

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. During the year, the principal activities of the subsidiary companies were property development and investment, construction and building related businesses, hotel ownership and management, and other investments. Since 31st July, 2004, Regal Hotels International Holdings Limited ("RHIHL"), the then listed subsidiary company, became the listed associate of the Company. RHIHL and its subsidiary companies (the "RHIHL Group") are engaged in the business activities of hotel ownership and management, property investment and other investments.

There have been no significant changes in these activities during the year.

The turnover and contribution to trading results by each principal activity and by geographical location are set out in note 4 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 89 to 169.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments constitute principally its shareholding interest in RHIHL which holds ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of RHIHL and its operations during the year under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance of RHIHL as well as the progress and prospects on the Regalia Bay development are contained in the Chairman's Report which precedes this report. A detailed review of the other business operations and outlook of the Group is also contained in the Chairman's Report.

Cash Flow and Capital Structure

Net cash inflow from operating activities during the year under review amounted to HK\$163.2 million (2003 - HK\$247.8 million). Net interest payment for the year amounted to HK\$59.7 million (2003 - HK\$136.3 million).

In January 2004, 180.0 million new ordinary shares of HK\$0.01 each were issued by the Company to Almighty International Limited ("Almighty"), a wholly owned subsidiary company of Century City International Holdings Limited, the ultimate listed holding company of the Company, at HK\$0.128 per ordinary share following a placement by Almighty of 180.0 million issued ordinary shares in the Company at HK\$0.128 per ordinary share.



In May 2004, 200.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.21 per ordinary share following a placement by Almighty of 200.0 million issued ordinary shares in the Company at HK\$0.21 per ordinary share.

In July 2004, 300.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.146 per ordinary share following a placement by Almighty of 300.0 million issued ordinary shares in the Company at HK\$0.146 per ordinary share.

In October 2004, 310.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.162 per ordinary share following a placement by Almighty of 310.0 million issued ordinary shares in the Company at HK\$0.162 per ordinary share.

In December 2004, 300.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.183 per ordinary share following a placement by Almighty of 300.0 million issued ordinary shares in the Company at HK\$0.183 per ordinary share.

Net cash inflow to the Company from the above new share issues amounted to an aggregate sum of approximately HK\$209.4 million. Such cash inflows were primarily used for general working capital purposes and funding the acquisition of additional ordinary shares in RHIHL. Further details relating to such new share issues are set out in the section headed "Issue of New Shares under the 20% General Mandate" below.

In March 2004, 750.0 million new ordinary shares were issued by the Company to Almighty upon the exercise by Almighty of the conversion rights attaching to 750.0 million convertible preference shares of HK\$0.10 each of the Company held by it to convert such preference shares into new ordinary shares of the Company, on the basis of one new ordinary share for one preference share so converted.

In July 2004, 300.0 million new ordinary shares were issued by the Company to Almighty upon its further exercise of the conversion rights attaching to 300.0 million convertible preference shares held by it.

In October 2004, 940.0 million new ordinary shares were issued by the Company to Almighty upon its further exercise of the conversion rights attaching to 940.0 million convertible preference shares of the Company held by it. Following the above conversions of the convertible preference shares, there were no outstanding convertible preference shares in issue.

Borrowings

As at 31st December, 2004, the Group's gross borrowings net of cash and bank balances amounted to HK\$10.3 million, as compared to HK\$4,459.7 million in 2003. Gearing ratio based on the total assets of HK\$4,137.9 million (2003 - HK\$9,825.6 million) was 0.2% (2003 - 45.4%).



Details of the Group's pledge of assets and contingent liabilities are shown in notes 44 and 45, respectively, to the financial statements.

Details of the maturity profile of the Group's borrowings are set out in note 30 to the financial statements.

Material Disposals of Subsidiary Companies

As previously disclosed in the Company's 2004 Interim Report for the six months ended 30th June, 2004, as contemplated under the financial restructuring proposal leading to the loan rescheduling agreement between the RHIHL Group and its then bank lenders dated 30th September, 2003 (the "Rescheduling Agreement"), on 29th August, 2003, the RHIHL Group entered into a sale and purchase agreement (the "SP Agreement") for the disposal of its 100% interest in a subsidiary company which indirectly owns the Regal Oriental Hotel. Subsequently, on 30th March, 2004, the parties to the SP Agreement entered into a supplemental agreement to the SP Agreement to extend the completion date of the SP Agreement to 30th June, 2004 and to reinstate the termination option (in a revised form) to the RHIHL Group to terminate the SP Agreement (the "ROH Option"). 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.

On 3rd June, 2004, the RHIHL Group exercised the ROH Option and served the termination notice on the relevant purchaser to terminate the SP Agreement. The termination became effective on 24th June, 2004 and the RHIHL Group had returned the HK\$30.0 million deposit and all interest earned thereon to the purchaser in accordance with the terms of the SP Agreement. A termination fee of HK\$39.0 million was paid to the purchaser pursuant to the terms of the SP Agreement, which was satisfied by the issue of 195.0 million new ordinary shares of RHIHL to the purchaser at an issue price of HK\$0.2 each, as agreed between the parties to the SP Agreement, on 12th July, 2004.

Details of the SP Agreement, the supplemental agreement to the SP Agreement and the termination of the SP Agreement were disclosed in the announcements of the Company dated 4th September, 2003, 31st March, 2004 and 8th June, 2004, respectively.

