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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt about this circular, you should consult your stockbroker or other registered securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your ordinary shares in Century City International Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker, licensed securities dealer or other agent through whom the sale was effected, for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

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**MAJOR AND CONNECTED TRANSACTION  
DEBT RESTRUCTURING WHICH INVOLVES,  
AMONG OTHER THINGS, THE SETTLEMENT AND  
RESTRUCTURING OF INDEBTEDNESS THROUGH  
ISSUE OF CONVERTIBLE PREFERENCE SHARES BY THE COMPANY AND  
TRANSFER OF A MINORITY PART OF THE PALIBURG ORDINARY SHARES  
HELD BY THE COMPANY**

**AND**

**CONNECTED TRANSACTION  
THE SHARE SWAP AMENDMENTS**

**Financial adviser to Century City International Holdings Limited**

 **ERNST & YOUNG**

**Ernst & Young Corporate Finance Limited**

**Independent financial adviser to the Independent Board Committee**

**ALTUS CAPITAL LIMITED**

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A letter from the board of directors of Century City International Holdings Limited is set out on pages 5 to 26 of this circular. A letter from the Independent Board Committee containing its recommendation regarding the Restructuring and the Share Swap Amendments, is set out on pages 27 and 28 of this circular. A letter from Altus Capital Limited, containing its advice to the Independent Board Committee regarding the Restructuring and the Share Swap Amendments, is set out on pages 29 to 42 of this circular.

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 11:00 a.m. on Wednesday, 1st December, 2004 is set out on pages 197 to 200 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.

8th November, 2004

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## DEFINITIONS

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

“Adjusted Ordinary Share(s)”	adjusted ordinary share(s) of par value HK\$0.01 each in the share capital of the Company upon the Capital Reorganisation becoming effective
“Altus”	Altus Capital Limited, a deemed licensed corporation under the SFO to carry out types 1, 4, 6 and 9 regulated activities
“Almighty”	Almighty International Limited, a wholly owned subsidiary of the Company
“Announcement”	the announcement made by the Company dated 11th October, 2004 in relation to, among other things, the Restructuring and the Share Swap Amendments
“associate(s)”	has the meaning as defined under the Listing Rules
“Board”	the board of Directors
“Capital Reduction”	the proposed adjustment of nominal value of each issued Ordinary Share from HK\$0.10 to HK\$0.01 by the cancellation of paid-up capital of HK\$0.09 in respect of each issued Ordinary Share
“Capital Reorganisation”	the proposed share capital reorganisation of the Company as more fully set out under the section headed “Proposed Capital Reorganisation” in the letter from the Board set out in this circular
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Century Group”	the Company and its subsidiaries (from time to time)
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Century City International Holdings Limited, a company incorporated in Bermuda, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning as defined under the Listing Rules
“Contributed Surplus Account”	the contributed surplus account of the Company
“Conversion Shares”	the new Ordinary Shares which may fall to be issued upon conversion of the Preference Shares

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## DEFINITIONS

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“Creditor(s)”	the financial creditor(s) of the Group participating in the Restructuring
“Director(s)”	director(s) of the Company
“Effective Date”	the effective date of the Capital Reorganisation
“EPS(s)”	the non-voting exchangeable preference share(s) in two series (Series A and Series B) in the share capital of Almighty
“Exchangeable Notes”	the exchangeable notes to be issued by Smartaccord Limited, a wholly owned subsidiary of the Company, pursuant to the Restructuring, exchangeable into Paliburg Ordinary Shares at an initial exchange price of HK\$0.25 per share, subject to adjustment in accordance with terms of the Exchangeable Notes
“Fifth Supplemental Agreement”	the fifth supplemental agreement entered into by the Company, the First Vendor, the Second Vendor, the Third Vendor and Almighty dated 5th November, 2004 regarding the Share Swap
“First Vendor”	Grand Modern Investments Limited, a company controlled by Mr. Lo, which is a party to the Share Swap
“Group”	the Company and its subsidiaries, excluding Paliburg and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Indebtedness”	the amount of indebtedness due from the Group to the Creditors, including the principal amount of the loans and the relevant accrued interest, the repayment of which has been suspended pursuant to a standstill arrangement and for the purpose of the Restructuring, the amount of the Indebtedness is calculated based on the principal amount of the loans plus the relevant interest accrued up to 30th June, 2002
“Independent Board Committee”	an independent committee of the Board comprising Mr. Anthony Chuang, Mr. Ng Siu Chan and Mr. Wong Chi Keung, independent non-executive Directors, established for the purpose of considering and advising the Independent Shareholders in respect of the Restructuring and the Share Swap Amendments
“Independent Shareholders”	Shareholders other than Mr. Lo, the Creditors and their respective associates

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## DEFINITIONS

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“Latest Practicable Date”	1st November, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Liaison Bank”	the liaison bank under the Master Restructuring Agreement
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Restructuring Agreement”	the master agreement entered into between the Company, certain members of the Group, the Creditors and the Liaison Bank on 30th September, 2004 in respect of the Restructuring
“Mr. Lo”	Mr. Lo Yuk Sui, the chairman of the Board
“Ordinary Shares”	ordinary shares of par value HK\$0.10 each in the share capital of the Company or in other nominal value after the Capital Reduction
“Paliburg”	Paliburg Holdings Limited, a company incorporated in Bermuda, the ordinary shares of which are listed on the Main Board of the Stock Exchange
“Paliburg Ordinary Shares”	ordinary shares of par value HK\$0.01 each in the share capital of Paliburg
“Paliburg Preference Shares”	convertible non-voting preference shares of par value HK\$0.10 each in the share capital of Paliburg, convertible into Paliburg Ordinary Shares on a one for one basis, subject to adjustment in accordance with the terms of the Paliburg Preference Shares
“Preference Shares”	the Series A Shares, the Series B Shares and the Series C Shares
“Restructuring”	the restructuring of the Indebtedness on the terms of the Master Restructuring Agreement
“Second Vendor”	Select Wise Holdings Limited, a company controlled by Mr. Lo, which is a party to the Share Swap
“Secured Bilateral Loans”	the loans which certain Creditors have agreed to lend or to continue to lend to the Group after the Restructuring
“Series A Shares”	the convertible non-voting preference shares of par value HK\$0.10 each to be issued by the Company pursuant to the Restructuring with a term of one year at an issue price of HK\$0.20 each

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## DEFINITIONS

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“Series B Shares”	the convertible non-voting preference shares of par value HK\$0.10 each to be issued by the Company pursuant to the Restructuring with a term of two years at an issue price of HK\$0.175 each
“Series C Shares”	the convertible non-voting preference shares of par value HK\$0.10 each to be issued by the Company pursuant to the Restructuring with a term of five years at an issue price of HK\$0.15 each
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“SGM”	the special general meeting of the Company convened to be held on Wednesday, 1st December, 2004 at 11:00 a.m. at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong for the purposes of seeking approvals for the Restructuring, the Share Swap Amendments, the proposed creation of the Preference Shares and the Capital Reorganisation
“Shareholder(s)”	holder(s) of the Ordinary Shares
“Share Premium Account”	the share premium account of the Company
“Share Swap”	the transactions contemplated under the agreement dated 2nd August, 2002 entered into between the Company, the First Vendor, the Second Vendor, the Third Vendor and Almighty as supplemented by supplemental agreements dated 31st October, 2002, 30th December, 2003, 29th June, 2004 and 30th September, 2004, details of which were set out in the circular of the Company dated 26th August, 2002, the announcements of the Company dated 2nd August, 2002, 30th December, 2003 and 29th June, 2004 and the Announcement
“Share Swap Amendments”	the proposed amendments to the Share Swap as provided under the Fifth Supplemental Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning as defined under the Listing Rules
“Third Vendor”	Splendid All Holdings Limited, a company controlled by Mr. Lo, which is a party to the Share Swap

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LETTER FROM THE BOARD

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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)

*Executive Directors:*

Mr. LO Yuk Sui (*Chairman and Managing Director*)

Mr. Tommy LAM Chi Chung

Mr. Jimmy LO Chun To

Mr. Kenneth NG Kwai Kai

*Head office and principal place  
of business:*

18th Floor, Paliburg Plaza

68 Yee Wo Street

Causeway Bay

Hong Kong

*Non-Executive Director:*

Mrs. Kitty LO LEE Kit Tai

*Independent Non-Executive Directors:*

Mr. Anthony CHUANG

Mr. NG Siu Chan

Mr. WONG Chi Keung

8th November, 2004

*To the Shareholders*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
DEBT RESTRUCTURING WHICH INVOLVES,  
AMONG OTHER THINGS, THE SETTLEMENT AND  
RESTRUCTURING OF INDEBTEDNESS THROUGH  
ISSUE OF CONVERTIBLE PREFERENCE SHARES BY THE COMPANY AND  
TRANSFER OF A MINORITY PART OF THE PALIBURG ORDINARY SHARES  
HELD BY THE COMPANY**

**AND**

**CONNECTED TRANSACTION  
THE SHARE SWAP AMENDMENTS**

**INTRODUCTION**

As disclosed in the Announcement, the Group has successfully secured the agreement of all the Creditors to the Restructuring. The Master Restructuring Agreement was entered into between the Company, certain members of the Group, the Creditors and the Liaison Bank on 30th September, 2004 pursuant to which the entire balance of HK\$1,548.1 million of the Indebtedness will be settled or restructured.

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## LETTER FROM THE BOARD

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Pursuant to the Restructuring, the Indebtedness will be settled or restructured by (i) the issue of the Preference Shares, (ii) the refinancing of part of the Indebtedness by the Secured Bilateral Loans and the Exchangeable Notes, and (iii) the transfer of approximately 572.8 million Paliburg Ordinary Shares held by the Group to certain Creditors. Interest in respect of the Indebtedness accrued and unpaid from 1st July, 2002 till completion of the Restructuring (and the relevant amount accrued from 1st July, 2002 to 30th June, 2004 amounted to approximately HK\$242.6 million) will be waived by the Creditors upon completion of the Restructuring. The Restructuring constitutes a major and connected transaction for the Company and is subject to the approval from the Independent Shareholders.

As a condition to the Restructuring, certain amendments to the terms of the Share Swap have been proposed. On 5th November, 2004, parties to the Share Swap entered into the Fifth Supplemental Agreement in respect of the Share Swap Amendments. The Share Swap Amendments constitute a connected transaction for the Company and are subject to the approval from the Independent Shareholders.

The purposes of this circular are (1) to provide you with further information on the Restructuring, the Share Swap Amendments, the proposed creation of the Preference Shares and the Capital Reorganisation; (2) to set out the advice from the Independent Board Committee to the Independent Shareholders in respect of the Restructuring and the Share Swap Amendments; (3) to set out the advice from Altus to the Independent Board Committee in respect of the Restructuring and the Share Swap Amendments; and (4) to convene the SGM with a view to seeking approval from the Shareholders or the Independent Shareholders (as the case may be) for the Restructuring, the Share Swap Amendments, the proposed creation of the Preference Shares and the Capital Reorganisation.

Mr. Lo, the Creditors and their respective associates will abstain from voting at the SGM in respect of the resolutions for approving the Restructuring and the Share Swap Amendments.

### THE MASTER RESTRUCTURING AGREEMENT

The Master Restructuring Agreement was entered into between the Company, certain members of the Group, the Creditors and the Liaison Bank on 30th September, 2004 pursuant to which the entire balance of HK\$1,548.1 million of the Indebtedness will be settled and restructured. Under the Master Restructuring Agreement, the Creditors have agreed with the Group to restructure the Indebtedness, which for the purposes of calculating the entitlements to the Secured Bilateral Loans, the Exchangeable Notes and the Preference Shares under the Restructuring is based on the principal amount of the relevant loans and the relevant interest accrued up to 30th June, 2002, amounting to approximately HK\$1,548.1 million, as recorded in the financial statements of the Group and that no interest or fees will be charged on the Indebtedness from 1st July, 2002 onwards up to completion of the Restructuring. The Indebtedness is currently secured by a certain number of Paliburg Ordinary Shares held by the Group.

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## LETTER FROM THE BOARD

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### The Restructuring

Under the Restructuring, the relevant Creditors were given the option to choose between a combination of (1) settlement of part of their relevant portion of the Indebtedness by the issue of the Series A Shares, the Series B Shares or the Series C Shares, (2) refinancing part of their relevant portion of the Indebtedness into the Secured Bilateral Loans and/or the Exchangeable Notes, and/or (3) the settlement of part of their relevant portion of the Indebtedness by the transfer of Paliburg Ordinary Shares to them. The entire amount of the Indebtedness will be settled or restructured under the Restructuring. Pursuant to the Restructuring, the entire Indebtedness amounting to approximately HK\$1,548.1 million will be restructured by means of the following:

	<i>HK\$ million</i>
1. the issue of approximately 4,222.3 million Series A Shares at HK\$0.20 each	844.4
2. the issue of approximately 277.5 million Series B Shares at HK\$0.175 each	48.6
3. the issue of approximately 3,249.5 million Series C Shares at HK\$0.15 each	487.4
4. the refinancing by way of the Secured Bilateral Loans	79.4
5. the issue of the Exchangeable Notes with an aggregate principal amount of approximately HK\$13.8 million	13.8
6. transfer of approximately 572.8 million Paliburg Ordinary Shares at HK\$0.13 each	<u>74.5</u>
Total	<u><u>1,548.1</u></u>

The terms of the Secured Bilateral Loans together with the relevant option to receive Paliburg Ordinary Shares in lieu of cash prepayment or repayment, the Exchangeable Notes, the transfer of Paliburg Ordinary Shares for the settlement of part of the Indebtedness, the Series A Shares, the Series B Shares and the Series C Shares, including the issue prices, the option prices, the redemption prices and the conversion rates, were determined after arm's length negotiations between the Company and the Creditors after taking into account a number of factors, including but not limited to the market prices of the Ordinary Shares and the Paliburg Ordinary Shares, the length of the lock-up period (if applicable), the various conditions in relation to the conversion and/or exchange rights (if applicable), the time to maturity, the rights to sell the Series A Shares back to the Company (if applicable) and other rights applicable to each class of the Preference Shares.

#### 1. *Issue of the Preference Shares*

A total of HK\$1,380.4 million of the Indebtedness will be settled by the issue of the Preference Shares by the Company to the Creditors. Based on the choices of the Creditors, upon completion of the Restructuring, there will be issued to the Creditors approximately 4,222.3 million Series A Shares at an issue price of HK\$0.20 each, approximately 277.5 million Series B Shares at an issue price of

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## LETTER FROM THE BOARD

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HK\$0.175 each and approximately 3,249.5 million Series C Shares at an issue price of HK\$0.15 each. The Preference Shares are non-voting and shall rank in priority to the Ordinary Shares on a return of capital of the Company, with the Series A Shares, the Series B Shares and the Series C Shares ranking pari passu. The Preference Shares will not be entitled to any income distribution. The Preference Shares will not be listed on the Stock Exchange or any other stock exchanges.

a. *the Series A Shares*

The issue price of HK\$0.20 per Series A Share represents a premium of approximately 83.5% over the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a premium of approximately 94.9% over the average closing price of the Ordinary Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a premium of approximately 110.5% over the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a premium of approximately 110.5% over the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

Each Series A Share is convertible into one new Ordinary Share, subject to adjustment in accordance with the terms of the Series A Shares. Except upon the occurrence of an event of default as defined in the terms of the Series A Shares, conversion shall only take place upon maturity (being one year after the date of issue) on a mandatory basis.

Under the Master Restructuring Agreement, Creditors who have chosen to receive Series A Shares will have an option to sell back to the Company on completion of the Restructuring their Series A Shares at a consideration of HK\$0.01 per Series A Share up to a maximum of 25% of the total number of the Series A Shares which may be issued to them. Pursuant to the Master Restructuring Agreement, all the relevant Creditors were required to make irrevocable indications to the Company in respect of the number of Series A Shares they choose to sell back to the Company on completion of the Restructuring prior to 12th October, 2004. The consideration of HK\$0.01 per Series A Share represents a discount of 95% to the issue price of the Series A Shares, a discount of approximately 90.8% to the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004; a discount of approximately 90.3% to the average closing price of the Ordinary Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a discount of approximately 89.5% to the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a discount of approximately 89.5% to the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

Based on the irrevocable indications received by the Company, approximately 392.7 million Series A Shares, representing approximately 9.3% of the total number of Series A Shares which will be issued under the Restructuring, will be sold back to the Company at a total consideration of approximately HK\$3.9 million immediately after the issue of the Series A Shares in accordance with the terms of the Series A Shares upon completion of the Restructuring. Such payment of approximately HK\$3.9 million will be financed by the Group's internal resources and is not expected to have any material impact on the financial position of the Group immediately after completion of the Restructuring. Under the Restructuring, the total number of the Series A Shares to be issued to the

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## LETTER FROM THE BOARD

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Creditors amounts to approximately 4,222.3 million Series A Shares. After netting off the approximately 392.7 million Series A Shares which will be sold back to the Company, approximately 3,829.6 million Series A Shares will be in issue immediately after the issue and redemption of the 392.7 million Series A Shares upon completion of the Restructuring.

In addition, holders of the Series A Shares will have the right to sell all the outstanding Series A Shares to the Company at the same price of HK\$0.01 per Series A Share on the business day immediately prior to the maturity date. The Company intends to finance any such acquisition, which may result in the Company being required to pay an additional amount of up to HK\$38.3 million, through various possible methods, including equity fund raising exercises, disposal of assets and/or loan financing.

The Company will have a right to redeem or procure the purchase of any of the outstanding Series A Shares at any time at a price of HK\$0.0165 per Series A Share, which represents a discount of approximately 91.8% to the issue price of the Series A Shares; a discount of approximately 84.9% to the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004; a discount of approximately 83.9% to the average closing price of the Ordinary Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a discount of approximately 82.6% to the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a discount of approximately 82.6% to the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

The Series A Shares are freely transferable.

b. *the Series B Shares*

The issue price of HK\$0.175 per Series B Share represents a premium of approximately 60.6% over the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a premium of approximately 70.6% over the average closing price of the Ordinary Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a premium of approximately 84.2% over the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a premium of approximately 84.2% over the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

Each Series B Share is convertible into one new Ordinary Share, subject to adjustment in accordance with the terms of the Series B Shares. Except upon the occurrence of an event of default as defined under the terms of the Series B Shares, conversion shall only take place upon maturity (being two years after the date of issue) on a mandatory basis.

The Company will have the right to redeem or to procure the purchase of any of the outstanding Series B Shares at any time prior to maturity at a price of HK\$0.03 per Series B Share, which represents a discount of approximately 82.9% to the issue price of the Series B Shares; a discount of approximately 72.5% to the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004; a discount of approximately 70.8% to the average closing price of the Ordinary

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## LETTER FROM THE BOARD

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Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a discount of approximately 68.4% to the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a discount of approximately 68.4% to the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

The holders of the Series B Shares will not have the right to require the Company to redeem or buy back any of the Series B Shares.

The Series B Shares are freely transferable.

c. *the Series C Shares*

The issue price of HK\$0.15 per Series C Share represents a premium of approximately 37.6% over the closing price of the Ordinary Shares of HK\$0.109 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a premium of approximately 46.2% over the average closing price of the Ordinary Shares of HK\$0.1026 each for the five trading days prior to 30th September, 2004; a premium of approximately 57.9% over the closing price of the Ordinary Shares of HK\$0.095 each as at the Latest Practicable Date; and a premium of approximately 57.9% over the average closing price of the Ordinary Shares of HK\$0.095 each for the five trading days prior to the Latest Practicable Date.

Each Series C Share is convertible into one new Ordinary Share, subject to adjustment in accordance with the terms of the Series C Shares. Conversion may take place in stages at the discretion of the holders in the following manner: (i) up to 25% after the second anniversary of issuance; (ii) up to 50% cumulatively after the third anniversary of issuance; (iii) up to 75% cumulatively after the fourth anniversary of issuance; and (iv) at maturity (being the fifth anniversary of issuance), all the outstanding Series C Shares will be converted into new Ordinary Shares on a mandatory basis.

The Company will have the right to redeem or to procure the purchase of any of the outstanding Series C Shares at any time at a price of HK\$0.15 per Series C Share which is equal to the issue price of the Series C Shares.

The holders of the Series C Shares will not have the right to require the Company to redeem or buy back any of the Series C Shares.

Holders of the Series C Shares will be granted pre-emptive rights pursuant to which, if the Company proposes to issue any new Ordinary Shares or securities convertible into new Ordinary Shares, each holder of the Series C Shares shall be given a right to subscribe for such Ordinary Shares or securities on substantially the same terms so that its interest in the Company shall remain unchanged on a fully diluted basis, subject to any limitation or restriction under the applicable laws or regulations, including, but not limited to, the Listing Rules.

Subject to their terms, the Series C Shares are not freely transferable.

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## LETTER FROM THE BOARD

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d. *general*

Please refer to the sections headed “The Conversion Shares and the listing application” and “The Company” below for the amount and relative size of the Conversion Shares which may be issued as a result of the conversion of the Preference Shares.

2. *Grant of Secured Bilateral Loans*

Under the Restructuring, part of the Indebtedness in an aggregate amount of approximately HK\$79.4 million will be refinanced into the Secured Bilateral Loans for a term of two years, which will be secured by certain Paliburg Ordinary Shares, representing approximately 28.6% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date. The Secured Bilateral Loans will not be freely assignable under their relative terms.

Under the terms of certain Secured Bilateral Loans with an aggregate principal amount of approximately HK\$13.8 million, the Group may choose to prepay any part of the Secured Bilateral Loans at 130% of the relevant principal amount plus 100% of the accrued but unpaid interest, in which case the relevant lenders may opt to receive Paliburg Ordinary Shares at a price of HK\$0.10 each for the settlement of the relative principal amount of the Secured Bilateral Loans proposed to be prepaid by the Group in lieu of cash prepayment. Such relevant Creditors will also have a similar right of electing to receive Paliburg Ordinary Shares upon final repayment at maturity. The number of Paliburg Ordinary Shares which may be transferred to the lenders of the Secured Bilateral Loans, if such lenders opt to receive Paliburg Ordinary Shares in lieu of cash prepayment or repayment, represents approximately 2.0% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date.

The option price of HK\$0.10 per Paliburg Ordinary Share, which is subject to adjustment in accordance with the terms of such option attached to the Secured Bilateral Loans, represents a discount of approximately 49.5% to the closing price of the Paliburg Ordinary Shares of HK\$0.198 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a discount of approximately 47.9% to the average closing price of the Paliburg Ordinary Shares of HK\$0.1918 each for the five trading days prior to 30th September, 2004; a discount of approximately 40.8% to the closing price of the Paliburg Ordinary Shares of HK\$0.169 each as at the Latest Practicable Date; and a discount of approximately 40.5% to the average closing price of the Paliburg Ordinary Shares of HK\$0.1682 each for the five trading days prior to the Latest Practicable Date.

The lender of the remaining Secured Bilateral Loan in respect of an Indebtedness of approximately HK\$65.6 million will not have the right to elect for Paliburg Ordinary Shares in lieu of cash prepayment or repayment.

In order to facilitate the Restructuring, Mr. Lo has agreed with one of the Creditors that he will provide a personal guarantee in favour of such Creditor in respect of the Secured Bilateral Loan to be granted by such Creditor to the Group, and no other relevant Creditor has made such request. Pursuant to such personal guarantee arrangement, such Creditor will grant to Mr. Lo the right to purchase or procure the purchase of the Secured Bilateral Loan (and that, among other things, (i) the 309.5 million Paliburg Ordinary Shares to be pledged as collateral for the Secured Bilateral Loan, and (ii) the benefit of an option to receive 123.8 million Paliburg Ordinary Shares in lieu of cash prepayment or

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## LETTER FROM THE BOARD

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repayment of the Secured Bilateral Loan shall be transferred to Mr. Lo (or such purchaser as procured by Mr. Lo) together with the Secured Bilateral Loan) at its principal amount of approximately HK\$12.4 million plus any accrued but unpaid interest from such Creditor at any time within two years from completion of the Restructuring. If Mr. Lo acquires the Secured Bilateral Loan pursuant to the guarantee arrangement, then certain Exchangeable Notes issued to such Creditor under the Restructuring amounting to approximately HK\$6.2 million and carrying the right to exchange into approximately 24.8 million Paliburg Ordinary Shares, subject to adjustment in accordance with the terms of the Exchangeable Notes, will be transferred to Mr. Lo. Mr. Lo is a connected person of the Company. As a result of this arrangement, such Creditor is deemed to be a connected person of the Company only for the purposes of this transaction under the Listing Rules and thus the Restructuring constitutes a connected transaction for the Company and is subject to the approval by the Independent Shareholders. Save as disclosed above, all the Creditors are financial institutions or affiliated companies of a financial institution and are not connected persons of the Company for the purposes of the Listing Rules. Please refer to the section headed “Disposal of shareholding in Paliburg and the Listing Rules requirements” below for details of the changes in the shareholding interest of Mr. Lo and his associates in Paliburg as a result of the Restructuring.

### 3. *Issue of the Exchangeable Notes*

Under the Restructuring, Exchangeable Notes with an aggregate principal amount of approximately HK\$13.8 million will be issued by the Group to certain Creditors at their principal amount upon completion of the Restructuring. Subject to their terms, the Exchangeable Notes are not freely transferable.

The Exchangeable Notes will be issued by Smartaccord Limited, a wholly owned subsidiary of the Company and a special purpose vehicle newly incorporated for the purpose of issuing the Exchangeable Notes. The Exchangeable Notes will be for a term of two years and will be exchangeable into Paliburg Ordinary Shares at an exchange rate of HK\$0.25 per Paliburg Ordinary Share, subject to adjustment in accordance with the terms of the Exchangeable Notes. The Exchangeable Notes will not bear any interest. Based on the initial exchange rate, approximately 55.1 million Paliburg Ordinary Shares, representing approximately 0.8% of the Paliburg Ordinary Shares in issue as at the Latest Practicable Date, will be transferred by the Group to the holders of the Exchangeable Notes. The exchange rate per Paliburg Ordinary Share represents a premium of approximately 26.3% over the closing price of the Paliburg Ordinary Shares of HK\$0.198 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a premium of approximately 30.3% over the average closing price of the Paliburg Ordinary Shares of HK\$0.1918 each for the five trading days prior to 30th September, 2004; a premium of approximately 47.9% over the closing price of the Paliburg Ordinary Shares of HK\$0.169 each as at the Latest Practicable Date; and a premium of approximately 48.6% over the average closing price of the Paliburg Ordinary Shares of HK\$0.1682 each for the five trading days prior to the Latest Practicable Date.

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## LETTER FROM THE BOARD

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The holders of the Exchangeable Notes will not have any right to demand for cash repayment of the Exchangeable Notes. Except upon the occurrence of an event of default as defined in the terms of the Exchangeable Notes, the Exchangeable Notes will only be exchanged into Paliburg Ordinary Shares upon maturity on a mandatory basis. However, at any time prior to maturity, the Group will have the right to redeem any of the Exchangeable Notes at their principal amount.

The Exchangeable Notes will not be listed on the Stock Exchange or any other stock exchanges.

#### 4. *Transfer of the Paliburg Ordinary Shares*

Under the Restructuring, a total of approximately 572.8 million Paliburg Ordinary Shares, representing approximately 8.3% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date, beneficially owned by the Group will be transferred to certain Creditors at a consideration of HK\$0.13 per Paliburg Ordinary Share upon completion of the Restructuring. The relevant Creditors have agreed to hold such Paliburg Ordinary Shares and will not in any way dispose of, whether directly or indirectly, the beneficial interest in such Paliburg Ordinary Shares within three months after completion of the Restructuring. The consideration for the transfer represents a discount of approximately 34.3% to the closing price of the Paliburg Ordinary Shares of HK\$0.198 each on 30th September, 2004 (being the date of the Master Restructuring Agreement); a discount of approximately 32.2% to the average closing price of the Paliburg Ordinary Shares of HK\$0.1918 each for the five trading days prior to 30th September, 2004; a discount of approximately 23.1% to the closing price of the Paliburg Ordinary Shares of HK\$0.169 each as at the Latest Practicable Date; and a discount of approximately 22.7% to the average closing price of the Paliburg Ordinary Shares of HK\$0.1682 each for the five trading days prior to the Latest Practicable Date.

#### **Conditions of the Restructuring**

Completion of the Restructuring pursuant to the Master Restructuring Agreement is conditional on the satisfaction or, if applicable, waiver of, among others, the following conditions:

1. the passing of an ordinary resolution at the SGM by the Independent Shareholders in relation to the Restructuring;
2. the passing of a special resolution at the SGM by the Shareholders in relation to the proposed creation of the Preference Shares;
3. the issued Ordinary Shares remaining listed on the Stock Exchange;
4. the Stock Exchange granting the approval for the listing of, and permission to deal in, the Conversion Shares;
5. no events of default as defined under the terms of the Exchangeable Notes and the Preference Shares having occurred;
6. the Group becoming the legal and beneficial owner of the Paliburg Ordinary Shares then held by Almighty free from any encumbrances or claims;

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## LETTER FROM THE BOARD

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7. all authorisations, consents, approvals and waivers reasonably required by any of the Creditors and their shareholders, holding companies or affiliates as applicable to approve the Creditors entering into the Master Restructuring Agreement and giving effect to the transactions contemplated under the Restructuring being obtained and continuing to be in full force and effect;
8. the necessary documents required for the implementation of the Restructuring being duly executed;
9. the Bermuda Monetary Authority approving the issue of the Exchangeable Notes, the Preference Shares and the Conversion Shares which may be issued upon conversion of the Preference Shares or a legal opinion confirming that such approval is not necessary being obtained; and
10. the agreement to give effect to the proposed amendments to the terms of the Share Swap being executed (details of the proposed amendments to the terms of the Share Swap are set out below under the heading "The Share Swap Amendments").

All the conditions precedent under the Master Restructuring Agreement may be modified or waived by the Liaison Bank acting on the instruction of the relevant Creditors, except for conditions 1, 2, 4, 6, 9 and 10 which cannot be modified or waived except by the agreement of all the parties to the Master Restructuring Agreement. The Fifth Supplemental Agreement in relation to item 10 has been signed on 5th November, 2004 between the parties to the Share Swap, which is subject to the approval of the Independent Shareholders and conditional on the completion of the Restructuring. If the conditions of the Restructuring have not been satisfied or, if applicable, waived on or before 15th December, 2004 (or such other date as agreed between the Company and the Liaison Bank (acting on the instruction of the Creditors)), the Restructuring will lapse and all the Indebtedness existing (together with any interest accrued and unpaid) as at that date will remain unsatisfied and undischarged and become immediately due and payable.

