

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

**If you have sold** all your shares in Paliburg 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.

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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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**(Stock Code: 617)**

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

**Issue of 2% Guaranteed Convertible Bonds due 2007 of Regal**

**Financial adviser to Paliburg Holdings Limited**



**Ernst & Young Corporate Finance Limited**

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A notice convening a special general meeting of Paliburg Holdings Limited to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:30 a.m. on Monday, 19th July, 2004 is set out on pages 161 to 162 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 Paliburg 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.

30th June, 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:*

“2002 Circulars”	the circulars of Century City and Paliburg each dated 26th August, 2002
“Announcement”	the announcement jointly made by Century City, Paliburg and Regal dated 8th June, 2004 in relation to, among other things, issue of the Bonds and the Bonus Issue of Regal
“associates”	has the same meaning as defined in Chapter 1 of the Listing Rules
“Board”	the board of directors of Paliburg
“Bonds”	2% Guaranteed Convertible Bonds due 2007, comprising the Firm Bonds and any Optional Bonds, convertible into Regal Shares and guaranteed by Regal, and to be issued by the Issuer pursuant to the Subscription Agreements
“Bondholder(s)”	holder(s) of the Bonds
“Bonus Issue”	the proposed bonus issue of the Warrants
“Century City”	Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Century City Group”	Century City and its subsidiaries
“Century City SGM”	the special general meeting of Century City to be held for the purposes of seeking approvals from the Century City Shareholders for, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Century City to determine whether to request the PHL Group to, or whether to request the PHL Group not to, exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue
“Century City Shareholders”	the holders of the ordinary shares of HK\$0.10 each in the share capital of Century City
“Chasehill”	Chasehill Limited, a company wholly and directly owned by Dragon Root
“Closing Date”	the closing date for the issue of the Firm Bonds

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## DEFINITIONS

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“Conversion Price”	the conversion price of the Bonds, initially being HK\$0.25 per Regal Share, which is subject to adjustment as summarised in the Letter from the Board contained in this circular
“Dragon Root”	Dragon Root Inc., an indirect wholly owned subsidiary of Regal
“Firm Bonds”	Bonds in an aggregate principal amount of HK\$200 million which Subscriber A and Subscriber B have agreed to subscribe for, subject to the fulfillment and/or the waiver of the conditions precedent, on the Closing Date pursuant to the Subscription Agreements
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Issuer”	Cheerview Limited, a wholly-owned subsidiary of Regal
“Latest Practicable Date”	25th June, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	has the meaning ascribed to it under the paragraph headed “Maturity date” in the section headed “Principal terms of the Bonds” set out in the Letter from the Board in this circular
“Optional Bonds”	additional Bonds in an aggregate principal amount of up to HK\$200 million, which each of Subscriber A and Subscriber C has an option to subscribe for up to HK\$100 million in aggregate principal amount, in whole or in part (in integral multiples of HK\$1 million) and on one or more occasions, from the Closing Date to the date falling 90 days prior to the Maturity Date, pursuant to the Subscription Agreements
“Paliburg”	Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Paliburg Group”	Paliburg and its subsidiaries
“Paliburg Shareholders”	the holders of Shares
“PHL Group”	Paliburg and its subsidiaries (excluding the Regal Group)

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## DEFINITIONS

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“Purchaser”	Sino Bright Group Limited, the purchaser under the SP Agreement, who is not, and whose controlling beneficial shareholders are not, connected person(s) (as defined under the Listing Rules) of Paliburg under the Listing Rules
“Record Date”	the record date for the determination of entitlements to the issue of the Warrants under the Bonus Issue, scheduled to be on Monday, 19th July, 2004
“Regal”	Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Regal Convertible Preference Shares”	5¼% convertible cumulative redeemable preference shares of US\$10 each in the share capital of Regal
“Regal Group”	Regal and its subsidiaries
“Regal Oriental Hotel”	Regal Oriental Hotel, the hotel property and business in the name of “Regal Oriental Hotel” located at 30-38 Sa Po Road, Kowloon, Hong Kong
“Regal SGM”	the special general meeting of Regal to be held for the purposes of seeking approvals from the Regal Shareholders for, among other things, (i) the performance by Regal of the Subscription Agreements; (ii) the issue of the Bonds by the Issuer; and (iii) the Bonus Issue by Regal
“Regal Shares”	ordinary shares in the share capital of Regal, with par value of HK\$0.01 each
“Regal Shareholders”	holders of the Regal Shares
“ROH Termination Option”	Dragon Root’s option to terminate the SP Agreement pursuant to the terms thereunder
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of Paliburg to be held for the purposes of seeking approvals from the Paliburg Shareholders for, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Paliburg to determine whether or not to exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue
“Shares”	ordinary shares of HK\$0.01 each in the share capital of Paliburg

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## DEFINITIONS

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“SP Agreement”	the sale and purchase agreement dated 29th August, 2003 entered into between Dragon Root, Regal and the Purchaser in respect of the sale by Dragon Root of its 100% interest in Chasehill which indirectly owns 100% interest in the Regal Oriental Hotel, as supplemented by a supplemental agreement dated 30th March, 2004
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscribers”	Subscriber A, Subscriber B and Subscriber C
“Subscriber A”	Clovering Enterprise Limited, which is not a connected person of Paliburg under the Listing Rules
“Subscriber B”	Finance Noble Limited, which is not a connected person of Paliburg under the Listing Rules
“Subscriber C”	Leader Advance Limited, which is not a connected person of Paliburg under the Listing Rules
“Subscription Agreements”	the two conditional subscription agreements, both dated 3rd June, 2004, one entered into between the Issuer, Regal and Subscriber A, and another entered into between the Issuer, Regal, Subscriber B and Subscriber C, in relation to the subscription of the Bonds
“Subscription Price”	the sum payable in respect of each Regal Share to which a holder of a Warrant will be entitled to subscribe for upon exercise of the Subscription Right represented thereby, initially being HK\$0.25 per Regal Share, which is subject to adjustments as summarised in the Letter from the Board contained in this circular
“Subscription Right”	in relation to each Warrant, means the right of the holder of the Warrant, in units of HK\$0.25, to subscribe for a certain number of new Regal Shares at the Subscription Price per Regal Share (subject to adjustment) at any time from the date falling 6 months after the issue date of the Warrants to the date falling 7 days prior to the third anniversary of the issue of the Warrants (both dates inclusive)
“US\$”	United States dollars, the lawful currency of the United States of America
“Warrants”	warrants to be issued by Regal under the Bonus Issue which carry the benefit of the Subscription Right

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## LETTER FROM THE BOARD

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*Directors:*

LO Yuk Sui (*Chairman and Managing Director*)

Donald FAN Tung

\*Kitty LO LEE Kit Tai

Jimmy LO Chun To

Kenneth NG Kwai Kai

\*NG Siu Chan

\*Abraham SHEK Lai Him, JP

\*Alex WU Shu Chih, CBE, LL D, FBIM FIOP, F Inst D, JP

\* *Independent Non-Executive Directors*

# *Non-Executive Director*

*Head office and principal place  
of business:*

18th Floor

Paliburg Plaza

68 Yee Wo Street

Causeway Bay

Hong Kong

30th June, 2004

*To the Paliburg Shareholders*

Dear Sir or Madam,

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

#### **Issue of 2% Guaranteed Convertible Bonds due 2007 of Regal**

#### **INTRODUCTION**

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

The board of directors of Regal has proposed a bonus issue of the Warrants to the Regal Shareholders on the basis of one unit of HK\$0.25 Subscription Right attaching to the Warrant for every 10 Regal Shares held on the Record Date, which is scheduled to be on 19th July, 2004. As at the Latest Practicable Date, Century City was the controlling shareholder of Paliburg beneficially holding approximately 64.8% of the issued ordinary share capital of Paliburg; while Paliburg had a beneficial interests of approximately 44.9% in the issued ordinary share capital of Regal. The Board has proposed to obtain a general authority from the Paliburg Shareholders to determine whether or not to exercise the Warrants which may be issued pursuant to the Bonus Issue.

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## LETTER FROM THE BOARD

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

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

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

### **SUBSCRIPTION AGREEMENTS**

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

#### **Subscribers**

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

#### **Principal terms of the Bonds**

##### ***Firm Bonds and Optional Bonds***

The Bonds comprise:

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

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



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## LETTER FROM THE BOARD

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### *Conversion rights*

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

### *Conversion price*

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

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

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

### *Subscription of the Optional Bonds*

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

### *Deposit*

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

### *Interest*

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

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## LETTER FROM THE BOARD

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### *Maturity date*

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

### *Transferability*

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

### *Early redemption*

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

### *Voting rights at general meetings of Regal*

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

### **Regal Shares to be issued upon conversion of the Bonds**

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

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

### **Use of proceeds from the issue of the Bonds**

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

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## LETTER FROM THE BOARD

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### **Conditions of the Subscription Agreements**

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

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

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

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

### **Application for listing**

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

### **Reasons for the issue of the Bonds**

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

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## LETTER FROM THE BOARD

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### **BONUS ISSUE OF WARRANTS BY REGAL**

#### **The Bonus Issue**

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

#### **The Warrants**

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

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

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

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

#### **Regal Shares to be issued upon exercise of the Warrants**

Based on the approximately 8,145.4 million Regal Shares in issue on the Latest Practicable Date and the 195 million Regal Shares to be issued pursuant to the termination of the SP Agreement, and assuming no other change to Regal's issued ordinary share capital on or before the Record Date, Warrants in aggregate carrying Subscription Rights of approximately HK\$208.5 million will be issued pursuant to the Bonus Issue. Based on the initial Subscription Price of HK\$0.25, exercise of such Warrants in full would result in the issue of approximately 834 million new Regal Shares, representing approximately 10.2% of the issued ordinary share capital of Regal as at the Latest Practicable Date. As at the Latest Practicable Date, approximately 16,748 Regal Convertible Preference Shares were outstanding which may be converted into approximately 76 million new Regal Shares at a conversion price of HK\$1.7037 per Regal Share, of which 3,440 Regal Convertible Preference Shares were held by Paliburg. For details of the effect of the Warrants on the shareholding structure of Regal, please refer to the section headed "Effect on the shareholding structure of Regal" below.

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## LETTER FROM THE BOARD

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

### Conditions of the Bonus Issue

The Bonus Issue is conditional on the followings:

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

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

### The PHL Group's entitlements to the Bonus Issue

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

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

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

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## LETTER FROM THE BOARD

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- decrease from approximately 43.8% to approximately 41.5% if all the Warrants which may be issued under the Bonus Issue, except for those which may be issued to the PHL Group, are exercised.

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

### DEEMED DISPOSAL

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

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

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## LETTER FROM THE BOARD

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

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

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

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

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

# LETTER FROM THE BOARD

## EFFECT ON THE SHAREHOLDING STRUCTURE OF REGAL

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

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



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## LETTER FROM THE BOARD

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

### SGM

Set out on pages 161 to 162 of this circular is a notice convening the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on 19th July, 2004 at which ordinary resolutions will be proposed to consider and, if thought fit, to approve, among other things, (i) the issue of the Bonds by the Issuer; and (ii) the grant of a general authority to the directors of Paliburg to determine whether or not to exercise the right to subscribe for Regal Shares under the Warrants which may be issued pursuant to the Bonus Issue. Any Subscribers or their respective associates holding any Shares will abstain from voting at the SGM in respect of the resolution for approving the issue of the Bonds.

Pursuant to the bye-laws of Paliburg, 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 Paliburg Shareholders present in person (or in the case of a Paliburg 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 Paliburg Shareholder or Paliburg Shareholders present in person (or in the case of a Paliburg 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 Paliburg Shareholders having the right to vote at the SGM; or
- (c) by a Paliburg Shareholder or Paliburg Shareholders present in person (or in the case of a Paliburg Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares conferring a right to vote at the SGM being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right.

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## LETTER FROM THE BOARD

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### RECOMMENDATION

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

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

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



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

30th June, 2004

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

Dear Sirs,

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

The Company was incorporated in Bermuda with limited liability on 27th July, 1993 and is engaged in investment holding. As at the date of this report, the Company had direct and indirect interests in the principal subsidiary companies set out in Section (I) below.

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

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

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

- (a) Investments in two investee companies (Section (II) (note 20)); and/or
- (b) Provision against a receivable (Section (II) (note 26)); and/or
- (c) Going concern (Section (II) (note 1)).

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

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

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

#### Fundamental uncertainty - Investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in Section (II) (note 20) concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption in 2000 of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying values of the Group's investments in the Investee Companies amounted to HK\$118.9 million as at 31st December, 2001 and HK\$56.9 million as at 31st December, 2002 and 2003, which are included in long term investments under non-current assets. As further explained in Section (II) (note 20), the Directors 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 Group's proposed disposal of its investments in the Investee Companies fail to materialise, appropriate adjustments against the carrying values of the 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.

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

**(I) BASIS OF PRESENTATION**

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

No adjustments have been made to the Financial Information for each of the three years ended 31st December 2001, 2002 and 2003 in respect of events that had occurred subsequent to the respective dates of approval of the Relevant Audited Financial Statements (the "Subsequent Events"), as the Directors of the Company consider the inclusion of any adjustments with respect to the Subsequent Events on the Financial Information is not meaningful for the purpose of this report. Details of events that had occurred subsequent to the date of issue of the latest audited financial statements of the Group for the year ended 31st December, 2003, i.e. 15th April, 2004 up to the date of this report are set out in Section (III) below.