Save as otherwise disclosed in the Chairman's Report, the Group has no immediate plans for material investments or capital assets.

Funding and Treasury Policy

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



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

Remuneration Policy

The Group, together with the RHIHL Group, employ approximately 1,700 staff in Hong Kong and 800 staff in Mainland China. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include mandatory provident fund scheme and medical and life insurance.

The Company maintains an Executive Share Option Scheme under which share options had been granted to selected eligible executives.

DIVIDENDS

No interim dividend was paid to ordinary shareholders during the year.

The Directors have resolved not to recommend the payment of a final dividend to ordinary shareholders for the year.

According to the terms of the convertible preference shares of the Company, the holders of the convertible preference shares were not entitled to any right of participation in the profits of the Company.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui

Mr. Donald Fan Tung

Mrs. Kitty Lo Lee Kit Tai

Mr. Jimmy Lo Chun To

Mr. Kenneth Ng Kwai Kai

Mr. Ng Siu Chan

Hon Abraham Shek Lai Him, JP

Mr. Wong Chi Keung

On 21st September, 2004, Mr. Wong Chi Keung was appointed as an Independent Non-Executive Director of the Company.

On 10th January, 2005, Dr. Alex Wu Shu Chih, an Independent Non-Executive Director of the Company, unfortunately passed away.



In accordance with Bye-law 102 of the Bye-laws of the Company, Mr. Wong Chi Keung shall hold office until the forthcoming Annual General Meeting (the "AGM") and will retire at the AGM.

In accordance with Bye-law 99 of the Company's Bye-laws and for compliance with the Code on Corporate Governance Practices under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), Mr. Lo Yuk Sui (the Chairman and Managing Director), Mrs. Kitty Lo Lee Kit Tai (a Non-Executive Director) and Mr. Ng Siu Chan (an Independent Non-Executive Director) will retire from office by rotation at the AGM.

All of the above retiring Directors, being eligible, have offered themselves for re-election at the AGM. Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Listing Rules, are set out in the circular of the Company, sent to shareholders together with the 2004 Annual Report, relating to, inter alia, the re-election of Directors.

The Company has received from each of the three incumbent Independent Non-Executive Directors an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considers that all of these Independent Non-Executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests, whether direct or indirect, in any significant contract to which the Company, or any of its holding companies, subsidiary companies or fellow subsidiary companies was a party at the balance sheet date or at any time during the year.

None of the Directors had any service contract, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), with the Company or any of its subsidiary companies during the year.

At no time during the year was the Company or any of its holding companies, subsidiary companies or fellow subsidiary companies a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the Executive Share Option Scheme of the Company (the "Scheme"), pursuant to which options had been granted to certain Directors under the Scheme.

During the year, none of the Directors exercised options to subscribe for shares under the Scheme and all of the outstanding options granted to the Directors under the Scheme had lapsed.



DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2004, 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 Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules, were as follows:

	Name of Director	Class of Shares held	Number of Shares Held			Total (Approximate percentage of the Issued Shares as at 31st December, 2004)
			Personal Interests	Family Interests	Corporate Interests	
1.	The Company					
	Mr. Lo Yuk Sui	Ordinary (issued)	442,765	—	4,250,774,001 (Note b)	4,251,216,766 (58.98%)
	Mr. Donald Fan Tung	Ordinary (issued)	2,718	—	—	2,718 (0.00004%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	—	—	100,000 (0.0014%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	—	—	284,000 (0.0039%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	536,500	—	536,500 (0.0074%)
	Name of Associated Corporation					
2.	Century City International Holdings Limited ("CCIHL")	Ordinary (i) issued	543,344,843	—	9,785,994,246 (Note a(i))	10,329,339,089
		(ii) unissued	—	—	2,610,000,000 (Note a(ii))	2,610,000,000
					Total (i) & (ii):	12,939,339,089 (93.72%)



Name of Associated Corporation	Name of Director	Class of Shares held	Number of Shares Held			Total (Approximate percentage of the Issued Shares as at 31st December, 2004)	
			Personal Interests	Family Interests	Corporate Interests		
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	—	—	2,510,000 (0.018%)	
	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	—	—	1,659,800 (0.012%)	
	Mr. Ng Siu Chan	Ordinary (issued)	—	15,453,000	—	15,453,000 (0.112%)	
3.	RHHL	Mr. Lo Yuk Sui	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 (i) issued	2,370,000	—	—	2,370,000	
		(ii) unissued	237,000 (Note d)	—	—	237,000	
						Total (i) & (ii):	2,607,000 (0.031%)
4.	8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1,000 (Note e)	1,000 (100%)
5.	Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	—	—	50,000 (Note f)	50,000 (25%)



Notes:

- (a) (i) These issued ordinary shares of CCIHL were held through companies wholly owned by Mr. Lo Yuk Sui ("Mr. Lo") and a company, namely Master City Limited, 99.9% owned by Mr. Lo.
- (ii) The interests in 2,610,000,000 unissued ordinary shares of CCIHL related to the rights to put attached to the 2,610,000,000 Series A exchangeable preference shares ("Almighty Series A Shares") of Almighty International Limited ("Almighty"), a wholly owned subsidiary of CCIHL, held by Grand Modern Investments Limited ("Grand Modern"). Grand Modern may exercise such rights to put during the period from 31st December, 2002 to 15th December, 2009 (as extended), requiring CCIHL to acquire the 2,610,000,000 Almighty Series A Shares at the consideration of the issuance by CCIHL to Grand Modern of 2,610,000,000 new ordinary shares of CCIHL on the basis of one new ordinary share for one Almighty Series A Share.