### THE CONVERSION SHARES AND THE LISTING APPLICATION

Based on the initial conversion rate of the Preference Shares and the irrevocable indications that the Company has received from the Creditors to sell back to the Company part of their Series A Shares to be issued to them under the Restructuring, a total of approximately 7,356.6 million Conversion Shares, representing approximately 115.0% of the Ordinary Shares in issue as at the Latest Practicable Date and approximately 30.9% of the issued ordinary share capital of the Company as enlarged by the conversion of the Preference Shares and the issue of new Ordinary Shares by the Company pursuant to the exercise in full of the rights to put under the Share Swap and assuming there are no other changes in the shareholding structure of the Company, may fall to be issued by the Company upon full conversion of the Preference Shares. The Conversion Shares will rank *pari passu* with other Ordinary Shares then in issue at the time when the Conversion Shares are issued and allotted.

The Company has applied to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

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## LETTER FROM THE BOARD

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### DISPOSAL OF SHAREHOLDING IN PALIBURG AND THE LISTING RULES REQUIREMENTS

As at the Latest Practicable Date, the Group had shareholding interest and voting control over approximately 4,516.8 million Paliburg Ordinary Shares, representing approximately 65.4% of the issued ordinary share capital of Paliburg. Of the approximately 4,516.8 million Paliburg Ordinary Shares, approximately 2,011.8 million Paliburg Ordinary Shares, representing approximately 29.1% of the issued ordinary share capital of Paliburg, were beneficially held by the Group, while 2,505 million Paliburg Ordinary Shares, representing approximately 36.3% of the issued ordinary share capital of Paliburg, were held by the Group but were subject to the exchange rights attaching to the issued and outstanding 10,020 million EPSs held by the First Vendor and the Second Vendor.

As part of the Restructuring, a maximum number of approximately 765.7 million Paliburg Ordinary Shares may be transferred to the Creditors, the lenders of the Secured Bilateral Loans and the holders of the Exchangeable Notes. In addition, 77.5 million Paliburg Ordinary Shares may be transferred to holder of the 310 million Series B EPSs (which are currently held by the Second Vendor) if the exchange rights attaching to such Series B EPSs are exercised (such rights are exercisable at any time at the discretion of the holder of such shares). There is no Paliburg Preference Share outstanding as at the Latest Practicable Date. As at the Latest Practicable Date, there were approximately 2.5 million share options of Paliburg outstanding.

After the Restructuring and assuming that the exchange rights attaching to the 310 million Series B EPSs have been exercised, the maximum number of approximately 765.7 million Paliburg Ordinary Shares would be transferred to the Creditors, the lenders of the Secured Bilateral Loans and the holders of the Exchangeable Notes and there are no other changes in the shareholding structure of Paliburg, the shareholding interest of the Group in Paliburg would decrease from approximately 65.4% to approximately 53.2%. However, the percentage economic interest of the Group in Paliburg will increase from approximately 29.1% to approximately 53.2% as a result of the Share Swap (as amended pursuant to the Share Swap Amendments). As shown in the shareholding table below, the Group will continue to hold a majority shareholding interest in Paliburg after the Restructuring (in the absence of any other changes) and accordingly, Paliburg will continue to be a subsidiary of the Group after the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments).

The table below sets out the shareholding structure of Paliburg (1) as at the Latest Practicable Date (column 1), (2) immediately after completion of the Restructuring and assuming that the Second Vendor has exercised the exchange rights attaching to the EPSs in full (column 2), (3) immediately after completion of the Restructuring and assuming that the Second Vendor has not exercised the exchange rights attaching to the EPSs (column 3), (4) after completion of the Restructuring, the exercise of the exchange rights attaching to the Exchangeable Notes in full, and assuming that the Second Vendor has exercised the exchange rights attaching to the EPSs in full, Mr. Lo acquires the Secured Bilateral Loan of approximately HK\$12.4 million from the relevant Creditor pursuant to the guarantee arrangement between Mr. Lo and that Creditor as described above, all the relevant Secured

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## LETTER FROM THE BOARD

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Bilateral Loans will be settled by the transfer of Paliburg Ordinary Shares and there are no other changes in the shareholding structure of Paliburg (column 4), and (5) after completion of the Restructuring and based on the same assumptions as in scenario 4 except that the Second Vendor has not exercised the exchange rights attaching to the EPSs (column 5).

	Column 1		Column 2		Column 3		Column 4		Column 5	
	<i>number</i> <i>(million)</i>	<i>%</i>								
The Group	4,516.8	65.4%	3,866.5	56.0%	3,944.0	57.1%	3,673.6	53.2%	3,751.1	54.3%
Mr. Lo and his associates	307.3	4.4%	384.8	5.5%	307.3	4.4%	533.4	7.7%	455.9	6.6%
Other directors of the Company and Paliburg	0.8	0.0%	0.8	0.0%	0.8	0.0%	0.8	0.0%	0.8	0.0%
Creditors	—	—	572.8	8.3%	572.8	8.3%	617.1	8.9%	617.1	8.9%
Public	<u>2,083.6</u>	<u>30.2%</u>								
Total	<u>6,908.5</u>	<u>100.0%</u>								
Total public float	<u>2,083.6</u>	<u>30.2%</u>	<u>2,656.4</u>	<u>38.5%</u>	<u>2,656.4</u>	<u>38.5%</u>	<u>2,700.7</u>	<u>39.1%</u>	<u>2,700.7</u>	<u>39.1%</u>

The possible disposal of interests in Paliburg by the Group under the Restructuring constitutes a major and connected transaction for the Company under the Listing Rules. Accordingly, the Restructuring is subject to, among other things, approval of the Independent Shareholders at the SGM by poll. Mr. Lo, the Creditors and their respective associates will abstain from voting at the SGM in respect of the resolution for approving the Restructuring.

Paliburg is an investment holding company, which, together with its subsidiaries and associated companies, is principally engaged in property development and investment, property management, construction and building-related businesses, hotel ownership and management and other investments. The audited consolidated total assets and net assets of Paliburg as at 31st December, 2003 were approximately HK\$9,825.6 million and approximately HK\$2,285.7 million respectively.

The table below shows the audited consolidated profits of Paliburg (i) before taxation and minority interests, (ii) after taxation but before minority interests and (iii) after taxation and minority interests for the two years ended 31st December, 2003:

	<b>For the year ended</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$ (million)</i>	<i>HK\$ (million)</i>
Consolidated profits before taxation and minority interests	449.2	1,333.3
Consolidated profits after taxation but before minority interests	512.4	1,329.4
Consolidated profits after taxation and minority interests	387.6	1,704.1

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## LETTER FROM THE BOARD

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### REASONS FOR THE RESTRUCTURING

Since October 1998, the Group has encountered liquidity problems. As at 30th June, 2004, the unaudited consolidated balance of the bank loans and other borrowings of the Century Group (which included Paliburg and Regal Hotel International Holdings Limited and their respective subsidiaries) amounted to approximately HK\$6,398.5 million, of which the bank loans and other borrowings (including a provision for guarantee and related interest payable) of the Group amounted to approximately HK\$1,790.7 million (being the Indebtedness of approximately HK\$1,548.1 million and the relative accrued but unpaid interest from 1st July, 2002 to 30th June, 2004 of approximately HK\$242.6 million) and the unaudited consolidated balance of the bank loans and other borrowings of Paliburg and its then subsidiaries amounted to approximately HK\$4,607.8 million. Repayment of all the above bank loans and other borrowings of the Group has been suspended and are currently subject to an informal standstill arrangement. In the absence of the Restructuring, the Group will not have sufficient financial resources to repay all its indebtedness.

Pursuant to the Restructuring, save for the part of the Indebtedness which will be refinanced into the Secured Bilateral Loans of approximately HK\$79.4 million and the Exchangeable Notes of approximately HK\$13.8 million (which shall not involve any cash repayment but will be exchanged into Paliburg Ordinary Shares upon maturity on a mandatory basis), the entire Indebtedness (together with the accrued but unpaid interest) will be settled and retired. Interest in respect of the Indebtedness accrued and unpaid from 1st July, 2002 till completion of the Restructuring (and the relevant amount accrued from 1st July, 2002 to 30th June, 2004 amounted to approximately HK\$242.6 million) will be waived by the Creditors upon completion of the Restructuring. The Group will record a gain equal to the balance of interest waived as a result of the Restructuring. Based on the amount of accrued but unpaid interest in respect of the Indebtedness that will be waived under the Restructuring as at 30th June, 2004, it is estimated that the Group will record a gain of approximately HK\$242.6 million immediately upon completion of the Restructuring.

If the Restructuring can be successfully implemented, the Group will be relieved from its liquidity problems and will thus be able to refocus its management resources on business development. As disclosed in the circular of the Company dated 26th August, 2002, the Share Swap provides a mechanism for the Company to maintain its majority interest in Paliburg. However, the Company would only be able to obtain the economic interests in all the Paliburg Ordinary Shares held by Almighty after the Group has successfully restructured its debts. With the successful implementation of the Restructuring, the Group will become the absolute beneficial owner of the economic interest in the Paliburg Ordinary Shares held by Almighty as contemplated under the Share Swap (as amended pursuant to the Share Swap Amendments). As more fully described below in the section headed "The Share Swap", it is proposed that the Share Swap Amendments will be made with a view to facilitating the implementation of the Restructuring. After completion of the Restructuring, the percentage economic interest of the Group in Paliburg will increase from approximately 29.1% to approximately 53.2%, despite the transfer of approximately 765.7 million Paliburg Ordinary Shares to the Creditors, the lenders of the Secured Bilateral Loans and the holders of the Exchangeable Notes, and assuming that the exchange rights attaching to the 310 million Series B EPSs have been exercised and there are no other changes in the shareholding structure of Paliburg. The Directors consider that the prospects of the Group will be significantly improved after implementation of the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments) after considering the effects and benefits

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## LETTER FROM THE BOARD

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of the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments), including, among other things, (1) improvement in the financial position of the Group (as shown in Appendix I to this circular), (2) the settlement and retirement of a majority portion of the Indebtedness, (3) the consolidation of the Group's shareholding in Paliburg; and (4) the more efficient allocation of management resources.

The Directors, including the independent non-executive Directors after having considered the advice of Altus, consider that the terms of the Restructuring are fair and reasonable and the Restructuring is in the interests of the Company and the Shareholders as a whole.

### THE SHARE SWAP

#### Existing structure and terms of the Share Swap

Details of the Share Swap were set out in the announcement of the Company dated 2nd August, 2002 and the circular of the Company dated 26th August, 2002. The Share Swap constituted a major and connected transaction for the Company and was approved by the independent shareholders of the Company at a special general meeting of the Company held on 16th October, 2002.

Under the Share Swap, 11,000 million EPSs were issued to the First Vendor, 2,000 million EPS were issued to the Second Vendor and 800 million EPSs were issued to the Third Vendor. Every four EPSs give their holder the right to exchange the same into one Paliburg Ordinary Share (so converted by a Paliburg Preference Share) held by Almighty during the exchange period, which was recently extended to 31st December, 2004 as disclosed in the Announcement.

The exchange rights attaching to the Series A EPSs may not be exercised unless: (i) a material adverse change has occurred in relation to the financial, business and/or listing status of the Group (in the reasonable opinion of the First Vendor); or (ii) any creditor of any member of the Group takes or purports to take any precipitating action against any member of the Group; or (iii) any creditor of any member of the Group takes or purports to take any action which, in the opinion of the First Vendor, could materially prejudice the position of the holders of the EPSs or in any way delay or impede the exercise of any of their rights as holders of such shares; or (iv) Mr. Lo: (a) ceases to be in direct or indirect control of over 50% of the voting rights of the Company; or (b) ceases to have the right to nominate more than 50% of the Board. The exchange rights attaching to the Series B EPSs are exercisable at the discretion of the holder of such shares at any time prior to the expiry date of the Share Swap.

The holders of the EPSs have been given the rights to put (i.e. the rights to require the Company to acquire any EPSs from them in return for one Ordinary Share for each EPS so acquired by the Company during the exchange period).

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## LETTER FROM THE BOARD

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The Company has been given the rights to call (i.e. the rights to acquire certain Series A EPSs in return for the issue of one Ordinary Share for each EPS so acquired by the Company during the exchange period). The rights to call may not be exercised unless: (i) the Group has successfully restructured its debts (in the reasonable opinion of the First Vendor) within the period in which the rights to call can be exercised; (ii) Mr. Lo: (a) remains in direct or indirect control of over 50% of the voting rights of the Company; and (b) has the right to nominate more than 50% of the board of Directors; (iii) the Ordinary Shares remain listed on the Stock Exchange; and (iv) the Group is no longer in default in respect of any material loan.

Under the Share Swap, the First Vendor has been given the right to acquire the entire issued ordinary share capital of Almighty back from the Company at HK\$8.0 (being the same amount as the consideration paid by the Company to the First Vendor for the acquisition of the entire issued ordinary share capital of Almighty under the Share Swap) if certain adverse conditions occur in relation to the financial position of the Group.

Upon expiry of the exchange period of the Share Swap, the exchange rights (to exchange into the Paliburg Ordinary Shares held by Almighty) attaching to the EPSs would be exercised on a mandatory basis pursuant to the provisions of the Share Swap.

As at the Latest Practicable Date, 12,600 million EPSs were outstanding, of which, 9,710 million Series A EPSs were held by the First Vendor, 310 million Series B EPSs were held by the Second Vendor and 2,580 million Series B EPSs were held by the Group. Both the First Vendor and the Second Vendor are controlled by Mr. Lo.

### **The Share Swap Amendments**

As a condition to the Restructuring, the Group is required to have sufficient free Paliburg Ordinary Shares to facilitate the implementation of the Restructuring. If (i) the exchange rights attaching to the EPSs are exercised in full, and/or (ii) the entire issued ordinary share capital of Almighty is transferred back to the First Vendor pursuant to the repurchase right given to the First Vendor under the Share Swap, Paliburg will then cease to be a subsidiary of the Group. The Fifth Supplemental Agreement was entered into on 5th November, 2004 with a view to giving effect to the Share Swap Amendments, subject to the completion of the Restructuring and approval from the Independent Shareholders. The Share Swap Amendments are summarized as follows:

1. the exchange rights attaching to the outstanding EPSs shall lapse and be cancelled and Almighty shall become the absolute legal and beneficial owner of all the Paliburg Ordinary Shares then held by it;
2. the rights to call granted to the Company shall lapse and be cancelled;
3. the repurchase right in respect of the entire issued ordinary share capital of Almighty given to the First Vendor shall lapse and be cancelled;

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## LETTER FROM THE BOARD

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4. the period for the rights to put shall be extended to the fifth anniversary from the date of completion of the Restructuring and the rights to put shall be exercisable on one or more occasions at the discretion of the holders of the EPSs, and upon the expiry date, all the rights to put attached to any remaining outstanding EPSs will be exercised on a mandatory basis; and
5. the EPSs shall effectively rank pari passu with the Preference Shares and shall be granted the same pre-emptive rights as those under the terms of the Series C Shares.

The Share Swap Amendments which were determined after arm's length negotiations between, among others, the Company, the Creditors, the holders of the EPSs and the parties to the Share Swap, with a view to facilitating the implementation of the Restructuring and assisting the monitor of the Company's public float. The Directors, including the independent non-executive Directors after having considered the advice of Altus, consider that the Share Swap Amendments are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Listing Rules requirements**

As stated above, the Share Swap constituted a connected transaction for the Company and has been approved by the independent shareholders of the Company. The Share Swap Amendments constitute another connected transaction for the Company under the Listing Rules and thus are subject to approval by the Independent Shareholders. A resolution will be proposed at the SGM to approve the Share Swap Amendments. Mr. Lo, the Creditors and their respective associates will abstain from voting at the SGM in respect of such resolution.

### **THE COMPANY**

The Company is an investment holding company which, together with its subsidiaries and associated companies, is principally engaged in property development and investment, property management, construction and building-related businesses, hotel ownership and management and other investments.

For the year ended 31st December, 2003, the Century Group recorded an audited consolidated net profit attributable to shareholders of approximately HK\$414.2 million, as compared with an audited net loss of approximately HK\$22.6 million (as restated) recorded for the year ended 31st December, 2002. The net profit attained for the year ended 31st December, 2003 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, as at 31st December, 2003, the Company recorded an audited consolidated negative net worth of approximately HK\$732.9 million (2002 - approximately HK\$521.5 million, as restated). The increase in the consolidated negative net worth of the Company was primarily due to the reduction in the attributable share of the underlying net assets of Paliburg as a result of the diluted shareholding interest owned by the Group in Paliburg.

## LETTER FROM THE BOARD

The table below sets out the shareholding structure of the Company: (1) as at the Latest Practicable Date (column 1); (2) assuming that all the Preference Shares (after netting off the approximately 392.7 million Series A Shares which will be sold back to the Company) are converted in full and the rights to put under the Share Swap are exercised in full (column 2); (3) assuming that all the Series A Shares are redeemed and all the Series B Shares and the Series C Shares are converted, and the rights to put under the Share Swap are exercised in full (column 3); (4) assuming that all the Series A Shares and Series B Shares are redeemed and all the Series C Shares are converted, and the rights to put under the Share Swap are exercised in full (column 4); and (5) assuming that all the Series A Shares, Series B Shares and Series C Shares are redeemed and the rights to put under the Share Swap are exercised in full (column 5).

	Column 1		Column 2		Column 3		Column 4		Column 5	
	<i>Number</i>		<i>Number</i>		<i>Number</i>		<i>Number</i>		<i>Number</i>	
	<i>(million)</i>	<i>%</i>								
Mr. Lo and his associates	3,481.8	54.4%	13,501.8	56.8%	13,501.8	67.7%	13,501.8	68.7%	13,501.8	82.2%
Other directors of the Company and Paliburg	17.1	0.3%	17.1	0.1%	17.1	0.1%	17.1	0.1%	17.1	0.1%
Creditors	—	—	7,356.6	30.9%	3,527.0	17.7%	3,249.5	16.5%	—	—
Public	2,897.9	45.3%	2,897.9	12.2%	2,897.9	14.5%	2,897.9	14.7%	2,897.9	17.7%
<b>Total</b>	<b>6,396.8</b>	<b>100.0%</b>	<b>23,773.4</b>	<b>100.0%</b>	<b>19,943.8</b>	<b>100.0%</b>	<b>19,666.3</b>	<b>100.0%</b>	<b>16,416.8</b>	<b>100.0%</b>
Total public float <i>(Notes)</i>	2,897.9	45.3%	7,603.0	31.9%	3,773.4	18.9%	3,495.9	17.7%	2,897.9	17.7%

*Notes:*

- The above table is prepared on the assumptions that the exchange rights attaching to all the outstanding 310 million Series B EPSs will not be exercised and assuming that there are no other changes in the shareholding structure of the Company save as stated above. If the Second Vendor exercises the exchange rights attaching to the 310 million Series B EPSs, under scenarios 2, 3, 4 and 5, the aggregate shareholding interest of Mr. Lo and his associates in the Company will be approximately 56.2%, approximately 67.2%, approximately 68.2% and approximately 81.9% respectively and the total public float of the Company will become approximately 32.4%, approximately 19.2%, approximately 18.1% and approximately 18.0% respectively.
- Based on the current shareholding structure of the Company and the terms of Restructuring, and assuming that there will be no other changes in the shareholding structure of the Company, upon conversion of the Preference Shares and the exercise of the rights to put under the Share Swap in full, one of the Creditors will become a substantial shareholder of the Company holding approximately 11.2% (under scenario 2), approximately 13.3% (under scenario 3) and approximately 13.5% (under scenario 4) of the enlarged issued ordinary share capital of the Company. All the other Creditors should be regarded as public shareholders of the Company.

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## **LETTER FROM THE BOARD**

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The Stock Exchange has indicated that it will closely monitor trading in the Ordinary Shares if less than 25% of the issued Ordinary Shares are held by the public. If the Stock Exchange believes that a false market exists or may exist in the Ordinary Shares; or there are too few Ordinary Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Ordinary Shares until a sufficient level of public float is attained.

Mr. Lo has undertaken to the Stock Exchange that he will not cause the public float of the Company to fall below the minimum public float required under Rule 8.08 of the Listing Rules as a result of exercising the rights to put attached to the EPSs held by him and his associates.

### **PROPOSED CREATION OF THE PREFERENCE SHARES**

In view of the proposed issue of the Preference Shares under the Restructuring, the Board proposes to increase the authorised share capital of the Company by the creation of three new classes of preference shares in the capital of the Company, namely the Series A Shares, the Series B Shares and the Series C Shares.

It is proposed that the authorised share capital of the Company be increased by the creation of 7,749,255,480 Preference Shares comprising 4,222,287,651 Series A Shares, 277,514,577 Series B Shares and 3,249,453,252 Series C Shares such that, after the increase but before the Capital Reorganisation becoming effective, the authorised share capital of the Company shall be increased from HK\$2,000 million divided into 20,000 million Ordinary Shares to HK\$2,774,925,548 comprising HK\$2,000 million divided into 20,000 million Ordinary Shares and HK\$774,925,548 divided into 4,222,287,651 Series A Shares, 277,514,577 Series B Shares and 3,249,453,252 Series C Shares.

Please refer to Appendix III to this circular for a summary of the respective rights and restrictions attaching to the Series A Shares, the Series B Shares and the Series C Shares.

It is proposed that the bye-laws of the Company be amended to incorporate the terms of the Preference Shares. The proposed creation of the Preference Shares and the related amendments to the bye-laws of the Company are subject to the approval by the Shareholders at the SGM by way of a special resolution.

### **PROPOSED CAPITAL REORGANISATION**

The Board has proposed to put forward for approval by the Shareholders at the SGM the Capital Reorganisation which principally comprises the following:

1. the nominal value of each issued Ordinary Share as at the Effective Date will be reduced from HK\$0.10 to HK\$0.01 by the cancellation of HK\$0.09 of the paid-up capital on each issued Ordinary Share;
2. the credit created in 1. above will be transferred to the Contributed Surplus Account;

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## LETTER FROM THE BOARD

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3. the entire amount standing to the credit of the Share Premium Account as at the Effective Date will be cancelled;
4. the credit created in 3. above will also be transferred to the Contributed Surplus Account; and
5. the then existing authorised but unissued ordinary share capital of the Company (including the unissued ordinary share capital arising from the Capital Reduction in 1. above) will be cancelled and the authorised ordinary share capital of the Company will be subsequently increased to HK\$400 million divided into 40,000 million Adjusted Ordinary Shares by the creation of an additional 33,603,226,047 Adjusted Ordinary Shares of HK\$0.01 each (or such other number of Adjusted Ordinary Shares as shall be sufficient to increase the authorised ordinary share capital to HK\$400 million).

### Effects of the Capital Reorganisation

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$2,000 million divided into 20,000 million Ordinary Shares of par value HK\$0.10 each. Approximately 6,396.8 million Ordinary Shares were in issue and fully paid or credited as fully paid, and there was an amount of approximately HK\$888.4 million standing to the credit of the Share Premium Account of the Company as at the Latest Practicable Date. As at 31st December, 2003, the Company had audited accumulated losses of approximately HK\$3,350.1 million.

Based on the number of Ordinary Shares in issue as at the Latest Practicable Date and assuming that no further Ordinary Shares will be issued prior to the Effective Date, upon the Capital Reorganisation becoming effective, the issued and paid-up share capital of the Company will be reduced by approximately HK\$575.7 million and the entire balance standing to the credit of the Share Premium Account will be cancelled. The credit arising as a result of the Capital Reduction and the cancellation of the entire amount in the Share Premium Account will first be transferred to the Contributed Surplus Account. The credit in the Contributed Surplus Account will then be applied to offset the accumulated losses of the Company.

The authorised but unissued ordinary share capital of the Company (including the unissued ordinary share capital arising from the Capital Reduction) will be cancelled and the authorised ordinary share capital of the Company will be subsequently increased to HK\$400 million divided into 40,000 million Adjusted Ordinary Shares of HK\$0.01 each.

### Conditions of the Capital Reorganisation

The Capital Reorganisation is subject to, among others, the following conditions:

1. the passing of a special resolution at the SGM by the Shareholders;
2. the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Ordinary Shares;

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## LETTER FROM THE BOARD

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3. Completion of the Restructuring; and
4. the publication of a notice in relation to the Capital Reduction in Bermuda in accordance with the Companies Act.

It is expected that the Capital Reorganisation will become effective on or before 31st January, 2005 after completion of the Restructuring. The Company will issue further announcements in respect of the Capital Reorganisation when it has determined when the Effective Date shall be.

### **Reasons for the Capital Reorganisation**

The Directors consider that, other than the expenses relating to the Capital Reorganisation, implementation of the Capital Reorganisation will not, of itself, affect the Company's underlying assets, business operation and financial position or the interests of the Shareholders. The Capital Reorganisation will reduce the par value of the Ordinary Shares which can enhance the Company's future fund raising capability. By offsetting all or part of the accumulated losses of the Company, the Company will be able to declare dividends to the Shareholders at an earlier opportunity than it would if it had to first generate future profits to offset accumulated losses.

### **Listing application**

The Company has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and permission to deal in, the Adjusted Ordinary Shares.

Subject to the granting of listing of, and permission to deal in, the Adjusted Ordinary Shares on the Stock Exchange, the Adjusted Ordinary Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Ordinary Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **SGM**

The Restructuring and the Share Swap Amendments are subject to approval by the Independent Shareholders. The proposed creation of the Preference Shares and the Capital Reorganisation are subject to approval by the Shareholders. The Company will convene the SGM to consider and, if thought fit, to approve, among other things, the transactions contemplated under the Restructuring, the Share Swap Amendments, the proposed creation of the Preference Shares and the Capital Reorganisation.

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## LETTER FROM THE BOARD

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Set out on pages 197 to 200 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 Wednesday, 1st December, 2004.

Mr. Lo, the Creditors and their respective associates will abstain from voting in respect of the resolutions for approving the transactions contemplated under the Restructuring and the Share Swap Amendments.

Pursuant to the bye-laws of the Company, 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 Shareholders present in person (or in the case of a 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 Shareholder or Shareholders present in person (or in the case of a 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 Shareholders having the right to vote at the SGM; or
- (c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding Ordinary Shares conferring a right to vote at the SGM being Ordinary 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 Ordinary Shares conferring that right.

### RECOMMENDATION

The Directors have appointed the Independent Board Committee, comprising Mr. Anthony Chuang, Mr. Ng Siu Chan and Mr. Wong Chi Keung to advise the Independent Shareholders in respect of the Restructuring and the Share Swap Amendments. Altus has been appointed as the independent financial adviser to the Independent Board Committee in respect of the Restructuring and the Share Swap Amendments. The Independent Board Committee has considered the respective terms of the Restructuring and the Share Swap Amendments and the advice given by Altus, and is of the opinion that the terms of the Restructuring and the Share Swap Amendments are fair and reasonable as far as the interests of the Independent Shareholders are concerned and the Restructuring and the Share Swap Amendments are in the interests of the Company and the Shareholders as a whole.

The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Restructuring and the Share Swap Amendments. All the Directors consider that the proposed creation of the Preference Shares pursuant to the Restructuring and the Capital Reorganisation are in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in the favour of the relevant resolutions to be proposed at the SGM.

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## LETTER FROM THE BOARD

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### ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendations regarding the resolutions to be proposed at the SGM to approve the Restructuring and the Share Swap Amendments; (ii) the letter from Altus, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice in respect of the Restructuring and the Share Swap Amendments; and (iii) the further information set out in the appendices to this circular including the pro forma financial information of the Company.

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

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LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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8th November, 2004

*To the Independent Shareholders*

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
DEBT RESTRUCTURING WHICH INVOLVES,  
AMONG OTHER THINGS, THE SETTLEMENT AND  
RESTRUCTURING OF INDEBTEDNESS THROUGH  
ISSUE OF CONVERTIBLE PREFERENCE SHARES BY THE COMPANY AND  
TRANSFER OF A MINORITY PART OF THE PALIBURG ORDINARY SHARES  
HELD BY THE COMPANY**

**AND**

**CONNECTED TRANSACTION  
THE SHARE SWAP AMENDMENTS**

The Independent Board Committee refers to the circular issued by Century City International Holdings Limited to its shareholders dated 8th November, 2004 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

The Independent Board Committee has been established to consider the terms and conditions of the Restructuring and the Share Swap Amendments, and to advise you in connection therewith. Altus has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The Independent Board Committee wishes to draw your attention to the “Letter from the Board”, as set out on pages 5 to 26 of the Circular, which sets out, among other things, information relating to and the reasons for the Restructuring and the Share Swap Amendments, and the letter from Altus which contains its advice to the Independent Board Committee in respect of the Restructuring and the Share Swap Amendments as set out on pages 29 to 42 of the Circular.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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The Independent Board Committee has considered the principal factors taken into account by Altus in arriving at its opinion regarding the Restructuring and the Share Swap Amendments as set out in its letter. The Independent Board Committee considers that the terms of the Restructuring and the Share Swap Amendments are fair and reasonable as far as the interests of the Independent Shareholders are concerned and the Restructuring and the Share Swap Amendments are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions as set out in the notice of SGM on pages 197 to 200 of the Circular.

Yours faithfully,

**Mr. Anthony Chuang**

**Mr. Ng Siu Chan**

**Mr. Wong Chi Keung**

*Independent Board Committee*

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## LETTER FROM ALTUS

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*The following is the full text of the letter of advice from Altus to the Independent Board Committee and Independent Shareholders of the Company prepared for inclusion in this circular.*

### **ALTUS CAPITAL LIMITED**

8/F Hong Kong Diamond Exchange Building  
8 Duddell Street, Central  
Hong Kong

*To the Independent Board Committee and Independent Shareholders of*  
**Century City International Holdings Limited**

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

8th November, 2004

Dear Sirs,

**MAJOR AND CONNECTED TRANSACTION  
DEBT RESTRUCTURING WHICH INVOLVES,  
AMONG OTHER THINGS, THE SETTLEMENT AND  
RESTRUCTURING OF INDEBTEDNESS THROUGH  
ISSUE OF CONVERTIBLE PREFERENCE SHARES BY THE COMPANY  
AND TRANSFER OF A MINORITY PART OF THE PALIBURG  
ORDINARY SHARES HELD BY THE COMPANY**

**AND**

**CONNECTED TRANSACTION  
THE SHARE SWAP AMENDMENTS**

### **INTRODUCTION**

We refer to the circular to the Shareholders dated 8th November, 2004 (the “Circular”) issued by the Company of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in respect of the Restructuring and the Share Swap Amendments pursuant to the Fifth Supplemental Agreement, the details of which are set out in the Letter from the Board contained in the Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

In order to facilitate the Restructuring, Mr. Lo, a connected person of the Company, has agreed to provide personal guarantee in favour of one of the Creditors with respect to the Secured Bilateral Loan to be granted by that Creditor to the Group under the Restructuring. That Creditor is therefore deemed to be a connected person of the Company for the purpose of this transaction under the Listing Rules and as a result, the Restructuring constitutes a connected transaction of the Company.