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

<b>Name</b>	<b>Place of incorporation/ registration</b>	<b>Issued share capital/ registered capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
303 Company Limited Limited	Hong Kong	HK\$10,000	100	Security systems and software development and distribution
Capital Billion International Limited	British Virgin Islands	US\$10,000	100	Financing
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	100	Property development and investment
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	100	Financing and property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	100	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	100	Financing

<b>Name</b>	<b>Place of incorporation/ registration</b>	<b>Issued share capital/ registered capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	75	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	100	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	100	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	100	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	100	Investment holding
Finso Limited	Hong Kong	HK\$2	100	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	100	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	100	Investment holding
Granco Development Limited	Hong Kong	HK\$2	100	Property development and investment
Grand Equity Limited	British Virgin Islands	US\$1	100	Investment holding
H.P. Nominees Limited	Hong Kong	HK\$2	100	Investment holding and nominee services
Lead Fortune Development Limited	Hong Kong	HK\$2	100	Property development and investment

<b>Name</b>	<b>Place of incorporation/ registration</b>	<b>Issued share capital/ registered capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
Leading Technology Holdings Limited (“LTH”) <sup>(i)</sup>	British Virgin Islands	US\$100	100	Investment holding
Linkprofit Limited	Hong Kong	HK\$2	100	Investment holding
Mira Technology Limited	Hong Kong	HK\$937,500	73.5	Software development
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	100	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	100	Mechanical and electrical engineering services
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	100	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	100	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	100	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	100	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	100	Estate management
Paliburg Finance Limited	Hong Kong	HK\$2	100	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	100	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	100	Investment holding
Power Faith Investments Limited	British Virgin Islands	US\$100	100	Financing

<b>Name</b>	<b>Place of incorporation/ registration</b>	<b>Issued share capital/ registered capital</b>	<b>Percentage of equity interest attributable to the Company</b>	<b>Principal activities</b>
Rank Cheer Investment Limited	Hong Kong	HK\$2	100	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	100	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	100	Financing
Sanefix Development Limited	Hong Kong	HK\$2	100	Property investment
Shenzhen Leading Technology Co. Ltd.	The People's Republic of China	RMB10,000,000	100	Security systems and software development and distribution
Sonnix Limited	Hong Kong	HK\$2	100	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	100	Investment holding
Tower Bright Limited	British Virgin Islands	US\$1	100	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	100	Investment holding
Venture Perfect Investments Limited	British Virgin Islands	US\$34,500	100	Investment holding
Vertex Investments Limited	Hong Kong	HK\$2	100	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd.	The People's Republic of China	US\$8,130,000	52.5	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	100	Investment holding



Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Regal Hotels International Holdings Limited (“RHIHL”) <sup>(iv)</sup>	Bermuda	Ordinary- HK\$81,454,392	44.9 <sup>(iii)</sup>	Investment holding
		Preference- US\$167,480	20.5	
Bauhinia Hotels Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Property investment
Charmwin Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Distribution of beer
Cityability Limited	Hong Kong	HK\$10,000	44.9 <sup>(iii)</sup>	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Financing
Farah Investments Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Financing
Fortune Nice Investment Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Financing
Gala Hotels Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	44.9 <sup>(iii)</sup>	Securities investment
Kaifeng Yatai Brewery Co., Ltd.	The People’s Republic of China	RMB35,923,300	40.4 <sup>(iii)</sup>	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.	The People’s Republic of China	RMB30,576,700	40.4 <sup>(iii)</sup>	Production and distribution of beer
Kaybro Investments Limited	British Virgin Islands	US\$1	44.9 <sup>(iii)</sup>	Securities investment
Key Winner Investment Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Financing

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Regal Century Investment Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Investment holding and management services
Regal Estate Agents Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Estate agents
Regal Estate Management Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	44.9 <sup>(iii)</sup>	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	44.9 <sup>(iii)</sup>	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	44.9 <sup>(iii)</sup>	Hotel management
Regal International Limited	British Virgin Islands	US\$20	44.9 <sup>(iii)</sup>	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	44.9 <sup>(iii)</sup>	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Laundry operations
Regal Quality Foods Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Hotel ownership
Regal Supplies Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	44.9 <sup>(iii)</sup>	Trademark holding
Richtech Holdings Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Financing

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Ricobem Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Hotel ownership
World Way Management Limited	Hong Kong	HK\$2	44.9 <sup>(iii)</sup>	Management services

- (i) On 2nd August, 2002, the Company entered into an agreement with Venture Perfect Investments Limited (“VPI”) and the shareholders of VPI (the “Vendors”) for the acquisition of the entire equity interest in VPI, including taking the benefit of an option (the “LTH Option”) to acquire all or part of the 50% equity interest in LTH owned by one of the Vendors in LTH (the “LTH Option Shares”), the remaining 50% equity interest of which is owned by VPI. Due to the adoption of Interpretation 18 “Consolidated and equity method — potential voting rights and allocation of ownership interests” during 2003, the potential voting rights of the LTH Option Shares should also be considered when assessing whether the 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 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 Group’s financial statements with effect from 1st January, 2003. Subsequent to 31st December, 2003, on 29th January, 2004, the LTH Option was exercised by the 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 Group.
- (ii) At 25th June, 2004 (the “Latest Practicable Date”), the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein, the Company had 53.7% voting interest and a 44.9% economic interest in RHIHL. Pursuant to the Bonds Settlement (Section (II) (note 1)) completed in October 2002, 1,896.5 million ordinary shares of RHIHL (the “Relevant RHIHL Shares”) were transferred to a special purpose vehicle company (the “SPV”) wholly-owned by the Company, which are subject to a phased release to the bondholders. The rights to dividends relating to these shares are with the bondholders. The Relevant RHIHL Shares are to be held by the SPV for a period of 12 months, subject to certain early release provisions, after the completion of the Bonds Settlement (i.e. from 1st November, 2002 to 31st October, 2003) following which they will be released, subject to certain conditions, at the option of the bondholders in phases. Up to the Latest Practicable Date, a total of 1,179.9 million Relevant RHIHL Shares have been released to the bondholders while the remaining 716.6 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 8.8% of the total issued ordinary shares of RHIHL, continued to be held by the SPV at the Latest Practicable Date.

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

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

## (II) FINANCIAL INFORMATION

## Consolidated Profit and Loss Accounts

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

	Notes	Year ended 31st December,		
		2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
TURNOVER	5			
Operations of the RHIHL Group*		1,057.1	988.6	774.9
Operations other than the RHIHL Group		<u>894.7</u>	<u>381.3</u>	<u>102.5</u>
		1,951.8	1,369.9	877.4
Cost of sales		<u>(1,603.8)</u>	<u>(969.1)</u>	<u>(624.1)</u>
Gross profit		348.0	400.8	253.3
Other revenue	5	157.2	33.4	32.3
Gain on settlement of exchangeable bonds and convertible bonds	1	—	3,065.9	—
Administrative expenses		(150.9)	(112.3)	(79.6)
Other operating expenses	6	(206.7)	(260.7)	(105.5)
Write-back of provisions/(Provisions) for write-downs and impairments, net	7	(533.2)	(659.1)	310.1
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	4	—	—	(9.7)
Impairment of an overseas hotel property attributable to discontinued operation	4	—	(437.0)	—
Write-back of impairment/(Impairment) of hotel properties	14	<u>—</u>	<u>(181.9)</u>	<u>11.4</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	(385.6)	1,849.1	412.3
Finance costs	9	(738.5)	(500.9)	(166.9)
Share of profits less losses of:				
Jointly controlled entity		(90.9)	—	206.6
Associates		<u>(5.9)</u>	<u>(14.9)</u>	<u>(2.8)</u>

		Year ended 31st December,		
		2001	2002	2003
		<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
		<i>HK\$'million</i>		
PROFIT/(LOSS) BEFORE TAX				
Operations of the RHIHL Group*		(486.5)	(756.9)	160.5
Operations other than the RHIHL Group		<u>(734.4)</u>	<u>2,090.2</u>	<u>288.7</u>
		<u>(1,220.9)</u>	<u>1,333.3</u>	<u>449.2</u>
Tax				
	12			
Operations of the RHIHL Group*		(18.5)	(13.8)	47.8
Operations other than the RHIHL Group		<u>18.7</u>	<u>9.9</u>	<u>15.4</u>
		<u>0.2</u>	<u>(3.9)</u>	<u>63.2</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS				
Minority interests		(1,220.7)	1,329.4	512.4
		<u>151.9</u>	<u>374.7</u>	<u>(124.8)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS				
		<u>(1,068.8)</u>	<u>1,704.1</u>	<u>387.6</u>
Dividend <sup>#</sup>		<u>—</u>	<u>—</u>	<u>—</u>
Earnings/(Loss) per ordinary share (HK\$):				
	13			
— Basic		<u>(0.46)</u>	<u>0.74</u>	<u>0.12</u>
— Diluted		<u>—</u>	<u>—</u>	<u>0.06</u>

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

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

## Consolidated Balance Sheets

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

		At 31st December,		
		2001	2002	2003
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>NON-CURRENT ASSETS</b>				
Fixed assets	14	11,496.1	6,769.4	7,185.5
Goodwill	15	—	—	260.5
Negative goodwill	15	—	(5.0)	(4.1)
Properties under development	16	50.1	16.7	7.2
Property held for future development	17	26.7	26.7	26.7
Interest in a jointly controlled entity	18	1,036.9	1,062.9	1,298.6
Interests in associates	19	255.3	519.9	245.3
Long term investments	20	161.1	95.3	114.1
Deposit for acquisition of interest in a hotel property		5.6	—	—
Loans and other long term receivable	21	303.3	116.7	109.1
Deferred tax assets	22	—	—	10.4
Deferred expenditure		46.9	15.7	38.7
		<u>13,382.0</u>	<u>8,618.3</u>	<u>9,292.0</u>
<b>CURRENT ASSETS</b>				
Short term loan receivable	23	0.9	—	—
Short term investments	20	—	—	4.0
Properties under development	16	117.0	94.4	—
Properties held for sale	24	209.2	194.3	215.1
Hotel and other inventories	25	29.4	24.4	23.0
Debtors, deposits and prepayments	26, 28	645.5	550.2	127.8
Pledged time deposits		3.8	43.8	25.9
Time deposits		154.5	70.2	110.9
Cash and bank balances		47.0	52.0	26.9
		<u>1,207.3</u>	<u>1,029.3</u>	<u>533.6</u>

	Notes	At 31st December,		
		2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
<b>CURRENT LIABILITIES</b>				
Creditors and accruals	27, 28	736.6	432.4	320.9
Tax payable		39.0	32.2	16.0
Interest bearing bank and other borrowings	29	1,245.5	3,271.7	1,076.7
Exchangeable bonds	30	1,004.9	—	—
Convertible bonds	31	1,620.8	—	—
Provision for premium on redemption of exchangeable bonds and convertible bonds	32	815.6	—	—
Deposits received		<u>65.4</u>	<u>24.2</u>	<u>81.6</u>
		<u>5,527.8</u>	<u>3,760.5</u>	<u>1,495.2</u>
<b>NET CURRENT LIABILITIES</b>		<u>(4,320.5)</u>	<u>(2,731.2)</u>	<u>(961.6)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>9,061.5</u>	<u>5,887.1</u>	<u>8,330.4</u>
<b>NON-CURRENT LIABILITIES</b>				
Interest bearing bank and other borrowings	29	(5,536.5)	(2,034.5)	(3,546.7)
5% Convertible bonds	34	—	(50.0)	—
Advances from minority shareholders of subsidiary companies	35	(38.6)	(40.4)	(42.4)
Deferred tax liabilities	22	(155.0)	(102.2)	(64.4)
Other payable	36	<u>—</u>	<u>—</u>	<u>(28.7)</u>
		(5,730.1)	(2,227.1)	(3,682.2)
Minority interests		<u>(1,282.2)</u>	<u>(1,598.0)</u>	<u>(2,362.5)</u>
		<u>2,049.2</u>	<u>2,062.0</u>	<u>2,285.7</u>
<b>CAPITAL AND RESERVES</b>				
Issued capital	37	2,318.5	368.2	238.3
Reserves	38	<u>(269.3)</u>	<u>1,693.8</u>	<u>2,047.4</u>
		<u>2,049.2</u>	<u>2,062.0</u>	<u>2,285.7</u>



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

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

## Consolidated Summary Statements of Changes in Equity

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

	Notes	Year ended 31st December,		
		2001	2002	2003
		HK\$'million	HK\$'million	HK\$'million
Total equity at beginning of year		4,541.6	2,049.2	2,062.0
Issue of shares, including share premium	37	—	—	163.0
Share issue expenses	37	—	—	(0.4)
Issue of convertible preference shares	37	—	345.0	—
Conversion of convertible preference shares	37	—	—	(146.0)
Deficit on revaluation of hotel properties	42	(889.3)	—	—
Deficit on revaluation of investment properties	42	(590.1)	(0.2)	—
Surplus/(Deficit) on revaluation of long term investments	42	(22.6)	0.2	(1.7)
Exchange differences on translation of the financial statements of foreign entities	43	<u>(1.8)</u>	<u>0.3</u>	<u>3.6</u>
Net gains/(losses) not recognised in the profit and loss account		<u>(1,503.8)</u>	<u>0.3</u>	<u>1.9</u>
Elimination of accumulated losses of the listed subsidiary company upon cancellation of its preference share premium	44	—	76.4	—
Revaluation deficit transferred to profit and loss account on impairment of long term investments	42	—	8.5	—
Share of impairment of goodwill of an associate previously eliminated against capital reserve	40	—	8.9	—
Investment property revaluation reserve released on disposal	42	—	(1,539.8)	—
Investment property revaluation reserve released on reclassification of investment properties as properties held for sale	42	12.2	—	—
Long term investments revaluation reserve released on disposal	42	101.2	2.3	0.4
Attributable reserves released on disposal of overseas subsidiary companies*		—	—	(30.1)

	<i>Notes</i>	<b>Year ended 31st December,</b>		
		<b>2001</b>	<b>2002</b>	<b>2003</b>
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Attributable reserves released on disposal of ordinary shares in the listed subsidiary company*		(33.2)	(592.9)	—
Attributable reserves released on deemed disposal of the Group's interest in the listed subsidiary company*		—	—	(152.1)
Exchange equalisation reserve released on disposal of a subsidiary company	43	—	—	(0.6)
Net profit/(loss) for the year attributable to shareholders	44	<u>(1,068.8)</u>	<u>1,704.1</u>	<u>387.6</u>
Total equity at end of year		<u>2,049.2</u>	<u>2,062.0</u>	<u>2,285.7</u>

\* The attributable reserves comprised capital reserve (note 40), revaluation reserves (note 42) and exchange equalisation reserve (note 43).