The interests in 2,610,000,000 unissued ordinary shares of CCIHL were held through corporations controlled by Mr. Lo as detailed below:

(a)	Name of corporation	Controlled by	% of control
	CCIHL	Mr. Lo	74.81
	Century City BVI Holdings Limited	CCIHL	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	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	Century Digital Holdings Limited	100.00



- (b) (i) The interests in 3,944,018,001 issued ordinary shares of the Company were held through companies (including Almighty) wholly owned by CCIHL, in which Mr. Lo held 74.81% shareholding interests.

The interests in 306,756,000 issued ordinary shares of the Company 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

The interests in 200,000,000 issued ordinary shares of the Company 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
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00

- (ii) Under the debt restructuring in respect of CCIHL and its subsidiary companies (excluding the Company and RHIHL and their respective subsidiary companies) (the "CCIHL Group") with the financial creditors of the CCIHL Group (the "Creditors"), which was completed on 15th December, 2004, (the "Restructuring"), part of the indebtedness had been refinanced into the secured bilateral loans with an aggregate principal amount of HK\$13.78 million (the "HK\$13.78 million Secured Bilateral Loans") granted by certain Creditors for a term of two years. The HK\$13.78 million Secured Bilateral Loans were secured by, among others, a total of 137,800,000 issued ordinary shares of the Company (the "137.8 million Charged PHL Shares") held by the CCIHL Group. Under the terms of the HK\$13.78 million Secured Bilateral Loans, the relevant Creditors granting such loans have the right to opt to receive the 137.8 million Charged PHL 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 CCIHL Group in lieu of cash repayment. Such Creditors also have a similar right of electing to receive the 137.8 million Charged PHL Shares upon final repayment at maturity of the HK\$13.78 million Secured Bilateral Loans.

On completion of the Restructuring, a wholly owned subsidiary company of CCIHL issued exchangeable notes with an aggregate principal amount of approximately HK\$13.78 million (the "Exchangeable Notes") at their principal value to certain Creditors. The Exchangeable Loans, which are for a term of two years and non-interest bearing, are exchangeable into a total of 55,120,000 issued ordinary shares of the Company held by the CCIHL 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 are only exchangeable into ordinary shares of the Company upon maturity on a mandatory basis. However, prior to maturity, the CCIHL Group have the right to repay any of the Exchangeable Notes at their principal amount.



On completion of the Restructuring, Mr. Lo provided a personal guarantee in favour of one of the Creditors (the "Relevant Creditor") in respect of the secured bilateral loan of HK\$12.38 million (the "HK\$12.38 million Secured Bilateral Loan") granted by the Relevant Creditor to the CCIHL Group under the Restructuring and in return the Relevant Creditor granted 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 has the right to opt to receive the 123,800,000 issued ordinary shares of the Company (the "123.8 million Charged PHL Shares"), which 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 CCIHL Group in lieu of cash repayment. The Relevant Creditor also has a similar right of electing to receive the 123.8 million Charged PHL Shares upon final repayment at maturity of the HK\$12.38 million Secured Bilateral Loans. 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 PHL 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 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 ordinary shares of the Company at a price of HK\$0.25 per ordinary share, subject to adjustment, will be transferred to Mr. Lo.

- (c) (i) The issued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 54.71% shareholding interests.
- (ii) The interests in 374,805,453 unissued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 54.71% shareholding interests.
- (iii) The interests in 22,000 and 359,197,026 unissued ordinary shares of RHIHL related to the interests in the warrants of RHIHL (the "2007 Warrants") 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 RHIHL 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 RHIHL related to the interests in 3,440 convertible cumulative preference shares of RHIHL carrying rights to convert into 15,608,427 new ordinary shares of RHIHL, 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) The derivative interests in these unissued ordinary shares of RHIHL related to the interests in the 2007 Warrants carrying subscription rights in an aggregate amount of HK\$948,000.00, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 237,000 new ordinary shares of RHIHL at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustment).
- (e) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 74.81% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.
- (f) The interests in the shares of Network Sky Limited were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.

Save as disclosed herein, as at 31st December, 2004, 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, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Save as disclosed in note 33 to the financial statements, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the share option scheme (as referred to in note 33 to the financial statements) and no option granted to such persons under the share option scheme has been cancelled and/or lapsed:

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



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2004, 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 as recorded in the register required to be kept under section 336 of the SFO:

Name of Substantial Shareholder	Number of Issued Ordinary Shares held	Approximate percentage of the Issued Ordinary Shares as at 31st December, 2004
CCIHL (Notes i and ii)	3,944,018,001	54.71%
Century City BVI Holdings Limited ("CCBVI") (Note ii)	3,944,018,001	54.71%
Almighty International Limited ("Almighty") (Note ii)	1,909,853,045	26.49%
Cleerview Investments Limited ("Cleerview") (Note ii)	1,185,026,955	16.44%
International Bank of Asia Limited ("IBA") (Note iii)	370,100,000	5.13%

Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 74.81% shareholding interests in CCIHL and the interests in these shares of the Company held by CCIHL through its wholly owned subsidiary companies were included in the corporate interests of Mr. Lo Yuk Sui in the shares of the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) These companies are wholly owned by CCIHL and their interests in the shares of the Company were included in the interests held by CCIHL.
- (iii) IBA is one of the financial creditors under the Debt Restructuring.