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## LETTER FROM ALTUS

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As the Restructuring entails possible disposal by the Group of part of its interests in Paliburg, the Restructuring also constitutes a major transaction for the Company under the Listing Rules.

The Share Swap, which constituted a major and connected transaction for the Company, was approved by the then independent shareholders of the Company on 16th October, 2002. The Fifth Supplemental Agreement has been entered into to give effect to the Share Swap Amendments which are required in order to facilitate the Restructuring. The proposed Share Swap Amendments pursuant to the Fifth Supplemental Agreement constitute another connected transaction for the Company under the Listing Rules and are thus subject to approval by the Independent Shareholders.

Approvals of the Independent Shareholders are therefore required for the Restructuring and the Share Swap Amendments. Mr. Lo, the Creditors and their respective associates will abstain from voting at the SGM in respect of the relevant resolutions.

The Restructuring is conditional upon, among others, the effecting of the Share Swap Amendments pursuant to the Fifth Supplemental Agreement, and the Restructuring will not proceed otherwise. Similarly, the Share Swap Amendments will not be effected in the absence of the Restructuring. Consequently, the Restructuring and the Share Swap Amendments will only take place upon the implementation of the other or vice versa.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Restructuring and the Share Swap Amendments are fair and reasonable so far as the Independent Shareholders are concerned. The Independent Board Committee comprises Mr. Anthony Chuang, Mr. Ng Siu Chan and Mr. Wong Chi Keung, all of whom are independent non-executive Directors.

### **BASIS OF OUR OPINION**

In formulating our opinions, we have relied to a considerable extent on the information, statements, opinions and representations supplied to us by the Company and its executive Directors and we have assumed that all such information, statements, opinions and representations contained or referred to in the Circular were true and accurate and complete in all material respects at the time they were made and continue to be true at the date of the Circular, and we have relied on the same. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the Letter from the Board in the Circular were reasonably made after due and careful inquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Circular. We have also discussed with the executive Directors of the Company their plans for the Company and the prospects of the businesses of the Company.

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Restructuring and the proposed Share Swap Amendments and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information which is known to the Company have been omitted or withheld from the information supplied or opinions

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## LETTER FROM ALTUS

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expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by the Company and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the executive Directors, nor have we conducted an independent in-depth investigation into the business and affairs of the Company or any of their respective subsidiaries or associates.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### (A) **The Restructuring**

We have considered the following principal factors and reasons in arriving at our recommendation in respect of the terms of the Restructuring:

##### 1. *Background*

The Group has had liquidity problems since late 1998 and the unaudited balance of bank loans and other borrowings of the Group as at 30th June, 2004 amounted to approximately HK\$1,790.7 million (of which the Indebtedness as at 30th June, 2004 and the relevant accrued interest from 1st July, 2002 to 30th June, 2004 were HK\$1,548.1 million and HK\$242.6 million, respectively). Repayment of the Indebtedness has been suspended and is subject to an informal standstill arrangement.

Upon completion of the Restructuring, details of which are set out in the Letter from the Board, the entire Indebtedness will be settled and restructured and the interest in respect of the Indebtedness accrued but unpaid from 1st July, 2002 till completion of the Restructuring (and the relevant amount accrued from 1st July, 2002 to 30th June, 2004 amounted to approximately HK\$242.6 million) will be waived by the Creditors.

##### 2. *The Restructuring*

Under the Restructuring, the Creditors have been given the option to choose from a combination of (i) Preference Shares, (ii) Secured Bilateral Loans and the Exchangeable Notes, and (iii) certain Paliburg Ordinary Shares held by the Group, in settlement of their attributable portions of the Indebtedness.

###### (i) *Preference Shares*

A total of HK\$1,380.4 million of the Indebtedness will be settled by the issue of three series of Preference Shares by the Company to the Creditors. All three series rank *pari passu* with each other, are non-voting and rank in priority to the Ordinary Shares on a return of capital of the Company. Details of the Preference Shares can be found in the Letter from the Board and in Appendix III to the Circular.

Holders of Series A Shares have the option to sell back to the Company their Series A Shares at a consideration of HK\$0.01 per Series A Share. Certain Creditors have confirmed their irrevocable elections to sell back to the Company approximately 392.7 million Series A Shares

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## LETTER FROM ALTUS

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on completion of the Restructuring. Consequently, the Company will be required to pay these Creditors a sum of approximately HK\$3.9 million on completion of the Restructuring, as those Series A Shares will be sold back to the Company upon issuance. Furthermore, if holders of the Series A Shares decide to sell back all the remaining Series A Shares to be issued to them upon their maturity, which is one year after their issuance, the Company will then be required to pay an additional sum of up to approximately HK\$38.3 million. The executive Directors have informed us that such sum will be financed through various possible methods including equity fund raising exercises, disposal of assets and loan financing in due course.

(ii) *Secured Bilateral Loans and Exchangeable Notes*

Part of the Indebtedness in an aggregate amount of approximately HK\$79.4 million will be refinanced as Secured Bilateral Loans for a term of two years. Such loans will be secured by Paliburg Ordinary Shares and will not be freely assignable.

Out of the total amount of the Secured Bilateral Loans, the Group and certain lenders (the “Relevant Lender(s)”) who together will provide approximately HK\$13.8 million of such loans have agreed that the Group may prepay any part of such Secured Bilateral Loans at 130% of the relevant principal amount plus 100% of the accrued but unpaid interest. At the time of prepayment or on final repayment upon maturity, the Relevant Lenders may choose to receive Paliburg Ordinary Shares at a price of HK\$0.10 each for the settlement of the relevant amount in lieu of cash payments. The lender of the remaining Secured Bilateral Loan of approximately HK\$65.6 million does not have the right to elect for Paliburg Ordinary Shares in lieu of cash prepayment or repayment.

Exchangeable Notes with an aggregate principal amount of approximately HK\$13.8 million, which are for a term of two years and exchangeable into Paliburg Ordinary Shares at an initial exchange price of HK\$0.25 per Paliburg Ordinary Share, will also be issued by the Group to certain Creditors upon completion of the Restructuring.

Such Exchangeable Notes will not bear any interest and will only be exchanged into Paliburg Ordinary Shares upon maturity on a mandatory basis. The holders of such notes will not be entitled to demand cash repayment from the Group.

(iii) *Transfer of Paliburg Ordinary Shares*

Pursuant to the Master Restructuring Agreement, a total of approximately 572.8 million Paliburg Ordinary Shares, representing approximately 8.3% of the issued ordinary share capital of the Paliburg as at the Latest Practicable Date, will be transferred to certain Creditors at a consideration of HK\$0.13 per Paliburg Ordinary Share upon completion of the Restructuring. The relevant Creditors have undertaken not to dispose of their beneficial interests in such Paliburg Ordinary Shares within three months after completion of the Restructuring.

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## LETTER FROM ALTUS

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### 3. *Financial effects of the Restructuring*

#### a) *Net asset value and earnings*

Based on the interim financial statements of the Company for the six months ended 30th June, 2004, the Company had an unaudited consolidated net deficiency in assets of approximately HK\$909.8 million as at 30th June, 2004.

Interest in respect of the Indebtedness accrued and unpaid from 1st July, 2002 till completion of the Restructuring (and the relevant amount accrued from 1st July, 2002 to 30th June, 2004 amounted to approximately HK\$242.6 million) will be waived by the Creditors upon completion of the Restructuring. The Group will therefore record a gain of approximately HK\$242.6 million as such unpaid interests was previously recorded as expenses in the profit and loss accounts of the Group. Based on the pro forma financial information set out in Appendix I to the Circular, the Century Group's financial position would significantly improve from an unaudited consolidated net deficiency in assets of HK\$909.8 million as at 30th June, 2004 to an unaudited pro forma consolidated net asset value of HK\$709.3 million upon the successful implementation of the Restructuring and may further improve to HK\$1,811.3 million when the rights to put under the Share Swap are exercised in full.

In our view, the financial position of the Group, as well as the Century Group as a whole, will improve following completion of the Restructuring.

#### b) *Working capital*

Repayment of the Indebtedness has been suspended under an informal standstill arrangement pending the Restructuring but the Indebtedness is otherwise repayable on demand. The terms of the Restructuring will substantially reduce the Group's immediate cash requirements for the repayment of debts. As discussed in the paragraph headed "Preference Shares" above, the Company will be required to make a cash payment of approximately HK\$3.9 million to the holders of Series A Shares who have confirmed that they would sell back part of their Series A Shares to the Company upon completion of the Restructuring. The executive Directors have informed us that the payment of approximately HK\$3.9 million will be financed by internal resources of the Group and such payment is not likely to have any material impact on the financial position of the Group immediately after the Restructuring.

The Company may also be required to pay up to a maximum of approximately HK\$38.3 million in cash one year after the date the Series A Shares are issued if the holders of the Series A Shares elect to sell back all the remaining Series A Shares to be held by them at HK\$0.01 per Series A Shares. In addition, approximately HK\$65.6 million of the Secured Bilateral Loans will be repayable two years after completion of the Restructuring and up to approximately HK\$13.8 million may be repayable in cash if the Relevant Lenders do not opt for Paliburg Ordinary Shares in lieu of cash repayment.

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## LETTER FROM ALTUS

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The above payments reflect a significant reduction in the cash flow requirements on the part of the Company compared with that prior to the Restructuring. The executive Directors have informed us that portion of the aforesaid payment requirements will be financed out of the Group's internal resources and the balance to be financed through various possible methods including equity fund raising exercises, disposal of assets and loan financing in due course.

c) *Indebtedness and gearing*

Out of the Indebtedness of approximately HK\$1,548.1 million, approximately HK\$79.4 million will be refinanced by the Secured Bilateral Loans and approximately HK\$13.8 million will be restructured into the Exchangeable Notes. The balance of the Indebtedness of approximately HK\$1,454.9 million and the accrued but unpaid interest of approximately HK\$242.6 million will be settled and waived respectively. Accordingly, as discussed in sub-paragraph headed "Net asset value and earnings" above, the financial position of the Group will improve from an unaudited consolidated net deficiency in assets of HK\$909.8 million as at 30th June, 2004 to an unaudited pro forma consolidated net asset value of HK\$709.3 million immediately after the Restructuring.

We wish to point out from the above that after the Restructuring, the financial position of the Group will improve from a net deficiency in assets to a net asset position and that its indebtedness will be significantly reduced, which in turn, will result in an improved gearing position.

4. *Transfer of shareholding in Paliburg*

As a result of the Restructuring, a maximum number of approximately 765.7 million Paliburg Ordinary Shares may be transferred to the Creditors, the lenders under the Secured Bilateral Loans and the holders of the Exchangeable Notes. The table below sets out the shareholding structure of Paliburg (1) as at the Latest Practicable Date (column 1), (2) immediately after completion of the Restructuring and assuming that the Second Vendor has exercised the exchange rights attaching to the EPSs in full (column 2), (3) immediately after completion of the Restructuring and assuming that the Second Vendor has not exercised the exchange rights attaching to the EPSs (column 3), (4) after completion of the Restructuring, the exercise of the exchange rights attaching to the Exchangeable Notes in full, and assuming that the Second Vendor has exercised the exchange rights attaching to the EPSs in full, Mr. Lo acquires the Secured Bilateral Loan of approximately HK\$12.4 million from the relevant Creditor pursuant to the guarantee arrangement between Mr. Lo and that Creditor, all the relevant Secured Bilateral Loans will be settled by the transfer of Paliburg Ordinary Shares and there are no other changes in the shareholding structure of Paliburg (column 4), and (5) after completion of the

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## LETTER FROM ALTUS

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Restructuring and based on the same assumptions as in scenario 4 except that the Second Vendor has not exercised the exchange rights attaching to the EPSs (column 5):

	Column 1		Column 2		Column 3		Column 4		Column 5	
	<i>number</i>		<i>number</i>		<i>number</i>		<i>number</i>		<i>number</i>	
	<i>(million)</i>	<i>% (million)</i>	<i>(million)</i>	<i>%</i>						
The Group	4,516.8	65.4%	3,866.5	56.0%	3,944.0	57.1%	3,673.6	53.2%	3,751.1	54.3%
Mr. Lo and his associates	307.3	4.4%	384.8	5.5%	307.3	4.4%	533.4	7.7%	455.9	6.6%
Other directors of the Company and Paliburg	0.8	0.0%	0.8	0.0%	0.8	0.0%	0.8	0.0%	0.8	0.0%
Creditors	—	—	572.8	8.3%	572.8	8.3%	617.1	8.9%	617.1	8.9%
Public	<u>2,083.6</u>	<u>30.2%</u>	<u>2,083.6</u>	<u>30.2%</u>	<u>2,083.6</u>	<u>30.2%</u>	<u>2,083.6</u>	<u>30.2%</u>	<u>2,083.6</u>	<u>30.2%</u>
Total	<u>6,908.5</u>	<u>100.0%</u>	<u>6,908.5</u>	<u>100.0%</u>	<u>6,908.5</u>	<u>100.0%</u>	<u>6,908.5</u>	<u>100.0%</u>	<u>6,908.5</u>	<u>100.0%</u>
Total public float	<u>2,083.6</u>	<u>30.2%</u>	<u>2,656.4</u>	<u>38.5%</u>	<u>2,656.4</u>	<u>38.5%</u>	<u>2,700.7</u>	<u>39.1%</u>	<u>2,700.7</u>	<u>39.1%</u>

As at the Latest Practicable Date, the Group had shareholding interest and voting control over approximately 4,516.8 million Paliburg Ordinary Shares, representing approximately 65.4% of the issued ordinary share capital of Paliburg. Of the 4,516.8 million Paliburg Ordinary Shares, approximately 2,011.8 million Paliburg Ordinary Shares, representing approximately 29.1% of the issued ordinary share capital of Paliburg, were beneficially held by the Group, while 2,505 million Paliburg Ordinary Shares, representing approximately 36.3% of the issued ordinary share capital of Paliburg, were held by the Group but were subject to the exchange rights attaching to the issued and outstanding 10,020 million EPSs held by the First Vendor and the Second Vendor. Consequently, the current economic interest of the Group in Paliburg is 29.1%. However, such economic interest of the Group in Paliburg will increase from approximately 29.1% to approximately 53.2% or 54.3% under scenarios 4 and 5 respectively as a result of the Share Swap (as amended pursuant to the Share Swap Amendments) and the completion of the Restructuring.

The transfer of the Group's minority part of the shareholding in Paliburg is part of the terms of the Restructuring for the Group to settle part of the Indebtedness. Notwithstanding the decrease in shareholding of the Company in Paliburg following such disposal, the Company's shareholding interest in Paliburg will continue to be more than 50% in each of the scenario described above. Consequently, Paliburg will remain a subsidiary of the Group after the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments). We are therefore of the view that the transfer of shareholding in Paliburg is acceptable, fair and reasonable as far as the Company, the Independent Shareholders and the Shareholders as a whole are concerned.

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## LETTER FROM ALTUS

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### 5. *Dilution effects on the existing public Shareholders*

	Column 1		Column 2		Column 3		Column 4		Column 5	
	<i>Number</i> <i>(million)</i>	<i>%</i>								
Mr. Lo and his associates	3,481.8	54.4%	13,501.8	56.8%	13,501.8	67.7%	13,501.8	68.7%	13,501.8	82.2%
Other directors of the Company and Paliburg	17.1	0.3%	17.1	0.1%	17.1	0.1%	17.1	0.1%	17.1	0.1%
Creditors	—	—	7,356.6	30.9%	3,527.0	17.7%	3,249.5	16.5%	—	—
Public	<u>2,897.9</u>	<u>45.3%</u>	<u>2,897.9</u>	<u>12.2%</u>	<u>2,897.9</u>	<u>14.5%</u>	<u>2,897.9</u>	<u>14.7%</u>	<u>2,897.9</u>	<u>17.7%</u>
	<u>6,396.8</u>	<u>100.0%</u>	<u>23,773.4</u>	<u>100.0%</u>	<u>19,943.8</u>	<u>100.0%</u>	<u>19,666.3</u>	<u>100.0%</u>	<u>16,416.8</u>	<u>100.0%</u>
Total public float <i>(Notes)</i>	<u>2,897.9</u>	<u>45.3%</u>	<u>7,603.0</u>	<u>31.9%</u>	<u>3,773.4</u>	<u>18.9%</u>	<u>3,495.9</u>	<u>17.7%</u>	<u>2,897.9</u>	<u>17.7%</u>

*Column 1:* As at the Latest Practicable Date.

*Column 2:* Assuming all the Preference Shares (after netting off the 392.7 million Series A Shares which will be sold back to the Company) are converted in full and the rights to put under the Share Swap are exercised in full.

*Column 3:* Assuming all the Series A Shares are redeemed and all the Series B Shares and Series C Shares are converted, and the rights to put under the Share Swap are exercised in full.

*Column 4:* Assuming all the Series A Shares and Series B Shares are redeemed and all the Series C Shares are converted, and the rights to put under the Share Swap are exercised in full.

*Column 5:* Assuming all the Series A Shares, Series B Shares and Series C Shares are redeemed and the rights to put under the Share Swap are exercised in full.

*Notes:*

- The above table is prepared on the assumptions that the exchange rights attaching to all the outstanding 310 million Series B EPSs will not be exercised and assuming that there are no other changes in the shareholding structure of the Company save as stated above. If the Second Vendor exercises the exchange rights attaching to the 310 million Series B EPSs, under scenarios 2, 3, 4 and 5, the aggregate shareholding interest of Mr. Lo and his associates in the Company will be approximately 56.2%, approximately 67.2%, approximately 68.2% and approximately 81.9% respectively and the total public float of the Company will become approximately 32.4%, approximately 19.2%, approximately 18.1% and approximately 18.0% respectively.
- Based on the current shareholding structure of the Company and the terms of the Restructuring, and assuming that there will be no other changes in the shareholding structure of the Company, upon conversion of the Preference Shares and the exercise of the rights to put under the Share Swap in full, one of the Creditors will become a substantial shareholder of the Company holding approximately 11.2% (under scenario 2), approximately 13.3% (under scenario 3) and approximately 13.5% (under scenario 4) of the enlarged issued ordinary share capital of the Company. All the other Creditors should be regarded as public shareholders of the Company.

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## LETTER FROM ALTUS

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The table above illustrates the dilution effects on the shareholdings in the Company of the existing Shareholders under various assumptions of conversion and redemption of the Preference Shares and the exercise of the rights to put attaching to the Series B EPSs under the Share Swap. It can be seen that the shareholding interest of the existing public Shareholders in the Ordinary Shares under certain scenario may decrease from approximately 45.3% as at the Latest Practicable Date to as low as approximately 12.2%.

The Group does not have sufficient financial resources to meet the repayments of all the Indebtedness. The Group has begun negotiations with the Creditors since October 1998 in order to reach a consensual financial restructuring. If the negotiations were unsuccessful, the Group may face the risks of possible liquidation in the worst-case scenario. Under such circumstances, the Shareholders' investment in the Company will be adversely affected. Whilst the Restructuring will result in the dilution as described above, it will significantly improve the financial position of the Group after implementing of the Restructuring as discussed in the paragraph headed "Net asset value and earnings" above.

### 6. *Personal guarantee by Mr. Lo*

At the request of one of the Relevant Lenders, Mr. Lo has agreed to provide a personal guarantee in favour of such Relevant Lender in respect of its Secured Bilateral Loan in the principal amount of approximately HK\$12.4 million in order to facilitate the Restructuring. Under the terms of this personal guarantee arrangement, such Relevant Lender will grant to Mr. Lo the right to purchase or procure the purchase of its Secured Bilateral Loan (including (i) the 309.5 million Paliburg Ordinary Shares to be pledged as collateral for the Secured Bilateral Loan; and (ii) the option to receive 123.8 million Paliburg Ordinary Shares in lieu of cash prepayment or repayment of the Secured Bilateral Loan) at the principal amount of approximately HK\$12.4 million plus any accrued but unpaid interest at any time within two years from completion of the Restructuring. Pursuant to the guarantee arrangement, if Mr. Lo acquires the Secured Bilateral Loan from this Relevant Lender, it also will transfer to Mr. Lo certain of the Exchangeable Notes (which amounts to approximately HK\$6.2 million and carries the right to exchange into approximately 24.8 million Paliburg Ordinary Shares based on the initial exchange price of HK\$0.25 per Paliburg Ordinary Share) to be issued to it.

We have been informed by the Company that the personal guarantee was specifically requested by this Relevant Lender and none of the other relevant Creditor had made the same request. As the Restructuring requires the consent of all the Creditors, Mr. Lo has acceded to this specific request in order to facilitate the Restructuring. We noted that the personal guarantee arrangement above does not result in the Company incurring any additional cost or liability and has no additional impact on the Company's financial position. It also does not have any impact on the Independent Shareholders' shareholding interests in the Company. Based on the foregoing, we consider such arrangement to be fair and reasonable to the Company, the Independent Shareholders and the Shareholders as a whole and is necessary for the implementation of the Restructuring.

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## LETTER FROM ALTUS

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### 7. *Conclusion*

In summary, approximately HK\$79.4 million of the total Indebtedness of about HK\$1,548.1 million will be refinanced into the Secured Bilateral Loans. The remaining balance of the Indebtedness and the accrued but unpaid interests of HK\$242.6 million will be settled and waived respectively upon completion of the Restructuring.

We noted that although the Restructuring may result in a reduction in the Company's shareholding interest in Paliburg, its economic interest in Paliburg will increase upon completion of the Restructuring. While the shareholdings in the Company of existing Shareholders may be diluted as a result of the Restructuring, it allows the Group to solve the liquidity problem it has encountered since October 1998 and to settle the Indebtedness that it otherwise does not have the financial resources to repay. The Restructuring would therefore result in significantly improved financial and working capital positions of the Group.

We are of the view that the successful implementation of the Restructuring would enable the management, who has had to devote much time in dealing with issues associated with the Indebtedness and conducting negotiations with the Creditors, to focus on the Group's future business development.

### **(B) The Share Swap Amendments Pursuant to the Fifth Supplemental Agreement**

### 8. *The Share Swap and the Fifth Supplemental Agreement*

The Share Swap, which constituted a major and connected transaction for the Company, was approved by the then independent shareholders of the Company on 16th October, 2002 at a special general meeting of the Company. The Fifth Supplemental Agreement has been entered into to give effect to the Share Swap Amendments which are required in order to facilitate the Restructuring.

Details of the Share Swap were set out in the announcement of the Company dated 2nd August, 2002 and the circular of the Company dated 26th August, 2002. A summary of the principal terms of the Share Swap has been set out in the Letter from the Board.

Under the Share Swap, every four EPSs entitle their holder the right to exchange into one Paliburg Ordinary Share. In addition, the First Vendor has been given the right to acquire the entire issued ordinary share capital of Almighty back from the Company if certain material adverse conditions occur in relation to the financial position of the Group. Consequently, Paliburg would cease to be a subsidiary of the Group if:

- (a) the exchange rights attaching to the EPSs are exercised in full into Paliburg Ordinary Shares; and/or
- (b) the entire issued ordinary share capital of Almighty is transferred back to the First Vendor pursuant to the repurchase right given to the First Vendor.

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## LETTER FROM ALTUS

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### 9. *Reasons for the Share Swap Amendments*

As part of the Restructuring, a maximum of approximately 765.7 million Paliburg Ordinary Shares may be transferred to the Creditors, the lenders of the Secured Bilateral Loans and the holders of the Exchangeable Notes. For completion of the Restructuring, the Group is required to have sufficient Paliburg Ordinary Shares to facilitate the implementation of the Restructuring. Certain amendments to the Share Swap are also required to assist in the monitoring of the Company's public float as further discussed below.

The Fifth Supplemental Agreement was therefore entered into on 5th November, 2004 to give effect to the Share Swap Amendments, a summary of which is set out below, subject to the completion of the Restructuring and approval from the Independent Shareholders:

- (a) the exchange rights attaching to the outstanding EPSs shall lapse and be cancelled and Almighty shall become the absolute legal and beneficial owner of all the Paliburg Ordinary Shares then held by it;
- (b) the rights to call granted to the Company shall lapse and be cancelled;
- (c) the repurchase right in respect of the entire issued ordinary share capital of Almighty given to the First Vendor shall lapse and be cancelled;
- (d) the period for the rights to put shall be extended to the fifth anniversary from the date of completion of the Restructuring and the rights to put shall be exercisable on one or more occasions at the discretion of the holders of the EPSs, and upon the expiry date, all the rights to put attached to any remaining outstanding EPSs will be exercised on a mandatory basis; and
- (e) the EPSs shall effectively rank *pari passu* with the Preference Shares and shall be granted the same pre-emptive rights as those under the terms of the Series C Shares.

We have considered the effects of each of the proposed amendments above.

#### *Amendments (a) and (c)*

Upon amendment set out in (a) above, holders of the EPSs will no longer have the right to exchange the EPSs into Paliburg Ordinary Shares. We wish to point out that this ensure Almighty to become the absolute legal and beneficial owner of all the Paliburg Ordinary Shares then held by it, which is required under the terms and conditions of the Restructuring.

The amendment set out in (c) above will result in the First Vendor no longer having the right to repurchase Almighty and thus the Group becoming the absolute legal and beneficial owner of Almighty which is required under the terms and conditions of the Restructuring.

The above amendments would facilitate the Restructuring which, as previously discussed, is beneficial to the Company. We are therefore of the view that the above amendments are in the interest of the Company, the Independent Shareholders and the Shareholders as a whole.

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## LETTER FROM ALTUS

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### *Amendment (b)*

Upon amendment of (b) above, the Company will no longer have the right to acquire the Series A EPSs in return for the issue of one Ordinary Share for each Series A EPS so acquired.

Prior to the amendment of this term, the Company has the rights to call in respect of the Series A EPSs, which provides a mechanism for the Company to maintain control of Paliburg, but the Company can only exercise such rights to call if a satisfactory financial restructuring has been successfully implemented. Pursuant to the amendment set out in (a) above, the EPS holders will no longer have the rights to exchange for Paliburg Ordinary Shares and the objective of the Group becoming the absolute legal and beneficial owner of all the Paliburg Ordinary Shares then held by Almighty is already achieved. Consequently, such rights to call for acquiring the Series A EPSs are no longer necessary from the Company's point of view.

We wish to point out that the effect of the amendment will then be that the holders of the EPS may increase their shareholding in the Company at their own discretion and timing by exercising the right to put, subject to the undertaking provided by Mr. Lo to the Stock Exchange as further discussed below. We are of the view that this amendment has no material impact on the Company.

### *Amendment (d)*

The amendment set out in (d), together with the amendment set out in (b) above, will effectively allow the First Vendor a period of five years from the date of completion of the Restructuring to exercise the rights to put at its discretion and timing.

As shown in the table in the section headed "Dilution effects on the existing public Shareholders" above, the shareholding of Mr. Lo and his associates in the Company may increase beyond 75% under scenario 5. This will cause less than 25% of the issued Ordinary Shares being held by the public, resulting in the Company not being able to comply with the public float requirements under Rule 8.08 of the Listing Rules.

The proposed five-year exercise period of the rights to put coincides with the longest conversion period of the Preference Shares. Such amendment will allow the First Vendor, which is a company controlled by Mr. Lo, to monitor the level of conversion of the Preference Shares and the public float of the Company from time to time. We noted that Mr. Lo has undertaken to the Stock Exchange that he will not cause the public float of the Company to fall below the minimum public float required by the Listing Rules as a result of exercising the rights to put attached to the EPSs owned by him and his associates. This amendment serves to facilitate the Restructuring and the compliance with the Listing Rules. We are therefore of the view that such amendment is in the interest of the Company, the Independent Shareholders and the Shareholders as a whole.

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## LETTER FROM ALTUS

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### *Amendment (e)*

Under this term, the EPSs shall effectively rank pari passu with the Preference Shares, providing their holders with the same rights as those of the Preference Shares. In addition, holders of the EPS will have the pre-emptive rights to subscribe for such number of Ordinary Shares or securities on substantially the same terms if the Company proposes to issue any new Ordinary Shares or securities convertible into new Ordinary Shares, such that their interests in the Company shall remain unchanged on a fully diluted basis.

Amendments set out in (a) and (c) above are required under the terms of the Restructuring and to facilitate its implementation. Holders of the EPSs have agreed to the cancellation of the exchange rights as set out in (a) above and the First Vendor, a holder of the EPSs, has also agreed to the cancellation of the repurchase right in respect of the entire issued ordinary share capital of Almighty as set out in (c) above in accordance with the terms and conditions of the Share Swap Amendments. In addition, Mr. Lo's undertaking to the Stock Exchange in respect of the maintenance of public float discussed above may restrict the holders of the EPSs from exercising their rights to put which in turn may prejudice their rights towards dividend payments or participation in equity issues by the Company, if any.

Given the above and considering the benefits of the Restructuring from an overall perspective, we believe that it is fair and reasonable that the EPSs rank pari passu with the Preference Shares and that the holders of EPSs be granted the pre-emptive rights, which are substantially the same as those to be granted to those of the Series C Shares, in exchange for them giving up their rights as set out in (a) and (c) above. We are of the view that the amendment has no material impact on the Company.

In summary, the Share Swap Amendments pursuant to the Fifth Supplemental Agreement are required principally to facilitate and satisfy the conditions of the Restructuring, which, in our view, is important and beneficial to the Company. The Restructuring, the implementation of which would improve the Company's financial position from that of an unaudited consolidated net deficiency in assets of approximately HK\$909.8 million as at 30th June, 2004 to an unaudited pro forma consolidated net asset value of about HK\$709.3 million immediately after the Restructuring, will not be possible in the absence of the Share Swap Amendments. Based on the foregoing, we are of the view that the Share Swap Amendments are fair and reasonable as far as the Company, the Independent Shareholders and the Shareholders as a whole are concerned.

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## LETTER FROM ALTUS

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### RECOMMENDATION

Having considered the factors in this letter and taken into account the current financial position of the Group, we believe that the Restructuring will significantly alleviate the current financial difficulties faced by the Group and strengthen its overall working capital position. Meanwhile, the Share Swap Amendments pursuant to the Fifth Supplemental Agreement are required in order to facilitate the successful implementation of the Restructuring. In the absence of the Share Swap Amendments, certain conditions of the Restructuring will not be met and the Group would not be able to proceed with the Restructuring. Similarly, if the Restructuring does not take place, the Share Swap Amendments will not be effected.

From the point of view of Independent Shareholders, while the Restructuring and the Share Swap Amendments may result in a reduction in the Company's shareholding interest in Paliburg, its economic interest in Paliburg will increase after the Restructuring. We also noted that while the shareholdings in the Company of existing Shareholders may reduce as a result of the Restructuring, the Independent Shareholders' interest after the Restructuring will be in a company, the financial position of which, has been significantly improved.