**Consolidated Cash Flow Statements**

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

	<i>Notes</i>	<b>Year ended 31st December,</b>		
		<b>2001</b>	<b>2002</b>	<b>2003</b>
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net cash inflow from operating activities	46(a)			
Operations of the RHIHL Group		135.2	203.3	148.3
Operations other than the RHIHL Group		<u>204.5</u>	<u>78.0</u>	<u>99.5</u>
		<u>339.7</u>	<u>281.3</u>	<u>247.8</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition/Consolidation of a subsidiary company	46(d)	—	70.0	0.1
Acquisition of additional interest in the listed subsidiary company		—	(10.1)	(2.9)
Acquisition of additional interest in a subsidiary company		—	(0.8)	—
Proceeds on disposal of other fixed assets		0.8	0.7	5.8
Proceeds on disposal of long term investments		75.3	40.4	0.1
Disposal of subsidiary companies	46(e)	—	(133.6)	6.7
Proceeds on disposal of ordinary shares in the listed subsidiary company		—	9.8	—
Deposit received from disposal of an associate		—	—	40.0
Proceeds on disposal of an associate		—	29.0	—
Prepayments of other loans and promissory notes receivable		—	46.6	—
Decrease in loans receivable		13.3	14.7	7.7
Purchases of fixed assets		(85.7)	(32.5)	(21.0)
Proceeds on settlement of deferred consideration in respect of the Group's disposal of its hotel interests in the United States of America in a prior year		—	—	380.6
Deposit for acquisition of interest in a hotel property		(3.1)	—	—
Net proceeds from disposal of an investment property		—	166.1	—

	Year ended 31st December,			
	2001	2002	2003	
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Advance to associates		(9.8)	(0.8)	(3.4)
Advance to a jointly controlled entity		(58.9)	(32.6)	(37.2)
Interest received		20.8	7.0	8.3
Dividends received from listed and unlisted investments		3.1	0.7	—
Decrease/(Increase) in pledged time deposits		<u>118.3</u>	<u>(40.0)</u>	<u>17.9</u>
Net cash inflow from investing activities				
Operations of the RHIHL Group		(64.1)	(7.5)	370.4
Operations other than the RHIHL Group		<u>138.2</u>	<u>142.1</u>	<u>32.3</u>
		<u>74.1</u>	<u>134.6</u>	<u>402.7</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issue of ordinary shares		—	—	17.0
Proceeds from issue of ordinary shares by the listed subsidiary company		—	32.7	18.7
Share issue expenses		—	(0.6)	(0.8)
Issue of 5% convertible bonds		—	50.0	20.0
Repurchase of 5% convertible bonds		—	—	(30.0)
Advance from a minority shareholder of a subsidiary company		—	—	0.1
Drawdown of a new loan		67.5	—	1.9
Repayments of bank loans and other loans		(290.2)	(258.1)	(515.4)
Payment of deferred expenditure		(1.5)	(0.1)	—
Interest paid		(417.4)	(312.1)	(144.6)
Dividends paid to minority shareholders of a subsidiary company		<u>—</u>	<u>(4.7)</u>	<u>—</u>
Net cash outflow from financing activities				
Operations of the RHIHL Group		(260.0)	(213.1)	(517.8)
Operations other than the RHIHL Group		<u>(381.6)</u>	<u>(279.8)</u>	<u>(115.3)</u>
		<u>(641.6)</u>	<u>(492.9)</u>	<u>(633.1)</u>

	Year ended 31st December,		
	2001	2002	2003
<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net increase/(decrease) in cash and cash equivalents	(227.8)	(77.0)	17.4
Cash and cash equivalents at beginning of year	424.9	196.9	119.9
Effect of foreign exchange rate changes, net	<u>(0.2)</u>	<u>—</u>	<u>0.4</u>
Cash and cash equivalents at end of year	<u>196.9</u>	<u>119.9</u>	<u>137.7</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances	47.0	52.0	26.9
Non-pledged time deposits with original maturity of less than three months when acquired	<u>154.5</u>	<u>70.2</u>	<u>110.9</u>
Bank overdrafts	<u>201.5</u> <u>(4.6)</u>	<u>122.2</u> <u>(2.3)</u>	<u>137.8</u> <u>(0.1)</u>
	<u>196.9</u>	<u>119.9</u>	<u>137.7</u>

## Notes to Financial Information

### 1. CORPORATE UPDATE

As at 31st December, 2003, the Group had consolidated net current liabilities of HK\$961.6 million.

As detailed in the Group's audited financial statements for the years ended 31st December 2001 and 2002, the Group, excluding Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (the "RHIHL Group"), (the "PHL Group") had US\$140 million 3½% Exchangeable Guaranteed Bonds (the "Exchangeable Bonds") (note 30) and US\$210 million Zero Coupon Guaranteed Convertible Bonds (the "Convertible Bonds") (note 31) (collectively the "Bonds") which either went into default, or cross-default in 2001. In October 2001, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Bonds. After protracted negotiations with the holders of the Bonds (the "Bondholders"), on 31st October, 2002, the PHL Group completed a settlement proposal for the Bonds (the "Bonds Settlement").

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

To facilitate the completion of the Bonds Settlement, on 31st October 2002, the PHL Group transferred its 40% equity interest in the luxury residential development project in Stanley, Hong Kong (the "Regalia Bay Development Project") to the RHIHL Group for a consideration of HK\$470.0 million, which was satisfied by the subscription of 1,958.3 million ordinary shares in RHIHL, of which 1,896.5 million ordinary shares were issued directly to a subsidiary company of the Company for the aforementioned phased release, subject to certain conditions, to the Bondholders (see note 47(h) for further details thereof).

With a view to enhancing its property-related services businesses and cashflow position, the PHL Group completed the acquisition of Venture Perfect Investments Limited ("VPI") in 2002. The major assets of VPI comprised a 50% equity interest in Leading Technology Holdings Limited ("LTH") and cash deposits of approximately HK\$70.0 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related systems, software and products in the Greater China Region (the "Paliburg Acquisition"). The consideration for the Paliburg Acquisition was HK\$345.0 million which was satisfied by the issuance of 3,450.0 million convertible preference shares of the Company at HK\$0.10 each, convertible into the ordinary shares of the Company, subject to the applicable terms and conditions (see note 47(g) for further details thereof). Further details of the Paliburg Acquisition were set out in the Company's circular dated 26th August, 2002.

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

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

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

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

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

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

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

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

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



With the execution of the Rescheduling Agreement and the satisfactory resolution of the Consideration Receivable, as well as the much improved outlook of the local hotel business and the substantial surplus funds expected to be generated from the Regalia Bay Development Project, the financial and liquidity positions of the RHIHL Group are expected to further improve significantly. Accordingly, the Directors are satisfied that it is appropriate to prepare the Financial Information of the Group on a going concern basis.

## 2. PRINCIPAL ACCOUNTING POLICIES

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

### (a) Basis of consolidation

The Financial Information incorporate the audited financial statements of the Company and all of its subsidiary companies for the Relevant Periods, together with the Group's share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the Relevant Periods are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

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

### (b) Goodwill/Negative goodwill

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

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

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

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

Prior to the adoption of Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 30 “Business combinations” in 2001, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. On the adoption of 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.

**(c) Subsidiary companies**

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

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

Upon the disposal of interests in subsidiary companies, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the profit and loss account.

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

**(d) Joint venture companies**

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

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

A joint venture company is treated as:

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

(e) **Jointly controlled entity**

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

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(f) **Associates**

An associate is a company, not being a subsidiary company or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in associates.

(g) **Impairment of assets**

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

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

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

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

**(h) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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

**(i) Hotel properties**

Hotel properties are interests in land and buildings and their integral fixed fittings which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of professional valuations. Movements in the carrying values of the hotel properties are dealt with in the hotel property revaluation reserve, unless this reserve is exhausted, in which case any excess of the decrease is charged to the profit and loss account as incurred. When a hotel property is determined to be impaired, the cumulative gain or loss derived from the hotel property recognised in the hotel property revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account in the period in which the impairment arises.

It is the Group's policy to maintain the hotel properties in such condition that their residual values are not currently diminished by the passage of time and that any element of depreciation is insignificant. The related maintenance and repairs expenditure is charged to the profit and loss account in the year in which it is incurred. The costs of significant improvements are capitalised. Accordingly, the Directors consider that depreciation is not necessary for the hotel properties. Depreciation is, however, provided on hotel furniture and fixtures at the rates stated in (q) below.

On disposal of a hotel property, the relevant portion of the hotel property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**(j) Properties under development**

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

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

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

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

**(k) Property held for future development**

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

**(l) Capitalised borrowing costs**

Interest incurred on borrowings to finance the construction and development of properties under development is capitalised and is included in the carrying value of these assets. Interest is capitalised at the Group's weighted average interest rate on external borrowings and, where applicable, the interest rates related to specific development project borrowings.

**(m) Deferred expenditure**

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

**(n) Long term investments**

Long term investments are non-trading investments in listed and unlisted equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. Unlisted securities are stated at their estimated fair values on an individual basis. These are determined by the Directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities and/or the most recent financial statements or other financial data considered relevant in respect of such investments.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

**(o) Short term investments**

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

**(p) Properties held for sale**

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

**(q) Fixed assets and depreciation**

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset. As stated in (h) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of the reclassification.

The gain or loss on disposal or retirement of a fixed asset, other than investment and hotel properties, recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation of fixed assets, other than investment and hotel properties, is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the remaining lease terms
Freehold and leasehold properties	Over the shorter of 40 years or the remaining lease terms on cost or valuations of buildings
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25% or replacement basis
Site equipment	20%
Motor vehicles	25%

**(r) 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.

(s) **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.

(t) **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.

(u) **Premium on redemption of exchangeable bonds and convertible bonds**

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

(v) **Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (j) above;
- (iv) fee income on short term construction contracts, on completion of the construction work;

- (v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (t) 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.

(w) **Foreign currencies**

The financial records of the Company and its subsidiary companies operating in Hong Kong are maintained and the Financial Information 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.

(x) **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.

(y) **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.

(z) **Employee benefits**

*Employment Ordinance long service payments*

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

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

*Staff retirement scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently

administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

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

#### *Share option scheme*

The Company operates an executive share option scheme for the purpose of providing incentives and rewards to selected eligible participants. The financial impact of share options granted under the share option scheme is not recorded in the Company's or 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 Company 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 Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### (aa) **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.

#### (ab) **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.

#### (ac) **Provisions**

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

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

### 3. SEGMENT INFORMATION

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

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

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

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

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



	Property development and investment			Construction and building related businesses			Hotel ownership and management			Brewery operations			Others			Eliminations			Consolidated		
										Year ended 31st December,											
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
Segment assets	3,560.3	401.2	316.9	135.5	58.4	284.8	8,577.6	6,848.5	7,241.4	53.6	47.0	48.4	70.8	45.3	39.2	(60.6)	(42.5)	(28.5)	12,337.2	7,357.9	7,902.2
Interests in associates	215.8	223.5	223.4	—	—	1.4	—	5.0	5.1	—	—	—	39.5	291.4	15.4	—	—	—	255.3	519.9	245.3
Interest in a jointly controlled entity	1,036.9	1,062.9	1,298.6	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,036.9	1,062.9	1,298.6
Cash and unallocated assets																			959.9	706.9	379.5
Total assets																			14,589.3	9,647.6	9,825.6
Segment liabilities	(170.9)	(33.7)	(23.2)	(245.3)	(166.1)	(120.7)	(243.6)	(161.9)	(116.8)	(19.3)	(22.6)	(20.5)	(12.2)	(8.8)	(0.3)	60.6	42.5	28.5	(630.7)	(350.6)	(253.0)
Bank and other borrowings and unallocated liabilities																			(10,627.2)	(5,637.0)	(4,924.4)
Total liabilities																			(11,257.9)	(5,987.6)	(5,177.4)
Other segment information:																					
Depreciation	12.7	7.9	0.2	0.5	0.4	0.5	37.5	36.9	35.1	5.3	5.0	4.9	2.5	0.7	0.1						
Impairment losses/(Write-back of impairment losses) recognised in the profit and loss account	180.0	62.0	—	—	—	—	—	618.9	(11.4)	50.8	—	—	—	—	—						
Write-down/(Write-back) in values of properties	—	67.4	(44.0)	—	—	—	—	—	—	—	—	—	—	—	—						
Deficit/(Write-back of deficit) on revaluation of hotel properties	—	—	—	—	—	—	—	528.9	(266.1)	—	—	—	—	—	—						
Capital expenditure	2.0	8.2	32.2	0.5	—	—	33.1	45.7	15.1	0.5	0.4	0.8	1.0	0.2	—						
Other non-cash expenses	65.1	—	0.3	—	—	—	187.7	0.7	2.5	—	—	—	3.8	8.1	0.6						

