus funds to be realised from the Regalia Bay development project, the Century City Group’s borrowings as well as its gearing level will be further reduced significantly. As disclosed above, Century City itself is in the course of finalising the relevant documentation for a possible debt restructuring with its financial creditors.

Details of the Century City Group’s pledge of assets and contingent liabilities are shown in notes 51 and 52 to the Financial Information in the Accountants’ Report set out in Appendix I to this circular (the “Financial Information”). As disclosed in note 51, most of the Century City Group’s assets have been pledged to secure general banking facilities granted to the Century City Group and the jointly controlled entity, which is 70% owned by the Regal Group, engaged in the Regalia Bay luxury residential project at Wong Ma Kok Road in Stanley, Hong Kong. The Century City Group does not consider such security arrangements to be unusual, having regard to the past circumstances affecting the Century City Group. As at 31st December, 2003, the Century City Group had contingent liabilities under certain corporate guarantees in the amount of HK\$2,359.0 million (2002 - HK\$2,310.0 million) provided in respect of the banking facilities granted to the jointly controlled entity. These banking facilities were granted to the jointly controlled entity solely for the purpose to finance the Regalia Bay development project.

Details of the maturity profile of the Century City Group's borrowings as at 31st December, 2003 are set out in notes 31 and 36 to the Financial Information. As disclosed in note 31, the Regal Group concluded the loan rescheduling agreement with its bank lenders in September 2003 and accordingly, the maturity profile of the relevant bank loans in an aggregate amount of HK\$4,428.0 million is stated in accordance with the terms contained in the loan rescheduling agreement.

The table below sets out the maturity profile of the interest bearing bank and other borrowings of the CCIHL Group and the Regal Group as at 31st December, 2003.

	The CCIHL Group	The Regal Group	Total (the Century City Group)
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Bank loans and overdrafts:			
Secured	567.2	4,446.4	5,013.6
Unsecured	228.8	—	228.8
Other loans wholly repayable within five years:			
Secured	17.0	4.2	21.2
Unsecured	336.4	—	336.4
	<u>1,149.4</u>	<u>4,450.6</u>	<u>5,600.0</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:			
On demand or not exceeding 1 year	1,149.4	903.9	2,053.3
More than 1 year but not exceeding 2 years	—	360.0	360.0
More than 2 years but not exceeding 5 years	—	2,622.5	2,622.5
More than 5 years	—	564.2	564.2
	<u>1,149.4</u>	<u>4,450.6</u>	<u>5,600.0</u>

Approximately 83% of the above indebtedness of the Century City Group was denominated in Hong Kong dollars with the remaining balances denominated in Renminbi or United States dollars.

Material Disposals of Subsidiary Companies

As previously reported in Century City's 2003 Interim Report, in June 2003, following the default by a third party purchaser in the closing of a sale and purchase agreement dated 3rd September, 2002 for the disposal of the Regal Group's 100% interest in a subsidiary company then owning the Regal Constellation Hotel in Canada, the Regal Group divested of its 100% shareholding interest in the immediate holding company of such subsidiary company to another third party purchaser for a

nominal consideration, with sharing arrangements on any recovery from the defaulted purchaser. As the principal repayment obligation under the bank loan originally secured on the Regal Constellation Hotel was without recourse to the Regal Group, such bank loan in the principal sum of approximately HK\$195.8 million has been taken off the consolidated balance sheet of the Regal Group in 2003.

Funding and Treasury Policy

The Century City Group adopts a prudent funding and treasury policy with regard to its overall business operations. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date.

As the Century City Group's borrowings are mostly denominated in Hong Kong dollar currency, being the same currency in which the Century City Group's major revenues are derived, and with interest determined with reference to interbank offered rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.

Remuneration Policy

The Century City Group employs approximately 1,800 staff in Hong Kong (of which approximately 300 are employed by the CCIHL Group and 1,500 are employed by the Regal Group) and 800 staff in The People's Republic of China (most of which are employed by the Regal Group). The Century City Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Century City Group's operations to be compatible with market norm.