In summary, and in the absence of any alternative proposal with better terms and immediately available to Company, we consider that the terms of the Restructuring and Share Swap Amendments to be fair and reasonable to the Independent Shareholders as far as they are concerned and their implementations to be in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of all the relevant resolutions proposed at the SGM to approve the Restructuring and the Share Swap Amendments.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**  
**Arnold Ip**                      **Sean Pey, Chang**  
*Director*                                      *Director*

**A. UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The following is the unaudited pro forma adjusted consolidated net asset value statement of the Company prepared based on the consolidated net asset value of the Company as at 30th June, 2004 (being the date on which the most recent interim period of the Company ended) and assuming that the transactions contemplated under the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments) had taken place on 30th June, 2004. This unaudited pro forma adjusted consolidated net asset value statement of the Company does not take into account (a) any events or transactions which have occurred or taken place after 30th June, 2004 including the issue of 300 million new Paliburg Ordinary Shares in July 2004 and 310 million new Paliburg Ordinary Shares in October 2004, Regal Hotels International Holdings Limited ceasing to be a subsidiary of the Company in July 2004, the conversion of 300 million Paliburg Preference Shares in July 2004 and the remaining 940 million Paliburg Preference Shares in October 2004, the exercise of the rights to put in relation to the 500 million Series A EPSs and 500 million Series B EPSs in October 2004 and (b) the effects in relation to the possible exercise of the exchange rights attaching to the Series B EPSs prior to the completion of the Restructuring as well as the possible redemption of the Preference Shares and the possible election by the lenders of the approximately HK\$13.8 million Secured Bilateral Loans to receive Paliburg Ordinary Shares in lieu of cash prepayment or repayment after completion of the Restructuring.

This unaudited pro forma consolidated adjusted consolidated net asset value of the Company is prepared in accordance with the requirements under Rule 4.29 of the Listing Rules and is for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Company or the Century Group.

**Effects of the Restructuring and the Share Swap (as amended pursuant to the Share Swap Amendments) on the consolidated net asset value of the Company**

	Implementation of the Restructuring and the consolidation of the Paliburg Shares (as defined in note 1) held by Almighty as a result of the Share Swap (Transaction 1) <i>HK\$ (million)</i> <i>(Note 1)</i>	Exercise of the rights to put under the Share Swap in full (Transaction 2) <i>HK\$ (million)</i> <i>(Note 2)</i>	Immediately after Transaction 1 <i>HK\$ (million)</i>	Immediately after Transaction 2 <i>HK\$ (million)</i>	Settlement of the Secured Bilateral Loans and exercise of the Exchangeable Notes in full (Transaction 3) <i>HK\$ (million)</i> <i>(Note 3)</i>	Immediately after Transaction 3 <i>HK\$ (million)</i>
Total assets	10,107.0		10,567.8	10,567.8	(88.7)	10,479.1
Total liabilities	6,941.6		5,244.1	5,244.1	(93.2)	5,150.9
Minority interests	4,075.2	539.2	4,614.4	3,512.4	25.7	3,538.1
Net asset value	(909.8)		709.3	1,811.3		1,790.1

*Notes:*

1. (i) The total assets is adjusted by (a) decrease in cash of approximately HK\$3.9 million as a result of the redemption of the approximately 392.7 million Series A Shares upon completion of the Restructuring and (b) the increase in goodwill in Paliburg of approximately HK\$464.7 million as a result of the increase in economic interest in Paliburg after the Share Swap Amendments becoming effective and completion of the Restructuring.
  - (ii) The decrease in the liabilities of the Century Group comprises the following items:
 

	<i>HK\$ (million)</i>
The aggregate amount of the Indebtedness under the Restructuring	1,548.1
The aggregate accrued but unpaid interest in relation to the Indebtedness from 1st July, 2002 to 30th June, 2004 which will be waived by the Creditors upon completion of the Restructuring	242.6
The part of the Indebtedness which will be refinanced and restructured into the Secured Bilateral Loans and the Exchangeable Notes under the Restructuring	(93.2)
	<u>1,697.5</u>
  - (iii) The increase in minority interests is the net result of (a) the minority interest of HK\$1,102.0 million arising from the 11,020 million EPSs of HK\$0.10 each as a result of the consolidation of the Paliburg Ordinary Shares and Paliburg Preference Shares (collectively the "Paliburg Shares") held by Almighty, (b) the elimination of the minority interest of HK\$124.0 million arising in relation to the 1,240 million Paliburg Preference Shares of HK\$0.10 each, and (c) the net decrease in share of the consolidated net asset value of Paliburg by the minority shareholders of Paliburg by approximately HK\$438.8 million from approximately HK\$1,535.5 million to approximately HK\$1,096.7 million after the consolidation of the Paliburg Ordinary Shares held by Almighty and the transfer of the approximately 572.8 million Paliburg Ordinary Shares to certain Creditors upon completion of the Restructuring.
2. Being the elimination of the minority interests of HK\$1,102.0 million in relation to the 11,020 million EPSs of HK\$0.10 each after all the EPSs are acquired by the Company pursuant to the exercise of the rights to put under the Share Swap in full.
  3. With respect to the total assets, being the adjustments in respect of (i) the settlement of approximately HK\$79.4 million Secured Bilateral Loans by cash and the release in goodwill of approximately HK\$9.3 million upon transfer of approximately 55.1 million Paliburg Ordinary Shares as a result of the exchange of the Exchangeable Notes; with respect to the total liabilities, being the adjustments in respect of (i) the settlement of approximately HK\$79.4 million Secured Bilateral Loans and approximately HK\$13.8 million Exchangeable Notes; with respect to the minority interests, being the increase in share of the consolidated net asset value of Paliburg by the minority shareholders of Paliburg by approximately HK\$25.7 million from approximately HK\$1,096.7 million to approximately HK\$1,122.4 million as a result of the exchange of the Exchangeable Notes into approximately 55.1 million Paliburg Ordinary Shares.

**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

8th November, 2004

The Directors  
Century City International Holdings Limited  
18th Floor, 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”) (the “Pro Forma Financial Information”) set out on pages 43 and 44 of the circular of the Company dated 8th November, 2004 (the “Circular”) in connection with the debt restructuring which involves, among other things, the settlement and restructuring of indebtedness through issue of convertible preference shares by the Company and transfer of a minority part of the ordinary shares of Paliburg Holdings Limited held by the Company (the “Debt Restructuring”). The Pro Forma Financial Information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the transactions contemplated under the Debt Restructuring might have affected the financial information presented in respect of the Group.

The financial information used in the preparation of the Pro Forma Financial Information is derived from the unaudited interim report of the Group as at 30th June, 2004 dated 16th September, 2004 (the “Unaudited Financial Information”) included in the Circular. Further details of the basis of presentation of the Pro Forma Financial Information are set out in Section A of Appendix I to the Circular.

**Responsibilities of Directors and reporting accountants**

It is the responsibility solely of the Directors of the Company to prepare the 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 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 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 Unaudited Financial Information with the source documents, considering the evidence supporting the adjustments and discussing the 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 Institute of Certified Public Accountants and, accordingly, we do not express any such assurance on the Pro Forma Financial Information.

The Pro Forma Financial Information has been prepared on the bases, including the Company’s directors’ judgements and assumptions, set out on pages 43 and 44 of the Circular (the “Bases”) for illustrative purpose only, and, because of its nature, it may not be indicative of the financial position of the Group as at 30th June, 2004 or at any other future date.

**Opinion**

In our opinion:

- a. the Pro Forma Financial Information has been properly compiled by the Directors of the Company on the Bases stated;
- b. such Bases are consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the 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 Group as at 30th September, 2004.

As at the close of business on 30th September, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Century Group had outstanding borrowings (including all overdue interests payable on the borrowings of the Century Group) of approximately HK\$1,553,167,000, comprising:

- (1) secured bank loans of approximately HK\$672,984,000;
- (2) unsecured bank loans of approximately HK\$342,758,000;
- (3) secured other loans of approximately HK\$79,340,000; and
- (4) unsecured other loans of approximately HK\$458,085,000.

As at the close of business on 30th September, 2004, the Century Group had contingent liabilities in respect of guarantees for bank loans (including all overdue interests payable) made available to (i) a jointly controlled entity of its listed associated company of approximately HK\$348,822,000 and (ii) third parties of approximately HK\$362,348,000.

Save as disclosed above and apart from intra-group liabilities, the Century Group did not have, as at the close of business on 30th September, 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.

**B. WORKING CAPITAL**

The Directors are of the opinion that, on the basis that the Restructuring will be completed, and taking into account the Century Group's existing cash and bank balances as well as the present available banking facilities and other possible financing arrangements, including equity issues, the Century 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 Group since 31st December, 2003, the date to which the latest audited consolidated financial statements of the Century Group were made up.

**D. UNAUDITED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED  
30TH JUNE, 2004**

The following information is extracted from the interim report of the Company for the six months ended 30th June, 2004. Reference to page numbers is to the page numbers of the interim report and capitalised terms used herein are as defined in such interim report.

**Condensed Consolidated Profit and Loss Account**

	<i>Notes</i>	<b>Six months ended 30th June, 2004 (Unaudited) HK\$'million</b>	<b>Six months ended 30th June, 2003 (Unaudited) HK\$'million</b>
TURNOVER	3	570.4	396.1
Cost of sales		<u>(352.1)</u>	<u>(322.9)</u>
Gross profit		218.3	73.2
Other revenue	5	60.8	345.7
Administrative expenses		(40.0)	(48.2)
Other operating expenses, net	6	(72.3)	(40.9)
Loss on disposal of overseas subsidiary companies		—	(9.7)
Write-back of impairment of properties		—	39.6
Write-back of impairment of a hotel property		<u>165.8</u>	<u>—</u>
PROFIT FROM OPERATING ACTIVITIES	3	332.6	359.7
Finance costs	7	(105.1)	(149.8)
Share of profits less losses of:			
Jointly controlled entity		59.3	(0.1)
Associates		<u>(9.2)</u>	<u>(2.0)</u>
PROFIT BEFORE TAX		277.6	207.8
Tax	8	<u>(2.8)</u>	<u>48.9</u>
PROFIT BEFORE MINORITY INTERESTS		274.8	256.7
Minority interests		<u>(238.1)</u>	<u>26.4</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>36.7</u>	<u>283.1</u>
Earnings/(Loss) per share (HK\$):	9		
Basic		<u>0.007</u>	<u>0.074</u>
Diluted		<u>0.001</u>	<u>(0.003)</u>

## Condensed Consolidated Balance Sheet

		30th June, 2004 (Unaudited) HK\$'million	31st December, 2003 (Audited) HK\$'million
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		7,339.8	7,186.6
Goodwill		254.5	260.5
Negative goodwill		(57.9)	(15.1)
Properties under development		7.2	7.2
Property held for future development		26.7	26.7
Interest in a jointly controlled entity		1,391.4	1,298.6
Interests in associates		240.5	250.2
Long term investments	11	171.3	163.5
Loans and other long term receivable		106.0	109.1
Deferred tax assets		10.8	10.4
Deferred expenditure		33.6	38.7
Other assets		0.3	0.3
		<u>9,524.2</u>	<u>9,336.7</u>
<b>CURRENT ASSETS</b>			
Short term investments		18.1	18.1
Properties held for sale		203.4	215.1
Hotel and other inventories		22.7	23.0
Debtors, deposits and prepayments	12	134.8	131.8
Pledged time deposits		5.1	25.9
Time deposits		168.8	112.4
Cash and bank balances		29.9	30.1
		<u>582.8</u>	<u>556.4</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	13	723.0	725.3
Tax payable		19.1	16.0
Interest bearing bank and other borrowings		2,135.4	2,053.3
Deposits received		99.5	81.6
Provisions		371.2	355.4
		<u>3,348.2</u>	<u>3,231.6</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,765.4)</u>	<u>(2,675.2)</u>

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

		<b>30th June, 2004</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2003</b> <b>(Audited)</b> <i>HK\$'million</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,758.8</u>	<u>6,661.5</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,758.8	6,661.5
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings		(3,456.6)	(3,546.7)
Advances from minority shareholders of subsidiary companies		(42.4)	(42.4)
Deferred tax liabilities		(65.7)	(64.4)
Other payable		<u>(28.7)</u>	<u>(28.7)</u>
		(3,593.4)	(3,682.2)
Minority interests	14	<u>(4,075.2)</u>	<u>(3,712.2)</u>
		<u>(909.8)</u>	<u>(732.9)</u>
CAPITAL AND RESERVES			
Issued capital		539.7	539.7
Reserves		<u>(1,449.5)</u>	<u>(1,272.6)</u>
		<u>(909.8)</u>	<u>(732.9)</u>

**Condensed Consolidated Statement of Changes in Equity***For the six months ended 30th June, 2004*

	Share capital (Unaudited) <i>HK\$'million</i>	Share premium account (Unaudited) <i>HK\$'million</i>	Capital redemption reserve (Unaudited) <i>HK\$'million</i>	Capital reserve (Unaudited) <i>HK\$'million</i>	Revaluation reserves (Unaudited) <i>HK\$'million</i>	Exchange equalisation reserve (Unaudited) <i>HK\$'million</i>	Accumulated losses (Unaudited) <i>HK\$'million</i>	Total (Unaudited) <i>HK\$'million</i>
At 1st January, 2004	539.7	888.4	4.4	2,191.6	(5.9)	0.9	(4,352.0)	(732.9)
Movement in fair value of long term investments	—	—	—	—	1.3	—	—	1.3
Release on deemed disposal of the Group's interests in listed subsidiary companies	—	—	—	(215.9)	1.2	(0.2)	—	(214.9)
Net profit for the period	—	—	—	—	—	—	36.7	36.7
At 30th June, 2004	<u>539.7</u>	<u>888.4</u>	<u>4.4</u>	<u>1,975.7</u>	<u>(3.4)</u>	<u>0.7</u>	<u>(4,315.3)</u>	<u>(909.8)</u>

	Share capital (Unaudited) <i>HK\$'million</i>	Share premium account (Unaudited) <i>HK\$'million</i>	Capital redemption reserve (Unaudited) <i>HK\$'million</i>	Capital reserve (Unaudited) <i>HK\$'million</i>	Revaluation reserves (Unaudited) <i>HK\$'million</i>	Exchange equalisation reserve (Unaudited) <i>HK\$'million</i>	Accumulated losses (Unaudited) <i>HK\$'million</i>	Total (Unaudited) <i>HK\$'million</i>
At 1st January, 2003	381.7	888.4	4.4	2,980.3	(7.9)	(2.2)	(4,766.2)	(521.5)
Movement in fair value of long term investments	—	—	—	—	2.1	—	—	2.1
Release on deemed disposal of the Group's interests in listed subsidiary companies	—	—	—	(684.5)	2.2	0.5	—	(681.8)
Release on disposal of overseas subsidiary companies	—	—	—	(12.3)	—	—	—	(12.3)
Exchange realignments	—	—	—	—	—	3.0	—	3.0
Net profit for the period	—	—	—	—	—	—	283.1	283.1
At 30th June, 2003	<u>381.7</u>	<u>888.4</u>	<u>4.4</u>	<u>2,283.5</u>	<u>(3.6)</u>	<u>1.3</u>	<u>(4,483.1)</u>	<u>(927.4)</u>

**Condensed Consolidated Cash Flow Statement**

	<b>Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i></b>	<b>Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i></b>
Net cash inflow from operating activities	133.9	54.3
Net cash inflow/(outflow) from investing activities	(142.2)	16.0
Net cash inflow/(outflow) from financing activities	<u>64.2</u>	<u>(126.7)</u>
Net increase/(decrease) in cash and cash equivalents	55.9	(56.4)
Cash and cash equivalents at beginning of period	142.3	125.1
Effect of foreign exchange rate changes, net	<u>—</u>	<u>1.1</u>
Cash and cash equivalents at end of period	<u><u>198.2</u></u>	<u><u>69.8</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	29.9	59.4
Non-pledged time deposits with original maturity of less than three months when acquired	<u>168.8</u>	<u>12.8</u>
	198.7	72.2
Bank overdrafts	<u>(0.5)</u>	<u>(2.4)</u>
	<u><u>198.2</u></u>	<u><u>69.8</u></u>

**Notes to Condensed Consolidated Financial Statements****1. Accounting Policies**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group’s audited financial statements for the year ended 31st December, 2003.

**2. Basis of Presentation**

As previously reported, 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. 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 expects to finalise the detailed terms of the Debt Restructuring with its financial creditors in the near future.

On the basis that the CCIHL Group’s Debt Restructuring will be successful, the Directors are satisfied that it is appropriate to prepare the financial statements of the Group on a going concern basis.

**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, the leasing of office and commercial premises and the provision of estate agency services;
- (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 (the property management segment, which was previously separately disclosed as a business segment, was combined with the construction and building related segment in the current period in order to better reflect the performance of similar businesses within the Group);
- (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 comprises the Group's securities trading, laundry services, bakery operations and other investments.

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

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 table presents revenue and profit/(loss) information for the Group's business segments.

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003	Six months ended 30th June, 2004	2003
	HK\$'m		HK\$'m		HK\$'m		HK\$'m		HK\$'m		HK\$'m		HK\$'m	
Segment revenue:														
Sales to external customers	32.6	6.0	55.5	47.3	454.3	323.0	26.1	17.6	1.9	2.2	—	—	570.4	396.1
Intersegment sales	0.5	0.5	21.2	9.8	1.2	0.1	—	—	4.9	4.1	(27.8)	(14.5)	—	—
<b>Total</b>	<b>33.1</b>	<b>6.5</b>	<b>76.7</b>	<b>57.1</b>	<b>455.5</b>	<b>323.1</b>	<b>26.1</b>	<b>17.6</b>	<b>6.8</b>	<b>6.3</b>	<b>(27.8)</b>	<b>(14.5)</b>	<b>570.4</b>	<b>396.1</b>
Segment results	12.5	39.2	(0.9)	16.1	289.2	8.0	(0.1)	(3.9)	(2.1)	2.8	—	—	298.6	62.2
Interest income and unallocated non-operating and corporate gains													59.3	343.1
Unallocated non-operating and corporate expenses, net													(25.3)	(45.6)
Profit from operating activities													332.6	359.7
Finance costs													(105.1)	(149.8)
Share of profits less losses of:														
Jointly controlled entity	59.3	(0.1)	—	—	—	—	—	—	—	—	—	—	59.3	(0.1)
Associates	—	—	—	—	(0.2)	(0.5)	—	—	(9.0)	(1.5)	—	—	(9.2)	(2.0)
Profit before tax													277.6	207.8
Tax													(2.8)	48.9
Profit before minority interests													274.8	256.7
Minority interests													(238.1)	26.4
Net profit from ordinary activities attributable to shareholders													36.7	283.1

(b) *Geographical segments*

The following table presents revenue information for the Group's geographical segments.

**GROUP**

	Hong Kong		Mainland China		Canada		Eliminations		Consolidated	
	Six months ended 30th June, 2004 (Unaudited) HK\$m	2003 (Unaudited) HK\$m								
Segment revenue:										
Sales to external customers	544.1	346.2	26.3	17.7	—	32.2	—	—	570.4	396.1

(c) An analysis of profit on sale of investments or properties of the Group is as follows:

	<b>Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i></b>	<b>Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i></b>
Profit on disposal of listed investments	0.1	—
Profit on sale of properties	<u>8.8</u>	<u>—</u>

#### 4. Discontinued Operation

As previously reported, on 3rd September, 2002, Regal Hotels International Holdings Limited (“RHIHL”), a listed subsidiary company of the Company, and its subsidiary companies (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. 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 prior period’s consolidated profit and loss account. 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.

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

The turnover, expenses and results from the discontinued operation for the period from 1st January, 2003 to 25th June, 2003 (the date of completion of disposal of the Canadian hotel operation) were as follows:

	<b>Six months ended 30th June, 2003 (Unaudited) HK\$'million</b>
TURNOVER	32.2
Cost of sales	<u>(37.3)</u>
Gross loss	(5.1)
Administrative expenses	(1.9)
Other operating expenses	<u>(1.1)</u>
LOSS FROM OPERATING ACTIVITIES	(8.1)
Finance costs	<u>(4.2)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>(12.3)</u></u>

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

Operating	0.1
Investing	(0.3)
Financing	<u>(5.4)</u>
Net cash outflows	<u><u>(5.6)</u></u>

**5. Other Revenue**

Other revenue includes the following major items:

	<b>Six months ended 30th June, 2004 (Unaudited) HK\$'million</b>	<b>Six months ended 30th June, 2003 (Unaudited) HK\$'million</b>
Interest income	1.6	3.4
Dividend income	2.0	0.4
Gain on deemed disposal of the Group's interest in a listed subsidiary company	<u>55.7</u>	<u>337.4</u>

## 6. Other Operating Expenses, net

Other operating expenses, net, include the following major items:

	Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i>
Depreciation	20.4	21.7
Amortisation of goodwill	6.3	7.2
Loss on deemed disposal of the Group's interest in a listed subsidiary company	—	4.6
Termination fee in respect of cancellation of the disposal of a hotel property	<u>39.0</u>	<u>—</u>

## 7. Finance Costs

	Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i>
Interest on bank loans and overdrafts, convertible bonds, promissory notes and other loans wholly repayable within five years	99.9	146.7
Interest capitalised in respect of property development projects and construction contracts	<u>—</u>	<u>(0.4)</u>
	99.9	146.3
Amortisation of deferred expenditure	5.1	3.5
Other loan costs	<u>0.1</u>	<u>—</u>
Total finance costs	<u>105.1</u>	<u>149.8</u>

## 8. Tax

	Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i>
The Group:		
Provision for tax in respect of profits for the period:		
Hong Kong	1.8	1.4
Overseas	0.1	0.1
Deferred tax expenses/(income)	<u>0.9</u>	<u>(50.4)</u>
Tax charge/(credit) for the period	<u><u>2.8</u></u>	<u><u>(48.9)</u></u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2003 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Tax on the profits of subsidiary companies operating overseas is 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 associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period (2003 - Nil).

Deferred tax expenses/(income) have been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

## 9. Earnings/(Loss) Per Share

(a) *Basic earnings per share*

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$36.7 million (2003 - HK\$283.1 million) and on the weighted average of 5,396.8 million (2003 - 3,816.8 million) shares of the Company in issue during the period.

(b) *Diluted earnings/(loss) per share*

The calculation of diluted earnings per share for the period ended 30th June, 2004 is based on the adjusted net profit from ordinary activities attributable to shareholders for the period of HK\$10.3 million as adjusted for the deemed changes in the Group's interests in the listed subsidiary companies and on the adjusted weighted average of 16,416.8 million shares of the Company that would have been in issue during the period assuming (i) all outstanding convertible preference shares and optional convertible bonds of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the period; and (ii) all the 1,990.0 million convertible preference shares of PHL (the "Paliburg Convertible Preference Shares") were converted into the same number of ordinary shares of PHL at the beginning of the period; and (iii) 11,020.0 million shares were issued by the Company to acquire 2,755.0 million ordinary shares of PHL (including the 1,990.0 million ordinary shares of PHL so converted as noted in (ii)) pursuant to the relevant terms under a share swap agreement, at the beginning of the period. The exercise prices of share options of PHL and RHIHL outstanding during the period 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.

The calculation of diluted loss per share for the period ended 30th June, 2003 was based on the adjusted net loss from ordinary activities attributable to shareholders for the prior period of HK\$48.6 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 shares of the Company that would have been in issue during the prior period assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the prior period; and (ii) all the 3,450.0 million Paliburg Convertible Preference Shares 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 prior period. The exercise of share options of PHL and RHIHL was anti-dilutive.

#### 10. Dividend

The Directors have resolved not to declare the payment of any interim dividend for the financial year ending 31st December, 2004 (2003 - Nil).

#### 11. Long Term Investments

Included in the long term investments is an amount of HK\$56.9 million (31st December, 2003 - HK\$56.9 million) which represents the PHL Group's unlisted investments comprising a 23% interest each in 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.

As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The PHL Group and the other 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. During 2002, an impairment loss of HK\$62.0 million (further to an impairment loss of HK\$180.0 million made in 2001) was made against the investments by reference to an independent valuation of the hotel portion of the land site. The valuation was conducted on the assumption that the PHL Group has 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 continues to negotiate with prospective investors for 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.

## 12. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$69.6 million (31st December, 2003 - HK\$49.3 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	<b>30th June, 2004</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2003</b> <b>(Audited)</b> <i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	61.9	44.0
Between 4 to 6 months	2.8	3.0
Between 7 to 12 months	4.3	3.2
Over 1 year	<u>18.9</u>	<u>18.6</u>
	87.9	68.8
Provisions	<u>(18.3)</u>	<u>(19.5)</u>
	<u><u>69.6</u></u>	<u><u>49.3</u></u>

*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.

## 13. Creditors and Accruals

Included in the balance is an amount of HK\$55.4 million (31st December, 2003 - HK\$60.0 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	<b>30th June, 2004</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2003</b> <b>(Audited)</b> <i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	43.4	47.6
Between 4 to 6 months	5.3	6.0
Between 7 to 12 months	2.5	0.7
Over 1 year	<u>4.2</u>	<u>5.7</u>
	55.4	60.0
	<u><u>55.4</u></u>	<u><u>60.0</u></u>

14. **Minority Interests**

Included in the minority interests is an amount of HK\$39.0 million (31st December, 2003 - Nil) which represents the value of new ordinary shares to be issued by RHIHL as explained below.

Following the termination of the sale and purchase agreement, as supplemented, in respect of the disposal of a hotel property of the RHIHL Group (the "SP Agreement"), which took effect on 24th June, 2004, RHIHL was committed to issue certain new ordinary shares in settlement of the termination fee in the amount of HK\$39.0 million payable to the purchaser under the terms of the SP Agreement. In this connection, subsequent to the balance sheet date, on 12th July, 2004, 195.0 million new ordinary shares of HK\$0.01 each were issued by RHIHL at an issue price of HK\$0.20 per share.

15. **Related Party Transactions**

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2004 (Unaudited) <i>HK\$'million</i>	Six months ended 30th June, 2003 (Unaudited) <i>HK\$'million</i>
Advertising and promotion fees (including cost reimbursements) paid to an associate	3.5	3.1
Gross construction fee income from a jointly controlled entity	<u>42.6</u>	<u>—</u>

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2003.

At the balance sheet date, the Group also had guarantees given in respect of banking facilities granted to a jointly controlled entity as detailed in note 17(a).

16. **Pledge of Assets**

At 30th June, 2004, 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\$7,816.5 million (31st December, 2003 - HK\$7,732.4 million) and the shares held in certain subsidiary companies, including certain ordinary shares held in the listed subsidiary companies, and a jointly controlled entity, were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

17. **Contingent Liabilities**

(a) At 30th June, 2004, corporate guarantees in the amount of HK\$2,359.0 million (31st December, 2003 - HK\$2,359.0 million) had been given by the Group in respect of banking facilities granted to a jointly controlled entity. The amount outstanding on these facilities attributable to the Group at the end of the period amounted to HK\$720.8 million (31st December, 2003 - HK\$2,255.4 million).

(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\$10.8 million as at 30th June, 2004 (31st December, 2003 - HK\$13.1 million). The contingent liability has arisen because, at the balance sheet date, a

number of current employees have 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.

#### 18. Operating Lease Arrangements

##### (a) *As lessor*

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 10 months to 3 years. 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 30th June, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30th June, 2004</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2003</b> <b>(Audited)</b> <i>HK\$'million</i>
Within one year	18.2	15.8
In the second to fifth years, inclusive	<u>12.3</u>	<u>12.7</u>
	<u><u>30.5</u></u>	<u><u>28.5</u></u>

##### (b) *As lessee*

The Group leases certain office and shop units under operating lease arrangements. Leases for properties are negotiated for terms of 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.

At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30th June, 2004</b> <b>(Unaudited)</b> <i>HK\$'million</i>	<b>31st December, 2003</b> <b>(Audited)</b> <i>HK\$'million</i>
Land and buildings:		
Within one year	3.2	4.7
In the second to fifth years, inclusive	8.8	10.1
After the fifth year	<u>1.4</u>	<u>2.5</u>
	<u><u>13.4</u></u>	<u><u>17.3</u></u>

## 19. Commitments

In addition to the operating lease commitments detailed in note 18(b) above, the Group had the following outstanding capital commitments:

	30th June, 2004 (Unaudited) <i>HK\$'million</i>	31st December, 2003 (Audited) <i>HK\$'million</i>
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	16.6	3.4
Authorised, but not contracted for	<u>47.1</u>	<u>86.9</u>
	<u>63.7</u>	<u>90.3</u>

## 20. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions:

- (i) At the special general meeting of the Company held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of the Company with respect to the issue by Cheerview Limited (the "Issuer"), a wholly-owned subsidiary company of RHIHL, of 2% Guaranteed Convertible Bonds due 2007, guaranteed by, and convertible into ordinary shares of, RHIHL (the "2% Convertible Bonds") up to an aggregate principal amount of HK\$400.0 million (comprising firm bonds in an aggregate principal amount of HK\$200.0 million (the "Firm Bonds") and optional bonds of up to an aggregate principal amount of HK\$200.0 million (the "Optional Bonds")) to the relevant third party purchasers pursuant to the two subscription agreements both dated 3rd June, 2004 (the "Subscription Agreements") relating to the issue of the 2% Convertible Bonds.

On 21st July, 2004, two of the purchasers subscribed for, and to whom the Issuer issued, the Firm Bonds. The cash proceeds arising therefrom were used by the RHIHL Group substantially for repayment of its bank indebtedness. The Firm Bonds will be convertible into a total of 800.0 million new ordinary shares of RHIHL, at the initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

Dr. Francis Choi Chee Ming, who was subsequently appointed as a non-executive director and the vice-chairman of RHIHL on 18th August, 2004, holds a 100% equity interest in the purchaser under one of the Subscription Agreements which subscribed for HK\$100.0 million of the Firm Bonds and has the right to subscribe for Optional Bonds up to principal amount of HK\$100.0 million.

- (ii) At the special general meeting of RHIHL held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of RHIHL with respect to a bonus issue of warrants ("Warrants") of RHIHL to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK\$0.25 for every ten ordinary shares of RHIHL held by its shareholders on the register of members of RHIHL on 19th July, 2004.

On 2nd August, 2004, Warrants carrying aggregate subscription rights of approximately HK\$208.5 million were issued to the shareholders of RHIHL. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of RHIHL at the initial subscription price of HK\$0.25 per ordinary share (subject to adjustments), at any time from the date falling 6 months after the date of issue to the date falling 7 days prior to the third anniversary of the date of issue.

- (iii) At the balance sheet date, PHL had a 53.7% voting interest and a 44.9% economic interest in RHIHL. Pursuant to certain settlement proposal described in two circulars to the respective shareholders of the Company and PHL, both dated 26th August, 2002, and completed in October 2002 (the “Bonds Settlement”), 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 were subject to a phased release to the bondholders. The rights to dividends relating to these shares were with the bondholders. The Relevant RHIHL Shares were 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 would be released, subject to certain conditions, at the option of the bondholders in phases. Up to the balance sheet 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 balance sheet date.