Save as disclosed herein, there is no person who, as at 31st December, 2004, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO.

Details of directorships of the Company's Directors in each of those companies which has an interest in the shares and underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

- (1) Mr. Lo Yuk Sui, Mrs. Kitty Lo Lee Kit Tai, Mr. Jimmy Lo Chun To and Mr. Kenneth Ng Kwai Kai are directors of CCIHL.
- (2) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of CCBVI, Almighty and Cleerview.



MOVEMENTS IN SHARE OPTIONS GRANTED BY REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

During the year, details of movements in share option granted by RHIHL, which was previously the listed subsidiary company of the Company and became the listed associate since 31st July, 2004, pursuant to the Executive Share Option Scheme of RHIHL (the "RHIHL Option Scheme") approved by its shareholders on 28th June, 1990 are set out in note 33 to the financial statements.

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

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

MOVEMENTS IN 5¼% CONVERTIBLE CUMULATIVE REDEEMABLE PREFERENCE SHARES OF REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

Movements during the year in 5¼% convertible cumulative redeemable preference shares with par value of US\$10.00 each ("Preference Shares") of RHIHL, which was previously the listed subsidiary company of the Company and became the listed associate since 31st July, 2004, are detailed below:

	Number of Preference Shares
Balance at beginning and at end of year	16,748

Note: The Preference Shares are convertible into fully paid ordinary shares of HK\$0.01 each of RHIHL at any time until and including 5th December, 2008 at the adjusted conversion price of HK\$1.7037 per share (subject to adjustment) based on a reference amount of US\$1,000 per Preference Share at the fixed exchange rate of HK\$7.730255 to US\$1.00.



MOVEMENTS IN CONVERTIBLE BONDS OF THE RHIHL GROUP

As previously disclosed, in January 2004, Richtech Holdings Limited, a wholly owned subsidiary company of RHIHL, issued additional 5% guaranteed convertible bonds due 2004 ("5% Convertible Bonds") in an aggregate principal amount of HK\$30.0 million ("5% Optional Bonds") to a third party purchaser. Part of these 5% Optional Bonds in a principal amount of HK\$28.0 million were subsequently acquired by a wholly owned subsidiary company of the Company. All such 5% Optional Bonds in a principal amount of HK\$30.0 million were converted into 625.0 million new ordinary shares of RHIHL at HK\$0.048 each during the year.

On 3rd June, 2004, two conditional subscription agreements (the "Subscription Agreements") were entered into by Cheerview Limited ("Cheerview"), also a wholly owned subsidiary company of RHIHL, with certain independent third party purchasers in relation to the issue by Cheerview 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 "2% Firm Bonds") and optional bonds of up to an aggregate principal amount of HK\$200.0 million.

The 2% Convertible Bonds, if fully subscribed for and issued, are convertible into a total of 1,600.0 million new ordinary shares of RHIHL at an initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

On 21st July, 2004, the 2% Firm Bonds were subscribed for and issued under the Subscription Agreements. The 2% Firm Bonds are unsecured, bear interest at 2% per annum and are due for repayment in 2007.

ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE

- (1) Pursuant to a subscription agreement dated 7th July, 2004 made between the Company and Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of CCIHL, Almighty subscribed for 300 million new ordinary shares (the "300M Subscription Shares") of HK\$0.01 each in the share capital of the Company (the "Shares") in cash at a subscription price of HK\$0.146 per Share (the "300M Subscription"). The subscription price of HK\$0.146 per Share represented (i) a discount of approximately 7.01% to the closing price of HK\$0.157 per Share as quoted on the Stock Exchange on 7th July, 2004 and (ii) a discount of approximately 6.05% to the average closing price of HK\$0.1554 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 7th July, 2004.



The 300M Subscription was conditional upon, inter alia, the placing of 300 million existing Shares held by Almighty through Uni-Alpha Securities Limited ("Uni-Alpha") as placing agent to independent investors, which was completed on 12th July, 2004. On 16th July, 2004, the 300M Subscription Shares were issued to Almighty. The 300M Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 18th June, 2004, ranking pari passu in all respects with the then existing issued Shares.

The 300M Subscription was intended to raise funds for the Company for general working capital and investments purposes, while broadening the shareholder base and the capital base of the Company. Part of the net proceeds so raised were utilised to fund the acquisition of additional ordinary shares in RHIHL, the then listed subsidiary company of the Company, for the purpose of maintaining an effective controlling interest in RHIHL and the remaining amount of the net proceeds were applied by the Company for general working capital purposes.

Details of the placing of 300 million existing Shares and the 300M Subscription were disclosed in an announcement dated 7th July, 2004 made by the Company.

- (2) Pursuant to a subscription agreement dated 18th October, 2004 made between the Company and Almighty, Almighty subscribed for 310 million new Shares (the "310M Subscription Shares") of the Company in cash at a subscription price of HK\$0.162 per Share (the "310M Subscription"). The subscription price of HK\$0.162 per Share represented (i) a discount of approximately 6.90% to the closing price of HK\$0.174 per Share quoted on the Stock Exchange on 18th October, 2004 and (ii) a discount of approximately 12.90% to the average closing price of HK\$0.186 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 18th October, 2004.