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 Century City Group include provident fund scheme and medical and life insurance.

Paliburg and Regal each maintains an Executive Share Option Scheme under which share options had been granted to selected eligible executives.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Century City. The directors of Century City collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of Century City in the shares, underlying shares and debentures of Century City or any associated corporation (within the meaning of Part XV of the SFO) of Century City, which (a) are required to be notified to Century City and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each director or chief executive of Century City is taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies in the Listing Rules to be notified to Century City and the Stock Exchange, were as follows:

	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
1. Century City	Mr. Lo Yuk Sui	Ordinary					
		(i) issued	543,344,843	—	2,185,994,246 <i>(Note a(i))</i>	—	2,729,339,089
	(ii) unissued	—	—	10,210,000,000 <i>(Note a(ii))</i>	—	10,210,000,000	
							Total (i) & (ii): 12,939,339,089 (239.76%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	—	—	—	2,510,000 (0.047%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	—	—	—	1,659,800 (0.031%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	15,453,000	—	—	15,453,000 (0.286%)
Associated Corporation							
2. Paliburg	Mr. Lo Yuk Sui	Ordinary					
		(i) issued	442,765	—	3,276,817,477 <i>(Note a(iii))</i>	200,000,000 <i>(Note b)</i>	3,477,260,242
	(ii) unissued	—	—	1,240,000,000 <i>(Notes a(iv) & c)</i>	—	1,240,000,000	
							Total (i) & (ii): 4,717,260,242 (93.25%)

	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
		Preference (issued)	—	—	1,240,000,000 (Notes a(iv) & c)	—	1,240,000,000 (100%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	—	—	—	100,000 (0.002%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	—	—	—	284,000 (0.006%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	536,500	—	—	536,500 (0.011%)
3. Regal	Mr. Lo Yuk Sui	Ordinary (issued)	220,000	—	4,370,380,259 (Notes a(v) & d)	—	4,370,600,259 (53%)
		Preference (issued)	—	—	3,440 (Note a(v))	—	3,440 (20.54%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	—	—	—	2,370,000 (0.032%)
4. 8D International (BVI) Limited (“8D-BVI”)	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1,000 (Note e)	—	1,000 (100%)
5. 8D Matrix Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	2,000,000 (Note f)	—	2,000,000 (100%)
6. 8D International Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	500,000 (Note g)	—	500,000 (100%)
7. Century Digital Communications (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1 (Note h)	—	1 (100%)
8. Century Digital Communications Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	2 (Note i)	—	2 (100%)
9. Century Digital Enterprise Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	100 (Note j)	—	100 (100%)
10. Century Digital Holdings Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	3 (Note k)	—	3 (100%)
11. Century Digital Investments Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	49,968 (Note l)	—	49,968 (99.94%)
12. Full Range Technology Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	10,000 (Note m)	—	10,000 (100%)
13. Giant Forward Holdings Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1 (Note n)	—	1 (100%)
14. Grand Modern Investments Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	330 (Note o)	—	330 (100%)

	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
15. Important Holdings Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	10,000 (Note p)	—	10,000 (100%)
16. Net Age Technology Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	97 (Note q)	—	97 (97%)
17. Net Community Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	3 (Note r)	—	3 (100%)
18. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	—	—	50,000	—	50,000 (25%)
19. Regal International (China) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1 (Note s)	—	1 (100%)
20. Speedway Technology Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	50,000 (Note t)	—	50,000 (100%)
21. Task Master Technology Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1 (Note u)	—	1 (100%)
22. Top Technologies Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	10,000 (Note v)	—	10,000 (100%)
23. Treasure Collection International Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	2 (Note w)	—	2 (100%)

Notes:

- (a) (i) The shares were held through companies wholly owned by Mr. Lo Yuk Sui and a company, namely Master City Limited, 99.9% owned by Mr. Lo Yuk Sui.
- (ii) The interests in these Shares were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a)	Name of corporation	Controlled by	% of control
	Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
	Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
	8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
	Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
	8D International (BVI) Limited	Manyways Technology Limited	60.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Secure Way Technology Limited	66.67
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(iii) The shares were held through companies wholly owned by Century City, in which Mr. Lo Yuk Sui held 50.57% shareholding interests.