By 31st July, 2004, the remaining Relevant RHIHL Shares have been fully released in accordance with the terms under the Bonds Settlement. Accordingly, PHL’s voting interest in RHIHL fell below 50% and thereafter RHIHL ceased to be a subsidiary company and became an associate of PHL. Based on the issued share capital of RHIHL as at the date of approval of these condensed consolidated financial statements, PHL had an economic and voting interest in RHIHL of 45.0%, after taking into account the additional interests acquired subsequent to the balance sheet date.

## 21. Share Options

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

### **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.

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

During the period, details of 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, 2004	Lapsed during the period	At 30th June, 2004		
22nd February, 1994	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	4,562,500	(4,562,500)	—	Notes 3 & 4	10.40
22nd February, 1994	Mr. Kenneth Ng Kwai Kai					
	Vested:	1,000,000	(1,000,000)	—	Notes 3 & 4	10.40
	<b>Other Employees</b>					
22nd February, 1994	Employees, in aggregate					
	Vested:	<u>3,375,000</u>	<u>(3,375,000)</u>	<u>—</u>	Notes 3 & 4	10.40
		<u>8,937,500</u>	<u>(8,937,500)</u>	<u>—</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	3,125,000	(3,125,000)	—	Notes 4 & 5	3.5392
22nd February, 1997	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	1,500,000	—	1,750,000	Note 3	6.672
	Unvested:	<u>1,000,000</u>	<u>—</u>	<u>750,000</u>	Note 3	
		<u>2,500,000</u>	<u>—</u>	<u>2,500,000</u>		
	<b>Total:</b>	<b><u>14,562,500</u></b>	<b><u>(12,062,500)</u></b>	<b><u>2,500,000</u></b>		

\* 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:*

1. Consequent upon the group reorganization resulting in the effective merger of PHL and PIHL 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.
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 latest grant of options.
3. Vesting/Exercise Periods of Options:

<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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. Lapsed after expiry of the relevant exercise period on 22nd February, 2004.

## 5. Vesting/Exercise Periods of Options:

<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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 of PHL 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 period end date, would have, with the present capital structure of PHL, resulted in the issue of 1.7 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.

During the period, details of movements in the outstanding share option granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option**			Vesting period*/ Exercise period of share option	Exercise price of share option** HK\$
		At 1st January, 2004	Movement during the period	At 30th June, 2004		
22nd February, 1997	<b>Other Employees</b> Employees, in aggregate					
	Vested:	648,000	—	756,000	Note 1	2.1083
	Unvested:	432,000	—	324,000	Note 1	
	<b>Total:</b>	<b>1,080,000</b>	<b>—</b>	<b>1,080,000</b>		

\* The vesting period of the share option 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 Option:

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 option granted.

The exercise in full of the outstanding right which has vested with the holder of the option up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the period 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).

**E. AUDITED FINANCIAL STATEMENTS OF THE CENTURY GROUP FOR THE YEAR ENDED 31ST DECEMBER, 2003**

The following information is extracted from the annual report of the Company for the year ended 31st December, 2003. Reference to page numbers is to page numbers of such annual report and capitalised terms used herein are as defined in such annual report.

**Report of the Auditors****To the members****Century City International Holdings Limited**

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 118 to 214 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of Directors and auditors**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

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

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

Fundamental uncertainty - Investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in note 23 to the financial statements concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption in 2000 of a land site beneficially and collectively held by two investee companies (the "Investee Companies"), which is included in long term investments under non-current assets of Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, and its subsidiary companies (the "PHL Group"). The carrying value of the PHL Group's investments in the Investee Companies amounted to HK\$56.9 million (2002 - HK\$56.9 million) as at 31st December, 2003. As further explained in note 23 to the financial statements, 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 adjustment against the carrying value 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 note 3 to the financial statements which explain 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 statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of the Debt Restructuring. The financial statements do 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.

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young***Certified Public Accountants*

Hong Kong

15th April, 2004

**Consolidated Profit and Loss Account***For the year ended 31st December, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i> <i>(Restated)</i>
TURNOVER	7	877.8	1,365.0
Cost of sales		<u>(623.9)</u>	<u>(969.2)</u>
Gross profit		253.9	395.8
Other revenue	7	401.5	34.9
Gain on settlement of exchangeable bonds and convertible bonds	7	—	2,180.2
Administrative expenses		(92.7)	(118.0)
Other operating expenses	8	(107.0)	(272.8)
Write-back of provisions/(Provisions) for write-downs and impairments, net	9	310.3	(656.6)
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	6	(9.7)	—
Impairment of an overseas hotel property attributable to discontinued operation	6	—	(437.0)
Write-back of impairment/(Impairment) of hotel properties	17	<u>11.4</u>	<u>(181.9)</u>
<b>PROFIT FROM OPERATING ACTIVITIES</b>	10	767.7	944.6
Finance costs	11	(281.0)	(623.6)
Share of profits less losses of:			
Jointly controlled entity		206.6	—
Associates		<u>(3.3)</u>	<u>(19.5)</u>
<b>PROFIT BEFORE TAX</b>		690.0	301.5
Tax	14	<u>63.2</u>	<u>(3.9)</u>
<b>PROFIT BEFORE MINORITY INTERESTS</b>		753.2	297.6
Minority interests		<u>(339.0)</u>	<u>(320.2)</u>
<b>NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>	15	<u>414.2</u>	<u>(22.6)</u>
Earnings/(Loss) per share (HK\$):	16		
Basic		<u>0.10</u>	<u>(0.01)</u>
Diluted		<u>0.01</u>	<u>N/A</u>

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**APPENDIX II                      ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

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**Consolidated Balance Sheet**

*As at 31st December, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i> <i>(Restated)</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	17	7,186.6	6,770.7
Goodwill	18	260.5	—
Negative goodwill	18	(15.1)	(5.0)
Properties under development	19	7.2	16.7
Property held for future development	20	26.7	26.7
Interest in a jointly controlled entity	21	1,298.6	1,062.9
Interests in associates	22	250.2	525.3
Long term investments	23	163.5	144.8
Loans and other long term receivable	24	109.1	116.7
Deferred tax assets	25	10.4	—
Deferred expenditure		38.7	15.7
Other assets	26	0.3	0.3
		<u>9,336.7</u>	<u>8,674.8</u>
<b>CURRENT ASSETS</b>			
Short term investments	23	18.1	8.2
Properties under development	19	—	94.4
Properties held for sale	27	215.1	194.3
Hotel and other inventories	28	23.0	24.4
Debtors, deposits and prepayments	29, 31	131.8	555.9
Pledged time deposits		25.9	43.8
Time deposits		112.4	72.0
Cash and bank balances		30.1	55.4
		<u>556.4</u>	<u>1,048.4</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	30, 31	725.3	755.7
Tax payable		16.0	32.2
Interest bearing bank and other borrowings	32	2,053.3	4,235.9
Deposits received		81.6	24.0
Provisions	33	355.4	326.7
		<u>3,231.6</u>	<u>5,374.5</u>
<b>NET CURRENT LIABILITIES</b>		<u>(2,675.2)</u>	<u>(4,326.1)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>6,661.5</u>	<u>4,348.7</u>

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		6,661.5	4,348.7
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings	32	(3,546.7)	(2,034.5)
5% Convertible bonds	34	—	(50.0)
Advances from minority shareholders of subsidiary companies	35	(42.4)	(40.4)
Deferred tax liabilities	25	(64.4)	(102.2)
Other payable	36	<u>(28.7)</u>	<u>—</u>
		(3,682.2)	(2,227.1)
Minority interests	37	<u>(3,712.2)</u>	<u>(2,643.1)</u>
		<u>(732.9)</u>	<u>(521.5)</u>
CAPITAL AND RESERVES			
Issued capital	38	539.7	381.7
Reserves	39	<u>(1,272.6)</u>	<u>(903.2)</u>
		<u>(732.9)</u>	<u>(521.5)</u>

**Consolidated Summary Statement of Changes in Equity***For the year ended 31st December, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i> <i>(Restated)</i>
Total equity at beginning of year			
As previously reported		(492.6)	(160.3)
Prior year adjustment		<u>(28.9)</u>	<u>(77.8)</u>
As restated		(521.5)	(238.1)
Issue of shares	38	158.0	49.0
Surplus/(Deficit) on revaluation of long term investments	43	(0.5)	0.1
Exchange differences on translation of the financial statements of foreign entities	44	<u>1.6</u>	<u>0.2</u>
Net gains not recognised in the profit and loss account		<u>1.1</u>	<u>0.3</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	43	—	5.0
Share of impairment of goodwill of an associate previously eliminated against capital reserve	42	—	9.7
Investment property revaluation reserve released on disposal	43	—	(21.2)
Long term investments revaluation reserve released on disposal	43	0.2	2.5
Attributable reserves released on disposal of overseas subsidiary companies*		(11.0)	—
Capital reserve released on disposal of ordinary shares in a listed subsidiary company	42	(4.7)	—
Exchange equalisation reserve released on disposal of a subsidiary company	44	(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*		—	(351.3)
Net profit/(loss) for the year attributable to shareholders	47	<u>414.2</u>	<u>(22.6)</u>
Total equity at end of year		<u><u>(732.9)</u></u>	<u><u>(521.5)</u></u>

\* The attributable reserves comprised capital reserve (note 42), revaluation reserves (note 43) and exchange equalisation reserve (note 44).

**Consolidated Cash Flow Statement***For the year ended 31st December, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i>
Net cash inflow from operating activities	49(a)	<u>247.0</u>	<u>263.3</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition/Consolidation of a subsidiary company	49(d)	0.1	70.0
Acquisition of additional interest in a listed subsidiary company		(2.9)	(10.1)
Acquisition of additional interest in a subsidiary company		—	(0.8)
Purchase of long term investments		—	(0.5)
Proceeds on disposal of other fixed assets		5.8	0.7
Proceeds on disposal of long term investments		0.1	40.5
Disposal of subsidiary companies	49(e)	6.7	(133.6)
Deposit received from disposal of an associate		40.0	—
Proceeds on disposal of ordinary shares in a listed subsidiary company		—	9.8
Proceeds on disposal of an associate		—	29.0
Repayments of other loans and promissory notes receivable		—	46.6
Decrease in loans receivable		7.7	19.6
Purchases of fixed assets		(21.1)	(32.8)
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	—
Net proceeds from disposal of an investment property		—	166.1
Advance to associates		(3.6)	(1.1)
Advance to a jointly controlled entity		(37.2)	(32.6)
Interest received		8.3	7.1
Dividends received from listed and unlisted investments		0.5	1.0
Decrease/(Increase) in pledged time deposits		<u>17.9</u>	<u>(40.0)</u>
Net cash inflow from investing activities		<u>402.9</u>	<u>138.9</u>

	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of ordinary shares by listed subsidiary companies	35.7	32.7
Share issue expenses	(0.8)	(0.6)
Issue of 5% convertible bonds	20.0	50.0
Repurchase of 5% convertible bonds	(30.0)	—
Advance from a minority shareholder of a subsidiary company	0.1	—
Drawdown of a new loan	1.9	—
Repayments of bank loans and other loans	(515.4)	(258.1)
Payment of deferred expenditure	—	(0.1)
Interest paid	(144.6)	(312.1)
Dividends paid to minority shareholders of a subsidiary company	—	(4.7)
	<u>—</u>	<u>(4.7)</u>
Net cash outflow from financing activities	<u>(633.1)</u>	<u>(492.9)</u>
Net increase/(decrease) in cash and cash equivalents	16.8	(90.7)
Cash and cash equivalents at beginning of year	125.1	215.8
Effect of foreign exchange rate changes, net	<u>0.4</u>	<u>—</u>
Cash and cash equivalents at end of year	<u>142.3</u>	<u>125.1</u>
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	30.1	55.4
Non-pledged time deposits with original maturity of less than three months when acquired	<u>112.4</u>	<u>72.0</u>
	142.5	127.4
Bank overdrafts	<u>(0.2)</u>	<u>(2.3)</u>
	<u>142.3</u>	<u>125.1</u>

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY****Balance Sheet***As at 31st December, 2003*

	<i>Notes</i>	<b>2003</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i>
<b>NON-CURRENT ASSETS</b>			
Interests in subsidiary companies	45	403.1	247.8
<b>CURRENT ASSETS</b>			
Deposits and prepayments		<u>—</u>	<u>1.0</u>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals		16.8	14.0
Interest bearing bank borrowings	32	55.0	55.0
Provisions	33	<u>355.4</u>	<u>326.7</u>
		<u>427.2</u>	<u>395.7</u>
<b>NET CURRENT LIABILITIES</b>			
		<u>(427.2)</u>	<u>(394.7)</u>
		<u>(24.1)</u>	<u>(146.9)</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	38	539.7	381.7
Reserves	39	<u>(563.8)</u>	<u>(528.6)</u>
		<u>(24.1)</u>	<u>(146.9)</u>

**Notes to Financial Statements***31st December, 2003***1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in property development and investment, construction and building related businesses, hotel ownership and management and other investments.

**2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE (“SSAP”)**

The following revised SSAP and Interpretations are effective for the first time for the current year’s financial statements and have had a significant impact thereon:

- SSAP 12 (Revised) : “Income taxes”
- Interpretation 18 : “Consolidation and equity method - potential voting rights and allocation of ownership interests”
- Interpretation 20 : “Income taxes - Recovery of revalued non-depreciable assets”

These SSAP and Interpretations prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAP and Interpretations are summarised as follows:

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 14 and 25 to the financial statements and include a reconciliation between the accounting profit and the tax expenses/(income) for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 4(y) and in note 25 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its hotel properties and investment properties in the deferred tax calculated under SSAP 12.

Interpretation 18 prescribes the existence and effect of potential voting rights that are presently exercisable or presently convertible which should be considered when assessing whether an enterprise controls or significantly influences another enterprise. The principal impact of this Interpretation on these financial statements is that an associate which was previously accounted for in the consolidated balance sheet under the equity method of accounting is now consolidated in the Group's financial statements as a subsidiary company.

### 3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTY IN RESPECT OF GOING CONCERN

As at 31st December, 2003, the Group had consolidated net current liabilities of HK\$2,675.2 million (2002 - HK\$4,326.1 million) and reported a deficiency in assets of HK\$732.9 million (2002 - HK\$521.5 million, as restated).

As previously reported, 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. 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 finalising the relevant documentation for the Debt Restructuring with its financial creditors.

With respect to the financial restructuring of Regal Hotels International Holdings Limited ("RHIHL"), a listed subsidiary company of CCIHL, and its subsidiary companies (the "RHIHL Group"), the RHIHL Group entered into a loan rescheduling agreement (the "Rescheduling Agreement") 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 (the "Syndicated Loan") and a construction loan of HK\$1,054.2 million (the "Construction Loan") (collectively, the "Regal Loans"). 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 luxury residential development at Stanley, Hong Kong (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 has been 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.

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.

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 statements of the Group 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.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **(a) Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of the Group's investment properties, hotel properties and certain equity investments, as further explained below.

##### **(b) Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies for the year ended 31st December, 2003, 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 year 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.

(c) **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 SSAP 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 SSAP 30, 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.

(d) **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.

(e) **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.

(f) **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.

(g) **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.

(h) **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.

(i) **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.

**(j) 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 (s) 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.

**(k) 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.

**(l) 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.

**(m) 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.

(n) **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.

(o) **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.

(p) **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.

(q) **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.

(r) **Other assets**

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

(s) **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 (i) 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%

(t) **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.

(u) **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.

(v) **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.

**(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 (k) 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 (v) 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 as 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 schemes 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.

**5. 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 (the property management segment, which was previously separately disclosed as a business segment, was combined with the construction and building related segment in the current year in order to better reflect the performance of similar businesses within the Group);
- (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, laundry services and restaurant operations.

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.

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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 revenue:														
Sales to external customers	12.2	150.0	90.3	225.9	747.2	964.7	24.7	17.3	3.4	7.1	—	—	877.8	1,365.0
Intersegment sales	0.7	21.0	21.1	5.8	—	0.4	—	—	—	13.6	(21.8)	(40.8)	—	—
<b>Total</b>	<b>12.9</b>	<b>171.0</b>	<b>111.4</b>	<b>231.7</b>	<b>747.2</b>	<b>965.1</b>	<b>24.7</b>	<b>17.3</b>	<b>3.4</b>	<b>20.7</b>	<b>(21.8)</b>	<b>(40.8)</b>	<b>877.8</b>	<b>1,365.0</b>
Segment results	55.5	(71.4)	21.1	22.1	415.1	(941.5)	(3.0)	(16.4)	10.3	(1.7)	—	(5.1)	499.0	(1,014.0)
Interest income and unallocated non-operating and corporate gains													372.6	2,206.1 <sup>#</sup>
Unallocated non-operating and corporate expenses, net													(103.9)	(247.5) <sup>*</sup>
Profit from operating activities													767.7	944.6
Finance costs													(281.0)	(623.6)
Share of profits less losses of:														
Jointly controlled entity	206.6	—	—	—	—	—	—	—	—	—	—	—	206.6	—
Associates	—	—	—	—	(0.1)	(0.7)	—	—	(3.2)	(18.8)	—	—	(3.3)	(19.5)
Profit before tax													690.0	301.5
Tax													63.2	(3.9)
Profit before minority interests													753.2	297.6
Minority interests													(339.0)	(320.2)
Net profit/(loss) from ordinary activities attributable to shareholders													414.2	(22.6)

<sup>#</sup> Inclusive of a gain of HK\$2,180.2 million (as restated) on the settlement of exchangeable bonds and convertible bonds.

<sup>\*</sup> Inclusive of a write-back of provision against a loan receivable amounting to HK\$19.1 million (note 9).

## (a) Business segments (Continued)

## GROUP

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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	316.9	401.2	284.8	58.4	7,241.4	6,848.5	48.4	47.0	55.2	55.8	(30.3)	(43.3)	7,916.4	7,367.6
Interests in associates	223.4	223.5	1.4	—	5.1	5.0	—	—	20.3	296.8	—	—	250.2	525.3
Interest in a jointly controlled entity	1,298.6	1,062.9	—	—	—	—	—	—	—	—	—	—	1,298.6	1,062.9
Cash and unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	427.9	767.4
Total assets	—	—	—	—	—	—	—	—	—	—	—	—	9,893.1	9,723.2
Segment liabilities	(23.2)	(33.7)	(120.7)	(166.1)	(116.8)	(161.9)	(20.5)	(22.6)	(0.4)	(8.8)	30.3	43.3	(251.3)	(349.8)
Bank and other borrowings and unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	(6,662.5)	(7,251.8)
Total liabilities	—	—	—	—	—	—	—	—	—	—	—	—	(6,913.8)	(7,601.6)
Other segment information:														
Depreciation	0.2	7.9	0.5	0.4	35.1	36.9	4.9	5.0	0.1	0.7	—	—	—	—
Impairment losses/(Write-back of impairment losses) recognised in the profit and loss account	—	62.0	—	—	(11.4)	618.9	—	—	—	2.3	—	—	—	—
Write-down/(Write-back) in values of properties of hotel properties	(44.0)	67.5	—	—	—	—	—	—	—	—	—	—	—	—
Deficit/(Write-back of deficit) on revaluation of hotel properties	—	—	—	—	(266.1)	528.9	—	—	—	—	—	—	—	—
Capital expenditure	32.2	8.2	—	—	15.1	45.7	0.8	0.4	—	0.2	—	—	—	—
Other non-cash expenses	0.3	—	—	—	2.5	0.7	—	—	0.6	8.1	—	—	—	—

## (b) Geographical segments

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

**GROUP**

	Hong Kong		USA		Canada		Mainland China		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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 revenue:												
Sales to external customers	820.6	1,258.6	—	—	32.2	88.6	25.0	17.8	—	—	877.8	1,365.0
Other segment information:												
Segment assets	7,787.9	6,895.1	—	78.4	—	233.7	128.5	160.4	—	—	7,916.4	7,367.6
Capital expenditure	47.0	53.8	—	—	0.3	0.3	0.8	0.4	—	—	—	—

**6. DISCONTINUED OPERATION**

As previously reported, 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 prior year's financial statements. 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 current year's profit and loss account. 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, 2002 are as follows:

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

The turnover, expenses and results attributable to the discontinued operation for the year ended 31st December, 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:

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
TURNOVER	32.2	88.6
Cost of sales	<u>(37.3)</u>	<u>(87.4)</u>
Gross profit/(loss)	(5.1)	1.2
Administrative expenses	(1.9)	(3.5)
Other operating expenses	<u>(1.1)</u>	<u>(2.3)</u>
LOSS FROM OPERATING ACTIVITIES	(8.1)	(4.6)
Finance costs	<u>(4.2)</u>	<u>(6.4)</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u><u>(12.3)</u></u>	<u><u>(11.0)</u></u>
The net cash flows attributable to the discontinued operation are as follows:		
Operating	0.1	5.1
Investing	(0.3)	(0.2)
Financing	<u>(5.4)</u>	<u>(11.4)</u>
Net cash outflows	<u><u>(5.6)</u></u>	<u><u>(6.5)</u></u>

## 7. TURNOVER AND REVENUE

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, restaurant revenue, laundry services revenue and income from brewery operations, after elimination of all significant intra-group transactions.

Revenue from the following activities has been included in turnover:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Rental income:		
Investment properties	0.3	135.9
Properties held for sale	8.8	9.5
Hotel properties	23.0	26.1
Construction and construction-related income	75.3	202.9
Proceeds from the sale of properties	—	0.2
Estate management fees	15.0	23.0
Property development consultancy and project management fees	3.1	4.4
Hotel operations and management services	724.2	938.6
Other operations, including laundry services, restaurant and brewery operations	<u>28.1</u>	<u>24.4</u>
Turnover	<u><u>877.8</u></u>	<u><u>1,365.0</u></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	<u>358.6</u>	<u>—</u>
Gain on settlement of exchangeable bonds and convertible bonds*	<u>—</u>	<u>2,180.2</u>

\* On 31st October, 2002, the Group completed a settlement proposal for its US\$140 million 3½% Exchangeable Guaranteed Bonds and US\$210 million Zero Coupon Guaranteed Convertible Bonds (collectively, 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 Group's entire equity interest in two principal investment properties (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 holders of the Bonds, resulting in a gain of HK\$2,180.2 million (as restated).

**8. OTHER OPERATING EXPENSES**

Other operating expenses include the following items:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i> (Restated)
Provisions for guarantees and indemnity given	—	3.7
Loss on disposal of ordinary shares in a listed subsidiary company	—	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\$0.2 million (2002 - HK\$2.2 million))	1.2	2.2
Loss on disposal of a subsidiary company	<u>1.0</u>	<u>—</u>

**9. 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:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Write-back/(Write-down) in values of properties	44.0	(67.4)
Impairment of long term investments	—	(62.0)
Impairment of long term investments previously eliminated against long term investment revaluation reserve	—	(15.0)
Impairment of intangible assets	—	(2.3)
Write-back of deficit/(Deficit) on revaluation of hotel properties	266.1	(528.9)
Write-back of provision against a loan receivable	0.2	19.1
Deficit on revaluation of investment properties	<u>—</u>	<u>(0.1)</u>
	<u>310.3</u>	<u>(656.6)</u>

## 10. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Cost of completed properties sold	—	0.2
Cost of inventories sold and services provided	397.6	524.7
Staff costs (exclusive of directors' remuneration disclosed in note 12):		
Wages and salaries*	312.9	435.0
Staff retirement scheme contributions	16.8	17.5
Less: Forfeited contributions	<u>(3.0)</u>	<u>(2.3)</u>
Net retirement scheme contributions	<u>13.8</u>	<u>15.2</u>
	326.7	450.2
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(18.6)	(33.5)
Staff retirement scheme contributions	(1.0)	(0.1)
Less: Forfeited contributions	<u>1.8</u>	<u>—</u>
	<u>308.9</u>	<u>416.6</u>
Amortisation of goodwill**	14.3	—
Auditors' remuneration	5.0	5.7

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

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

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Depreciation	41.4	52.4
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(0.2)</u>	<u>(0.7)</u>
	<u>41.2</u>	<u>51.7</u>
Loss on disposal of fixed assets	—	1.0
Unrealised loss on revaluation of short term investments	—	1.7
Minimum lease payments under operating leases:		
Land and buildings	9.8	2.8
Other equipment	0.5	1.0
Amortisation of trading rights	—	0.2
and after crediting:		
Gross rental income	32.1	171.5
Less: Outgoings	<u>(6.9)</u>	<u>(53.3)</u>
Net rental income	<u>25.2</u>	<u>118.2</u>
Interest income from:		
Associates	—	7.5
Bank balances	0.6	2.7
Other loans and receivables	<u>7.7</u>	<u>5.7</u>
	<u>8.3</u>	<u>15.9</u>
Dividend income from:		
Listed investments	0.5	0.3
Unlisted investment	<u>—</u>	<u>0.7</u>
	<u>0.5</u>	<u>1.0</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>0.4</u>	<u>1.1</u>

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

## 11. FINANCE COSTS

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Interest in respect of:		
Bank loans and overdrafts	195.1	262.5
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<u>80.9</u>	<u>348.8</u>
	276.0	611.3
Interest capitalised in respect of property development projects	<u>(0.7)</u>	<u>(0.4)</u>
	275.3	610.9
Amortisation of deferred expenditure	5.7	12.3
Write-off of deferred expenditure	—	0.3
Other loan costs	<u>—</u>	<u>0.1</u>
Total finance costs	<u><u>281.0</u></u>	<u><u>623.6</u></u>

## 12. DIRECTORS' REMUNERATION

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

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Fees	1.8	1.8
Salaries and other allowances	9.6	9.2
Performance related/discretionary bonuses	0.8	0.1
Staff retirement scheme contributions	<u>0.7</u>	<u>0.6</u>
	<u><u>12.9</u></u>	<u><u>11.7</u></u>

The remuneration of the Directors fell within the following bands:

<i>HK\$</i>	<b>2003</b>	<b>2002</b>
	<i>Number of Directors</i>	<i>Number of Directors</i>
Nil - 1,000,000	4	4
1,000,001 - 1,500,000	1	1
2,000,001 - 2,500,000	1	1
6,500,001 - 7,000,000	—	1
7,500,001 - 8,000,000	<u>1</u>	<u>—</u>

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 year.

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2002 - 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 year.

During the year, no share options were granted to the Directors in respect of their services to the Group (2002 - Nil). Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 38 to the financial statements.

### 13. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included two (2002 - two) Directors, details of whose remuneration are disclosed in note 12 to the financial statements. The emoluments of the other three (2002 - three) individuals, who were not Directors, are as follows:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Salaries and other emoluments	4.1	4.2
Performance related/discretionary bonuses	0.3	—
Staff retirement scheme contributions	<u>0.2</u>	<u>0.2</u>
	<u>4.6</u>	<u>4.4</u>

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

<i>HK\$</i>	<b>2003</b>	<b>2002</b>
	<i>Number of individuals</i>	<i>Number of individuals</i>
1,000,001 - 1,500,000	1	2
1,500,001 - 2,000,000	<u>2</u>	<u>1</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 during the year.

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group (2002 - Nil). Further details of the share option schemes of the listed subsidiary companies of the Group are set out in note 38 to the financial statements.

#### 14. TAX

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million (Restated)</i>
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	4.1	1.0
Overprovisions in prior years	(19.5)	(2.2)
Current - Overseas		
Provision for tax in respect of profits for the year	0.3	0.3
Overprovision in prior year	—	(0.2)
Deferred tax expenses/(income) (note 25)	<u>(48.2)</u>	<u>4.9</u>
	(63.3)	3.8
Associate:		
Hong Kong	<u>0.1</u>	<u>0.1</u>
Total tax charge/(credit) for the year	<u>(63.2)</u>	<u>3.9</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002 - 16%) on the estimated assessable profits arising in Hong Kong during the year. 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 year (2002 - Nil).

A reconciliation of the tax expenses applicable to profit 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 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:

	<b>Group</b>			
	<b>2003</b>		<b>2002</b>	
	<i>HK\$' million</i>	%	<i>HK\$' million</i>	%
Profit before tax	<u>690.0</u>		<u>301.5</u>	
Tax at the statutory tax rate	120.8	17.5	48.2	16.0
Effect on opening deferred tax of increase in tax rates	9.6	1.4	—	—
Adjustments in respect of current tax of previous years	(19.5)	(2.8)	(2.4)	(0.8)
Higher tax rates of other countries	4.3	0.6	(10.1)	(3.3)
Income not subject to tax	(262.4)	(38.0)	(404.9)	(134.3)
Expenses not deductible for tax	44.2	6.4	358.0	118.7
Tax losses utilised from previous periods	(7.0)	(1.0)	(41.9)	(13.9)
Increase in deferred tax assets not recognised during the year	46.6	6.7	54.0	17.9
Others	<u>0.2</u>	<u>—</u>	<u>3.0</u>	<u>1.0</u>
Tax charge/(credit) at the Group's effective rate	<u>(63.2)</u>	<u>(9.2)</u>	<u>3.9</u>	<u>1.3</u>

**15. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS**

The net profit/(loss) from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is net loss of HK\$35.2 million (2002 - net loss of HK\$35.6 million) (note 47).

**16. 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 the year of HK\$414.2 million (2002 - net loss of HK\$22.6 million, as restated) and on the weighted average of 4,056.8 million (2002 - 3,649.1 million) shares of the Company in issue during the year.

**(b) Diluted earnings/(loss) per share**

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.

No diluted loss per share was presented for the year ended 31st December, 2002 as there were no dilutive events for that year.

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**
**17. FIXED ASSETS**

	GROUP							31st December, 2003 HK\$'million
	1st January, 2003 HK\$'million	Exchange adjustments HK\$'million	Depreciation for the year HK\$'million	Arising from		Other disposals HK\$'million	Surplus on revaluation HK\$'million	
				consolidation of a former associate HK\$'million	Disposal of subsidiary companies 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:

	2003 <i>HK\$'million</i>	2002 <i>HK\$'million</i>
Leasehold land and buildings situated in Hong Kong:		
Long term investment properties, at valuation at balance sheet date	1.7	1.7
Hotel properties, at valuation at balance sheet date:		
Long term	2,738.0	2,598.0
Medium term	4,401.6	3,897.0
Medium term leasehold properties, at cost	<u>4.6</u>	<u>4.7</u>
	<u>7,145.9</u>	<u>6,501.4</u>
Properties situated in Mainland China:		
Medium term leasehold properties, at cost	<u>28.9</u>	<u>29.8</u>
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	<u>—</u>	<u>222.6</u>
	<u>7,174.8</u>	<u>6,753.8</u>

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 disclosed in the prior year's financial statements, 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 prior year'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 3 to the financial statements, the SP Agreement was entered into by the RHIHL Group during the year 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 continues to subsist, the directors of RHIHL consider it appropriate to state the Regal Oriental Hotel at its carrying value of HK\$286.6 million, which approximates the net amount realisable by the RHIHL Group under the SP Agreement should it proceed to completion. 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 is presently 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 current year's profit and loss account. 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.