The 310M Subscription was conditional upon, inter alia, the placing of 310 million existing Shares held by Almighty through Uni-Alpha as placing agent to independent investors, which was completed on 21st October, 2004. On 28th October, 2004, the 310M Subscription Shares were issued to Almighty. The 310M Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 18th June, 2004, ranking pari passu in all respects with the then existing issued Shares.

The 310M Subscription was intended to raise working capital for the Company while broadening its shareholder and capital base. The net proceeds of approximately HK\$49.1 million so raised were used for general working capital purposes.

Details of the placing of 310 million existing Shares and the 310M Subscription were disclosed in an announcement dated 18th October, 2004 made by the Company.



- (3) Pursuant to a subscription agreement dated 16th December, 2004 made between the Company and Almighty, Almighty subscribed for 300 million new Shares (the "300M Shares") of the Company in cash at a subscription price of HK\$0.183 per Share (the "Subscription"). The subscription price of HK\$0.183 per Share represented (i) a discount of approximately 6.63% to the closing price of HK\$0.196 per Share as quoted on the Stock Exchange on 16th December, 2004 and (ii) a discount of approximately 6.54% to the average closing price of HK\$0.1958 per Share as quoted on the Stock Exchange for the last 5 trading days up to and including 16th December, 2004.

The Subscription was conditional upon, inter alia, the placing of 300 million existing Shares held by Almighty through Uni-Alpha as placing agent to independent investors, which was completed on 21st December, 2004. On 29th December, 2004, the 300M Shares were issued to Almighty. The 300M Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 18th June, 2004, ranking pari passu in all respects with the then existing issued Shares.

The Subscription was intended to raise funds for the Company for general working capital and investments purposes while broadening the Company's shareholder and capital base. The net proceeds of approximately HK\$53.7 million so raised had not been utilised to fund any specific investments and were used for general working capital purposes.

Details of the placing of 300 million existing Shares and the Subscription were disclosed in an announcement dated 16th December, 2004 made by the Company.

Details of movements in the share capital of the Company during the year are set out in note 33 of the financial statements.

For the purpose of the sections below headed "Connected Transactions" and "Disclosure pursuant to Rule 13.16 of Chapter 13 of the Listing Rules", the "RHIHL Group" refers to RHIHL and its subsidiary companies; the "PHL Group" refers to the Company and its subsidiary companies, other than those comprising the RHIHL Group; and the "CCIHL Group" refers to CCIHL and its subsidiary companies, other than those comprising the PHL Group.

CONNECTED TRANSACTIONS

ON-GOING TRANSACTIONS

On 9th February, 1998, the Company issued a circular (the "Circular") to the shareholders containing information regarding, inter alia, various on-going transactions (the "On-going Transactions") and future similar transactions (the "Future Connected Transactions") between respective subsidiary companies of the CCIHL Group, the PHL Group and the RHIHL Group, all conducted within their ordinary and normal course of businesses. The said transactions constituted or would constitute connected transactions for the Company under the relevant Listing Rules then in force. The Stock Exchange, on application by the Company, granted a waiver (the "1998 Waiver") of strict compliance by the Company with the announcing requirement under the relevant Listing Rules then in force in respect of Future Connected Transactions. Details of the 1998 Waiver were contained in the Circular.



Miscellaneous Connected Transaction

An associate of the CCIHL Group has been providing advertising and promotion services to the PHL Group on retainers and at a standard fee based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The associate is owned as to 10% by the CCIHL Group (the CCIHL Group also holds an additional 2% attributable interest through its holding in 8D BVI), 30% by the RHIHL Group (the RHIHL Group also holds an additional 6% attributable interest through its holding in 8D BVI) and 60% indirectly by Mr. Lo Yuk Sui, the Chairman and controlling shareholder of CCIHL, through his associates (as defined in the Listing Rules), including 8D BVI. The aggregate sum of the retainer fees and standard fees paid by the PHL Group to that associate of CCIHL Group in respect of such transactions for the year ended 31st December, 2004 amounted to approximately HK\$0.03 million.

Compliance with the 1998 Waiver Conditions

The aggregate amount of the retainer fees and standard fees under the Miscellaneous Connected Transaction paid by the PHL Group to the CCIHL Group for the period from 1st January, 2004 to 30th March, 2004 (i.e. the date immediately before the date when the new Chapter 14A of the Listing Rules came into force) when the 1998 Waiver remained in force (the "Waiver Period") was within the relevant cap as set out in the 1998 Waiver of 0.25% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2003, adjusted to take into account of the results for the six-month period ended 30th June, 2004.

The Miscellaneous Connected Transaction has been reviewed by the Directors (including the Independent Non-Executive Directors), and the Independent Non-Executive Directors of the Company have confirmed that they consider that the above transaction was conducted:

- (a) in the ordinary and usual course of business of the Company;
- (b) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
- (c) on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The Auditors of the Company have confirmed to the Directors in writing in respect of the Miscellaneous Connected Transaction that the relevant transaction has received the approval of the Board of Directors, and that they consider that the relevant transaction to have been entered into on normal commercial terms and in accordance with the terms of the agreement relating to the transaction or, where there is no such agreement, on terms no less favourable than terms available to or from independent third parties.

Pursuant to Rule 14A.31(2)(a) of the new Chapter 14A of the Listing Rules, which came into force on 31st March, 2004, the Miscellaneous Connected Transaction during the financial year of 2004 fell under the de minimis exemption and was not subject to the requirements of announcement and independent shareholders approval.