(iv) The interests in these shares of Paliburg were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a)	Name of corporation	Controlled by	% of control
	Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
	Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
	8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
	Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
	8D International (BVI) Limited	Manyways Technology Limited	60.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Secure Way Technology Limited	66.67
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(v) The shares were held through companies wholly owned by Paliburg, in which Century City held 64.78% shareholding interests.

(b) Mr. Lo Yuk Sui is the trustee for Select Wise Trust, of which Select Wise Holdings Limited, a substantial shareholder of Century City and Paliburg, is the beneficiary.

(c) 1,240,000,000 convertible preference shares of Paliburg (“Paliburg Preference Shares”) are convertible into 1,240,000,000 ordinary shares of Paliburg on the basis of one Paliburg Preference Share for one ordinary share of Paliburg.

- (d) Included the balance of 716,576,649 shares charged by a wholly-owned subsidiary of Paliburg (the “SPV”) in favour of a trustee for the holders of, and forming the exchange property (the “Exchange Property”) in respect of, the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the Paliburg Group on 31st October, 2002 (the “Settlement Closing Date”). The Exchange Property was/is to be released to the holders of the Series B Bonds (the “Series B Bondholders”) in four quarterly tranches on each dates falling 12, 15, 18 and 21 months after the Settlement Closing Date, subject to certain early release provisions. A total balance of 242,451,649 shares under the first three tranches (the “Released Tranches”) remained within the Exchange Property which are deliverable to the Series B Bondholders at any time upon request. The Exchange Property, including any remaining balance of shares under the Released Tranches and the fourth tranche comprising 474,125,000 shares, will be released and ceased to be held by the SPV on 31st July, 2004.
- (e) 400 shares were held through companies controlled by Century City and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (f) 800,000 shares were held through companies controlled by Century City and 1,200,000 shares were held through companies controlled by Mr. Lo Yuk Sui (including 8D-BVI).
- (g) The interests in these shares of 8D International Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00
8D Matrix Limited	Century City BVI Holdings Limited	40.00
(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00

- (h) The interest in the share of Century Digital Communications (BVI) Limited was held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

- (i) The interests in these shares of Century Digital Communications Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Communications (BVI) Limited	Century Digital Holdings Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Communications (BVI) Limited	Century Digital Holdings Limited	100.00

- (j) The interests in these shares of Century Digital Enterprise Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Investments Limited	Century Digital Holdings Limited	99.93

(b) Name of corporation	Controlled by	% of control
Century Digital Investments Limited	Century Digital Holdings Limited	99.93
Net Age Technology Limited	Century Digital Investments Limited	100.00

(c) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Investments Limited	Century Digital Holdings Limited	99.93

- (k) The interests in these shares of Century Digital Holdings Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33

(1) The interests in these shares of Century Digital Investments Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Century Digital Holdings Limited	Net Community Limited	100.00
Important Holdings Limited	Century Digital Holdings Limited	100.00
Top Technologies Limited	Century Digital Holdings Limited	100.00

(c) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(d) Name of corporation	Controlled by	% of control
Century Digital Holdings Limited	Net Community Limited	100.00
Important Holdings Limited	Century Digital Holdings Limited	100.00
Top Technologies Limited	Century Digital Holdings Limited	100.00

- (m) The interests in these shares of Full Range Technology Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	100.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

- (n) The interest in the share of Giant Forward Holdings Limited was held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00
8D Matrix Limited	Century City BVI Holdings Limited	40.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00