At 31st December, 2002, the hotel property situated overseas, representing the major asset in the RHIHL Group's discontinued operation as detailed in note 6 to the financial statements, 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.

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 statements.

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

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Investment properties	0.8	0.8
Hotel properties	<u>4,859.6</u>	<u>4,978.3</u>
	<u>4,860.4</u>	<u>4,979.1</u>

## 18. 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:

	<b>GROUP</b>	
	<b>Goodwill</b>	<b>Negative goodwill</b>
	<i>HK\$' million</i>	<i>HK\$' million</i>
Cost:		
At beginning of year	—	(5.0)
Release on deemed disposal of the Group's interest in a listed subsidiary company	—	0.7
Arising from consolidation of a former associate (note 22)	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) during the year 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 prior year end and, accordingly, no amount was recognised as income during that year.

## 19. PROPERTIES UNDER DEVELOPMENT

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	111.1	167.1
Other additions in development costs	32.1	5.4
Interest capitalised	0.7	0.4
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	44.0	(61.8)
	<u>7.2</u>	<u>111.1</u>
Balance at end of year	7.2	111.1
Properties under development included in current assets	<u>—</u>	<u>(94.4)</u>
Non-current portion	<u>7.2</u>	<u>16.7</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>—</u>	<u>16.0</u>
Freehold land in the U.S.A., at cost less write-down in value	<u>—</u>	<u>78.4</u>
Leasehold land and buildings in Mainland China, at cost less write-down in value:		
Long term	—	9.5
Medium term	<u>7.2</u>	<u>7.2</u>
	<u>7.2</u>	<u>16.7</u>
	<u>7.2</u>	<u>111.1</u>

## 20. PROPERTY HELD FOR FUTURE DEVELOPMENT

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<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>

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

The share of net liabilities in the prior year 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 during the year. 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
			2003	2002	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The percentage of equity interest represents the 70% held by RHIHL, which was in turn 18.3% (2002 - 28.3%) beneficially owned by the Group.

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.

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

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

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>State of affairs</b>		
Current assets	5,486.8	4,534.7
Current liabilities	(3,547.0)	(232.3)
Non-current liabilities	<u>(5,835.6)</u>	<u>(8,336.9)</u>
Net liabilities attributable to venturers	<u><u>(3,895.8)</u></u>	<u><u>(4,034.5)</u></u>
<b>Income and losses</b>		
Income	<u><u>648.2</u></u>	<u><u>—</u></u>
Net profit from ordinary activities attributable to venturers	<u><u>138.7</u></u>	<u><u>—</u></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:

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Authorised and contracted for	15.1	359.0
Authorised, but not contracted for	<u>—</u>	<u>16.4</u>
	<u><u>15.1</u></u>	<u><u>375.4</u></u>

## 22. INTERESTS IN ASSOCIATES

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

	<b>GROUP</b>	
	<b>Goodwill</b> <i>HK\$'million</i>	<b>Negative</b> <b>Goodwill</b> <i>HK\$'million</i>
Cost:		
At beginning of year	274.8	(3.1)
Reclassification to goodwill (note 18)	<u>(274.8)</u>	<u>—</u>
At 31st December, 2003	<u>—</u>	<u>(3.1)</u>
Recognition as income:		
At beginning of year	—	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>
At 31st December, 2002	<u>274.8</u>	<u>(3.0)</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 the prior year, 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.

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

Details of the Group's principal associates are 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
				2003	2002	
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	100.00 <sup>(1),(2)</sup>	50.00 <sup>(1),(2)</sup>	Investment holding
Beijing Hengfu Plaza Development Co., Ltd. ("Beijing Hengfu")*	Corporate	The People's Republic of China	Equity joint venture interest	45.50 <sup>(1),(2)</sup>	22.75 <sup>(1),(2)</sup>	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 <sup>(2)</sup>	30.00 <sup>(2)</sup>	Property development
Smart Tactic Limited*	Corporate	Hong Kong	Ordinary shares	30.00 <sup>(2)</sup>	—	Distribution of security systems and software
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	40.00 <sup>(3)</sup>	40.00 <sup>(3)</sup>	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 <sup>(4)</sup>	48.00 <sup>(4)</sup>	Promotions and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 <sup>(4)</sup>	48.00 <sup>(4)</sup>	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 <sup>(5)</sup>	50.00 <sup>(5)</sup>	Investment holding
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	50.00 <sup>(6)</sup>	—	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 the year 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 at the balance sheet date, 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% (2002 - 10%) and the 30% (2002 - 30%) equity interests attributable to the Company and RHIHL, respectively.
- (4) The percentage of equity interest represents the aggregate of the 12% (2002 - 12%) (including a 2% (2002 - 2%) attributable interest held by the Company through 8D-BVI) and the 36% (2002 - 36%) (including a 6% (2002 - 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.

All associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

### 23. INVESTMENTS

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>Long term investments</b>		
Listed equity investments, at market value:		
Hong Kong	42.9	30.6
Elsewhere	0.1	7.8
	<u>43.0</u>	<u>38.4</u>
Unlisted equity investments, at fair value:		
Carrying value	367.5	441.9
Provision for impairment	(247.0)	(335.5)
	<u>120.5</u>	<u>106.4</u>
	<u><u>163.5</u></u>	<u><u>144.8</u></u>

Long term listed investments with an aggregate market value at the balance sheet date amounting to HK\$42.9 million (2002 - HK\$29.5 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 (2002 - HK\$56.9 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.

As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The PHL Group and the other 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. During 2002, an impairment loss of HK\$62.0 million (further to an impairment loss of HK\$180.0 million made in 2001) was made against the investments by reference to an independent valuation of the hotel portion of the land site. The valuation was conducted on the assumption that the PHL Group has 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 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.

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>Short term investments</b>		
Listed equity investments in Hong Kong, at market value	<u>18.1</u>	<u>8.2</u>

## 24. LOANS AND OTHER LONG TERM RECEIVABLE

	Notes	GROUP	
		2003 <i>HK\$'million</i>	2002 <i>HK\$'million</i>
Long term mortgage loans	(a)	31.1	38.7
Other loans	(b)	<u>78.0</u>	<u>78.0</u>
		<u>109.1</u>	<u>116.7</u>

(a) 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.

(b) The balance represents a loan of US\$10.0 million (HK\$78.0 million) (2002 - 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.

## 25. DEFERRED TAX

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

**Deferred tax assets****Group**

	Losses available for offset against future taxable profits	
	2003 <i>HK\$'million</i>	2002 <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>70.1</u>	<u>—</u>

**Deferred tax liabilities****Group**

	<b>Accelerated tax depreciation</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year:		
As previously reported	—	—
Prior year adjustment	<u>102.2</u>	<u>155.0</u>
As restated	102.2	155.0
Deferred tax charged to the profit and loss account during the year	21.9	4.9
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	<u>—</u>	<u>(57.7)</u>
Gross deferred tax liabilities at end of year	<u>124.1</u>	<u>102.2</u>
Net deferred tax liabilities at end of year	<u>(54.0)</u>	<u>(102.2)</u>
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:		
Deferred tax assets	10.4	—
Deferred tax liabilities	<u>(64.4)</u>	<u>(102.2)</u>
Net deferred tax liabilities at end of year	<u>(54.0)</u>	<u>(102.2)</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), HK\$21.1 million (2002 - HK\$15.9 million) and HK\$293.4 million (2002 - HK\$17.9 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 of America 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 3 to the financial statements, 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 during the year 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 the balance sheet date, 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).

At 31st December, 2003, there is no significant unrecognised deferred tax liability (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.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in (i) an increase in the Group's deferred tax asset as at 31st December, 2003 by HK\$10.4 million; and (ii) an increase in the Group's deferred tax liabilities as at 31st December, 2003 and 2002 by HK\$64.4 million and HK\$102.2 million, respectively. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31st December, 2002 has been decreased by HK\$48.9 million, and the consolidated accumulated losses as at 1st January, 2003 and 2002 have been increased by HK\$28.9 million and HK\$77.8 million, respectively, as detailed in the consolidated summary statement of changes in equity and note 47 to the financial statements.

## 26. OTHER ASSETS

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
At cost:		
Deposits with the SEHK	0.1	0.1
Others	<u>0.2</u>	<u>0.2</u>
	<u>0.3</u>	<u>0.3</u>

## 27. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$207.6 million (2002 - HK\$158.8 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.

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 statements.

**28. HOTEL AND OTHER INVENTORIES**

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Hotel merchandise	13.4	19.8
Raw materials	5.8	1.6
Work in progress	2.2	2.3
Finished goods	<u>1.6</u>	<u>0.7</u>
	<u>23.0</u>	<u>24.4</u>

As at 31st December, 2003, the carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$20.9 million (2002 - HK\$21.8 million).

**29. DEBTORS, DEPOSITS AND PREPAYMENTS**

Included in the balance is an amount of HK\$49.3 million (2002 - HK\$79.3 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	44.0	72.4
Between 4 to 6 months	3.0	2.5
Between 7 to 12 months	3.2	2.4
Over 1 year	<u>18.6</u>	<u>19.8</u>
	68.8	97.1
Provisions	<u>(19.5)</u>	<u>(17.8)</u>
	<u>49.3</u>	<u>79.3</u>

The prior year debtors, deposits and prepayments of the RHIHL Group 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.

As previously disclosed, the RHIHL Group had instituted legal proceedings against the Purchaser to recover the Consideration Receivable. 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 prior year creditors and accruals under current liabilities.

#### 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.

### 30. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$60.0 million (2002 - HK\$100.7 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	47.6	82.8
Between 4 to 6 months	6.0	12.4
Between 7 to 12 months	0.7	1.3
Over 1 year	<u>5.7</u>	<u>4.2</u>
	<u>60.0</u>	<u>100.7</u>

### 31. CONSTRUCTION CONTRACTS

	GROUP	
	2003	2002
	<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>(4.8)</u>	<u>(60.4)</u>
	<u>(3.1)</u>	<u>(60.4)</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,503.2	1,441.4
Less: Progress billings	<u>(1,506.3)</u>	<u>(1,501.8)</u>
	<u>(3.1)</u>	<u>(60.4)</u>

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

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

### 32. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2003	2002	2003	2002
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Bank loans and overdrafts:				
Secured	5,013.6	5,689.5	55.0	55.0
Unsecured	228.8	231.0	—	—
Other loans wholly repayable within five years:				
Secured	21.2	25.9	—	—
Unsecured	336.4	324.0	—	—
	<u>5,600.0</u>	<u>6,270.4</u>	<u>55.0</u>	<u>55.0</u>
Portion of borrowings due within one year included under current liabilities:				
Bank loans and overdrafts	(1,695.7)	(3,886.0)	(55.0)	(55.0)
Other loans	(357.6)	(349.9)	—	—
	<u>(2,053.3)</u>	<u>(4,235.9)</u>	<u>(55.0)</u>	<u>(55.0)</u>
Long term borrowings	<u>3,546.7</u>	<u>2,034.5</u>	<u>—</u>	<u>—</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	2,053.3	4,235.9	55.0	55.0
More than 1 year but not exceeding 2 years	360.0	1,670.1	—	—
More than 2 years but not exceeding 5 years	2,622.5	364.4	—	—
More than 5 years	564.2	—	—	—
	<u>5,600.0</u>	<u>6,270.4</u>	<u>55.0</u>	<u>55.0</u>

The other loans carried interest rates ranging from 7.97% to 12% (2002 - 8.05% to 12%) per annum at the balance sheet date.

At the balance sheet date, 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 3 to the financial statements.

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.

## 33. PROVISIONS

	<b>GROUP AND COMPANY</b> <b>Guarantee on bank loan</b> <b>granted to an independent</b> <b>third party</b> <i>HK\$'million</i>
Balance at beginning of year	326.7
Additional provision	<u>28.7</u>
Balance at end of year	<u><u>355.4</u></u>

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

## 34. 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 is 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.

During the year, in January, 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 the year.

Subsequent to the balance sheet date, 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.

**35. 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\$34.4 million (2002 - HK\$32.4 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

**36. OTHER PAYABLE**

The other payable 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 3 to the financial statements. Accordingly, it is classified as a non-current liability at the balance sheet date.

**37. 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 statements. 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. 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 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, 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 the year, 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 the year, 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 the balance sheet date, on 8th March, 2004, 750.0 million Convertible Preference Shares were converted into 750.0 million ordinary shares of PHL by Almighty.

### 38. SHARE CAPITAL

	<i>Notes</i>	<b>COMPANY</b>	
		<b>Number of shares of HK\$0.10 each 'million</b>	<b>HK\$'million</b>
<b>Shares</b>			
Authorised:			
Balance at beginning and at end of year		<u>20,000.0</u>	<u>2,000.0</u>
Issued and fully paid:			
At 1st January, 2002		3,326.8	332.7
Issue of new shares for acquisition of a long term investment	(i)	<u>490.0</u>	<u>49.0</u>
At 31st December, 2002 and at 1st January, 2003		3,816.8	381.7
Issue of new shares for exchange for Exchangeable Preference Shares	(ii)	<u>1,580.0</u>	<u>158.0</u>
At 31st December, 2003		<u>5,396.8</u>	<u>539.7</u>

The movements of 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 37).

**Share Options**

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

**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: | At 31st December, 2003: 14,562,500 ordinary shares (approximately 0.4%)<br>At the date of this report: 2,500,000 ordinary shares (approximately 0.05%)   |
| (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   |

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

During the year, 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** <i>HK\$</i>
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1994	<b>Directors</b>					
	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>		
	<b>Other Employees</b>					
	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)	<b>Other Employees</b>					
	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)	<b>Other Employees</b>					
	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** HK\$
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
22nd February, 1997	<b>Other Employees</b>					
	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>		
	<b>Total:</b>	<b><u>17,695,312</u></b>	<b><u>(3,132,812)</u></b>	<b><u>14,562,500</u></b>		

\* 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.

## 3. Vesting/Exercise Periods of Options:

	<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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:

	<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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:

	<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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.   |

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During the year, 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** <i>HK\$</i>
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
5th August, 1993	<b>Other Employees</b>					
	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>		
22nd February, 1997	<b>Other Employees</b>					
	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>		
	<b>Total:</b>	<b><u>2,460,000</u></b>	<b><u>(1,380,000)</u></b>	<b><u>1,080,000</u></b>		

\* 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:

	<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(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).

39. RESERVES

	Notes	GROUP		COMPANY	
		2003 HK\$'million	2002 HK\$'million (Restated)	2003 HK\$'million	2002 HK\$'million
Share premium	40	888.4	888.4	888.4	888.4
Capital redemption reserve	41	4.4	4.4	4.4	4.4
Capital reserve	42	2,191.6	2,980.3	—	—
Revaluation reserves	43	(5.9)	(7.9)	—	—
Exchange equalisation reserve	44	0.9	(2.2)	—	—
Contributed surplus	46	—	—	1,893.5	1,893.5
Accumulated losses	47	(4,352.0)	(4,766.2)	(3,350.1)	(3,314.9)
		<u>(1,272.6)</u>	<u>(903.2)</u>	<u>(563.8)</u>	<u>(528.6)</u>

## 40. SHARE PREMIUM

	COMPANY	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>888.4</u>	<u>888.4</u>

## 41. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>4.4</u>	<u>4.4</u>

## 42. CAPITAL RESERVE

	GROUP	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	2,980.3	3,325.9
Release on disposal of ordinary shares in a listed subsidiary company	(4.7)	(46.3)
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 upon completion of the Bonds Settlement	—	(309.0)
Release on disposal of overseas subsidiary companies	(12.3)	—
Share of impairment of goodwill of an associate previously eliminated against capital reserve	<u>—</u>	<u>9.7</u>
Balance at end of year	<u>2,191.6</u>	<u>2,980.3</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 4(c) to the financial statements, 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, respectively, the capital reserve.

**APPENDIX II****ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

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 1st January, 2001, are as follows:

	<b>Share of goodwill of an associate eliminated against capital reserve <i>HK\$' million</i></b>	<b>Goodwill eliminated against capital reserve <i>HK\$' million</i></b>	<b>Negative goodwill credited to capital reserve <i>HK\$' million</i></b>
Cost:			
At beginning of year	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 end of year	9.7	156.5	(966.5)
Accumulated impairment:			
At beginning and at end of year	<u>(9.7)</u>	<u>(156.5)</u>	<u>—</u>
Net amount:			
At 31st December, 2003	<u>—</u>	<u>—</u>	<u>(966.5)</u>
At 31st December, 2002	<u>—</u>	<u>—</u>	<u>(1,755.2)</u>

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

## 43. REVALUATION RESERVES

	GROUP			Total HK\$'million
	Investment properties HK\$'million	Leasehold properties HK\$'million	Long term investments HK\$'million	
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 completion of the Bonds Settlement	—	—	1.7	1.7
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	(21.2)	(47.8)	—	(69.0)
Release on disposal	—	—	2.5	2.5
Transfer to retained profits (note 48)	—	(2.6)	—	(2.6)
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	—	—	0.2	0.2
At 31st December, 2003	—	—	(5.9)	(5.9)

## 44. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2003 HK\$'million	2002 HK\$'million
Balance at beginning of year	(2.2)	(4.2)
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 interests 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	1.6	0.2
Balance at end of year	0.9	(2.2)

## 45. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	<u>1,257.2</u>	<u>1,101.9</u>
	3,316.2	3,160.9
Provision for impairment	<u>(2,913.1)</u>	<u>(2,913.1)</u>
	<u>403.1</u>	<u>247.8</u>

The amount due from a subsidiary company is unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Almighty International Limited ("Almighty")	British Virgin Islands	US\$1	100	100	Investment holding
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Century City Finance Limited	Hong Kong	HK\$2	100	100	Financing
Century City Funds Management Limited	Hong Kong	HK\$2	100	100	Fund management
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
Century City (Nominees) Limited	Hong Kong	HK\$2	100	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	100	Secretarial services
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing

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**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Expert Link Technology Limited	British Virgin Islands	US\$1	100	100	Investment holding
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing
Meylink Limited	British Virgin Islands	US\$1	100	100	Investment holding
Splendour Corporation	British Virgin Islands	US\$1	100	100	Investment holding
T.M. Nominees Limited	Hong Kong	HK\$2	100	100	Nominee services
Paliburg Holdings Limited ("PHL")	Bermuda	Ordinary -HK\$39,284,975 Convertible preference -HK\$199,000,000	44.8 <sup>(iv)</sup>	59.2 <sup>(iv)</sup>	Investment holding
303 Company Limited <sup>(ix)</sup>	Hong Kong	HK\$10,000	56.7 <sup>(x)</sup>	56.7 <sup>(x)</sup>	Security systems and software development and distribution
Capital Billion International Limited	British Virgin Islands	US\$10,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing and property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	33.6 <sup>(v)</sup>	44.4 <sup>(v)</sup>	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Finso Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Granco Development Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Leading Technology Holdings Limited (“LTH”) <sup>(viii)</sup>	British Virgin Islands	US\$100	56.7 <sup>(x)</sup>	56.7 <sup>(x)</sup>	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Mira Technology Limited <sup>(ix)</sup>	Hong Kong	HK\$937,500	74.0 <sup>(xii)</sup>	74.0 <sup>(xii)</sup>	Software Development
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Mechanical and electrical engineering services
Paliburg Company Limited <sup>(i)</sup>	Hong Kong	HK\$1,000	4.5 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Estate management

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Paliburg Finance Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Power Faith Investments Limited	British Virgin Islands	US\$100	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Rank Cheer Investment Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Financing
Sanefix Development Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property investment
Shenyang Paliburg Plaza Limited <sup>(i), (ii)</sup>	The People's Republic of China	US\$9,820,000	4.5 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Shenzhen Leading Technology Co. Ltd <sup>(ix)</sup>	The People's Republic of China	RMB10,000,000	56.7 <sup>(xi)</sup>	53.8 <sup>(xi)</sup>	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Venture Perfect Investments Limited	British Virgin Islands	US\$34,500	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd. <sup>(iii)</sup>	The People's Republic of China	US\$8,130,000	23.7 <sup>(v)</sup>	31.1 <sup>(v)</sup>	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	44.8 <sup>(v)</sup>	59.2 <sup>(v)</sup>	Investment holding

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Regal Hotels International Holdings Limited (“RHIHL”)	Bermuda	Ordinary -	18.3 <sup>(v),(vi)</sup>	28.3 <sup>(v),(vi)</sup>	Investment holding
		HK\$75,204,392 Preference - US\$167,480	9.2 <sup>(v),(vi)</sup>	12.1 <sup>(v),(vi)</sup>	
Bauhinia Hotels Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Property investment
Charmwin Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Distribution of beer
Charter Capital Development Limited <sup>(i)</sup>	Hong Kong	HK\$2	—	28.3 <sup>(vii)</sup>	Property investment
Cityability Limited	Hong Kong	HK\$10,000	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Financing
Farah Investments Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Financing
Gala Hotels Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Securities investment
Kaifeng Yatai Brewery Co., Ltd. <sup>(ii)</sup>	The People’s Republic of China	RMB35,923,300	16.5 <sup>(vii)</sup>	25.5 <sup>(vii)</sup>	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd. <sup>(ii)</sup>	The People’s Republic of China	RMB30,576,700	16.5 <sup>(vii)</sup>	25.5 <sup>(vii)</sup>	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Financing
Kingford View Investments Limited <sup>(i)</sup>	British Virgin Islands	US\$1	—	28.3 <sup>(vii)</sup>	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Investment holding and management services
Regal Constellation Hotel Limited <sup>(i)</sup>	Canada	CAD1	—	28.3 <sup>(vii)</sup>	Hotel ownership
Regal Estate Agents Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Estate agents

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2003	2002	
Regal Estate Management Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel management
Regal International Limited	British Virgin Islands	US\$20	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Laundry operations
Regal Pacific (Holdings) Limited <sup>(i)</sup>	Canada	CAD2,005,200	—	28.3 <sup>(vii)</sup>	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Trademark holding
Richtech Holdings Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Financing
Ricobem Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	18.3 <sup>(vii)</sup>	28.3 <sup>(vii)</sup>	Management services

(i) These subsidiary companies were partially/fully disposed of during the year.

(ii) These subsidiary companies are sino-foreign co-operative joint venture companies established in the PRC.

(iii) This subsidiary company is a sino-foreign equity joint venture company established in the PRC.

- (iv) At the balance sheet date, the Company had a 64.3% (2002 - 59.2%) voting interest and a 44.8% (2002 - 59.2%) economic interest in PHL. Under a Share Swap Agreement as more fully described in note 37 to the financial statements, Almighty issued 13,800.0 million Exchangeable Preference Shares to acquire 3,450.0 million Convertible Preference Shares 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. At the balance sheet date, 1,990.0 million Convertible Preference Shares and 1,160.0 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 10.1% of the issued ordinary shares of PHL, the Company had a total of 44.8% economic interest in PHL at the balance sheet date.
- (v) The percentages of equity interest represent those attributable to the Company through its shareholdings in PHL.
- (vi) At the balance sheet date, PHL had a 62.3% (2002 - 74.9%) voting interest and a 40.8% (2002 - 47.8%) economic interest in RHIHL. Pursuant to the Bonds Settlement 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 balance sheet date, a total of 284.6 million Relevant RHIHL Shares have been released to the bondholders while the remaining 1,611.9 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 21.4% of the total issued ordinary shares of RHIHL, continued to be held by the SPV at the balance sheet 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, at the balance sheet date, the directors of PHL consider PHL has control over RHIHL as it controls more than half of the voting power thereof.

- (vii) The percentages of equity interest represent those attributable to the Company through its shareholdings in RHIHL.
- (viii) 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. As further explained in note 2 to the financial statements, due to the adoption of Interpretation 18 during the year, 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.

Subsequent to the balance sheet date, 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.

- (ix) These are the principal subsidiary companies of LTH.

- (x) The percentages of equity interest represent the aggregate of the 1.7% (2002 - 1.7%) equity interest attributable to the Company, the 50% (2002 - 50%) equity interest attributable to PHL and the 5% (2002 - 5%) equity interest attributable to RHIHL.
  
- (xi) The percentage of equity interest represents the aggregate of the 1.7% (2002 - 1.6%) equity interest attributable to the Company, the 50% (2002 - 47.5%) equity interest attributable to PHL and the 5% (2002 - 4.7%) equity interest attributable to RHIHL.
  
- (xii) The percentage of equity interest represents the aggregate of the 11% (2002 - 11%) equity interest attributable to the Company, the 30% (2002 - 30%) equity interest attributable to PHL and the 33% (2002 - 33%) equity interest attributable to RHIHL.

Except for Century City BVI Holdings Limited, all of the above subsidiary companies are indirectly held by the Company.

All of the above subsidiary companies operate in the place of their incorporation/registration, except for Paliburg Holdings Limited and Regal Hotels International Holdings Limited, which are incorporated in Bermuda but operate in Hong Kong.

The above table lists the subsidiary companies of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiary companies would, in the opinion of the Directors, result in particulars of excessive length.

#### **46. CONTRIBUTED SURPLUS**

The contributed surplus arose in 1989 as a result of the group reorganisation in that year and represented the difference between the nominal value of the Company's shares issued under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiary companies at the date of acquisition.

Under the Companies Act 1981 of Bermuda, the contributed surplus is distributable to shareholders under certain circumstances.

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**
**47. ACCUMULATED LOSSES**

	<b>GROUP</b>		<b>COMPANY</b>	
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
		<i>(Restated)</i>		
Balance at beginning of year				
As previously reported	(4,737.3)	(4,761.4)	(3,314.9)	(3,279.3)
Prior year adjustment (note 25)	<u>(28.9)</u>	<u>(77.8)</u>	<u>—</u>	<u>—</u>
As restated	(4,766.2)	(4,839.2)	(3,314.9)	(3,279.3)
Net profit/(loss) for the year	414.2	(22.6)	(35.2)	(35.6)
Elimination of accumulated losses of a listed subsidiary company upon cancellation of its preference share premium	—	45.2	—	—
Transfer from other reserves (note 48)	<u>—</u>	<u>50.4</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>(4,352.0)</u>	<u>(4,766.2)</u>	<u>(3,350.1)</u>	<u>(3,314.9)</u>
			<b>GROUP</b>	
			<b>2003</b>	<b>2002</b>
			<i>HK\$'million</i>	<i>HK\$'million</i>
				<i>(Restated)</i>
Accumulated losses at end of year accumulated in:				
The Company and subsidiary companies			(3,129.6)	(3,507.2)
Associates			(205.9)	(204.6)
Jointly controlled entity			<u>(1,016.5)</u>	<u>(1,054.4)</u>
Balance at end of year			<u>(4,352.0)</u>	<u>(4,766.2)</u>

## 48. TRANSFER FROM OTHER RESERVES

	GROUP	
	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i>
Transfer from revaluation reserve of the portion of depreciation charge on leasehold property attributable to the revaluation surplus in relation thereto (note 43)	—	2.6
Transfer from revaluation reserve upon disposal of leasehold property (note 43)	—	47.8
	<u>—</u>	<u>50.4</u>

## 49. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2003	2002
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Profit before tax	690.0	301.5
Adjustments for:		
Finance costs	281.0	623.6
Share of profits less losses of a jointly controlled entity and associates	(203.3)	19.5
Interest income	(8.3)	(15.9)
Dividend income	(0.5)	(1.0)
Gain on settlement of exchangeable bonds and convertible bonds	—	(2,180.2)
Loss/(Gain) on deemed disposal of the Group's interests in listed subsidiary companies	(319.2)	53.7
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	(5.4)	1.0
Loss on disposal of an investment property	—	35.6
Depreciation	41.2	51.7
Amortisation of trading rights	—	0.2
Amortisation of goodwill	14.3	—
Negative goodwill recognised as income	(0.4)	(1.1)
Write-down/(Write-back) in values of properties	(44.0)	67.4
Deficit on revaluation of investment properties	—	0.1
Write-back of provision against a loan receivable	(0.2)	(19.1)
Provisions for guarantee and indemnity given	—	3.7

**APPENDIX II**
**ADDITIONAL FINANCIAL INFORMATION ON THE COMPANY**

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
		<i>(Restated)</i>
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	(266.1)	528.9
Impairment of long term investments	—	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	3.4	8.8
Loss on disposal of long term investments	1.2	97.2
Net proceeds from sale of properties	136.0	9.3
Additions to properties under development	(32.1)	(5.4)
Operating profit before working capital changes	285.1	271.2
Decrease/(Increase) in short term investments	(9.9)	1.7
Decrease in debtors, deposits and prepayments	42.8	76.4
Decrease/(Increase) in hotel and other inventories	(2.5)	5.8
Decrease in creditors and accruals	(95.6)	(91.6)
Increase in deposits received	28.9	3.1
Exchange difference	(0.7)	0.3
Cash generated from operations	248.1	266.9
Hong Kong profits tax paid	(1.3)	(8.4)
Hong Kong profits tax refunded	0.3	2.1
Overseas taxes paid	(0.1)	(0.4)
Overseas taxes refunded	—	3.1
Net cash inflow from operating activities	<u>247.0</u>	<u>263.3</u>

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

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 the prior year, 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 the prior year, 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 38(i) to the financial statements, in the prior year, 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\$0.1 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 38(ii) to the financial statements, a total of 1,580.0 million new shares of the Company of HK\$0.10 each were issued during the year in exchange for 1,580.0 million Exchangeable Preference Shares of HK\$0.10 each.

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

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi (“RMB”) amounted to HK\$6.3 million (2002 - HK\$29.9 million). 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**

	<b>2003</b>	<b>2002</b>
	<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)	—
	0.4	345.0
Goodwill on consolidation	274.8	—
	<u>275.2</u>	<u>345.0</u>
Satisfied by:		
Issue of convertible preference shares	—	345.0
Reclassification of interest in an associate	275.2	—
	<u>275.2</u>	<u>345.0</u>

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

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Cash and bank balances acquired	<u>0.1</u>	<u>70.0</u>

The results of the subsidiary company consolidated in the current year 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.