(b) **Geographical segments**

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

	Hong Kong			USA			Canada			Mainland China			Eliminations			Consolidated		
	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003	2001	2002	2003
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Segment revenue:																		
Sales to external customers	1,834.4	1,263.5	820.2	—	—	—	95.6	88.6	32.2	21.8	17.8	25.0	—	—	—	1,951.8	1,369.9	877.4
Other segment information:																		
Segment assets	11,750.6	6,885.4	7,773.7	117.0	78.4	—	205.2	233.7	—	264.4	160.4	128.5	—	—	—	12,337.2	7,357.9	7,902.2
Capital expenditure	34.0	53.8	47.0	—	—	—	2.1	0.3	0.3	1.0	0.4	0.8	—	—	—	—	—	—

## 4. DISCONTINUED OPERATION

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

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

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

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

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

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

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

## 5. TURNOVER, REVENUE AND GAINS

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

Revenue from the following activities has been included in turnover:

	Year ended 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Rental income:			
Investment properties	190.4	141.5	0.3
Properties held for sale	6.7	9.5	8.8
Hotel properties	34.5	26.1	23.0
Construction and construction-related income	558.0	202.9	75.3
Proceeds from the sale of properties	113.9	0.2	—
Estate management fees	22.5	23.0	15.0
Property development consultancy and project management fees	3.4	4.4	3.1
Hotel operations and management services	967.0	938.6	724.2
Other operations, including travel services, laundry services, florist, wedding services, restaurant and brewery operations	46.5	23.7	27.7
Proceeds from the sale of short term investments	<u>8.9</u>	<u>—</u>	<u>—</u>
Turnover	<u><u>1,951.8</u></u>	<u><u>1,369.9</u></u>	<u><u>877.4</u></u>
Other revenue includes the following items:			
Gain on disposal of an associate	—	6.5	—
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of exchangeable bonds	71.5	—	—
Gain on repurchase and cancellation of convertible bonds	<u>13.4</u>	<u>—</u>	<u>—</u>



## 6. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Loss on disposal of ordinary shares in the listed subsidiary company	—	53.7	—
Loss on deemed disposal of the Group's interest in the listed subsidiary company	—	—	39.4
Loss on disposal of an investment property	—	30.6	—
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\$139.1 million for 2001; HK\$1.1 million for 2002 and HK\$0.4 million for 2003)	141.4	1.1	1.2
	<u>141.4</u>	<u>1.1</u>	<u>1.2</u>

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

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

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Write-back/(Write-down) in values of properties	(61.9)	(67.4)	44.0
Impairment of fixed assets	(50.8)	—	—
Impairment of long term investments	(180.0)	(62.0)	—
Impairment of long term investments previously eliminated against long term investment revaluation reserve	—	(15.0)	—
Provisions against other loans, promissory notes and interest receivable	(56.8)	—	—
Write-back of deficit/(Deficit) on revaluation of hotel properties	(183.7)	(528.9)	266.1
Write-back of provision against a loan receivable	—	14.2	—
	<u>(533.2)</u>	<u>(659.1)</u>	<u>310.1</u>

## 8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Cost of completed properties sold	112.9	0.2	—
Cost of inventories sold and services provided	633.0	524.7	397.6
Staff costs (exclusive of directors' remuneration disclosed in note 10):			
Wages and salaries*	497.6	402.7	301.3
Staff retirement scheme contributions	23.2	16.5	16.2
Less: Forfeited contributions	<u>(3.7)</u>	<u>(1.4)</u>	<u>(2.9)</u>
Net retirement scheme contributions	<u>19.5</u>	<u>15.1</u>	<u>13.3</u>
	517.1	417.8	314.6
Less: Staff costs capitalised in respect of property development projects and construction contracts:			
Wages and salaries	(45.9)	(33.5)	(18.6)
Staff retirement scheme contributions	(2.1)	(0.1)	(1.0)
Less: Forfeited contributions	<u>—</u>	<u>—</u>	<u>1.8</u>
	<u>469.1</u>	<u>384.2</u>	<u>296.8</u>
Amortisation of goodwill**	—	—	14.3
Auditors' remuneration	4.7	5.0	4.4
Depreciation	60.0	51.6	41.0
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(1.5)</u>	<u>(0.7)</u>	<u>(0.2)</u>
	<u>58.5</u>	<u>50.9</u>	<u>40.8</u>
Loss on disposal of fixed assets	3.3	1.0	—
Minimum lease payments under operating leases:			
Land and buildings	—	2.0	8.9
Other equipment	1.0	1.0	0.5

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

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

## Year ended 31 December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
and after crediting:			
Gross rental income	231.6	177.1	32.1
Less: Outgoings	<u>(62.6)</u>	<u>(53.3)</u>	<u>(6.9)</u>
Net rental income	<u>169.0</u>	<u>123.8</u>	<u>25.2</u>
Interest income from:			
Associates	9.9	7.5	—
Bank balances	12.9	2.6	0.6
Other loans and receivables	<u>32.4</u>	<u>5.7</u>	<u>7.7</u>
	<u>55.2</u>	<u>15.8</u>	<u>8.3</u>
Dividend income from:			
Listed investments	1.8	—	—
Unlisted investments	<u>1.3</u>	<u>0.7</u>	<u>—</u>
	<u>3.1</u>	<u>0.7</u>	<u>—</u>
Unrealised gain on revaluation of short term investments	—	—	1.0
Gain on disposal of fixed assets	—	—	5.4
Negative goodwill recognised as income during the year***	<u>—</u>	<u>1.1</u>	<u>0.4</u>

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

## 9. FINANCE COSTS

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Interest in respect of:			
Bank loans and overdrafts	337.2	202.0	149.0
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<u>315.2</u>	<u>286.6</u>	<u>12.9</u>
	652.4	488.6	161.9
Premium provided on exchangeable bonds and convertible bonds	<u>60.6</u>	<u>—</u>	<u>—</u>
	713.0	488.6	161.9
Interest capitalised in respect of property development projects and construction contracts	<u>(2.5)</u>	<u>(0.4)</u>	<u>(0.7)</u>
	710.5	488.2	161.2
Amortisation of deferred expenditure	16.5	12.3	5.7
Write-off of deferred expenditure	10.0	0.3	—
Other loan costs	<u>1.5</u>	<u>0.1</u>	<u>—</u>
Total finance costs	<u><u>738.5</u></u>	<u><u>500.9</u></u>	<u><u>166.9</u></u>

## 10. DIRECTORS' REMUNERATION

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

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Fees	1.4	1.5	1.5
Salaries and other allowances	10.6	10.0	9.3
Performance related/discretionary bonuses	—	0.1	0.8
Staff retirement scheme contributions	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>
	<u><u>12.7</u></u>	<u><u>12.3</u></u>	<u><u>12.3</u></u>

The number of the Directors fell within the following bands:

	Year ended 31st December,		
	2001	2002	2003
<i>HK\$</i>	<i>Numbers of directors</i>	<i>Number of directors</i>	<i>Number of directors</i>
Nil - 1,000,000	5	6	6
1,000,001 - 1,500,000	2	2	—
1,500,001 - 2,000,000	—	—	1
2,000,001 - 2,500,000	1	1	1
6,000,001 - 6,500,000	1	1	—
6,500,001 - 7,000,000	—	—	1
	—	—	1

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

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

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

During the Relevant Periods, no share options were granted to the Directors in respect of their services to the Group.

Further details of the Company's share option scheme are set out in note 37 to the Financial Information.

## 11. SENIOR EXECUTIVES' EMOLUMENTS

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

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Salaries and other emoluments	3.1	1.9	2.8
Performance related/discretionary bonuses	—	—	0.1
Staff retirement scheme contributions	0.2	—	0.1
	3.3	1.9	3.0

The emoluments of the two (2002 - one; 2001 - two) individuals fell within the following band:

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

During the Relevant Periods, no share options were granted to the above non-director, highest paid employees in respect of their services to the Group. Further details of the Company's share option scheme are set out in note 37 to the Financial Information.

## 12. TAX

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Group:			
Current - Hong Kong			
Provision for tax in respect of profits for the year	2.3	1.0	4.1
Overprovisions in prior years	(5.0)	(2.2)	(19.5)
Current - Overseas			
Provision for tax in respect of profits for the year	0.3	0.3	0.3
Overprovisions in prior years	(1.6)	(0.2)	—
Deferred tax expenses/(income) (Note 22)	<u>3.6</u>	<u>4.9</u>	<u>(48.2)</u>
	(0.4)	3.8	(63.3)
Associates:			
Hong Kong	0.1	0.1	0.1
Overseas	<u>0.1</u>	<u>—</u>	<u>—</u>
	<u>0.2</u>	<u>0.1</u>	<u>0.1</u>
Total tax charge/(credit) for the year	<u>(0.2)</u>	<u>3.9</u>	<u>(63.2)</u>

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

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

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

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

	Year ended 31st December,					
	2001		2002		2003	
	HK\$'million	%	HK\$'million	%	HK\$'million	%
Profit/(Loss) before tax	<u>(1,220.9)</u>		<u>1,333.3</u>		<u>449.2</u>	
Tax at the statutory tax rate	(195.3)	16.0	213.3	16.0	78.6	17.5
Effect on opening deferred tax of increase in tax rates	—	—	—	—	9.6	2.1
Adjustments in respect of current tax of previous periods	(6.6)	0.5	(2.4)	(0.2)	(19.5)	(4.3)
Higher tax rates of other countries	(10.3)	0.8	(10.1)	(0.7)	4.3	0.9
Income not subject to tax	(63.3)	5.2	(546.1)	(41.0)	(197.5)	(44.0)
Expenses not deductible for tax	181.4	(14.8)	298.6	22.4	21.2	4.7
Tax losses utilised from previous periods	(9.5)	0.8	(5.5)	(0.4)	(5.9)	(1.3)
Increase in deferred tax assets not recognised during the year	97.7	(8.0)	53.1	4.0	45.8	10.2
Others	<u>5.7</u>	<u>(0.5)</u>	<u>3.0</u>	<u>0.2</u>	<u>0.2</u>	<u>0.1</u>
Tax charge/(credit) at the Group's effective rate	<u>(0.2)</u>	<u>—</u>	<u>3.9</u>	<u>0.3</u>	<u>(63.2)</u>	<u>(14.1)</u>

### 13. EARNINGS PER SHARE

#### (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit from ordinary activities attributable to ordinary shareholders for 2003 of HK\$387.6 million (2002 - HK\$1,704.1 million; 2001 - net loss of HK\$1,068.8 million) and on the weighted average of 3,270.8 million (2002 - 2,318.5 million; 2001 - 2,318.5 million) ordinary shares of the Company in issue during the Relevant Periods.

#### (b) Diluted earnings per ordinary share

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

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2003 is based on the net profit from ordinary activities attributable to ordinary shareholders for the year of HK\$337.8 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 5,791.6 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 the Company were converted into the same number of ordinary shares of the Company, at the beginning of the year. The exercise prices of share options of the Company and RHIHL outstanding during the year are higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per share.

#### 14. FIXED ASSETS

	1st January, 2001 <i>HK\$'million</i>	Exchange adjustments <i>HK\$'million</i>	Additions/ Depreciation for the year <i>HK\$'million</i>	Impairment* during the year recognised in the profit and loss account <i>HK\$'million</i>	Transfer to properties held for sale <i>HK\$'million</i>	Transfer from leasehold properties <i>HK\$'million</i>	Disposals <i>HK\$'million</i>	Deficit on revaluation <i>HK\$'million</i>	31st December, 2001 <i>HK\$'million</i>
At valuation:									
Investment properties	3,155.2	—	1.9	—	(63.2)	121.1	—	(590.1)	2,624.9
Hotels, including furniture, fixtures and equipment	10,092.0	(15.1)	32.6	—	—	—	(0.1)	(1,485.8)	8,623.6
	13,247.2	(15.1)	34.5	—	(63.2)	121.1	(0.1)	(2,075.9)	11,248.5
At cost:									
Leasehold properties	635.0	—	—	—	—	(143.1)	(0.2)	—	491.7
Leasehold improvements, furniture, fixtures and equipment	89.6	—	2.5	—	—	—	(12.2)	—	79.9
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	28.2	—	0.2	—	—	—	—	—	28.4
Motor vehicles	5.9	—	0.2	—	—	—	(0.7)	—	5.4
	14,007.6	(15.1)	37.4	—	(63.2)	(22.0)	(13.2)	(2,075.9)	11,855.6
Accumulated depreciation and impairment:									
Hotel furniture, fixtures and equipment	156.2	(2.4)	36.5	—	—	—	—	—	190.3
Leasehold properties	85.1	—	13.8	—	—	(22.0)	—	—	76.9
Leasehold improvements, furniture, fixtures and equipment	34.8	—	8.8	22.4	—	—	(8.4)	—	57.6
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	—	—	—	28.4	—	—	—	—	28.4
Motor vehicles	4.4	—	0.9	—	—	—	(0.7)	—	4.6
	282.2	(2.4)	60.0	50.8	—	(22.0)	(9.1)	—	359.5
Net book value	13,725.4								11,496.1