- (o) The interests in these shares of Grand Modern Investments Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Ultra Performance Limited	Mr. Lo Yuk Sui	100.00

- (p) The interests in these shares of Important Holdings Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	100.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

- (q) The interests in these shares of Net Age Technology Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Investments Limited	Century Digital Holdings Limited	99.93

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
Century Digital Investments Limited	Century Digital Holdings Limited	99.93

- (r) The interests in these shares of Net Community Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50

- (s) The interest in the share of Regal International (China) Limited was held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00
8D Matrix Limited	Century City BVI Holdings Limited	40.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00

- (t) The interests in these shares of Speedway Technology Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

- (u) The interest in the share of Task Master Technology Limited was held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
8D International (BVI) Limited	Manyways Technology Limited	60.00

- (v) The interests in these shares of Top Technologies Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00

- (w) The interests in these shares of Treasure Collection International Limited were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00
8D Matrix Limited	Century City BVI Holdings Limited	40.00
Giant Forward Holdings Limited	8D Matrix Limited	100.00
(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
8D International (BVI) Limited	Manyways Technology Limited	60.00
Task Master Technology Limited	8D International (BVI) Limited	100.00
Net Community Limited	Secure Way Technology Limited	66.67
Net Community Limited	Task Master Technology Limited	33.33
Century Digital Holdings Limited	Net Community Limited	100.00
8D Matrix Limited	Century Digital Holdings Limited	60.00
Giant Forward Holdings Limited	8D Matrix Limited	100.00

Save as disclosed herein, as at the Latest Practicable Date, none of the directors and chief executive of Century City had any interests and short positions in the shares, underlying shares and debentures of Century City or any associated corporation (within the meaning of Part XV of the SFO) of Century City, which (a) are required to be notified to Century City and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which each director or chief executive of Century City is taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies in the Listing Rules to be notified to Century City and the Stock Exchange.

- (b) As at the Latest Practicable Date, so far as are known to any director or chief executive of Century City, the following persons (not being a director or chief executive of Century City) had an interest or short position in the shares and underlying shares of Century City which would fall to be disclosed to Century City under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, are directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of Century City or its subsidiaries or had any options in respect of such capital:

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares
YSL International Holdings Limited (“YSL Int’l”) <i>(Note i)</i>	931,998,340	—	931,998,340	17.27%
Manyways Technology Limited (“Manyways”) <i>(Notes i and ii)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
8D International (BVI) Limited (“8D BVI”) <i>(Notes i, ii and iii)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Task Master Technology Limited (“Task Master”) <i>(Notes i, ii and iv)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Secure Way Technology Limited (“Secure Way”) <i>(Notes i and ii)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Net Community Limited (“Net Community”) <i>(Notes i, ii and v)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Century Digital Holdings Limited (“Century Digital”) <i>(Notes i, ii and vi)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Grand Modern Investments Limited (“Grand Modern”) <i>(Notes i, ii and vii)</i>	790,000,000	10,210,000,000	11,000,000,000	203.83%
Miss Lo Po Man <i>(Note viii)</i>	—	810,000,000	810,000,000	15.01%
Wealth Master International Limited (“Wealth Master”) <i>(Notes viii and ix)</i>	—	810,000,000	810,000,000	15.01%

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares
Select Wise Holdings Limited ("Select Wise") <i>(Notes viii and x)</i>	—	810,000,000	810,000,000	15.01%

Notes:

- (i) These companies are controlled by Mr. Lo Yuk Sui and their said shareholdings are included in the corporate interests of Mr. Lo Yuk Sui in Century City as disclosed above.
- (ii) The interests in these underlying shares are directly held by Grand Modern.
- (iii) 8D BVI is 60% owned by Manyways.
- (iv) Task Master is wholly owned by 8D BVI.
- (v) Net Community is 33.33% owned by Task Master and 66.67% owned by Secure Way.
- (vi) Century Digital is wholly owned by Net Community.
- (vii) Grand Modern is wholly owned by Century Digital.
- (viii) The interests in 810,000,000 unissued shares are directly held by Select Wise.
- (ix) Wealth Master is wholly owned by Miss Lo Po Man.
- (x) Select Wise is wholly owned by Wealth Master.