(e) **Disposal of subsidiary companies**

	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
		<i>(Restated)</i>
Net assets disposed of:		
Fixed assets	259.8	2,792.3
Property under development	23.9	—
Deferred expenditure	—	18.6
Hotel and other inventories	4.7	—
Debtors, deposits and prepayments	5.1	10.1
Cash and bank balances	2.7	110.8
Creditors and accruals	(18.0)	(400.3)
Provision for premium on redemption of exchangeable bonds and convertible bonds	—	(815.6)
Deposits received	(11.3)	(42.3)
Deferred tax liabilities	—	(57.7)
Loans and other borrowings	(195.8)	(3,842.7)
Bank overdrafts	<u>—</u>	<u>(0.3)</u>
	71.1	(2,227.1)
Capital reserve released 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	<u>(10.7)</u>	<u>2,849.9*</u>
	<u>23.6</u>	<u>(23.1)</u>
Satisfied by:		
Cash	9.4	(23.1)#
Reclassification to long term investments	<u>14.2</u>	<u>—</u>
	<u>23.6</u>	<u>(23.1)</u>

- \* 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 (as restated) comprised the gain on disposal of subsidiary companies amounting to HK\$2,849.9 million (as restated) above and the loss on disposal of ordinary shares in RHIHL amounting to HK\$669.7 million (as restated).
- # 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:

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

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

The subsidiary companies disposed of in the prior year contributed HK\$128.4 million to the Group's turnover and a loss of HK\$210.3 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 statements, the Group had the following material connected and related party transactions during the year:

		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Advertising and promotion fees (including cost reimbursements) paid to an associate	(a)	7.6	12.8
Gross construction fee income from a jointly controlled entity	(b)	31.1	0.2
Interest on loans to associates	(c)	—	7.5
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	<u>2,359.0</u>	<u>2,310.0</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.
- (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.
- (c) The interest income from associates arose from loans to Cheerjoy Development Limited (“Cheerjoy”), details of which are disclosed in note 22 to the financial statements. 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. The Stanley Transfer, details of which were set out in the circular dated 26th August, 2002, was completed on 31st October, 2002.

The Directors of the Company are of the opinion that the above transactions set out in notes (a) to (d) above were entered into in the normal and usual course of business.

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. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2003 accompanying the financial statements.

The related party transactions set out in notes 50(b) to (d) above did not constitute connected transactions as defined in the Listing Rules.

#### 51. PLEDGE OF ASSETS

At the balance sheet date, 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\$7,732.4 million (2002 - HK\$7,801.1 million) 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 and the Company had the following contingent liabilities:

	GROUP		COMPANY	
	2003	2002	2003	2002
	<i>HK\$'million</i>	<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	2,255.4	1,938.4	—	—
- subsidiary companies	—	—	921.6	909.2
	<u>2,255.4</u>	<u>1,938.4</u>	<u>921.6</u>	<u>909.2</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\$13.1 million as at 31st December, 2003 (2002 - HK\$15.6 million) as further explained in note 4(aa) to the financial statements. The contingent liability has arisen because, at the balance sheet date, 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.

#### 53. OPERATING LEASE ARRANGEMENTS

- (a) As lessor

The Group leases certain of its properties (notes 17 and 27) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years. 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 31st December, 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	15.8	21.2
In the second to fifth years, inclusive	<u>12.7</u>	<u>8.7</u>
	<u>28.5</u>	<u>29.9</u>

In the prior year, the Group recognised HK\$0.1 million 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, 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 the prior year were negotiated for terms ranging from 5 months to 9 years.

At 31st December, 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

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

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

**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:

	<b>GROUP</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	3.4	12.5
Authorised, but not contracted for	<u>86.9</u>	<u>82.9</u>
	<u>90.3</u>	<u>95.4</u>
Capital commitments in respect of a property development project:		
Authorised and contracted for	—	22.5
Authorised, but not contracted for	<u>—</u>	<u>1.8</u>
	<u>—</u>	<u>24.3</u>
	<u>90.3</u>	<u>119.7</u>

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

**55. POST BALANCE SHEET EVENTS**

Except for the events set out in notes 3, 17, 34, 37 and 45 to the financial statements, there were no other significant post balance sheet events.

**56. COMPARATIVE AMOUNTS**

As further explained in note 2 to the financial statements, due to the adoption of revised SSAP 12 and Interpretations 18 and 20 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

**57. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the Board of Directors on 15th April, 2004.

Set out below is a summary of the respective rights of the Series A Shares, Series B Shares and Series C Shares and the respective limitations and restrictions to which they are subject:-

For the purposes of this appendix, capitalised terms shall have the following meanings unless otherwise defined in this circular:

“**Accounts**” means the audited consolidated financial statements of the Company for the year ended 31st December, 2003 or the most recent audited consolidated financial statements of the Company;

“**Business Day**” means a day on which banks are open for business in Hong Kong (excluding Saturdays, Sundays and public holidays);

“**Call End Date**” means the date falling one Business Day before (i) the relevant Conversion Date in respect of Series A Shares and Series B Shares; and (ii) the Maturity Date in respect of the Series C Shares;

“**Call Notice**” means a notice by the Company (or any party nominated or procured by the Company) to a Holder of Preference Shares at any time during the relevant Call Period indicating the amount of Preference Shares being subject to that Right to Call;

“**Call Period**” means the period commencing from the date of issue of the Preference Shares to the relevant Call End Date;

“**Call Rate**” means (i) HK\$0.0165 for every Series A Share, (ii) HK\$0.03 for every Series B Share, and (iii) HK\$0.15 for every Series C Share purchased pursuant to paragraph 7.1;

“**Capital Reduction**” means the reduction in nominal value of the Ordinary Shares from HK\$0.10 each to HK\$0.01 each;

“**CCBVI**” means Century City BVI Holdings Limited, a company incorporated under the laws of the British Virgin Islands and a directly wholly-owned subsidiary of the Company;

“**Closing Price**” means the price published in the daily quotation sheet of the Stock Exchange in respect of an Ordinary Share for any Trading Day;

“**Companies Ordinance**” means the Companies Ordinance (Cap. 32) of the Laws of Hong Kong;

“**Conversion Date**” means (i) in respect of Series A Shares, the date falling one year after the date on which the Series A Shares were issued, (ii) in respect of Series B Shares, the date falling two years after the date on which the Series B Shares were issued, and (iii) in respect of Series C Shares, the date on which all outstanding Series C Shares are required to be converted pursuant to paragraphs 4.1 (iii) and (iv); or in each case, if earlier, the date on which notice is served pursuant to paragraph 8;

“**Conversion Rate**” means one Ordinary Share for every one Preference Share converted pursuant to paragraph 4.1 (subject to the adjustment provisions stipulated in paragraph 5);

“**Conversion Right**” means the right of the Holders of Preference Shares to convert the Preference Shares into Ordinary Shares pursuant to paragraph 4;

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the Closing Prices for one Ordinary Share (being an Ordinary Share carrying full entitlement to dividend) for the five consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said five Trading Day period the Ordinary Shares shall have been quoted ex-dividend and during some other part of that period the Ordinary Shares shall have been quoted cum-dividend then:

- (i) if the Ordinary Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share; or
- (ii) if the Ordinary Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Ordinary Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Ordinary Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Ordinary Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Ordinary Share;

“**EN Issuer**” means Smartaccord Limited, a company incorporated under the laws of the British Virgin Islands and an indirect wholly-owned subsidiary of the Company;

“**Holder(s) of Preference Shares**” means Holder(s) of Series A Shares, Holder(s) of Series B Shares and/or Holder(s) of Series C Shares;

“**Holder(s) of Series A Shares**” means any person(s) holding any Series A Shares from time to time;

“**Holder(s) of Series B Shares**” means any person(s) holding any Series B Shares from time to time;

“**Holder(s) of Series C Shares**” means any person(s) holding any Series C Shares from time to time;

“**Majority Holders**” means in respect of each class of Series A Shares, Series B Shares and Series C Shares, a majority in number of the holders at the relevant time holding between them more than 50 per cent. of each class of the Series A Shares, Series B Shares and Series C Shares then in issue;

“**Maturity Date**” means, in respect of the Series C Shares, the date falling 5 years after the Completion Date;

“**Principal Subsidiary**” means at any time (a) CCBVI, (b) EN Issuer and (c) any Subsidiary of the Company (but excluding Paliburg, Regal and their respective Subsidiaries):

- (i) whose total assets or (in the case of a Subsidiary which has subsidiaries) total consolidated assets as shown by its latest audited balance sheet are at least 10 per cent. of the total consolidated assets of the Company as shown by the Accounts; or
- (ii) whose revenues, or (in the case of a Subsidiary which has subsidiaries) consolidated revenues as shown by its latest audited profit and loss account are at least 10 per cent. of the consolidated revenues of the Company as shown by the Accounts; or
- (iii) to which is transferred the whole or substantially the whole of the assets and undertaking of a Subsidiary which immediately prior to such transfer is a Principal Subsidiary, provided that, in such a case, the Subsidiary so transferring its assets and undertaking shall thereupon cease to be a Principal Subsidiary;

“**Put Date**” means, in respect of the Series A Shares, the date falling one Business Day before the Conversion Date on which date the Put Option is exercised;

“**Put Notice**” means a notice in writing to the Company by a Holder of Series A Shares indicating the amount of Series A Shares being subject to that Put Option;

“**Put Option**” means an option requiring the Company to purchase all or any of the Series A Shares on the Put Date;

“**Put Rate**” means HK\$0.01 each for every Series A Share purchased pursuant to paragraph 7.5;

“**Regal**” means Regal Hotels International Holdings Limited, a company incorporated under the laws of Bermuda, and registered as an overseas company in Hong Kong under Part XI of the Companies Ordinance with registration no. F-4472;

“**Right to Call**” means the Company’s right at the times and in the manner set out in the respective terms of the Preference Shares to purchase (by itself or through any party nominated or procured by the Company) all or any of the Preference Shares;

“**Subsidiary**” has the meaning given to such term by the Companies Ordinance; and

“**Trading Day**” means a day when the Stock Exchange is open for dealing business, provided that if no Closing Price is reported in respect of the relevant Ordinary Shares on the Stock Exchange for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days.

**1. Income**

A Preference Share shall not entitle its holder to any right of participation in the profits of the Company.

**2. Capital**

On a return of capital on winding-up of the Company or (other than on conversion, redemption or purchase of shares) otherwise, the Holders of Preference Shares shall be entitled in priority to any payment to the holders of the Ordinary Shares to the repayment of a sum equal to the nominal capital paid up or credited as paid up on the Preference Shares held by them respectively but shall not be entitled to any further right of participation in the assets of the Company. The Series A Shares, Series B Shares and Series C Shares shall rank *pari passu* with each other on a return of capital.

**3. Voting and General Meetings**

The Preference Shares shall entitle their holders to receive notice of and to attend but not to speak or vote at general meetings of the Company.

**4. Conversion**

- 4.1 (i) In respect of the Series A Shares and Series B Shares, subject as hereinafter provided, the Series A Shares or the Series B Shares which remain outstanding on the relevant Conversion Date shall be mandatorily converted into fully-paid Ordinary Shares on the basis of the Conversion Rate. As consideration for such conversion, the Holders of Series A Shares or Holders of Series B Shares shall transfer their Series A Shares or the Series B Shares to the Company in return for the allotment and issue of Ordinary Shares by the Company in accordance with the Conversion Rate.
- (ii) In respect of the Series C Shares, subject as hereinafter provided, the Series C Shares may be fully or partly converted into fully-paid Ordinary Shares on the basis of the Conversion Rate at the option of the Holders of Series C Shares, in accordance with and subject to sub-paragraph (iii) below, up to the close of business on the Maturity Date. As consideration for such conversion, the Holders of Series C Shares shall transfer their Series C Shares to the Company in return for the allotment and issue of Ordinary Shares by the Company in accordance with the Conversion Rate.

- (iii) Subject to the provisions in sub-paragraph (ii) above and paragraph 8, the Holders of Series C Shares shall only be entitled to exercise the Conversion Right on or after the second anniversary of the Completion Date as follows:

<b>Period during which Conversion Right can be exercised</b>	<b>Maximum percentage of Series C Shares to be converted by a Holder of Series C Shares</b>
From the second anniversary of the Completion Date to the day falling prior to the third anniversary of the Completion Date	25% of its holding of the Series C Shares
From the third anniversary of the Completion Date to the day falling prior to the fourth anniversary of the Completion Date	50% of its holding of the Series C Shares (calculated on a cumulative basis)
From the fourth anniversary of the Completion Date to the day falling prior to the fifth anniversary of the Completion Date	75% of its holding of the Series C Shares (calculated on a cumulative basis)
On the fifth anniversary of the Completion Date (i.e. the Maturity Date)	100% of its holding of the Series C Shares (calculated on a cumulative basis)

A Holder of Series C Shares shall have no Conversion Right during the period from the Completion Date to the day prior to the second anniversary of the Completion Date.

- (iv) The Series C Shares which have not been converted pursuant to the Conversion Right and remain outstanding on the Maturity Date shall be mandatorily converted into Ordinary Shares on the Maturity Date.
- 4.2 The Company covenants with and undertakes to each Holder of Preference Shares that it shall allot and issue the Ordinary Shares arising from conversion pursuant to paragraph 4.1 within 3 Business Days of the relevant Conversion Date.
- 4.3 No Series A Share nor Series B Share shall be converted prior to the relevant Conversion Date (except in accordance with the provisions of paragraph 8 below).

**5. Adjustment to the Conversion Rate**

## 5.1 If the Company shall:

5.1.1 make a free distribution of Ordinary Shares to each ordinary shareholder of the Company on a pro rata basis;

5.1.2 make a bonus issue of Ordinary Shares;

5.1.3 divide its outstanding Ordinary Shares;

5.1.4 consolidate its outstanding Ordinary Shares into a smaller number of Ordinary Shares; and/or

5.1.5 re-classify any of its Ordinary Shares into other securities of the Company so that the outstanding Ordinary Shares reduce in number,

(each an “**Adjustment Event**”)

then the Conversion Rate shall be appropriately adjusted so that each Holder of Preference Shares shall, on conversion, be entitled to receive the number of Ordinary Shares which he would have held or have been entitled to receive after the happening of any of the events described above had such right to convert been exercised immediately prior to the happening of such event (or, if the Company has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Ordinary Shares or other securities issued upon any such division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Rate made with effect from the date of the happening of such event (or such record date) or any time thereafter.

5.2 An adjustment made pursuant to paragraph 5.1 above shall become effective immediately on the relevant event(s) referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date.

5.3 Subject to paragraphs 5.5, 5.6 and 5.7 (if applicable), if the Company enters into any agreement, arrangement or transaction (other than an Adjustment Event) including, without limitation, issuance by the Company of any securities or rights to acquire securities, which securities are convertible into Ordinary Shares (a “**Relevant Transaction**”), the effect of which is dilutive of the rights attaching to the Preference Shares or the equity interests in the Company which the Holders of Preference Shares would have had if, at that time, their Preference Shares had been converted into Ordinary Shares (any such issuance being a “**Dilutive Event**”), then the Company shall, within 2 Business Days of the Dilutive Event, propose the appropriate adjustment to be made to the Conversion Rate and the date on which it is to become effective.

- 5.4 In the event that more than 50 per cent. of the holders holding more than 50 per cent. of the relevant class of Preference Shares then in issue (the “**Dissenting Holders**”) do not agree with the amount or effective date of an adjustment made under paragraph 5.3, or if the Company shall fail, within 2 Business Days after the Dilutive Event, to propose the appropriate adjustment and/or the date on which it is to become effective, the Company shall appoint Ernst & Young (or, where Ernst & Young are not able or decline to act, a firm of certified public accountants agreed by the Company and the Dissenting Holders or failing such agreement a firm of certified public accountants to be nominated on the application of the Company or the Dissenting Holders by or on behalf of the President for the time being of the Hong Kong Institute of Certified Public Accountants) (the “**Reporting Accountants**”) to determine the amount of such adjustment and/or the date on which it is to take effect. The Reporting Accountants shall act as experts and not as arbitrators and their determination of the amount of any adjustment and/or date on which it is to take effect shall be final and binding on the Company and the relevant class of the Holders of the Preference Shares save in the event of manifest error.
- 5.5 The following events shall not be regarded as an Adjustment Event nor a Dilutive Event requiring an adjustment to the Conversion Rate:
- 5.5.1 the Capital Reduction (or a reduction in nominal value of the Ordinary Shares to whatever amount);
  - 5.5.2 the issue of any shares pursuant to the Share Swap;
  - 5.5.3 the issue of any securities pursuant to (1) the terms of the Preference Shares, (2) an agreement already existing on the date of the Master Restructuring Agreement or (3) the Master Restructuring Agreement;
  - 5.5.4 any issue of new Ordinary Shares by the Company for cash at a price (or any issue by the Company or otherwise of new securities or rights to acquire Ordinary Shares or securities which are convertible into Ordinary Shares with a conversion price or subscription price) which is not less than 80% of the Current Market Price of Ordinary Shares on the last Trading Day preceding the date of announcement of the issue of such shares (or such securities or rights);
  - 5.5.5 any issue of new Ordinary Shares by the Company (or any issue by the Company or otherwise of new securities or rights to acquire Ordinary Shares or securities which are convertible into Ordinary Shares with a conversion price or subscription price) to acquire assets where the fair market value of such assets is not less than the value of the maximum number of Ordinary Shares (or such securities or rights) which may be issued in connection with such transaction (the value of such shares being calculated by reference to the Current Market Price of Ordinary Shares on the last Trading Day preceding the date of announcement of the acquisition or, if no announcement is required under the Listing Rules, the last Trading Day preceding the date of entering into the agreement to acquire such assets); and

5.5.6 any issue of Ordinary Shares by the Company pursuant to a share option scheme approved by the shareholders of the Company pursuant to the rules of the Stock Exchange.

5.6 For the purposes of paragraph 5.3 but subject to paragraph 5.5, Dilutive Events shall include, without limitation:

5.6.1 the issue of shares or other securities by the Company pursuant to a capitalisation of profits or reserves or the payment or making of any capital distribution by the Company (for which purposes “**capital distribution**” means any dividend or distribution of capital profits (whether realised or not) or capital reserves, or profits or reserves arising from a distribution of capital profits (whether realised or not) or capital reserves by a Subsidiary);

5.6.2 the issue of Ordinary Shares to all or substantially all ordinary shareholders of the Company as a class by the Company or issue or grant to all or substantially all ordinary shareholders of the Company as a class of options, warrants or other rights to subscribe for or purchase any Ordinary Shares, in each case at a price which is less than 80% of the Current Market Price per Ordinary Share on the last Trading Day preceding the date of the announcement of the terms of such issue or grant; provided that if the same offer is made to the Holders of Preference Shares (who are companies incorporated or registered under the Companies Ordinance or permanent residents of Hong Kong) as if all their Preference Shares had been fully converted into, and the Holders of Preference Shares were already holders of, Ordinary Shares (based on the then Conversion Rate), such issue shall not be regarded as a Dilutive Event or an Adjustment Event;

5.6.3 the issue or grant of (other than as mentioned in paragraph 5.6.2) options, warrants or other rights by the Company to subscribe for or purchase Ordinary Shares in each case at a price per Ordinary Share which is less than 80% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, or if there is an agreement for such issuance or grant, the date of such agreement (if earlier);

5.6.4 the issue by the Company of any securities (other than as mentioned in paragraphs 5.6.2 and 5.6.3, and the Preference Shares) which by their terms of issue carry rights of conversion into, or subscription for, Ordinary Shares to be issued by the Company upon conversion or subscription at a consideration per Ordinary Share which is less than 80% of the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, or if there is an agreement for such issuance, the date of such agreement (if earlier);

- 5.6.5 any modification of the rights of conversion, exchange or subscription attaching to any securities which carry rights of conversion into, or exchange or subscription for Ordinary Shares to be issued by the Company (other than in accordance with the terms applicable to such securities) so that the consideration per Ordinary Share is less than 80% of the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, except for any modification which is made pursuant to the relevant pre-agreed terms of such rights; or
- 5.6.6 a Relevant Transaction pursuant to or in connection with which a right or power may be exercised or an event may occur at some later date which, if it were to be exercised or occur at or around the time of the Relevant Transaction would be dilutive of the rights attaching to the Preference Shares or the equity interests in the Company which the Holders of Preference Shares would have if, at that time, their Preference Shares had been converted into Ordinary Shares.
- 5.7 (In respect of the Series C Shares only) In addition to paragraph 5.3, if the Company proposes to issue new Ordinary Shares or other securities which are convertible into Ordinary Shares, whether for cash or as consideration for the acquisition of assets, the Company shall grant to each Holder of Series C Shares a right to elect to subscribe for such number of new Ordinary Shares or securities such that the percentage shareholding interest of that Holder of Series C Shares in the Company shall remain unchanged before and after the issue of such new Ordinary Shares or securities, to be calculated by reference to the number of Series C Shares held by that Holder of Series C Shares at the time of such new issue and computed on a fully diluted basis. Any such subscriptions by that Holder of Series C Shares will be in cash and otherwise on substantially the same terms under the new issues. For the avoidance of doubt, the grant and the exercise of the subscription rights under this paragraph shall be subject to relevant approvals, where required, and any limitation or restriction under applicable laws and the rules and regulations of the Stock Exchange.
- 5.8 The adjustment under this paragraph 5 will not take place retrospectively and shall not apply to any Conversion Shares.
- 6. Covenants in Relation to Conversion**
- 6.1 The Company covenants with and undertakes to the Holders of Preference Shares that, so long as any Preference Share is in issue and subject to any approvals otherwise given in writing by the relevant class of Majority Holders:
- 6.1.1 it shall keep available free from pre-emptive or other rights for the purpose of effecting the conversion of the Preference Shares such number of its authorised but unissued Ordinary Shares to satisfy fully the conversion right under the Preference Shares and will ensure that all Ordinary Shares delivered upon conversion of Preference Shares pursuant to these terms and conditions will be duly authorised, validly allotted and issued, fully-paid and unencumbered ranking pari passu in all respects with the other Ordinary Shares then in issue and shall be registered in the name of the Holders of Preference Shares or their respective nominees;

- 6.1.2 it shall not distribute any assets in specie or issue or pay up any securities by way of capitalisation of profits or reserves unless, in any such case, it gives rise to an adjustment of the Conversion Rate, other than the issue of Ordinary Shares paid up in full out of profits or reserves in accordance with applicable law in lieu of a cash dividend where the Current Market Price of such Ordinary Shares as at the date of the determination of the basis of the allotment of such Ordinary Shares does not exceed the amount of such declared dividend;
- 6.1.3 it shall not in any way: (i) modify the rights attaching to Ordinary Shares with respect to voting, dividends or liquidation or (ii) issue any other class of equity share capital carrying any rights which are more favourable than the rights attaching to Ordinary Shares; or (iii) have in issue Ordinary Shares of differing nominal values;
- 6.1.4 it shall not close its register of shareholders for more than 30 days in a calendar year which prevents the transfer of Ordinary Shares generally unless, as permitted under Bermuda law and the bye-laws of the Company, such closure or action does not prevent the Preference Shares from being converted legally into Ordinary Shares and the Ordinary Shares issued upon conversion may (subject to any limitation imposed by law and, to the extent required by law and the bye-laws of the Company) be transferred (as between transferor and transferee although not as against the Company) at all times during the period of such closure or while such other action is effective, nor shall it take any action which prevents conversion of the Preference Shares or the issue of Ordinary Shares in respect thereof;
- 6.1.5 it shall not take any action which would result in an adjustment of the Conversion Rate if, after giving effect thereto, the Conversion Rate would be decreased to such an extent that the Ordinary Shares to be issued on exercise of the conversion right could not, under any applicable law then in effect, be legally issued as fully-paid and unencumbered;
- 6.1.6 it shall use its best endeavours to: (a) procure the maintenance of the listing of all the issued and outstanding Ordinary Shares on the Stock Exchange; and (b) obtain and maintain a listing on the Stock Exchange of and permission to deal in the Ordinary Shares which shall be allotted on the exercise of the Conversion Right, failing which it shall use its best endeavours to do the same on another recognised stock exchange;
- 6.1.7 it shall not enter into any deed, agreement, assignment, instrument or documents whatsoever which may result in any breach of the terms of the Preference Shares;
- 6.1.8 it shall, in the case of any consolidation or amalgamation of the Company with, or merger of the Company into, any other corporation (other than a consolidation, amalgamation or merger in which the Company is the continuing corporation), forthwith give notice to the Holders of Preference Shares and it shall cause the corporation formed by such consolidation or amalgamation or the corporation into which the Company shall have merged, as the case may be, to execute a deed

providing that such corporation will assume obligations to the holder of each Preference Share then outstanding analogous to all of the obligations of the Company under the Preference Shares, including the right (during the period such Preference Shares shall be convertible) to convert such Preference Shares into the class and amount of shares and other securities and property receivable upon such consolidation, amalgamation or merger by a holder of the number of Ordinary Shares into which such Preference Shares could be converted immediately prior to such consolidation, amalgamation or merger. Such deed shall provide for an adjustment to the Conversion Rate which shall be as nearly equivalent as may be practicable to the adjustment provided for in paragraph 5. The above provisions of this paragraph 6.1.8 shall apply in the same way to any subsequent consolidations, amalgamations or mergers; and

6.1.9 it shall not reduce or repay its issued share capital or any uncalled liability in respect thereof or its capital reserves, including contributed surplus, except pursuant to: (i) the Capital Reduction (or a reduction in nominal value of the Ordinary Shares to whatever amount); or (ii) by means of a purchase of Ordinary Shares in accordance with paragraph 10.2; or (iii) any write-off of accumulated losses, with no dilutive effects to the Ordinary Share.

## **7. Right to Call and Put Option**

### Right to Call

- 7.1 Subject as hereinafter provided, each Holder of Preference Shares is subject to the Right to Call at a consideration calculated on the basis of the relevant Call Rate. For the avoidance of doubt, both the number of Preference Shares and the Call Rate shall not be subject to any adjustment in the event that an Adjustment Event or a Dilutive Event takes place.
- 7.2 The Right to Call shall be exercisable during the Call Period by the delivery of a Call Notice. A Call Notice once given may not be withdrawn without consent in writing of the relevant Holder of Preference Shares to which the Call Notice has been given.
- 7.3 In relation to each exercise of the Right to Call, the Company shall itself, or shall procure any party nominated by it to, within 7 Business Days make available a banker's draft for an amount calculated in accordance with the relevant Call Rate and/or arrange for delivery of the said draft to the registered office of the Holder of the Preference Shares. In exchange for the said draft, the Holder of Preference Shares shall deliver to the Company (or any party nominated or procured by the Company) the duly executed instrument(s) of transfer and the relevant certificate(s) in respect of the relevant Preference Shares.

- 7.4 For the avoidance of doubt, no Holder of Preference Shares can reject the Right to Call pursuant to this paragraph 7.

Put Option (in respect of the Series A Shares only)

- 7.5 Subject as hereinafter provided, each Holder of Series A Shares shall have the right to exercise the Put Option at a consideration calculated on the basis of the Put Rate. Provided the number of Series A Shares in issue shall not be adjusted, the Put Rate shall not be subject to any adjustment in the event that an Adjustment Event or a Dilutive Event takes place.
- 7.6 The Put Option shall be exercisable on the Put Date by a Put Notice which shall be sent at least 7 Business Days prior to the Put Date. A Put Notice once served shall be irrevocable.
- 7.7 Within 3 Business Days after lodging the Put Notice, the relevant Holder of Series A Shares shall send to the Company by hand or registered post or courier the duly executed instrument(s) of transfer in favour of the Company (or any party nominated by the Company) in respect of the relevant Series A Shares and the relative certificate(s) (or deliver the same by hand to the Company's principal place of business in Hong Kong).
- 7.8 Within 7 Business Days after receiving the Put Notice together with other documents as required under paragraph 7.7, the Company shall send by hand or registered post or courier a cheque for an amount calculated in accordance with the Put Rate to the relevant Holder of Series A Shares by post at that holder's risk to an address as notified by such holder to the Company (failing that, to his address registered with the Company).

Other Term

- 7.9 Upon exercise of the Right to Call or the Put Option (if applicable), the relevant Holder of Preference Shares shall sell the relevant Preference Shares, in accordance with the procedures set out in this paragraph 7, free from encumbrances with all rights then or subsequently attaching to them and such holder shall execute and deliver other documents and take other steps at the reasonable request and cost of the Company where it is required to give the Company the full benefit of this paragraph 7. To the extent that the Holder of Preference Shares fails or refuses to comply with any reasonable request of the Company under this paragraph 7.9, the Company is hereby authorised to execute such document on behalf of the Holders of Preference Shares for the purpose of this paragraph 7.9.

## **8. Events of Default**

If any of the following events occurs and is continuing, then the Company shall forthwith notify the Holders of Preference Shares and any holder of the relevant class of the Preference Shares may (unless waived by the relevant Majority Holders), by notice in

writing given at any time thereafter to the Company, exercise its rights to convert its Preference Shares into Ordinary Shares immediately in accordance with these terms and conditions. The Holder of Preference Shares may indicate in the notice, how the definitive certificate of the Ordinary Shares shall be made available to it:-

- 8.1 there is default by the Company in the performance or observance of any covenant, condition, provision or obligation contained in the terms of the Preference Shares or the constitutional documents of the Company or imposed by any law, rule or regulation relating to the Preference Shares and on its part to be performed or observed and such default continues for the period of 30 days next following the default, unless waived by the Majority Holders; or
- 8.2 (i) a specified material amount of any other bonds, debentures, notes or other instruments of indebtedness or any other loan indebtedness (hereinafter collectively called “**Indebtedness**”) of the Company or any of the Principal Subsidiaries become or becomes prematurely repayable under the terms thereof, the occurrence of an event of default or the like which shall not have been remedied; or (ii) the Company or any of the Principal Subsidiaries defaults in the repayment of any such Indebtedness when due or at the expiration of any applicable grace period therefor or any guarantee of or indemnity in respect of a specified material amount of the Indebtedness of others given by the Company or any of the Principal Subsidiaries shall not be honoured when due and called upon; or
- 8.3 a resolution is passed or a petition for winding-up or an order of a court of competent jurisdiction is made that the Company or a Principal Subsidiary be wound up or dissolved otherwise than: (i) for the purposes of or pursuant to a consolidation, amalgamation, merger, reconstruction or reorganisation where the continuing corporation effectively assumes the entire obligations of the Company under the Preference Shares; or (ii) (for Principal Subsidiary) by way of a voluntary winding up or dissolution where there are surplus assets in such Principal Subsidiary and such surplus assets attributable to the Company and/or such Principal Subsidiary are distributed to the Company and/or such Principal Subsidiary; or
- 8.4 an encumbrancer takes possession or a receiver is appointed of the whole or a material part of the assets or undertaking of the Company or any Principal Subsidiary; or
- 8.5 proceedings shall have been initiated against the Company or any Principal Subsidiary under any applicable bankruptcy, reorganisation or insolvency law and such proceedings have not been discharged or stayed within a period of 30 days; or
- 8.6 a general offer is made to all (or as nearly as may be practicable all) shareholders of the Company or a corporation referred to in paragraph 6.1.8 or all (or as nearly as may be practicable all) such shareholders other than the offeror and/or any associate or associates of the offeror to acquire all or a majority of the issued ordinary share capital of the

Company or a corporation referred to in paragraph 6.1.8, or if any person proposes a scheme with regard to such acquisition (provided that such general offer or scheme is bona fide and that it become subsequently successful (i.e. the requisite acceptances are obtained from the relevant shareholders)).