Corporate Services Transactions

As disclosed in a joint announcement of CCIHL, the Company and RHIHL dated 12th January, 2004, details of the changed arrangements and the new waiver applicable to the On-going Connected Transactions previously covered by the 1998 Waiver with respect to the sharing of the corporate management services and the rental arrangement among the CCIHL Group, the PHL Group and the RHIHL Group (the "New Waiver") are as follows:

Corporate Management Services shared by the CCIHL Group with the PHL Group and the RHIHL Group

The CCIHL Group has been sharing corporate management services with members of the PHL Group and the RHIHL Group, such as finance and accounting as well as administrative and secretarial services. Up to 31st December, 2002, the fees for such services were charged by apportionment of actual costs among the companies on a proportionate basis by reference to individual consolidated turnover, profit (before interest and tax) (as applicable) and gross asset value (excluding listed subsidiary(ies), if applicable) of CCIHL, the Company and RHIHL for each financial year. Due to the significant change in the business and asset holding structure of the PHL Group and the RHIHL Group as a result of the corporate restructuring transactions jointly announced by CCIHL, the Company and RHIHL on 2nd August, 2002 and completed in the 4th quarter of 2002, the previous cost sharing basis was subsequently reviewed by CCIHL, the Company and RHIHL in early 2003. While management expenses incurred directly for each individual group's respective operations or operational functions will continue to be subject to specific allocation, it has been agreed that the general corporate management expenses relating to those operational functions that are shared amongst the CCIHL Group, the PHL Group and the RHIHL Group will be allocated by reference to a predetermined ratio assessed by the management of the three groups based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups. The new sharing basis had been reviewed and approved, in principle, by the respective audit committees of CCIHL, the Company and RHIHL in May 2003 and it was agreed that the new sharing basis should be applied in the allocation of management expenses amongst the CCIHL Group, the PHL Group and the RHIHL Group commencing retrospectively from 1st January, 2003. The relevant ratio of allocations will be reviewed and re-assessed (if necessary) on an annual basis by the board of directors (including the independent non-executive directors) and the audit committee of each of CCIHL, the Company and RHIHL.

The sharing of corporate management services by the CCIHL Group with the PHL Group and the RHIHL Group has been and will continue to be conducted on normal commercial terms and in the ordinary and usual course of business of all of the companies concerned.

The Directors (including Independent Non-Executive Directors) of the Company are of the view that sharing of corporate management services enables the three group companies to reduce operating cost and improve efficiency.

Based on the new sharing basis amongst the three listed groups, the aggregate amount of services fees that was allocated to the PHL Group and the RHIHL Group for the sharing of corporate management services was HK\$11.9 million for the year ended 31st December, 2004.



Rental Arrangement between the CCIHL Group, the PHL Group and the RHIHL Group

The CCIHL Group, the PHL Group and the RHIHL Group have been using the offices at 18th to 22nd Floors of Paliburg Plaza (the "Offices") as their management and administrative offices. Before the closing of the bonds settlement of the PHL Group on 31st October, 2002 (the "Bonds Settlement"), the Offices were owned by a member of the PHL Group. The relevant rentals for the Offices were directly assumed by each of the CCIHL Group, the PHL Group and the RHIHL Group. As part of the Bonds Settlement, the Paliburg Plaza, in which the Offices were located, was transferred in October 2002 from a member of the PHL Group to an independent third party not connected with CCIHL, the Company or RHIHL and/or any directors, chief executive and substantial shareholders of each of the three companies or their respective subsidiary companies or any of their respective associates. In order to simplify the administrative procedures and as a facilitation to the new landlord of the Offices, the CCIHL Group acts as the named tenant of the Offices and the rental is then allocated to the CCIHL Group, the PHL Group and the RHIHL Group. CCIHL does not receive any consideration from the Company and RHIHL for collecting and paying the rent on their behalf under the rental arrangement.

Prior to 1st January, 2003, the rental was allocated among the three groups on the following basis:

- (1) according to the floor areas of the Offices specifically occupied and used by each of the CCIHL Group, the PHL Group and the RHIHL Group (the "Specific Areas"); and
- (2) according to fair estimates of proportional use by each of the CCIHL Group, the PHL Group and the RHIHL Group as agreed by the boards of directors of CCIHL, the Company and RHIHL from time to time in respect of the floor areas of the Offices which are occupied and used by the CCIHL Group, the PHL Group and the RHIHL Group on a communal basis (the "Communal Area") by reference to individual consolidated turnover, profit (before interest and tax) (as applicable) and gross asset values (excluding listed subsidiary(ies), if applicable) of CCIHL, the Company and RHIHL for each financial year.



CCIHL, the Company and RHIHL reviewed the rental allocation basis after completion of the Bonds Settlement. With effect from 1st January, 2003, the rent for the Specific Area continues to be allocated based on the actual floor areas occupied by each of the listed groups, and the rent for Communal Area is shared amongst CCIHL, the Company and RHIHL by reference to a predetermined ratio assessed by the management of the three groups based on distribution of job responsibilities and the estimated time to be spent by those operating departments in serving each of the three listed groups and approved by each of the audit committee of CCIHL, the Company and RHIHL. The relevant ratio of allocations is to be reviewed and re-assessed (if necessary) on an annual basis by the directors (including the independent non-executive directors) and the audit committee of each of the three listed groups. The Directors (including Independent Non-Executive Directors) of the Company consider that the above rental allocation basis is fair and reasonable to its shareholders.