Save as disclosed herein, there is no person known to the directors or chief executive of Century City who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of Century City which would fall to be disclosed to Century City under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10 per cent. or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of Century City or any of its subsidiaries or had any options in respect of such capital.

- (c) As at the Latest Practicable Date, none of the directors of Century City had a service contract with Century City or any of its subsidiaries which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

(d) As at the Latest Practicable Date, none of the directors of Century City was materially interested in any contract or arrangement entered into by Century City or any of its subsidiaries subsisting at the Latest Practicable Date which was significant in relation to the business of Century City and its subsidiaries and none of the directors of Century City had any direct or indirect interest in any assets which had been, since 31st December, 2003 (being the date of which the latest published audited accounts of Century City were made up), acquired or disposed of by or leased to Century City or any of its subsidiaries, or which was proposed to be acquired or disposed of by or leased to Century City or any of its subsidiaries.

3. PARTICULARS OF DIRECTORS

Name	Address
Mr. Lo Yuk Sui	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Tommy Lam Chi Chung	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mrs. Kitty Lo Lee Kit Tai	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Jimmy Lo Chun To	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Kenneth Ng Kwai Kai	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Anthony Chuang	c/o Room 1603 9 Queen's Road Central Hong Kong
Mr. Ng Siu Chan	13th Floor 8 Queen's Road Central Hong Kong

Mr. Lo Yuk Sui, aged 59; Chairman and Managing Director — Chairman and Managing Director since 1989 when Century City was established in Bermuda as the ultimate holding company of the Century City Group. Mr. Lo has been the Chairman and the Managing Director of the predecessor listed company of the Century City Group since 1985 and 1986 respectively. He is also the chairman and managing director of Paliburg and Regal. Mr. Lo is a qualified architect. In his capacity as the chief executive officer, Mr. Lo oversees the overall policy and decision making of the Century City Group.

Mr. Tommy Lam Chi Chung, aged 49; Executive Director — Joined the Century City Group as chief financial officer in 1999 and appointed to the Board in 2002. Mr. Lam graduated from the University of Windsor, Canada with a bachelor degree of science in computer science & mathematics and also attained a master's degree of business administration in accounting & management sciences from Long Island University, U.S.A.. Mr. Lam has expertise and extensive experience in the banking and finance fields. He is also a director of Regal.

Mrs. Kitty Lo Lee Kit Tai, aged 53; Non-Executive Director — Appointed to the Board in 1999. Mrs. Kitty Lo is also a director of Paliburg and Regal. She is the spouse of Mr. Lo Yuk Sui.

Mr. Jimmy Lo Chun To, aged 30; Executive Director — Appointed to the Board in 1999. He is also a director of Paliburg and Regal. Mr. Jimmy Lo graduated from Cornell University, New York, U.S.A. with a degree in architecture. Apart from his involvement with the design of the Century City Group's property and hotel projects, he is managing the information technology and related businesses of the Century City Group. He is the son of Mr. Lo Yuk Sui and Mrs. Kitty Lo Lee Kit Tai.

Mr. Kenneth Ng Kwai Kai, aged 49; Executive Director — Joined the Century City Group in 1985 and appointed to the Board in 1989. Mr. Ng is in charge of the company secretarial and corporate finance functions of the Century City Group. Mr. Ng is a Chartered Secretary. He is also a director of Paliburg and Regal.

Mr. Anthony Chuang, aged 59; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 1993. Mr. Chuang graduated from University of Notre Dame, South Bend, Indiana, U.S.A. and has extensive experience in the commercial field.