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



	1st January, 2002	Exchange adjustments	Additions/ Depreciation for the year	Transfer from leasehold properties	Disposals/ Write-off	Deficit on revaluation	31st December, 2002
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At valuation:							
Investment properties	2,624.9	—	2.7	50.6	(2,676.3)	(0.2)	1.7
Hotels, including furniture, fixtures and equipment	<u>8,623.6</u>	<u>2.0</u>	<u>47.3</u>	<u>—</u>	<u>—</u>	<u>(1,728.6)</u>	<u>6,944.3</u>
	11,248.5	2.0	50.0	50.6	(2,676.3)	(1,728.8)	6,946.0
At cost:							
Leasehold properties	491.7	0.1	—	(60.6)	(389.4)	—	41.8
Leasehold improvements, furniture, fixtures and equipment	79.9	0.2	0.7	—	(21.9)	—	58.9
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	<u>5.4</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1.8)</u>	<u>—</u>	<u>3.6</u>
	<u>11,855.6</u>	<u>2.3</u>	<u>50.7</u>	<u>(10.0)</u>	<u>(3,089.4)</u>	<u>(1,728.8)</u>	<u>7,080.4</u>
Accumulated depreciation and impairment:							
Hotel furniture, fixtures and equipment	190.3	0.4	36.0	—	—	—	226.7
Leasehold properties	76.9	—	9.0	(10.0)	(68.6)	—	7.3
Leasehold improvements, furniture, fixtures and equipment	57.6	0.1	6.3	—	(20.2)	—	43.8
Site equipment	1.7	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	—	28.4
Motor vehicles	<u>4.6</u>	<u>—</u>	<u>0.3</u>	<u>—</u>	<u>(1.8)</u>	<u>—</u>	<u>3.1</u>
	<u>359.5</u>	<u>0.5</u>	<u>51.6</u>	<u>(10.0)</u>	<u>(90.6)</u>	<u>—</u>	<u>311.0</u>
Net book value	<u>11,496.1</u>						<u>6,769.4</u>

	1st January, 2003	Exchange adjustments	Additions/ Depreciation for the year	Arising from consolidation of a former associate	Disposal of subsidiary companies	Other disposals	Surplus on revaluation	31st December, 2003
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At valuation:								
Investment properties	1.7	—	—	—	—	—	—	1.7
Hotels, including furniture, fixtures and equipment	6,944.3	45.3	15.1	—	(312.9)	—	663.2	7,355.0
	6,946.0	45.3	15.1	—	(312.9)	—	663.2	7,356.7
At cost:								
Leasehold properties	41.8	—	—	—	—	—	—	41.8
Leasehold improvements, furniture, fixtures and equipment	58.9	—	0.8	1.0	(0.1)	(0.8)	—	59.8
Site equipment	1.7	—	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	(19.8)	—	8.6
Motor vehicles	3.6	—	0.1	—	(0.7)	(0.5)	—	2.5
	7,080.4	45.3	16.0	1.0	(313.7)	(21.1)	663.2	7,471.1
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	43.8	—	5.3	0.6	(0.1)	(0.4)	—	49.2
Site equipment	1.7	—	—	—	—	—	—	1.7
Construction in progress	28.4	—	—	—	—	(19.8)	—	8.6
Motor vehicles	3.1	—	0.3	—	(0.5)	(0.5)	—	2.4
	311.0	7.6	41.0	0.6	(53.9)	(20.7)	—	285.6
Net book value	6,769.4							7,185.5

Analysis of net book value by geographical location:

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

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

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

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

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

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

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

As further explained in note 1 to the Financial Information, the SP Agreement was entered into by the RHIHL Group in 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK\$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the SP Agreement entered into in March 2004, the completion date under the SP Agreement, originally scheduled on 31st March, 2004, was deferred to 30th June, 2004 and an option was reinstated for the RHIHL Group to terminate the SP Agreement, exercisable by the RHIHL Group prior to the extended completion date. While the SP Agreement continued to subsist, the directors of RHIHL considered it appropriate to state the Regal Oriental Hotel at its carrying value of HK\$286.6 million, which approximated the net amount realisable by the RHIHL Group under the SP Agreement should it proceed to completion (the option to terminate the SP Agreement was exercised on 3rd June, 2004 as detailed in Section (III) below). In light of the enhancement achieved in the overall financial position of the RHIHL Group since the loans rescheduling arrangement was implemented in September 2003, the RHIHL Group has been exploring alternative proposals for a further rescheduling and/or refinancing of its outstanding bank loans, with a view to preserving its hotel properties in Hong Kong.

Accordingly, the directors of RHIHL consider it appropriate that all the other hotel properties of the RHIHL Group should be stated at their valuations as at 31st December, 2003, which were performed by an independent valuer with an RICS qualification on an open market, existing use basis. Consequently, a write-back of impairment loss of HK\$11.4 million was recognised in the profit and loss account for 2003. The valuations of the investment properties in Hong Kong as at 31st December, 2003 were also performed by an independent valuer with an RICS qualification on an open market, existing use basis.

Certain of the RHIHL Group's shop units in the hotel properties and certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in note 50(a) to the Financial Information.

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

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

## 15. GOODWILL AND NEGATIVE GOODWILL

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

	<b>Goodwill</b> <i>HK\$' million</i>	<b>Negative goodwill</b> <i>HK\$' million</i>
Cost:		
At 1st January, 2001, 31st December, 2001 and 1st January, 2002	—	—
Arising from the acquisition of additional interest in the listed subsidiary company	<u>—</u>	<u>(5.0)</u>
At 31st December, 2002 and 1st January, 2003	—	(5.0)
Released on deemed disposal of the Group's interests in the listed subsidiary company	—	0.7
Arising from consolidation of a former associate ( <i>note 19</i> )	<u>274.8</u>	<u>—</u>
At 31st December, 2003	<u>274.8</u>	<u>(4.3)</u>
Recognition as income/(Accumulated amortisation and impairment):		
Recognised as income/(Amortisation provided) for the year ended and balance at 31st December, 2003	<u>(14.3)</u>	<u>0.2</u>
Net book value:		
At 31st December, 2003	<u><u>260.5</u></u>	<u><u>(4.1)</u></u>
At 31st December, 2002	<u><u>—</u></u>	<u><u>(5.0)</u></u>

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

## 16. PROPERTIES UNDER DEVELOPMENT

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

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

## 17. PROPERTY HELD FOR FUTURE DEVELOPMENT

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

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

## 18. INTEREST IN A JOINTLY CONTROLLED ENTITY

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

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

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

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

Name	Business structure	Place of incorporation and operation	Percentage of equity interest attributable to the Group			Principal activity
			2001	2002	2003	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	70	Property development

As at 31st December, 2001, the percentage of equity interest represented the aggregate of the 40% and the 30% held by a wholly-owned subsidiary company of the Company and RHIHL, respectively, which was in turn 72.8% owned by the Group. On 31st October, 2002, the 40% equity interest in Chest Gain held by a wholly-owned subsidiary company of the Company was disposed of to RHIHL. Accordingly, the percentage of equity interest as at 31st December, 2002 and 2003 represented the 70% held by RHIHL, which was in turn 47.8% and 40.8% beneficially owned by the Group as at 31st December, 2002 and 2003, respectively.

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

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

	<b>At 31st December,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>State of affairs</b>			
Non-current assets	3,934.6	—	—
Current assets	0.4	4,534.7	5,486.8
Current liabilities	(151.5)	(232.3)	(3,547.0)
Non-current liabilities	<u>(7,818.0)</u>	<u>(8,336.9)</u>	<u>(5,835.6)</u>
Net liabilities attributable to venturers	<u><u>(4,034.5)</u></u>	<u><u>(4,034.5)</u></u>	<u><u>(3,895.8)</u></u>
<b>Income and losses</b>			
Income	<u>—</u>	<u>—</u>	<u>648.2</u>
Net profit/(loss) from ordinary activities attributable to venturers	<u><u>(665.9)</u></u>	<u><u>—</u></u>	<u><u>138.7</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>At 31st December,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Authorised and contracted for	562.8	359.0	15.1
Authorised, but not contracted for	<u>—</u>	<u>16.4</u>	<u>—</u>
	<u><u>562.8</u></u>	<u><u>375.4</u></u>	<u><u>15.1</u></u>



## 19. INTERESTS IN ASSOCIATES

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Unlisted companies:			
Share of net liabilities	0.7	(20.2)	(23.5)
Goodwill on acquisition	—	274.8	—
Negative goodwill on acquisition	—	(3.0)	(2.8)
	<u>0.7</u>	<u>251.6</u>	<u>(26.3)</u>
Loans to associates	245.3	261.1	264.1
Amounts due from associates	<u>9.7</u>	<u>7.6</u>	<u>7.9</u>
	255.7	520.3	245.7
Less: Provision for impairment	<u>(0.4)</u>	<u>(0.4)</u>	<u>(0.4)</u>
	<u><u>255.3</u></u>	<u><u>519.9</u></u>	<u><u>245.3</u></u>
At the balance sheet date:			
Share of post-acquisition undistributed reserves	<u>(307.9)</u>	<u>(318.1)</u>	<u>(321.0)</u>

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

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

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

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

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

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group	Principal activities
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00	Property development
Weifang Futuan Building Materials Co., Ltd.	Corporate	The People's Republic of China	Equity joint venture interest	25.00 <sup>(1)</sup>	Cement production
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30.00 <sup>(2)</sup>	Investment holding
8D Matrix Limited ("8D Matrix")	Corporate	British Virgin Islands	Ordinary shares	36.00 <sup>(2)</sup>	Investment holding
8D International Limited ("8D International")	Corporate	Hong Kong	Ordinary shares	36.00 <sup>(2)</sup>	Promotions, communication and information technology

\* Not audited by Ernst & Young.

(1) The percentage of equity interest represented equity interest attributable to a 75% owned subsidiary company of the Group.

(2) The percentages of equity interests represented those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.

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

<b>Name</b>	<b>Business structure</b>	<b>Place of incorporation/ registration and operation</b>	<b>Class of equity interest held</b>	<b>Percentage of equity interest attributable to the Group</b>	<b>Principal activities</b>
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00	Property development
Leading Technology Holdings Limited*	Corporate	British Virgin Islands	Ordinary shares	55.00 <sup>(1)</sup>	Investment holding
303 Company Limited	Corporate	Hong Kong	Ordinary shares	55.00 <sup>(1)</sup>	Development and distribution of security systems and software
Shenzhen Leading Technology Company Limited*	Corporate	The People's Republic of China	Equity joint venture interest	52.25 <sup>(2)</sup>	Development and distribution of security systems and software
Mira Technology Limited	Corporate	Hong Kong	Ordinary shares	63.00 <sup>(3)</sup>	Software development
8D International (BVI) Limited	Corporate	British Virgin Islands	Ordinary shares	30.00 <sup>(4)</sup>	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	36.00 <sup>(4)</sup>	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	36.00 <sup>(4)</sup>	Promotions and information technology
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 <sup>(4)</sup>	Investment holding

\* Not audited by Ernst & Young.

- (1) The percentages of equity interests represented the aggregate of the 50% equity interest directly attributable to the Company and the 5% attributable equity interest held by RHIHL through 8D-BVI.
- (2) The percentage of equity interest represented the aggregate of the 47.5% equity interest directly attributable to the Company and the 4.75% attributable equity interest held by RHIHL through 8D-BVI.
- (3) The percentage of equity interest represented the aggregate of the 30% equity interest directly attributable to the Company through LTH and the 33% (including a 3% attributable equity interest held by RHIHL through 8D-BVI) equity interest attributable to RHIHL.
- (4) The percentages of equity interests represented those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.

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

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group	Principal activities
Talent Faith Investments Ltd. ("Talent Faith")	Corporate	British Virgin Islands	Ordinary shares	100.00 <sup>(1)</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)</sup>	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00	Property development
Smart Tactic Limited*	Corporate	Hong Kong	Ordinary shares	30.00	Distribution of security systems and software
8D International (BVI) Limited	Corporate	British Virgin Islands	Ordinary shares	30.00 <sup>(2)</sup>	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	36.00 <sup>(2)</sup>	Promotions and information technology
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	36.00 <sup>(2)</sup>	Investment holding
Bright Future (HK) Limited*	Corporate	Hong Kong	Ordinary shares	50.00 <sup>(2)</sup>	Investment holding
Regala Management Limited	Corporate	Hong Kong	Ordinary shares	50.00 <sup>(3)</sup>	Light refreshment operation

\* Not audited by Ernst & Young.

- (1) As at 31st December, 2002, the 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 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 during 2003 to repossess the 50% interest in Talent Faith previously 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 as at 31st December, 2003, 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.

- (2) The percentages of equity interests represent those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.
- (3) The percentage of equity interest represents the aggregate of the 25% equity interest directly attributable to the Company and the 25% equity interest attributable to RHIHL.

## 20. INVESTMENTS

	At 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
<b>Long term investments</b>			
Listed equity investments, at market value:			
Hong Kong	34.1	30.6	42.9
Elsewhere	<u>7.8</u>	<u>7.8</u>	<u>0.1</u>
	<u>41.9</u>	<u>38.4</u>	<u>43.0</u>
Unlisted equity investments, at fair value:			
Carrying value	384.7	384.4	313.1
Provision for impairment	<u>(265.5)</u>	<u>(327.5)</u>	<u>(242.0)</u>
	<u>119.2</u>	<u>56.9</u>	<u>71.1</u>
	<u>161.1</u>	<u>95.3</u>	<u>114.1</u>

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

Included in the unlisted long term investments is an amount of HK\$56.9 million as at 31st December, 2003 (2002 - HK\$56.9 million; 2001 - HK\$118.9 million) which represents the 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 Group's holding of 23% interests in the Investee Companies, the Directors confirm that the 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 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 consider it appropriate to account for the investments therein as long term investments.

In November 2000, the land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on the grounds of its prolonged idle condition. The 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. An impairment loss of HK\$180.0 million and a further impairment loss of HK\$62.0 million were made against the investments in 2001 and 2002, respectively, by reference to independent valuations of the hotel portion of the land site at the respective year end dates. The valuations were conducted on the assumption that the Group had enforceable title to the land site.