The Directors (including Independent Non-Executive Directors) of the Company also consider that the transactions are carried out in the ordinary and usual course of business of all the companies concerned and on normal commercial terms.

For the year ended 31st December, 2004, the aggregate amount of actual rental for the Offices allocated by CCIHL to the PHL Group and the RHIHL Group was HK\$2.2 million.

New Waiver for Corporate Management Services and Rental Arrangement

As mentioned above, in 1998, the Company obtained from the Stock Exchange the 1998 Waiver in respect of, among other things, the Ongoing Connected Transactions relating to the Corporate Services Transactions. As set out in the Company's annual report for the year ended 31st December, 2002, the amount apportioned to the PHL Group under the corporate management services for the year ended 31st December, 2002 amounted to approximately HK\$19.2 million, which represented approximately 1.01% of the published audited consolidated net tangible assets of PHL for the year ended 31st December, 2001 as adjusted to take into account the interim results of the PHL Group for the six months ended 30th June, 2002 and exceeded the relevant cap of 0.50%. It was principally due to the decrease in the net tangible asset value of the PHL Group that led to the actual amount of the corporate management services apportioned to the PHL Group having exceeded the cap. The Company did not seek a separate waiver from the Stock Exchange at the time when the annual amount of the allocated corporate management services for 2002 was ascertained to have exceeded the cap amount due to an oversight. The Company has taken steps to strengthen its internal compliance procedures to ensure timely disclosure and compliance with the Listing Rules.



As stated above in the paragraph headed "Corporate Management Services shared by the CCIHL Group with the PHL Group and the RHIHL Group", the cost sharing basis of the corporate management services has changed with effect from 1st January, 2003. In addition, the above rental arrangement among the CCIHL Group, the PHL Group and the RHIHL Group constitutes an ongoing connected transaction for the Company. The Stock Exchange, on application by the Company, granted to the Company a new waiver for the Ongoing Connected Transactions under (a) the sharing of the Corporate Management Services among the three listed groups and (b) the Rental Arrangement among the CCIHL Group, the PHL Group and the RHIHL Group from strict compliance with the disclosure requirements under the Listing Rules in respect of the transactions subject to the conditions stated in the paragraph headed "Compliance with New Waiver Conditions" below.

Compliance with New Waiver Conditions

The Company has complied with the conditions of the New Waiver for the transactions under the sharing of Corporate Management Services and the Rental Arrangement set out below for the relevant period up to 30th March, 2004 (i.e. the date immediately before the date on which the new Chapter 14A of the Listing Rules came into force) (the "Relevant Period"):

- (1) the transactions were:
 - (i) entered into by the Group in the ordinary and usual course of its business; and
 - (ii) conducted on terms that are fair and reasonable so far as the shareholders of the Company are concerned and no less favourable to the Group than terms available from independent third parties;
- (2) the aggregate amount of each class of the transactions of the Group under the sharing of Corporate Management Services and the Rental Arrangement for the Relevant Period did not exceed 3% of the latest published consolidated net tangible asset value of the Company in the financial year of 2004;
- (3) the Independent Non-Executive Directors of the Company have reviewed the sharing of Corporate Management Services and the Rental Arrangement for the Relevant Period and confirmed in this annual report of the Company for the financial year of 2004 that the sharing of Corporate Management Services and the Rental Arrangement were conducted in the manner as stated in paragraphs (1) and (2) above;
- (4) the Auditors of the Company have reviewed the subject transactions for the New Waiver Period and confirmed in a letter to the Board of Directors of the Company (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating:
 - (i) the transactions have received the approval of the Board of Directors of the Company;
 - (ii) the transactions have been carried out in accordance with the terms of the agreements governing such transactions, if any; and



- (iii) the aggregate amount of each class of the transactions under the sharing of Corporate Management Services and the Rental Agreement for the Relevant Period has not exceeded the maximum amount as stated in paragraph 2 above; and
- (5) details of the transactions of the sharing of Corporate Management Services and the Rental Arrangement in the Relevant Period have been disclosed according to the relevant disclosure requirements under the Listing Rules in this annual report of the Company for the financial year of 2004 together with a statement of the opinion of its Independent Non-Executive Directors referred to in paragraph (3) above.

Pursuant to Rule 14A.31(8) of the new Chapter 14A of the Listing Rules, the sharing of corporate management services was exempted from the requirements of announcement and independent shareholders' approval.

Pursuant to Rule 14A.31(2)(a) of the new Chapter 14A of the Listing Rules, the Rental Arrangement during the financial year of 2004 fell under the de minimis exemption and was not subject to the requirements of announcement and independent shareholders' approval.

Information relating to the On-going Transactions is also contained in note 43 to the financial statements.

DISCLOSURE PURSUANT TO RULE 13.16 OF CHAPTER 13 OF THE LISTING RULES

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rule 13.16 of Chapter 13 of the Listing Rules.

Financial Assistance provided to and Guarantees given for Affiliated Companies (Rule 13.16 of Chapter 13)

Details of the financial assistance provided to affiliated companies by the Group as at 31st December, 2004 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Total (HK\$'million)
Cheerjoy Development Limited	155.2	–	155.2
Talent Faith Investments Ltd.	78.6	–	78.6
Network Sky Limited	0.8	–	0.8
Smart Tactic Limited	0.4	–	0.4
Total:	<u>235.0</u>	<u>–</u>	<u>235.0</u>



Cheerjoy Development Limited ("Cheerjoy") was a wholly owned subsidiary company of the Company and became a 30% owned associate of the Company during 1999. Cheerjoy owns the development property at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East, Hong Kong. The remaining 70% shareholding interest in Cheerjoy is owned by a third party, which is independent of, and not connected with the Company, the Directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder's loans and, according to the terms of the shareholders' agreement in respect of this joint venture, would not be in proportion to the Company's shareholding interest in Cheerjoy. The advances were provided for the purpose of funding the working capital requirements of Cheerjoy, are unsecured, interest free and have no fixed terms of repayment.