Mr. Ng Siu Chan, aged 73; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 1994. He is also an independent non-executive director of Paliburg. Mr. Ng is a director of The Kowloon Motor Bus Holdings Limited and an independent non-executive director of Wing Lung Bank Limited, both of which are publicly listed in Hong Kong.

4. LITIGATION

Neither Century City nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim known to the directors of Century City to be pending or threatened against Century City or any of its subsidiaries which in the opinion of the directors of Century City would be or is likely to be of material importance.

5. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Century City or its subsidiaries within the two years preceding the date of this circular and which are or may be material:

- a. the sale and purchase agreement dated 2nd August, 2002 entered into between Paliburg, Paliburg Development BVI Holdings Limited (“PDBVI”), a wholly owned subsidiary of Paliburg, and Regal in respect of, among other things, the transfer of the entire issued share capital of Nice Tex Investments Limited from PDBVI to Regal at a total consideration of HK\$470 million which has been satisfied by Regal issuing and allotting 1,958,333,333 Regal Shares to the PHL Group;
- b. the sale and purchase agreement dated 2nd August, 2002 entered into between Paliburg, Grand Modern Investments Limited (the “First Vendor”), Select Wise Holdings Limited, Splendid All Holdings Limited (together the “Vendors”) and Venture Perfect Investments Limited (“VPI”) in respect of the acquisition of the entire issued share capital of VPI by Paliburg from the Vendors at a total consideration of HK\$345 million which has been satisfied by Paliburg issuing 3,450 million convertible preference shares of HK\$0.10 each (the “Paliburg Convertible Preference Shares”) to the Vendors (the “Paliburg Acquisition Agreement”);
- c. the Share Swap Agreement dated 2nd August, 2002 entered into between Century City, the Vendors and Almighty International Limited (“Almighty”) in respect of, among other things, (a) the issue of 13,800 million exchangeable preference shares of HK\$0.10 each (the “Exchangeable Preference Shares”) in the share capital of Almighty to the Vendors for the acquisition of the 3,450 million Paliburg Convertible Preference Shares from the Vendors; and (b) the transfer of the entire issued ordinary share capital of Almighty by the First Vendor to Century City for a nominal consideration of HK\$8.0;
- d. the subscription agreement dated 12th September, 2002 entered into between Richtech Holdings Limited (“Richtech”), a wholly owned subsidiary of Regal, Regal and Faith Master Limited (“Faith Master”) in respect of the subscription by Faith Master of 5% guaranteed convertible bonds due 2004 with an aggregate principal amount of up to HK\$100 million issued by Richtech and guaranteed by Regal (the “2004 Bonds”);
- e. the agreement dated 31st October, 2002 entered into by, among others, Paliburg in respect of the restructuring of the then outstanding bonds of the PHL Group in an aggregate indebtedness amount of approximately HK\$3.6 billion by, among other things, Paliburg undertaking to transfer 1,896.5 million Regal Shares (the “Phased Release of Regal Shares”) and two investment properties to the holders of such bonds;
- f. the agreement dated 31st October, 2002 entered into by, among others, Paliburg, Tower Bright Limited and Smart Emerald Limited (both wholly-owned subsidiaries of Paliburg) in respect of the Phased Release of Regal Shares;