In December 2003, approval on the overall development plan on the subject land site was obtained from the relevant government authorities. However, in the opinion of the Directors, 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 Group is also holding negotiations with prospective investors for the possible disposal of its investments in the Investee Companies at an indicative price which is substantially higher than its written down carrying value. Having regard to the circumstances developed to date, the Directors consider that no further provision is required to be made against the Group's investments in the Investee Companies in 2003.

## At 31st December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>Short term investments</b>			
Listed equity investments in Hong Kong, at market value	<u>—</u>	<u>—</u>	<u>4.0</u>

## 21. LOANS AND OTHER LONG TERM RECEIVABLE

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

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

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



- (b) The long term mortgage loans represent loans granted by the Group to purchasers in connection with the sale of its properties. The loans are secured by second mortgages over the properties sold and are repayable by instalments. The long term mortgage loans bear interest at Hong Kong prime rate plus 1.75% to 2% per annum.
- (c) The balance represents a loan of US\$10.0 million (HK\$78.0 million) (2002 - HK\$78.0 million; 2001 - HK\$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the RHIHL Group. The loan is unsecured, interest free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years, subject to the possible renewal thereof for a further 5 years.

## 22. DEFERRED TAX

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

### Deferred tax assets

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

### Deferred tax liabilities

	<b>Accelerated tax depreciation At 31st December,</b>		
	<b>2001</b> <i>HK\$'million</i>	<b>2002</b> <i>HK\$'million</i>	<b>2003</b> <i>HK\$'million</i>
Balance at beginning of year	151.4	155.0	102.2
Deferred tax charged to the profit and loss account during the year	3.6	4.9	21.9
Release on disposal of subsidiary companies upon completion of the Bonds Settlement	<u>—</u>	<u>(57.7)</u>	<u>—</u>
Gross deferred tax liabilities at end of year	<u>155.0</u>	<u>102.2</u>	<u>124.1</u>
Net deferred tax liabilities at end of year	<u>(155.0)</u>	<u>(102.2)</u>	<u>(54.0)</u>
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:			
Deferred tax assets	—	—	10.4
Deferred tax liabilities	<u>(155.0)</u>	<u>(102.2)</u>	<u>(64.4)</u>
Net deferred tax liabilities at end of year	<u>(155.0)</u>	<u>(102.2)</u>	<u>(54.0)</u>

The Group had tax losses arising in Hong Kong, Mainland China and the United States of America amounting to HK\$3,381.3 million (2002 - HK\$3,308.0 million; 2001 - HK\$3,498.3 million), HK\$21.1 million (2002 - HK\$15.9 million; 2001 - HK\$2.1 million) and HK\$293.4 million (2002 - HK\$17.9 million; 2001 - HK\$16.0 million), respectively, as at 31st December, 2003. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in Mainland China and the United States are available for a maximum period of five and twenty years, respectively. No deferred tax assets in respect of the RHIHL Group's tax losses had been recognised in prior years on account of the unpredictability of future profit streams due primarily to the uncertainty over the outcome of the financial restructuring then being undertaken by the RHIHL Group. As detailed in note 1 to the Financial Information, while the RHIHL Group has successfully concluded a financial restructuring proposal with its bank creditors, the financial and liquidity positions of the RHIHL Group have also been significantly improved in 2003 and expected to be further enhanced in the foreseeable future. In the opinion of the directors of RHIHL, future profit streams of the RHIHL Group became more predictable and, accordingly, deferred tax assets have been recognised for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised.

At 31st December, 2003, deferred tax assets in respect of tax losses not recognised in the Financial Information amounted to HK\$631.3 million (2002 - HK\$540.8 million; 2001 - HK\$566.0 million).

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

### **23. SHORT TERM LOANS RECEIVABLE**

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

### **24. PROPERTIES HELD FOR SALE**

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

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

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

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 50(a) to the Financial Information.

## 25. HOTEL AND OTHER INVENTORIES

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

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

## 26. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance as at 31st December, 2001, 2002 and 2003 is an amount of HK\$160.5 million, HK\$77.3 million and HK\$47.5 million, respectively, representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:			
Within 3 months	112.6	72.4	44.0
Between 4 to 6 months	7.2	2.5	3.0
Between 7 to 12 months	5.3	2.4	3.2
Over 1 year	<u>46.9</u>	<u>9.9</u>	<u>9.7</u>
	172.0	87.2	59.9
Provisions	<u>(11.5)</u>	<u>(9.9)</u>	<u>(12.4)</u>
	<u>160.5</u>	<u>77.3</u>	<u>47.5</u>

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

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

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

#### *Credit terms*

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

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

## 27. CREDITORS AND ACCRUALS

Included in the balance as at 31st December, 2001, 2002 and 2003 is an amount of HK\$110.5 million, HK\$100.5 million and HK\$59.9 million, respectively, representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	<b>At 31st December,</b>		
	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:			
Within 3 months	83.9	82.8	47.6
Between 4 to 6 months	3.6	12.4	6.0
Between 7 to 12 months	1.4	1.3	0.7
Over 1 year	<u>21.6</u>	<u>4.0</u>	<u>5.6</u>
	<u>110.5</u>	<u>100.5</u>	<u>59.9</u>

## 28. CONSTRUCTION CONTRACTS

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

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

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

## 29. INTEREST BEARING BANK AND OTHER BORROWINGS

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Bank loans and overdrafts:			
Secured	5,510.9	5,278.0	4,602.1
Unsecured	27.3	2.3	0.1
Other loans wholly repayable within five years:			
Secured	<u>1,243.8</u>	<u>25.9</u>	<u>21.2</u>
	<u>6,782.0</u>	<u>5,306.2</u>	<u>4,623.4</u>
Portion of borrowings due within one year included under current liabilities:			
Bank loans and overdrafts	(1,188.7)	(3,245.8)	(1,055.5)
Other loans	<u>(56.8)</u>	<u>(25.9)</u>	<u>(21.2)</u>
	<u>(1,245.5)</u>	<u>(3,271.7)</u>	<u>(1,076.7)</u>
Long term borrowings	<u>5,536.5</u>	<u>2,034.5</u>	<u>3,546.7</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:			
On demand or not exceeding 1 year	1,245.5	3,271.7	1,076.7
More than 1 year but not exceeding 2 years	1,895.0	1,670.1	360.0
More than 2 years but not exceeding 5 years	3,342.0	364.4	2,622.5
More than 5 years	<u>299.5</u>	<u>—</u>	<u>564.2</u>
	<u>6,782.0</u>	<u>5,306.2</u>	<u>4,623.4</u>

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

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

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

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

**30. EXCHANGEABLE BONDS**

In 1996, the Group issued US\$140 million 3½% guaranteed exchangeable bonds (the "Exchangeable Bonds") which fell due in 2001. The Exchangeable Bonds remained unpaid on the due date. As explained in note 1, on 31st October, 2002, the Group completed the Bonds Settlement and the remaining outstanding Exchangeable Bonds in the amount of US\$128.8 million (approximately HK\$1,004.9 million) as at that date was fully settled.

**31. CONVERTIBLE BONDS**

In 1997, the Group issued US\$210 million zero coupon guaranteed convertible bonds (the "Convertible Bonds") which would otherwise fall due in 2002. As a result of the maturity default of the Exchangeable Bonds (note 30), the Convertible Bonds became immediately due and payable by virtue of cross default in March 2001. As explained in note 1, on 31st October, 2002, the Group completed the Bonds Settlement and the remaining outstanding Convertible Bonds in the amount of US\$207.8 million (approximately HK\$1,620.8 million) as at that date was fully settled.

**32. PROVISION FOR PREMIUM ON REDEMPTION OF EXCHANGEABLE BONDS AND CONVERTIBLE BONDS**

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

**33. PROVISIONS**

	<b>Guarantee on bank loan granted to an associate</b>
	<i>HK\$'million</i>
Balance at 1st January, 2001	109.0
Additional provision	9.8
Reclassification as a bank loan	<u>(118.8)</u>
Balance at 31st December, 2001	<u>—</u>

The amount of the provision for guarantee was provided based on the net exposure of the Group on the outstanding loan balance drawn down by the associate.

**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 was from 15th October, 2002 to 14th April, 2004, both dates inclusive. The conversion price of HK\$0.10 per ordinary share was first adjusted to HK\$0.065 per ordinary share following the issue of 310.0 million new ordinary shares of RHIHL at a price of HK\$0.065 per ordinary share upon a share placement completed on 9th December, 2002, and was further adjusted to HK\$0.048 per ordinary share following the issue of 210.0 million new ordinary shares of RHIHL at a price of HK\$0.048 per ordinary share upon a share placement completed on 16th June, 2003.

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

Subsequent to 31st December 2003, in January 2004, the Subscription Option for the remaining RHIHL Optional Bonds was exercised and further RHIHL Optional Bonds in a principal amount of HK\$30.0 million were issued. Part of these RHIHL Optional Bonds in a principal amount of HK\$28.0 million were subsequently acquired by a wholly owned subsidiary company of the Company. 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\$30.6 million, HK\$32.4 million and HK\$34.4 million as at 31st December, 2001, 2002 and 2003, respectively, which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

**36. OTHER PAYABLE**

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



## 37. SHARE CAPITAL AND SHARE PREMIUM

	At 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
<b>Shares</b>			
Authorised:			
20,000 million (2002 - 20,000 million; 2001 - 6,000 million) ordinary shares of HK\$0.01 (2002 - HK\$0.01; 2001 - HK\$1.00) each	6,000.0	200.0	200.0
4,750 million (2002 - 4,750 million; 2001 - Nil) convertible preference shares of HK\$0.10 each	—	475.0	475.0
	<u>6,000.0</u>	<u>675.0</u>	<u>675.0</u>
Issued and fully paid:			
3,928.5 million (2002 and 2001 - 2,318.5 million) ordinary shares of HK\$0.01 (2002 - HK\$0.01; 2001 - HK\$1.00) each	2,318.5	23.2	39.3
1,990 million (2002 - 3,450 million; 2001 - Nil) convertible preference shares of HK\$0.10 each	—	345.0	199.0
	<u>2,318.5</u>	<u>368.2</u>	<u>238.3</u>
<b>Share premium</b>			
Ordinary shares	<u>68.3</u>	<u>—</u>	<u>146.5</u>

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

- (i) Pursuant to the board resolution passed on 31st July, 2002 and a special resolution passed on 16th October, 2002, a capital reorganisation (the "Capital Reorganisation") involving, inter alia, the following were implemented on 22nd November, 2002:
  - (a) a reduction of the nominal value of each issued ordinary share of the Company (2,318.5 million shares) from HK\$1.00 to HK\$0.01 each by the cancellation of HK\$0.99 of the paid-up capital for each issued share (the "Capital Reduction"), and a transfer of the credit arising from the Capital Reduction of approximately HK\$2,295.3 million to a special reserve of the Group (note 41) and contributed surplus of the Company;
  - (b) the cancellation of the entire amount standing to the credit of the share premium account of the Company and a transfer of the credit totalling HK\$68.3 million arising therefrom to a special reserve of the Group (note 41) and contributed surplus of the Company;
  - (c) the cancellation of the existing authorised and unissued 3,681.5 million ordinary shares of HK\$3,681.5 million and a subsequent increase of the authorised ordinary share capital of the Company to HK\$200.0 million comprising 20,000 million ordinary shares of HK\$0.01 each by the creation of 17,681.5 million additional shares of HK\$0.01 each, ranking pari passu in all respects with the then existing ordinary share capital of the Company; and

- (d) the cancellation of the entire amount standing to the credit of the capital redemption reserve (note 39) and a transfer of the credit totalling HK\$52.4 million arising therefrom to a special reserve of the Group (note 41).
- (ii) As detailed in note 47(g) to the Financial Information, the Company issued 3,450.0 million convertible preference shares (the "Consideration Shares") of HK\$0.10 each (the "Issue Price") to the vendors as the consideration for the acquisition of Venture Perfect Investments Limited ("VPI") (the "Paliburg Acquisition"). According to SSAP 30 "Business Combinations" and Interpretation 15 which became effective in 2002, the Company is required to record the Consideration Shares at its fair value on the date of completion of the Paliburg Acquisition (the "Completion Date"). As the Consideration Shares are not listed and do not have a published price, the Directors of the Company consider that the fair value of the Consideration Shares is better determined by reference to the fair value of the entire equity interest in VPI acquired, which amounts to HK\$345.0 million as supported by an independent professional valuation of the underlying business acquired. Accordingly, in the opinion of the Directors, the Issue Price of HK\$0.10 per share is the fair value for the Consideration Shares.
- (iii) On 24th January, 2003 and 23rd May, 2003, 100.0 million and 1,360.0 million convertible preference shares of HK\$0.10 each were converted into 100.0 million and 1,360.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.
- (iv) On 4th November, 2003, a total of 150.0 million new ordinary shares of HK\$0.01 each were issued to Almighty International Limited ("Almighty"), a wholly owned subsidiary company of Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company, at HK\$0.113 per share for a total consideration of HK\$17.0 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 27th October, 2003.

Subsequent to 31st December, 2003, on 28th January, 2004, a total of 180.0 million new ordinary shares of HK\$0.01 each were issued to Almighty at HK\$0.128 per share for a total consideration of HK\$23.0 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 20th January, 2004.