Any of the events set out in this paragraph 8 is “**continuing**” if it has not been waived by the Majority Holders or remedied or rectified within (i) the grace period specified in the relevant paragraph of paragraph 8 or (ii) 28 days of the occurrence of that event if no such grace period is specified.

#### **9. Transferability**

9.1 Subject to the conditions, approvals, requirements and any other provisions of or under (a) the Stock Exchange (and any other stock exchange on which the Ordinary Shares may be listed at the relevant time) or their rules and regulations; (b) the listing approval; and (c) all applicable laws and regulations, the Series A Shares and Series B Shares are freely transferable, and the Series C Shares may be transferred if, and only if:

9.1.1 the transferee is and remains a wholly-owned subsidiary of the relevant Holder of Series C Shares and the Series C Shares originally held by such Holder of Series C Shares will be re-transferred to that Holder of Series C Shares immediately upon such transferee ceasing to be a wholly-owned subsidiary of that Holder of Series C Shares;  
or

9.1.2 the transfer is approved in writing by the Company (which may be granted or withheld at the absolute discretion of the Company and subject to such conditions as the Company sees fit) and (if required) by the Stock Exchange.

9.2 For the purpose of this paragraph 9, any change in the beneficial ownership of any Series C Share (whether or not the registered holder of such Series C Share is changed), shall be regarded as a transfer of such Series C Share and shall be subject to, and the relevant Holder of Series C Shares shall procure that the conditions, requirements and other provisions regarding transfer under this paragraph 9 shall be followed and complied with by the beneficial owner of such Series C Share accordingly.

#### **10. Other Provisions**

10.1 The Company shall covenant with and undertake to the Holder of Preference Shares that so long as any Preference Shares remain capable of being converted into Ordinary Shares, then, save with such consent or sanction on the part of the relevant class of Majority Holders as is required for a variation of the rights attached to such shares:

10.1.1 no resolution shall be passed whereby the right(s) attaching to the Preference Share(s) shall be modified, varied or abrogated or (save for the Capital Reduction) for reducing

the share capital of the Company or any uncalled liability thereon or the amount for the time being standing to the credit of its share premium account or capital redemption reserve in any manner for which the consent of the court will be required; and

10.1.2 the Company shall comply with all laws, rules, regulations and orders to which it is subject.

10.2 Notwithstanding anything in the terms of the Preference Shares, the Company may, subject to compliance with its bye-laws but without any further consent or sanction on the part of the Holders of Preference Shares and without the requirement for any adjustment to the Conversion Rate, the Call Rate and the Put Rate (if applicable), purchase its Ordinary Shares in accordance with the Listing Rules.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors 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 the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required to be notified to the Company 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 the Company 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 Issuers in the Listing Rules to be notified to the Company and the Stock Exchange, were as follows:

(i) *Interests in shares*

	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at Latest Practicable Date)
			Personal interests	Family interests	Corporate interests	
1. The Company	Mr. Lo	Ordinary				
		(i) issued	543,344,843	—	2,935,994,246 <i>(Note a(i))</i>	3,479,339,089
	(ii) unissued	—	—	10,020,000,000 <i>(Note a(ii))</i>	10,020,000,000	
				Total (i) & (ii):	13,499,339,089 (211.03%)	
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	—	—	2,510,000 (0.039%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	—	—	1,659,800 (0.026%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	15,453,000	—	15,453,000 (0.242%)

Name of Associated Corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at Latest Practicable Date)
			Personal interests	Family interests	Corporate interests	
2. Paliburg	Mr. Lo	Ordinary (issued)	442,765	—	4,823,573,477 (Note b)	4,824,016,242 (69.83%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	—	—	100,000 (0.001%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	—	—	284,000 (0.004%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	536,500	—	536,500 (0.008%)
3. Regal Hotels International Holdings Limited (“Regal”)	Mr. Lo	Ordinary (i) issued	220,000	—	3,753,511,610 (Note c(i))	3,753,731,610
		(ii) unissued	22,000 (Note c(iii))	—	374,805,453 (Notes c(ii) to (iv))	374,827,453
					Total (i) & (ii):	4,128,559,063 (49.50%)
		Preference (issued)	—	—	3,440 (Notes c(ii) & (iv))	3,440 (20.54%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	—	—	2,370,000 (0.028%)
4. 8D International (BVI) Limited (“8D-BVI”)	Mr. Lo	Ordinary (issued)	—	—	1,000 (Note d)	1,000 (100%)
5. 8D Matrix Limited	Mr. Lo	Ordinary (issued)	—	—	2,000,000 (Note e)	2,000,000 (100%)
6. 8D International Limited	Mr. Lo	Ordinary (issued)	—	—	500,000 (Note f)	500,000 (100%)
7. Century Digital Communications (BVI) Limited	Mr. Lo	Ordinary (issued)	—	—	1 (Note g)	1 (100%)
8. Century Digital Communications Limited	Mr. Lo	Ordinary (issued)	—	—	2 (Note h)	2 (100%)
9. Century Digital Enterprise Limited	Mr. Lo	Ordinary (issued)	—	—	100 (Note i)	100 (100%)
10. Century Digital Holdings Limited	Mr. Lo	Ordinary (issued)	—	—	3 (Note j)	3 (100%)

Name of Associated Corporation	Name of Director	Class of shares held	Number of shares held			Corporate interests	Total (Approximate percentage of the issued shares as at Latest Practicable Date)
			Personal interests	Family interests			
11. Century Digital Investments Limited	Mr. Lo	Ordinary (issued)	—	—	49,968 (Note k)	49,968 (99.94%)	
12. Full Range Technology Limited	Mr. Lo	Ordinary (issued)	—	—	10,000 (Note l)	10,000 (100%)	
13. Giant Forward Holdings Limited	Mr. Lo	Ordinary (issued)	—	—	1 (Note m)	1 (100%)	
14. Grand Modern Investments Limited	Mr. Lo	Ordinary (issued)	—	—	330 (Note n)	330 (100%)	
15. Important Holdings Limited	Mr. Lo	Ordinary (issued)	—	—	10,000 (Note o)	10,000 (100%)	
16. Net Age Technology Limited	Mr. Lo	Ordinary (issued)	—	—	97 (Note p)	97 (100%)	
17. Net Community Limited	Mr. Lo	Ordinary (issued)	—	—	3 (Note q)	3 (100%)	
18. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	—	—	50,000 (Note r)	50,000 (25%)	
19. Regal International (China) Limited	Mr. Lo	Ordinary (issued)	—	—	1 (Note s)	1 (100%)	
20. Speedway Technology Limited	Mr. Lo	Ordinary (issued)	—	—	50,000 (Note t)	50,000 (100%)	
21. Task Master Technology Limited	Mr. Lo	Ordinary (issued)	—	—	1 (Note u)	1 (100%)	
22. Top Technologies Limited	Mr. Lo	Ordinary (issued)	—	—	10,000 (Note v)	10,000 (100%)	
23. Treasure Collection International Limited	Mr. Lo	Ordinary (issued)	—	—	2 (Note w)	2 (100%)	

*Notes:*

- (a) (i) These issued Ordinary Shares of the Company were held through companies wholly owned by Mr. Lo and a company, namely Master City Limited, 99.9% owned by Mr. Lo.
- (ii) The interests in 10,020,000,000 unissued Ordinary Shares of the Company relate to the rights to put attached to the 9,710,000,000 Series A EPSs and 310,000,000 Series B EPSs of Almighty held by the First Vendor and the Second Vendor respectively. The First Vendor and the Second Vendor may exercise such rights to put during the period from 31st December, 2002 to 31st December, 2004 (as extended), requiring the Company to acquire the 9,710,000,000 Series A EPSs and 310,000,000 Series B EPSs at the consideration of the issuance by the Company to the First Vendor and the Second Vendor of 10,020,000,000 new Ordinary Shares of the Company on the basis of one new Ordinary Share for one Series A EPSs/Series B EPSs.

The interests in 9,710,000,000 unissued Ordinary Shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

The interests in 310,000,000 unissued Ordinary Shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

<b>Name of corporation</b>	<b>Controlled by</b>	<b>% of control</b>
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

- (b) (i) The interests in 4,516,817,417 issued ordinary shares of Paliburg were held through companies (including Almighty) wholly owned by the Company, in which Mr. Lo held 54.39% shareholding interests.

The interests in 106,756,000 issued Paliburg Ordinary Shares were held through corporations controlled by Mr. Lo as detailed below:

<b>Name of corporation</b>	<b>Controlled by</b>	<b>% of control</b>
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

The interests in 200,000,000 issued Paliburg Ordinary Shares were held through corporations controlled by Mr. Lo as detailed below:

<b>Name of corporation</b>	<b>Controlled by</b>	<b>% of control</b>
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00

- (ii) These interests in issued Paliburg Ordinary Shares included the derivative interests in 2,505,000,000 issued Paliburg Ordinary Shares held by the First Vendor and the Second Vendor. Such derivative interests relate to the interests in 9,710,000,000 Series A EPSs and 310,000,000 Series B EPSs held by the First Vendor and the Second Vendor respectively, which are exchangeable into a total of 2,505,000,000 issued Paliburg Ordinary Shares held by Almighty on the basis of 1 Paliburg Ordinary Share for 4 Series A EPSs/Series B EPSs during the exchange period from 31st December, 2002 to 31st December, 2004 (as extended). The derivative interests in 2,505,000,000 issued Paliburg Ordinary Shares held by the First Vendor and the Second Vendor are therefore duplicated in the interests in 2,505,000,000 issued Paliburg Ordinary Shares held by Almighty.

The derivative interests in 2,427,500,000 issued Paliburg Ordinary Shares were held through corporations controlled by Mr. Lo as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

The derivative interests in 77,500,000 issued Paliburg Ordinary Shares were held through corporations controlled by Mr. Lo as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

- (iii) Under the Restructuring, a total of 572,799,476 issued Paliburg Ordinary Shares held by the Century Group will be transferred to certain Creditors at a consideration of HK\$0.13 per ordinary share upon completion of the Restructuring for the purpose of settlement of part of the indebtedness in the amount of approximately HK\$74.46 million owing by the Century Group to such Creditors.

Under the Restructuring, part of the indebtedness will be refinanced into the Secured Bilateral Loans with an aggregate principal amount of HK\$13.78 million (the “HK\$13.78 million Secured Bilateral Loans”) to be granted by certain Creditors for a term of two years. The HK\$13.78 million Secured Bilateral Loans will be secured by, among others, a total of 137,800,000 issued Paliburg Ordinary Shares (the “137.8 million Charged Paliburg Shares”) held by the Century Group. Under the terms of the HK\$13.78 million Secured Bilateral Loans, the relevant Creditors granting such loans will have the right to opt to receive the 137.8 million Charged Paliburg Shares at a price of HK\$0.10 each

for the settlement of the relative amount of the HK\$13.78 million Secured Bilateral Loans proposed to be prepaid by the Century Group in lieu of cash repayment. Such Creditors will also have a similar right of electing to receive the 137.8 million Charged Paliburg Shares upon final repayment at maturity of the HK\$13.78 million Secured Bilateral Loans.

Under the Restructuring, the Exchangeable Notes with an aggregate principal amount of approximately HK\$13.78 million will be issued by a wholly owned subsidiary of the Century Group at their principal value to certain Creditors upon completion of the Restructuring. The Exchangeable Loans, which will be for a term of two years and non-interest bearing, will be exchangeable into a total of 55,120,000 issued Paliburg Ordinary Shares held by the Century Group at a price of HK\$0.25 per ordinary share, subject to adjustment. The holders of the Exchangeable Notes do not have any right to demand for cash repayment of the Exchangeable Notes. Except in the occurrence of an event of default as defined in the terms of the Exchangeable Notes, the Exchangeable Notes will only be exchanged into ordinary shares of Paliburg upon maturity on a mandatory basis. However, prior to maturity, the Century Group will have the right to repay any of the Exchangeable Notes at their principal amount.

In order to facilitate the Restructuring, Mr. Lo has agreed with one of the Creditors (the "Relevant Creditor") that he will provide a personal guarantee in favour of the Relevant Creditor in respect of the secured bilateral loan of HK\$12.38 million (the "HK\$12.38 million Secured Bilateral Loan") to be granted by the Relevant Creditor to the Century Group under the Restructuring and in return the Relevant Creditor will grant to Mr. Lo the right to purchase or procure the purchase of the HK\$12.38 million Secured Bilateral Loan at any time within two years from completion of the Restructuring. Under the terms of the HK\$12.38 million Secured Bilateral Loan, the Relevant Creditor will have the right to opt to receive the 123,800,000 issued Paliburg Ordinary Shares (the "123.8 million Charged Paliburg Shares"), which will form part of the security for the HK\$12.38 million Secured Bilateral Loan, at a price of HK\$0.10 each for the settlement of the relative amount of the HK\$12.38 million Secured Bilateral Loan proposed to be prepaid by the Century Group in lieu of cash repayment. The Relevant Creditor will also have a similar right of electing to receive the 123.8 million Charged Paliburg Shares upon final repayment at maturity of the HK\$12.38 million Secured Bilateral Loan. If Mr. Lo exercises his right to acquire the HK\$12.38 million Secured Bilateral Loan, he will be entitled to have the rights to acquire the 123.8 million Charged Paliburg Shares. If Mr. Lo exercises his right to acquire the HK\$12.38 million Secured Bilateral Loan or is required to perform under his guarantee, 50% of the Exchangeable Notes to be issued to the Relevant Creditor under the Restructuring, which amounted to HK\$6.19 million and carrying the right to exchange into 24,760,000 million Paliburg Ordinary Shares at a price of HK\$0.25 per ordinary share, subject to adjustment, will be transferred to Mr. Lo.

If the conditions of the Restructuring have not been satisfied or, if applicable, waived on or before 15th December, 2004 (or such other date as agreed between the Company and the Liaison Bank for the Creditors (acting on the instruction of the majority of the Creditors)), the Restructuring will lapse. Completion of the Restructuring will take place 10 business days after the Liaison Bank for the Creditors has issued the notice of completion of the Restructuring to all parties to the Master Restructuring Agreement in accordance with the terms of the Master Restructuring Agreement.

- (c) (i) The issued ordinary shares of Regal were held through companies wholly owned by Paliburg, in which the Company held 65.83% shareholding interests.
- (ii) The interests in 374,805,453 unissued ordinary shares of Regal were held through companies wholly owned by Paliburg, in which the Company held 65.83% shareholding interests.

- (iii) The interests in 22,000 and 359,197,026 unissued ordinary shares of Regal relate to the interests in the warrants of Regal carrying subscription rights in an aggregate amount of HK\$89,804,756.50, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 359,219,026 new ordinary shares of Regal at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustment).
- (iv) The interests in 15,608,427 unissued ordinary shares of Regal relate to the interests in 3,440 convertible cumulative redeemable preference shares of Regal carrying rights to convert into 15,608,427 new ordinary shares of Regal, based on the conversion price of HK\$1.7037 per ordinary share and on a reference amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00, during the period from 5th December, 1993 to 5th December, 2008.
- (d) 400 shares were held through companies controlled by the Company and 600 shares were held through a company controlled by Mr. Lo.
- (e) 800,000 shares were held through companies controlled by the Company and 1,200,000 shares were held through companies controlled by Mr. Lo (including 8D-BVI).
- (f) The interests in these shares of 8D International Limited were held through corporations controlled by Mr. Lo as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
	Secure Way Technology Limited	Mr. Lo	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
(i)	The interests in these shares of Century Digital Enterprise Limited were held through corporations controlled by Mr. Lo as detailed below:		
(a)	Name of corporation	Controlled by	% of control
	Century City International Holdings Limited	Mr. Lo	54.39
	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	100.00
	Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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
Ultra Performance Limited	Mr. Lo	100.00

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	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	92.50

(r) The interests in the shares of Network Sky Limited were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.

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

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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 as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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 as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	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 as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	99.93

(b) Name of corporation	Controlled by	% of control
Manyways Technology Limited	Mr. Lo	100.00
Secure Way Technology Limited	Mr. Lo	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 as detailed below:

(a) Name of corporation	Controlled by	% of control
Century City International Holdings Limited	Mr. Lo	54.39
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	100.00
Secure Way Technology Limited	Mr. Lo	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 the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required to be notified to the Company 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 the

Company 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 Issuers in the Listing Rules to be notified to the Company and the Stock Exchange.

- (b) As at the Latest Practicable Date, so far as are known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company 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 the Company or its subsidiaries or had any options in respect of such capital:

Name of substantial shareholder	Number of Ordinary Shares (issued) held	Number of underlying Ordinary Shares (unissued) held	Total number of Ordinary Shares (issued and unissued) held	Approximate percentage of the issued Ordinary Shares as at Latest Practicable Date
YSL International Holdings Limited (Note i)	931,998,340	—	931,998,340	14.57%
Manyways Technology Limited (“Manyways”) (Notes i and ii)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
8D International (BVI) Limited (“8D BVI”) (Notes i, ii and iii)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
Task Master Technology Limited (“Task Master”) (Notes i, ii and iv)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
Secure Way Technology Limited (“Secure Way”) (Notes i and ii)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
Net Community Limited (“Net Community”) (Notes i, ii and v)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
Century Digital Holdings Limited (“Century Digital”) (Notes i, ii and vi)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%

Name of substantial shareholder	Number of Ordinary Shares (issued) held	Number of underlying Ordinary Shares (unissued) held	Total number of Ordinary Shares (issued and unissued) held	Approximate percentage of the issued Ordinary Shares as at Latest Practicable Date
Grand Modern Investments Limited ("Grand Modern") (Notes i, ii and vii)	1,290,000,000	9,710,000,000	11,000,000,000	171.96%
Citigroup Inc. ("Citigroup") (Note viii)	3,257,067	2,155,746,445	2,159,003,512	33.75%
International Bank of Asia Limited ("IBA") (Note ix)	—	890,218,475	890,218,475	13.92%
Shenyin Wanguo (H.K.) Limited ("Shenyin Wanguo") (Note x)	—	2,651,472,241	2,651,472,241	41.45%

## Notes:

- (i) These companies are controlled by Mr. Lo and their interests in Ordinary Shares are included in the corporate interests of Mr. Lo in the Company as disclosed in paragraph (2)(a) of this Appendix.
- (ii) The interests in these Ordinary Shares are directly held by Grand Modern. Further details relating to the derivative interests in unissued Ordinary Shares held by Grand Modern are disclosed in note (a)(ii) under paragraph (2)(a) of this Appendix.
- (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 3,257,067 issued Ordinary Shares are directly held by Citigroup and Citigroup holds, through lending pool, 3,257,067 issued Ordinary Shares.

The interests in 2,155,746,445 unissued Ordinary Shares are directly held by Umbrella Finance Company Limited, which is indirectly 99% owned by Citigroup, through its entitlements as a Creditor to 2,155,746,445 Series A Shares to be issued under the Restructuring. 2,155,746,445 Series A Shares will be convertible into 2,155,746,445 new Ordinary Shares on a one to one basis, subject to the terms of Series A Shares.

- (ix) The interests in these unissued Ordinary Shares are directly held by IBA through its entitlements as a Creditor to 890,218,475 Series A Shares to be issued under the Restructuring. 890,218,475 Series A Shares will be convertible into 890,218,475 new Ordinary Shares on a one to one basis, subject to the terms of Series A Shares. IBA has served a put notice to sell back to the Company 222,554,619 Series A Shares immediately after the issue of such Series A Shares.
- (x) The interests in these unissued Ordinary Shares are directly held by Shenyin Wanguo Strategic Investments (H.K.) Ltd., which is wholly owned by Shenyin Wanguo, through its affiliated companies' entitlements as Creditors to 2,651,472,241 Series C Shares to be issued under the Restructuring. 2,651,472,241 Series C Shares will be convertible into 2,651,472,241 new Ordinary Shares on a one to one basis, subject to the terms of Series C Shares.

Save as disclosed herein, there is no person known to the directors or chief executive of the Company who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company 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 the Company 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 had a service contract with the Company 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) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries subsisting at the Latest Practicable Date which was significant in relation to the business of the Company and its subsidiaries and none of the Directors 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 the Company were made up), acquired or disposed of by or leased to the Company or any of its subsidiaries, or which was proposed to be acquired or disposed of by or leased to the Company or any of its subsidiaries.
- (e) As at the Latest Practicable Date, none of the Directors nor their associates had interests in any business which competes or is likely to compete, either directly or indirectly, with any business of the Century Group.

### 3. LITIGATION

Neither the Company 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 to be pending or threatened against the Company or any of its subsidiaries which in the opinion of the Directors would be or is likely to be of material importance.

### 4. MATERIAL CONTRACTS

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

- a. 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 ordinary shares of Regal (“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 each;
- b. the placing agreement dated 3rd June, 2003 entered into by, among others, Guo Yui as the vendor for the placing of 150,000,000 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;
- c. the placing agreement dated 22nd October, 2003 entered into by, among others, Almighty, as the vendor, for the placing of 150,000,000 Paliburg Ordinary Shares at HK\$0.113 per Paliburg Ordinary 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 Ordinary Shares by Almighty at HK\$0.113 each;
- d. the second supplemental agreement to the Share Swap dated 30th December, 2003 entered into between the Company, the First Vendor, the Second Vendor, the Third Vendor and Almighty for extending certain rights and obligations under the Share Swap and the EPSs from 31st December, 2003 to 30th June, 2004;
- e. the placing agreement dated 15th January, 2004 entered into by, among others, Almighty, as the vendor, for the placing of 180,000,000 Paliburg Ordinary Shares at a price of HK\$0.128 per Paliburg Ordinary 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 Ordinary Shares by Almighty at HK\$0.128 each;

- f. the placing agreement dated 4th May, 2004 entered into by, among others, Almighty, as the vendor, for the placing of 200,000,000 Paliburg Ordinary Shares at HK\$0.21 per Paliburg Ordinary 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 Ordinary Shares by Almighty at HK\$0.21 each;
- g. the third supplemental agreement to the Share Swap dated 29th June, 2004 entered between the Company and the other parties to the Share Swap for extending certain rights and obligations under the Share Swap and the EPSs from 30th June, 2004 to 30th September, 2004;
- h. the fourth supplemental agreement to the Share Swap dated 30th September, 2004 entered into between the Company and the other parties to the Share Swap for extending certain rights and obligations under the Share Swap and the EPSs from 30th September, 2004 to 31st December, 2004;
- i. the Master Restructuring Agreement;
- j. the placing agreement dated 18th October, 2004 entered into by, among others, Almighty, as the vendor, for the placing of 310,000,000 Paliburg Ordinary Shares at a price of HK\$0.162 per Paliburg Ordinary Share; and the top-up subscription agreement entered into between Paliburg and Almighty on the same date for the subscription of 310,000,000 new Paliburg Ordinary Shares by Almighty at HK\$0.162 each; and
- k. the Fifth Supplemental Agreement.

## **5. QUALIFICATION OF EXPERTS**

The followings are the qualification of the experts who have given opinions or advice which are contained in this circular:

Altus Capital Limited	a deemed licensed corporation under the SFO to carry out types 1, 4, 6 and 9 regulated activities
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Ernst & Young	Certified Public Accountants
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As at the Latest Practicable Date, Altus and Ernst & Young were not interested beneficially in the securities of the Company 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 the Company or its subsidiaries.

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

Altus and Ernst & Young have given and have not withdrawn their written consents to the issue of this circular with the inclusion herein of copies of their reports, letters and/or references to their names, in the form and context in which they respectively appear.

**6. GENERAL**

- (a) The head office and principal place of business of the Company is located at 18th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong. The registered office of the Company is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The branch share registrar of the Company 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 the Company 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 the Company is Mr. Allen Wan Tze Wai, a member of the Hong Kong Institute of Certified Public Accountants.
- (e) The English text of this circular shall prevail over the Chinese text.

**7. 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 1st December, 2004:

- (a) the existing memorandum of association and bye-laws of the Company;
- (b) the full text of the proposed amendments to the bye-laws of the Company;
- (c) the audited consolidated financial statements of the Company for each of the years ended 31st December, 2002 and 2003;
- (d) the interim report of the Company for the six months ended 30th June, 2004;
- (e) the letter of advice from the Independent Board Committee, the text of which is set out on pages 27 and 28 of this circular;
- (f) the letter of advice from Altus, the text of which is set out from page 29 to page 42 of this circular;
- (g) the letter from Ernst & Young in respect of the pro forma financial information on the Company set out in Appendix I to this circular;

- (h) the material contracts referred to in paragraph 4 above;
- (i) the letters of consent from Altus and Ernst & Young referred to in paragraph 5 above; and
- (j) the circular of the Company dated 30th June, 2004 with respect to the issue of the 2% guaranteed convertible bonds due 2007 of Regal.

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## NOTICE OF SGM

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(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 Wednesday, 1st December, 2004 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ordinary resolutions and special resolutions of the Company:

### ORDINARY RESOLUTION NO. 1

“**THAT:**

- (a) the master agreement dated 30th September, 2004 entered into by, among others, the Company, certain subsidiaries of the Company (together with the Company, the “Group”) and the financial creditors of the Group (the “Master Restructuring Agreement”, a copy of which has been produced to this meeting marked “A” and signed by the Chairman of this meeting for the purpose of identification) and the proposed transactions contemplated therein (the “Restructuring”) be approved, confirmed and/or ratified; and
- (b) any two directors of the Company be authorised to take all such actions, execute all such documents and to do all such other things on behalf of the Company as they may, in their absolute discretion, consider necessary, desirable or expedient in relation to, or in connection with, the Restructuring or the implementation of or the exercise or enforcement of any of the rights or the performance of any of the obligations under the Master Restructuring Agreement and all documents incidental thereto.”

### ORDINARY RESOLUTION NO. 2

“**THAT:**

- (a) the fifth supplemental agreement dated 5th November, 2004 entered into by the Company, Grand Modern Investments Limited, Select Wise Holdings Limited, Splendid All Holdings Limited and Almighty International Limited (the “Fifth Supplemental Agreement”, a copy of which has been produced to this meeting marked “B” and signed by the Chairman of this meeting for the purpose of identification) to amend certain terms in the agreement dated 2nd August, 2002 entered into amongst the same parties (as supplemented) upon the terms and conditions as set forth in the Fifth Supplemental Agreement (the “Share Swap Amendments”) be approved, confirmed and/or ratified; and

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## NOTICE OF SGM

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- (b) any two directors of the Company be authorised to take all such actions, execute all such documents and to do all such other things on behalf of the Company as they may, in their absolute discretion, consider necessary, desirable or expedient in relation to, or in connection with, the Share Swap Amendments or the implementation of or the exercise or enforcement of any of the rights or the performance of any of the obligations under the Fifth Supplemental Agreement and all documents incidental thereto.”

### SPECIAL RESOLUTION NO. 1

**“THAT:**

- (a) (i) 4,222,287,651 new Series A convertible non-voting preference shares of par value HK\$0.10 each (the “Series A Shares”), (ii) 277,514,577 new Series B convertible non-voting preference shares of par value HK\$0.10 each (the “Series B Shares”) and (iii) 3,249,453,252 new Series C convertible non-voting preference shares of par value HK\$0.10 each (the “Series C Shares”) (collectively, the “Preference Shares”) be created in the capital of the Company, having the respective rights and restrictions as set out in the amendments to the bye-laws of the Company under paragraph (b) of this Special Resolution No. 1, and the authorised share capital of the Company be thereby increased from HK\$2,000,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.10 each to HK\$2,774,925,548 comprising HK\$2,000,000,000 divided into 20,000,000,000 ordinary shares of HK\$0.10 each and HK\$774,925,548 divided into 4,222,287,651 Series A Shares of HK\$0.10 each, 277,514,577 Series B Shares of HK\$0.10 each and 3,249,453,252 Series C Shares of HK\$0.10 each;
- (b) the existing bye-laws of the Company (“Bye-laws”) be altered by (i) the insertion of a new definition of “Preference Shares” immediately after the existing definition of “share” in Bye-law 1; and (ii) the insertion of new Bye-laws 3(D), 3(E) and 3(F) in the Bye-laws, in the form as set out in the document produced to this meeting marked “C” and signed by the Chairman for the purpose of identification, to incorporate into the Bye-laws the respective rights and restrictions attaching to the Series A Shares, the Series B Shares and the Series C Shares; and
- (c) any two directors of the Company be authorised to take all such actions, execute all such documents and to do all such other things on behalf of the Company as they may, in their absolute discretion, consider necessary, desirable or expedient to give effect to this Special Resolution No.1 including without limitation the implementation of the amendments to the Bye-laws and the issue and allotment of the Preference Shares.”

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## NOTICE OF SGM

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### SPECIAL RESOLUTION NO. 2

“**THAT** on a day falling not more than 30 days after the satisfaction of all prerequisite and necessary conditions required for the implementation of the Capital Reorganisation (as defined below) (the “Effective Date”):

- (a) the issued share capital of the Company be reduced by cancelling the paid-up capital to the extent of HK\$0.09 on each of the ordinary shares of HK\$0.10 in issue in the capital of the Company on the Effective Date (the “Capital Reduction”), so that each issued ordinary share in the capital of the Company shall be treated as one fully paid ordinary share of HK\$0.01 each in the capital of the Company (the “Adjusted Ordinary Share”) and any liability of the holders of Adjusted Ordinary Shares to make any further contribution to the capital of the Company on each such Adjusted Ordinary Share shall be treated as satisfied;
- (b) the entire amount standing to the credit of the share premium account of the Company as at the Effective Date be cancelled (the “Share Premium Cancellation”);
- (c) all of the authorised but unissued ordinary share capital of the Company (which shall include the authorised but unissued ordinary share capital arising from the Capital Reduction) be cancelled and forthwith upon such cancellation, the authorised ordinary share capital of the Company be increased by the creation of an additional 33,603,226,047 Adjusted Ordinary Shares or such other number of Adjusted Ordinary Shares as shall be sufficient to increase the authorised ordinary share capital to HK\$400,000,000 (collectively, the “Diminution and Increase”), such that, upon the Diminution and Increase becoming effective, the authorised ordinary share capital of the Company shall be HK\$400,000,000 divided into 40,000,000,000 Adjusted Ordinary Shares;
- (d) the entire credit amount (the “Credit Amount”) arising from the Capital Reduction and the Share Premium Cancellation be credited to the contributed surplus of the Company (the “Application of Credit”); and
- (e) the directors of the Company be authorised generally to do all such acts, matters and things as they may, in their absolute discretion, consider necessary, desirable or expedient to effect and implement the Capital Reduction, the Share Premium Cancellation, the Diminution and Increase and the Application of Credit (collectively, the “Capital Reorganisation”).”

By Order of the Board  
**Eliza Lam Sau Fun**  
*Company Secretary*

Hong Kong, 8th November, 2004

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## NOTICE OF SGM

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*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.