- g. the supplemental agreement to the Paliburg Acquisition Agreement dated 31st October, 2002 entered into between Paliburg, the Vendors and VPI for, among others, extending the long stop date for the satisfaction of the conditions to the completion of the Paliburg Acquisition Agreement from 31st October, 2002 to 31st December, 2002;
- h. the supplemental agreement to the Share Swap Agreement dated 31st October, 2002 entered into between Century City, the Vendors and Almighty for extending the long stop date for the satisfaction of the conditions to the completion of the Share Swap Agreement from 31st October, 2002 to 31st December, 2002;
- i. the placing agreement dated 26th November, 2002 entered into by, among others, Taylor Investments Ltd. (“Taylor”), a wholly-owned subsidiary of Paliburg, as the vendor, for the placing of 155,000,000 Regal Shares held by Taylor at a price of HK\$0.065 per Regal Share; and the top-up subscription agreement entered into between Guo Yui Investments Limited, (“Guo Yui”), another wholly-owned subsidiary of Paliburg, Taylor and Regal on the same date for the subscription of 155,000,000 new Regal Shares by each of Guo Yui and Taylor at a price of HK\$0.065 per Regal Share;
- j. the agreement dated 15th January, 2003 entered into by, among others, Richtech and Faith Master for the repurchase of the 2004 Bonds with an aggregate principal amount of HK\$30,000,000 at a cash consideration of HK\$30,500,000;
- k. the placing agreement dated 3rd June, 2003 entered into by, among others, Guo Yui as the vendor for the placing of 155,000,000 Regal Shares held by Guo Yui at a price of HK\$0.048 per Regal Share; and the top-up subscription agreement entered into between Guo Yui and Regal on the same date for the subscription of 210,000,000 new Regal Shares by Guo Yui at a price of HK\$0.048 each;
- l. the placing agreement dated 8th July, 2003 entered into by, among others, Regal in respect of the placing of 180,000,000 new Regal Shares at a price of HK\$0.048 per Regal Share;
- m. the SP Agreement (please refer to the letter from the Board contained in this circular for details);
- n. the placing agreement dated 22nd October, 2003 entered into by, among others, Almighty, as the vendor, for the placing of 150,000,000 Paliburg Shares at HK\$0.113 per Paliburg Share; and the top-up subscription agreement entered into between Paliburg and Almighty on the same date for the subscription of 150,000,000 new Paliburg Shares by Almighty at HK\$0.113 each;
- o. the second supplement agreement to the Share Swap Agreement dated 30th December, 2003 entered into between Century City, the Vendors and Almighty for extending certain rights and obligations under the Share Swap Agreement and the Exchangeable Preference Shares from 31st December, 2003 to 30th June, 2004;
- p. the placing agreement dated 15th January, 2004 entered into by, among others, Almighty, as the vendor, for the placing of 180,000,000 Paliburg Shares held by it at a price of HK\$0.128 per Paliburg Share; and the top-up subscription agreement entered into between Almighty and Paliburg on the same date for the subscription of 180,000,000 new Paliburg Shares by Almighty at HK\$0.128 each;

- q. the placing agreement dated 4th May, 2004 entered into by, among others, Almighty, as the vendor, for the placing of 200,000,000 Paliburg Shares at HK\$0.21 per Paliburg Share; and the top-up subscription agreement entered into between Paliburg and Almighty on the same date for the subscription of 200,000,000 new Paliburg Shares by Almighty at HK\$0.21 each;
- r. the Subscription Agreements (please refer to the Letter from the Board contained in this circular for details); and
- s. the 2004 Supplemental Agreement (please refer to the Letter from the Board contained in this circular for details).

6. QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given opinions or advice which are contained in this circular:

Ernst & Young

Certified Public Accountants

As at the Latest Practicable Date, Ernst & Young was not interested beneficially in the securities of Century City or its subsidiaries and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in Century City or its subsidiaries.

As at the Latest Practicable Date, Ernst & Young did not have any direct or indirect interest in any assets which have been acquired or disposed of by or leased to Century City or its subsidiaries or are proposed to be acquired or disposed of by or leased to Century City or its subsidiaries since 31st December, 2003, being the date up to which the latest published audited consolidated accounts of Century City were made.

Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of copies of its report, letter and/or references to its name, in the form and context in which they respectively appear.