A summary of the above movements of the Company's share capital and share premium is as follows:

	Notes	Authorised		Issued and fully paid		Share
		Number of shares million	Amount HK\$'million	Number of shares million	Amount HK\$'million	premium HK\$'million
<b>Ordinary shares</b>						
At 1st January, 2002		6,000.0	6,000.0	2,318.5	2,318.5	68.3
Capital Reduction	(i)(a)	—	(2,295.3)	—	(2,295.3)	—
Cancellation of share premium	(i)(b)	—	—	—	—	(68.3)
Cancellation of unissued share capital	(i)(c)	(3,681.5)	(3,681.5)	—	—	—
Increase of authorised share capital	(i)(c)	17,681.5	176.8	—	—	—
At 31st December, 2002 and at 1st January, 2003		20,000.0	200.0	2,318.5	23.2	—
Conversion of convertible preference shares	(iii)	—	—	1,460.0	14.6	131.4
Issue of new shares	(iv)	—	—	150.0	1.5	15.5
Share issue expenses		—	—	—	—	(0.4)
At 31st December, 2003		<u>20,000.0</u>	<u>200.0</u>	<u>3,928.5</u>	<u>39.3</u>	<u>146.5</u>
<b>Convertible preference shares of HK\$0.10 each</b>						
Issued during the year and balance at 31st December, 2002 and at 1st January, 2003	(ii)	4,750.0	475.0	3,450.0	345.0	—
Conversion of convertible preference shares	(iii)	—	—	(1,460.0)	(146.0)	—
At 31st December, 2003		<u>4,750.0</u>	<u>475.0</u>	<u>1,990.0</u>	<u>199.0</u>	—
<b>Total issued share capital</b>						
At 31st December, 2003			<u>675.0</u>		<u>238.3</u>	<u>146.5</u>
At 31st December, 2002			<u>675.0</u>		<u>368.2</u>	—

**Convertible preference shares**

On 31st December, 2002, the Company issued 3,450.0 million convertible preference shares of HK\$0.10 each at par for the acquisition of a subsidiary company. The convertible preference shares are non-voting, freely transferable and not entitled to any right of participation in the profits of the Company. All convertible preference shareholders have the right (the "Conversion Rights") to convert any or all of their convertible preference shares into fully paid ordinary shares of HK\$0.01 each in the Company on the basis of one ordinary share of the Company for one convertible preference share so converted (the "Conversion Rate") at any time within 3 years after the date on which the convertible preference shares were issued. At the end of the 3-year period, (i.e. 31st December, 2005), all the then outstanding convertible preference shares will be converted into the ordinary shares of the Company at the Conversion Rate on a mandatory basis. The new ordinary shares of the Company, which will be issued pursuant to the convertible preference shares, shall rank *pari passu* in all respects with the then issued ordinary share capital of the Company.

During 2003, 1,460.0 million convertible preference shares were converted into 1,460.0 million new ordinary shares of the Company of HK\$0.01 each. The exercise in full of the Conversion Rights attached to the outstanding 1,990.0 million convertible preference shares in issue at 31st December, 2003 would have, with the present capital structure of the Company, resulted in the issue of a further 1,990.0 million additional ordinary shares.

Subsequent to 31st December, 2003, on 8th March, 2004, a convertible preference shareholder exercised the Conversion Rights to convert 750.0 million convertible preference shares into 750.0 million new ordinary shares of the Company of HK\$0.01 each.

**Share options granted by the Company**

The Company operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by the Company'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 the Company, 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 the Company 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><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 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 to be given.
- (ix) The remaining life of the PHL Share Option Scheme: The life of the PHL Share Option Scheme commenced from 23rd November, 1993, date of adoption, and ended on 23rd November, 2003.

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001		
22nd February, 1994	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	2,737,500	—	3,193,750	Note 3	10.40
	Unvested:	<u>1,825,000</u>	<u>—</u>	<u>1,368,750</u>		
	Mr. Cheng Yuk Lun					
	Vested:	750,000	—	875,000	Note 3	10.40
	Unvested:	<u>500,000</u>	<u>—</u>	<u>375,000</u>		
	Mr. Donald Fan Tung					
	Vested:	1,125,000	—	1,312,500	Note 3	10.40
	Unvested:	<u>750,000</u>	<u>—</u>	<u>562,500</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001 HK\$		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	600,000	—	700,000	Note 3	10.40
	Unvested:	<u>400,000</u>	<u>—</u>	<u>300,000</u>		
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	1,500,000	(306,250)	1,443,750	Note 3	10.40
	Unvested:	<u>1,000,000</u>	<u>(131,250)</u>	<u>618,750</u>		
		<u>11,187,500</u>	<u>(437,500)</u>	<u>10,750,000</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1992)	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	14,062,500	—	18,750,000	Notes 4 & 5	0.6656
	Unvested:	<u>4,687,500</u>	<u>—</u>	<u>—</u>		
	Mr. Cheng Yuk Lun					
	Vested:	3,878,122	—	5,928,906	Notes 4 & 5	0.6656
	Unvested:	<u>2,050,784</u>	<u>—</u>	<u>—</u>		
	Mr. Donald Fan Tung					
	Vested:	3,164,060	—	4,218,750	Notes 4 & 5	0.6656
	Unvested:	<u>1,054,690</u>	<u>—</u>	<u>—</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	3,076,872	—	5,127,656	Notes 4 & 5	0.6656
	Unvested:	<u>2,050,784</u>	<u>—</u>	<u>—</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001 HK\$		
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	3,927,730	—	6,740,236	Notes 4 & 5	0.6656
	Unvested:	<u>2,812,506</u>	<u>—</u>	<u>—</u>		
		<u>40,765,548</u>	<u>—</u>	<u>40,765,548</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	<b>Directors</b> Mr. Donald Fan Tung					
	Vested:	1,230,468	—	1,406,249	Note 6	1.1571
	Unvested:	<u>527,344</u>	<u>—</u>	<u>351,563</u>	Note 6	
		<u>1,757,812</u>	<u>—</u>	<u>1,757,812</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	<b>Directors</b> Mr. Donald Fan Tung					
	Vested:	1,875,000	—	2,187,500	Note 7	3.5392
	Unvested:	<u>1,250,000</u>	<u>—</u>	<u>937,500</u>	Note 7	
		<u>3,125,000</u>	<u>—</u>	<u>3,125,000</u>		
22nd February, 1997	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	1,687,500	(1,000,000)	1,250,000	Note 3	6.672
	Unvested:	<u>3,937,500</u>	<u>(1,500,000)</u>	<u>1,875,000</u>	Note 3	
		<u>5,625,000</u>	<u>(2,500,000)</u>	<u>3,125,000</u>		
	<b>Total:</b>	<u>62,460,860</u>	<u>(2,937,500)</u>	<u>59,523,360</u>		

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

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

## Notes:

1. Consequent upon the group reorganisation resulting in the effective merger of PIHL and the Company 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, the Company granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of the Company under the PHL Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
2. The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.
3. Vesting/Exercise Periods of Options:

	<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 Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	4 years after Original Grant Date	1/7 x 100%	1/7 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c)	5 years to 9 years after Original Grant Date	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage vested each subsequent year (commencing from 5 years after Original Grant Date))	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage exercisable each subsequent year (commencing from 5 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

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

## 6. Vesting/Exercise Periods of Options:

	<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 Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)

(c)	4 years to 9 years after Original Grant Date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year)	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year upon vesting (exercisable until 10 years after Original Grant Date))
(d)	9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

## 7. Vesting/Exercise Periods of Options:

	<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)

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

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1994	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	3,193,750	—	3,650,000	Note 3	10.40
	Unvested:	<u>1,368,750</u>	<u>—</u>	<u>912,500</u>		
	Mr. Cheng Yuk Lun					
	Vested:	875,000	—	1,000,000	Note 3	10.40
	Unvested:	<u>375,000</u>	<u>—</u>	<u>250,000</u>		
	Mr. Donald Fan Tung (Note 2)					
	Vested:	1,312,500	—	1,500,000	Note 3	10.40
	Unvested:	<u>562,500</u>	<u>—</u>	<u>375,000</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	700,000	—	800,000	Note 3	10.40
	Unvested:	<u>300,000</u>	<u>—</u>	<u>200,000</u>		
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	1,443,750	(350,000)	1,300,000	Note 3	10.40
	Unvested:	<u>618,750</u>	<u>(87,500)</u>	<u>325,000</u>		
		<u>10,750,000</u>	<u>(437,500)</u>	<u>10,312,500</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1992)	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	<u>18,750,000</u>	<u>(18,750,000)</u>	<u>—</u>	Note 4	0.6656
	Mr. Cheng Yuk Lun					
	Vested:	<u>5,928,906</u>	<u>(5,928,906)</u>	<u>—</u>	Note 4	0.6656

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002 HK\$		
	Mr. Donald Fan Tung (Note 2)					
	Vested:	<u>4,218,750</u>	<u>(4,218,750)</u>	<u>—</u>	Note 4	0.6656
	Mr. Kenneth Ng Kwai Kai					
	Vested:	<u>5,127,656</u>	<u>(5,127,656)</u>	<u>—</u>	Note 4	0.6656
	<b>Other Employees</b> Employees, in aggregate					
	Vested:	<u>6,740,236</u>	<u>(6,740,236)</u>	<u>—</u>	Note 4	0.6656
		<u>40,765,548</u>	<u>(40,765,548)</u>	<u>—</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1993)	<b>Directors</b> Mr. Donald Fan Tung (Note 2)					
	Vested:	1,406,249	—	1,757,812	Notes 5 & 6	1.1571
	Unvested:	<u>351,563</u>	<u>—</u>	<u>—</u>	Notes 5 & 6	
		<u>1,757,812</u>	<u>—</u>	<u>1,757,812</u>		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	<b>Directors</b> Mr. Donald Fan Tung (Note 2)					
	Vested:	2,187,500	—	2,500,000	Note 7	3.5392
	Unvested:	<u>937,500</u>	<u>—</u>	<u>625,000</u>	Note 7	
		<u>3,125,000</u>	<u>—</u>	<u>3,125,000</u>		

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options**
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1997	<b>Other Employees</b> Employees, in aggregate					
	Vested:	1,250,000	(312,500)	1,250,000	Note 3	6.672
	Unvested:	<u>1,875,000</u>	<u>(312,500)</u>	<u>1,250,000</u>	Note 3	
		<u>3,125,000</u>	<u>(625,000)</u>	<u>2,500,000</u>		
	<b>Total:</b>	<u>59,523,360</u>	<u>(41,828,048)</u>	<u>17,695,312</u>		

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

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

Notes:

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

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

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

## 4. Vesting/Exercise Periods of Options:

<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) 4 years after Original Grant Date	1/7 x 100%	1/7 x 100% upon vesting (exercisable until 10 years after Original Grant Date)
(c) 5 years to 9 years after Original Grant Date	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage vested each subsequent year (commencing from 5 years after Original Grant Date))	Cumulative 2/7 x 100% to 6/7 x 100% (with 1/7 x 100% additional percentage exercisable each subsequent year (commencing from 5 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(d) 9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date).

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

## 6. Vesting/Exercise Periods of Options:

<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)

## 7. 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)

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

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

During 2003, movements in share options granted by the Company 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, 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. Cheng Yuk Lun***						
	Vested:	1,000,000	(1,000,000)	—	Notes 2 & 3	10.40	
	Unvested:	<u>250,000</u>	<u>(250,000)</u>	<u>—</u>			
	Mr. Donald Fan Tung						
	Vested:	1,500,000	—	1,875,000	Notes 2 & 3	10.40	
	Unvested:	<u>375,000</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:	1,300,000	(125,000)	1,500,000	Notes 2 & 3	10.40	
	Unvested:	<u>325,000</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>Directors</b>					
		Mr. Donald Fan Tung					
Vested:	<u>1,757,812</u>	<u>(1,757,812)</u>	<u>—</u>	Note 4	1.1571		



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		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	<b>Directors</b> Mr. Donald Fan Tung					
	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>		
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>	<u>17,695,312</u>	<u>(3,132,812)</u>	<u>14,562,500</u>		

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

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

\*\*\* Resigned as Director during the year.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and the Company 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, the Company granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of the Company 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 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 Information by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of the Company, 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 purpose must be repaid:	N/A
(viii)	The basis of determining the exercise price:	At the discretion of the Board of RHIHL but shall not be less than the par value of the shares nor at a discount of more than 10% below the average closing prices of the ordinary shares on the Stock Exchange on the five dealing days immediately preceding the date on which the invitation to apply for an option is resolved by the board of RHIHL to be given.
(ix)	The remaining life of the RHIHL Share Option Scheme:	The life of the RHIHL Share Option Scheme commenced from 28th June, 1990, date of adoption, and ended on 28th June, 2000.