Talent Faith Investments Ltd. ("Talent Faith") was previously a 50% owned associate of the Company. Talent Faith owns a 65% interest in a joint venture company which, in turn, owns 70% interest in an equity joint venture in the People's Republic of China involved in property development project in Beijing. The other 50% beneficial interest in Talent Faith was previously held by the purchaser (the "Purchaser") under a sale and purchase agreement for the sale by the 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 Group has enforced its rights in the prior year to repossess the 50% interest in Talent Faith sold to the Purchaser under the Former SP Agreement. In July 2003, the Group entered into a new sale and purchase agreement with the Purchaser for the sale of the 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 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 Group is legally retaining the entire shareholding ownership in Talent Faith, the 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 consider it appropriate to continue to account for the Group's interest therein as an associate as the Group's control over Talent Faith may be temporary, subject to the outcome of the New SP Agreement. The advances were provided by the PHL Group in the form of shareholder's loans and, in accordance with the terms in the Former SP Agreement, would not be in proportion to the Company's shareholding interest in Talent Faith. The advances were provided for the purpose of funding the working capital requirements of Talent Faith, are unsecured, interest free and have no fixed terms of repayment.



Network Sky Limited ("Network Sky") is a 25% owned associate of the Company, which through its wholly-owned subsidiary company is engaged in the carrying on of a light refreshment operation. The other shareholding interests in Network Sky are owned as to 25% indirectly by RHIHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, a director of the Company and RHIHL (until 17th August, 2004), through her associate (as defined in the Listing Rules) and 25% directly by a third party which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Network Sky were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Network Sky, for the purpose of financing the working capital of Network Sky. The advances are unsecured, interest free and have no fixed terms of repayment.

Smart Tactic Limited ("Smart Tactic"), a 30% owned associate of the Company, is engaged in carrying on business in sourcing, trading and distributing biometric security products primarily in the People's Republic of China. The remaining 70% shareholding interest in Smart Tactic is owned by a third party, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Smart Tactic were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Smart Tactic, for the purpose of funding the working capital requirements of Smart Tactic. The advances to Smart Tactic are unsecured, interest free and have no fixed terms of repayment.

Calculated on the basis shown above, as at 31st December, 2004, the aggregate amount of financial assistance provided to affiliated companies by the Group in the sum of HK\$235.0 million represented 5.7% of the consolidated total assets of the Company of \$4,137.9 million (the "Paliburg TA"), by reference to its latest audited financial statements for the year ended 31st December, 2004.

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

	Pro-forma combined balance sheet (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	1,012.4	523.7
Current assets	6.4	4.2
Current liabilities	(68.6)	(68.2)
Non-current liabilities	(791.6)	(411.8)
	<hr/>	<hr/>
Net liabilities	158.6	47.9
	<hr/> <hr/>	<hr/> <hr/>



CORPORATE GOVERNANCE

Code of Best Practice

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

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee. The Audit Committee currently comprises Mr. Wong Chi Keung (Chairman of the Committee), Mr. Ng Siu Chan and Hon Abraham Shek Lai Him, JP, all of whom are Independent Non-Executive Directors of the Company. Dr. Alex Wu Shu Chih, who was previously the Chairman of the Audit Committee unfortunately passed away on 9th January, 2005. On 13th January, 2005, Mr. Wong Chi Keung was elected the Chairman of the Audit Committee. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed and discussed with the Company's management the accounting principles and practices adopted by the Group, auditing, internal control and financial reporting matters, including the review of the audited consolidated financial statements for the year ended 31st December, 2004.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the "Code for Securities Transactions by Directors of Paliburg Holdings Limited" (the "Paliburg Code"), on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors of the Company. Following specific enquiry by the Company, the Directors have confirmed that they have complied with the required standard under the Model Code and the Paliburg Code during the year ended 31st December, 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.



PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

FIXED ASSETS

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

PROPERTY UNDER DEVELOPMENT

The details of movements in property under development during the year are set out in note 18 to the financial statements.

PROPERTY HELD FOR FUTURE DEVELOPMENT

The details of movements in property held for future development during the year are set out in note 19 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 30 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company, together with reasons thereafter, during the year are set out in note 33 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 33 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 35 to the financial statements.

SPECIAL RESERVE

The details of movements in the special reserve account during the year are set out in note 36 to the financial statements.



REVALUATION RESERVES

The details of movements in the revaluation reserves account during the year are set out in note 37 to the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in note 38 to the financial statements.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 39 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly controlled entity and associates are set out in notes 20 and 21 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 40 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2004, the Company's reserves available for distribution calculated in accordance with The Companies Act 1981 of Bermuda amounted to HK\$2,419.3 million.

The Company's share premium may be distributed in the form of fully paid bonus shares.

INTEREST CAPITALISED

No interest expense was capitalised during the year in respect of the Group's property development projects.

AUDITORS

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

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong
11th April, 2005