7. GENERAL

- (a) The head office and principal place of business of Century City is located at 18th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong. The registered office of Century City is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The branch share registrar of Century City in Hong Kong is Tengis Limited, G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of Century City is Ms. Lam Sau Fun, Eliza, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

- (d) The qualified accountant of Century City is Mr. Allen Wan Tze Wai, an associate of the Hong Kong Society of Accountants.
- (e) The English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Linklaters at 10th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 19th July, 2004:

- (a) the memorandum of association and bye-laws of Century City;
- (b) the audited consolidated financial statements of Century City for each of the years ended 31st December, 2002 and 2003;
- (c) the Accountants' Report on Century City set out in Appendix I to this circular;
- (d) the letter from Ernst & Young in respect of the Pro forma Financial Information on Century City set out in Appendix II to this circular;
- (e) the material contracts referred to in paragraph 5 above; and
- (f) the letter of consent from Ernst & Young referred to in paragraph 6 above.



世紀城市國際控股有限公司
Century City
International Holdings Limited
(Incorporated in Bermuda with limited liability)

(Stock Code: 355)

NOTICE IS HEREBY GIVEN that a special general meeting of Century City International Holdings Limited (the “Company”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 19th July, 2004 at 12:00 noon for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTION NO. 1

“**THAT:**

- (A) the performance by Regal Hotels International Holdings Limited (“Regal”, presently a subsidiary of the Company) of the subscription agreements (the “Subscription Agreements”, a copy each of which has been produced to this meeting marked “A” and initialled by the Chairman of this meeting for identification purpose) both dated 3rd June, 2004, one entered into between Cheerview Limited (the “Issuer”, a wholly-owned subsidiary of Regal), Regal and Clovering Enterprise Limited, and the other entered into between the Issuer, Regal, Finance Noble Limited and Leader Advance Limited, relating to the proposed issue of 2% Guaranteed Convertible Bonds due 2007 for an aggregate principal amount of up to HK\$400 million (the “Bonds”), the principal terms and conditions of which are set out or referred to in the circular to holders of ordinary shares of HK\$0.10 each in the share capital of the Company dated 30th June, 2004, a copy of which has been produced to this meeting marked “B” and initialled by the Chairman of this meeting for identification purpose, be and is hereby approved;
- (B) the issue of the Bonds by the Issuer upon the terms and conditions as set out in the Subscription Agreements be and is hereby approved;
- (C) the issue and allotment of new ordinary shares of HK\$0.01 each in the share capital of Regal (the “Regal Shares”) upon the due exercise of the conversion rights attaching to the Bonds be and is hereby approved; and
- (D) the directors of the Company be and are hereby authorised to do all such acts and things as they may, in their absolute discretion, consider necessary, desirable or expedient to effect, implement and complete any or all other transactions contemplated in this resolution.

NOTICE OF SGM

ORDINARY RESOLUTION NO. 2

“**THAT** the directors of the Company be and are hereby authorised to (i) determine whether to request Paliburg Holdings Limited (“Paliburg”, presently a subsidiary of the Company) to, or whether to request Paliburg not to, exercise the right to subscribe for the ordinary shares of HK\$0.01 each in the share capital of Regal Hotels International Holdings Limited (“Regal”, presently a subsidiary of Paliburg) under the warrants which may be issued by Regal pursuant to a proposed bonus issue, the principal terms and conditions of which are set out or referred to in the circular to holders of ordinary shares of HK\$0.10 each in the share capital of the Company dated 30th June, 2004, a copy of which has been produced to this meeting marked “B” and initialled by the Chairman of this meeting for identification purpose; and (ii) do all such acts and things as they may, in their absolute discretion, consider necessary, desirable or expedient to effect, implement and complete any or all other transactions contemplated in this resolution.”

By Order of the Board
Eliza Lam Sau Fun
Company Secretary

Hong Kong, 30th June, 2004

Head office and principal place of business:

18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Notes:

1. A member entitled to attend and vote at the meeting convened by this notice is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company but must be present in person at the meeting to represent the member.
2. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority (if any) under which it is signed, or a copy of such authority notarially certified, must be deposited at the office of the Company’s branch share registrar in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting, as the case may be. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting if members so desire.