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options**
		At 1st January, 2001	Lapsed during the year	At 31st December, 2001		
22nd February, 1992	<b>Directors</b> Mr. Lo Yuk Sui					
	Vested:	20,160,000	—	26,880,000	Notes 1 & 2	0.7083
	Unvested:	<u>6,720,000</u>	<u>—</u>	<u>—</u>		

HK\$

Date of grant of share options	Name or category of participant	At 1st January, 2001	Number of ordinary shares under share options**		Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
			Lapsed during the year	At 31st December, 2001		
	Mr. Cheng Yuk Lun					
	Vested:	3,240,000	—	4,200,000	Notes 1 & 2	0.7083
	Unvested:	<u>960,000</u>	<u>—</u>	<u>—</u>		
	Mr. Donald Fan Tung					
	Vested:	1,440,000	—	1,800,000	Notes 1 & 2	0.7083
	Unvested:	<u>360,000</u>	<u>—</u>	<u>—</u>		
	Mr. Kenneth Ng Kwai Kai					
	Vested:	6,480,000	—	8,400,000	Notes 1 & 2	0.7083
	Unvested:	<u>1,920,000</u>	<u>—</u>	<u>—</u>		
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	5,250,000	—	8,814,000	Notes 1 & 2	0.7083
	Unvested:	<u>3,564,000</u>	<u>—</u>	<u>—</u>		
		<u>50,094,000</u>	<u>—</u>	<u>50,094,000</u>		
5th August, 1993	<b>Directors</b>					
	Mr. Donald Fan Tung					
	Vested:	840,000	—	960,000	Note 1	1.1083
	Unvested:	<u>360,000</u>	<u>—</u>	<u>240,000</u>	Note 1	
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	90,000	—	120,000	Note 1	1.1083
	Unvested:	<u>90,000</u>	<u>—</u>	<u>60,000</u>	Note 1	
		<u>1,380,000</u>	<u>—</u>	<u>1,380,000</u>		

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

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

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

*Notes:*

1. Vesting/Exercise Periods of Options:

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

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

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

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2002	Lapsed during the year	At 31st December, 2002		
22nd February, 1992	<b>Directors</b>					
	Mr. Lo Yuk Sui					
	Vested:	<u>26,880,000</u>	<u>(26,880,000)</u>	<u>—</u>	Note 1	0.7083
	Mr. Cheng Yuk Lun					
	Vested:	<u>4,200,000</u>	<u>(4,200,000)</u>	<u>—</u>	Note 1	0.7083
	Mr. Donald Fan Tung					
	Vested:	<u>1,800,000</u>	<u>(1,800,000)</u>	<u>—</u>	Note 1	0.7083
	Mr. Kenneth Ng Kwai Kai					
	Vested:	<u>8,400,000</u>	<u>(8,400,000)</u>	<u>—</u>	Note 1	0.7083
	<b>Other Employees</b>					
Employees, in aggregate						
Vested:	<u>8,814,000</u>	<u>(8,814,000)</u>	<u>—</u>	Note 1	0.7083	
		<u>50,094,000</u>	<u>(50,094,000)</u>	<u>—</u>	Note 1	0.7083
5th August, 1993	<b>Directors</b>					
	Mr. Donald Fan Tung					
	Vested:	<u>960,000</u>	<u>—</u>	<u>1,080,000</u>	Note 1	1.1083
	Unvested:	<u>240,000</u>	<u>—</u>	<u>120,000</u>	Note 1	
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	<u>120,000</u>	<u>—</u>	<u>150,000</u>	Note 1	1.1083
	Unvested:	<u>60,000</u>	<u>—</u>	<u>30,000</u>	Note 1	
	<u>1,380,000</u>	<u>—</u>	<u>1,380,000</u>			

Date of grant of share options	Name or category of participant	At 1st January, 2002	Number of ordinary shares under share options**		Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
			Lapsed during the year	At 31st December, 2002		
22nd February, 1997	<b>Other Employees</b> Employees, in aggregate					
	Vested:	432,000	—	540,000	Note 1	2.1083
	Unvested:	<u>648,000</u>	<u>—</u>	<u>540,000</u>	Note 1	
		<u>1,080,000</u>	<u>—</u>	<u>1,080,000</u>		
	Total:	<u>52,554,000</u>	<u>(50,094,000)</u>	<u>2,460,000</u>		

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

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

*Notes:*

1. Vesting/Exercise Periods of Options:

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

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



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

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options** HK\$
		At 1st January, 2003	Lapsed during the year	At 31st December, 2003		
5th August, 1993	<b>Directors</b>					
	Mr. Donald Fan Tung					
	Vested:	1,080,000	(1,200,000)	—	Note 1	1.1083
	Unvested:	<u>120,000</u>	<u>—</u>	<u>—</u>	Note 1	
	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	150,000	(180,000)	—	Note 1	1.1083
	Unvested:	<u>30,000</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>	<u>2,460,000</u>	<u>(1,380,000)</u>	<u>1,080,000</u>		

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

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

Notes:

1. Vesting/Exercise Periods of Options:

	<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 Information by the Board of Directors, inclusive of those exercised since the year end date, would have, with the present capital structure of the RHIHL, resulted in the issue of 0.8 million additional ordinary shares and share premium of HK\$1.6 million (before issue expenses).

**38. RESERVES**

	Notes	At 31st December,		
		2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
Share premium	37	68.3	—	146.5
Capital redemption reserve	39	52.4	—	—
Capital reserve	40	1,663.9	1,073.2	887.2
Special reserve	41	—	689.6	689.6
Revaluation reserves	42	1,740.1	(15.1)	(16.1)
Exchange equalisation reserve	43	(8.3)	(5.0)	1.5
Retained profits/(Accumulated losses)	44	<u>(3,785.7)</u>	<u>(48.9)</u>	<u>338.7</u>
		<u>(269.3)</u>	<u>1,693.8</u>	<u>2,047.4</u>

## 39. CAPITAL REDEMPTION RESERVE

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Balance at beginning of year	52.4	52.4	—
Cancellation and transfer to special reserve/contributed surplus (note 37(i)(d))	—	(52.4)	—
Balance at end of year	<u>52.4</u>	<u>—</u>	<u>—</u>

## 40. CAPITAL RESERVE

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Balance at beginning of year	1,688.3	1,663.9	1,073.2
Release on disposal of ordinary shares in the listed subsidiary company	—	(77.9)	—
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of exchangeable bonds	(24.4)	—	—
Release on disposal of ordinary shares in the listed subsidiary company upon completion of the Bonds Settlement	—	(521.7)	—
Release on deemed disposal of the Group's interest in the listed subsidiary company	—	—	(152.2)
Release on disposal of overseas subsidiary companies	—	—	(33.8)
Share of impairment of goodwill of an associate previously eliminated against capital reserve	—	8.9	—
Balance at end of year	<u>1,663.9</u>	<u>1,073.2</u>	<u>887.2</u>

As further explained below, the carrying amounts at 31st December, 2001, 2002 and 2003 also included goodwill and negative goodwill arising from the acquisitions of subsidiary companies and the share of goodwill of an associate in prior years. As detailed in note 2(b) to the Financial Information, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against or credited to the capital reserve, respectively.

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

	<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 1st January, 2001	9.4	88.9	(1,697.7)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	<u>(0.1)</u>	<u>—</u>	<u>24.5</u>
At 31st December, 2001	9.3	88.9	(1,673.2)
Accumulated impairment:			
At 1st January, 2001 and 31st December, 2001	<u>—</u>	<u>(88.9)</u>	<u>—</u>
Net amount:			
At 31st December, 2001	<u><u>9.3</u></u>	<u><u>—</u></u>	<u><u>(1,673.2)</u></u>
Cost:			
At 1st January, 2002	9.3	88.9	(1,673.2)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	(0.4)	—	78.3
Release on disposal of ordinary shares in the listed subsidiary company	<u>—</u>	<u>—</u>	<u>521.7</u>
At 31st December, 2002	<u>8.9</u>	<u>88.9</u>	<u>(1,073.2)</u>
Accumulated impairment:			
At 1st January, 2002	—	(88.9)	—
Impairment provided during the year	<u>(8.9)</u>	<u>—</u>	<u>—</u>
At 31st December, 2002	<u>(8.9)</u>	<u>(88.9)</u>	<u>—</u>
Net amount:			
At 31st December, 2002	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(1,073.2)</u></u>

	Share of goodwill of an associate eliminated against capital reserve <i>HK\$'million</i>	Goodwill eliminated against capital reserve <i>HK\$'million</i>	Negative goodwill credited to capital reserve <i>HK\$'million</i>
Cost:			
At 1st January, 2003	8.9	88.9	(1,073.2)
Release on disposal of overseas subsidiary companies	—	—	33.8
Release on deemed disposal of the Group's interest in the listed subsidiary company	<u>—</u>	<u>—</u>	<u>152.2</u>
At 31st December, 2003	8.9	88.9	(887.2)
Accumulated impairment:			
At 1st January, 2003 and 31st December, 2003	<u>(8.9)</u>	<u>(88.9)</u>	<u>—</u>
Net amount:			
At 31st December, 2003	<u>—</u>	<u>—</u>	<u>(887.2)</u>

**41. SPECIAL RESERVE**

	Year ended 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Balance at beginning of year	—	—	689.6
Transfer from share capital pursuant to Capital Reduction ( <i>note 37</i> )	—	2,295.3	—
Transfer from share premium ( <i>note 37</i> )	—	68.3	—
Transfer from capital redemption reserve ( <i>note 39</i> )	—	52.4	—
Elimination of accumulated losses position ( <i>note 44</i> )	<u>—</u>	<u>(1,726.4)</u>	<u>—</u>
Balance at end of year	<u>—</u>	<u>689.6</u>	<u>689.6</u>

The special reserve represents reserve arising from the Company's Capital Reorganisation in 2002 as set out in note 37 to the Financial Information.

On 17th April, 2003, it was approved by the Directors that special reserve amounting to HK\$1,726.4 million was applied towards elimination of the Group's accumulated losses position as at 31st December, 2002.

## 42. REVALUATION RESERVES

	Investment properties <i>HK\$'million</i>	Hotel properties <i>HK\$'million</i>	Leasehold properties <i>HK\$'million</i>	Long term investments <i>HK\$'million</i>	Total <i>HK\$'million</i>
At 1st January, 2001	1,996.1	899.6	360.1	(110.7)	3,145.1
Movement in fair value	—	—	—	(22.6)	(22.6)
Reclassification of leasehold properties as investment properties	86.9	—	(86.9)	—	—
Reclassification of investment properties as properties held for sale	12.2	—	—	—	12.2
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	—	(10.3)	—	1.4	(8.9)
Release on disposal	—	—	—	101.2	101.2
Transfer to retained profits ( <i>note 45</i> )	—	—	(7.5)	—	(7.5)
Deficit on revaluation	(590.1)	(1,073.0)	—	—	(1,663.1)
Deficit on revaluation transferred to profit and loss account	<u>—</u>	<u>183.7</u>	<u>—</u>	<u>—</u>	<u>183.7</u>
At 31st December, 2001 and at 1st January, 2002	1,505.1	—	265.7	(30.7)	1,740.1
Movement in fair value	—	—	—	0.2	0.2
Transfer to profit and loss account on impairment	—	—	—	8.5	8.5
Reclassification of leasehold properties as investment properties	35.8	—	(35.8)	—	—
Release on disposal of ordinary shares in the listed subsidiary company	—	—	—	0.8	0.8
Release on disposal of ordinary shares in the listed subsidiary company upon the completion of Bonds Settlement	—	—	—	2.9	2.9
Release on disposal of subsidiary companies upon the completion of Bonds Settlement	(1,531.6)	—	(225.5)	—	(1,757.1)
Release on disposal	(8.2)	—	—	2.3	(5.9)
Transfer to retained profits ( <i>note 45</i> )	—	—	(4.4)	—	(4.4)
Deficit on revaluation	<u>(0.2)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(0.2)</u>
At 31st December, 2002 and at 1st January, 2003	0.9	—	—	(16.0)	(15.1)
Movement in fair value	—	—	—	(1.7)	(1.7)
Release on deemed disposal of the Group's interest in the listed subsidiary company	—	—	—	0.3	0.3
Release on disposal	<u>—</u>	<u>—</u>	<u>—</u>	<u>0.4</u>	<u>0.4</u>
At 31st December, 2003	<u><u>0.9</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>(17.0)</u></u>	<u><u>(16.1)</u></u>

## 43. EXCHANGE EQUALISATION RESERVE

	Year ended 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	(6.6)	(8.3)	(5.0)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of exchangeable bonds	0.1	—	—
Release on disposal of ordinary shares in the listed subsidiary company	—	0.4	—
Release on disposal of ordinary shares in the listed subsidiary company upon completion of the Bonds Settlement	—	2.6	—
Release on deemed disposal of the Group's interest in the listed subsidiary company	—	—	(0.2)
Release on disposal of a subsidiary company	—	—	(0.6)
Release on disposal of overseas subsidiary companies	—	—	3.7
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	<u>(1.8)</u>	<u>0.3</u>	<u>3.6</u>
Balance at end of year	<u><u>(8.3)</u></u>	<u><u>(5.0)</u></u>	<u><u>1.5</u></u>

## 44. RETAINED PROFITS/(ACCUMULATED LOSSES)

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Balance at beginning of year	(2,724.4)	(3,785.7)	(48.9)
Net profit/(loss) for the year	(1,068.8)	1,704.1	387.6
Elimination of accumulated losses position of the listed subsidiary company upon cancellation of its preference share premium	—	76.4	—
Transfer from other reserves ( <i>note 45</i> )	7.5	229.9	—
Transfer from special reserve ( <i>note 41</i> )	—	1,726.4	—
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of year	<u>(3,785.7)</u>	<u>(48.9)</u>	<u>338.7</u>
Retained profits/(Accumulated losses) at end of year retained by/(accumulated in):			
The Company and subsidiary companies	(1,678.9)	2,060.3	2,365.2
Associates	(324.1)	(326.5)	(328.2)
Jointly controlled entity	<u>(1,782.7)</u>	<u>(1,782.7)</u>	<u>(1,698.3)</u>
	<u>          </u>	<u>          </u>	<u>          </u>
Balance at end of year	<u>(3,785.7)</u>	<u>(48.9)</u>	<u>338.7</u>

## 45. TRANSFER FROM OTHER RESERVES

	Year ended 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
Transfer from revaluation reserve of the portion of depreciation charge on leasehold property attributable to the revaluation surplus in relation thereto ( <i>note 42</i> )	7.5	4.4	—
Transfer from revaluation reserve upon disposal of leasehold properties ( <i>note 42</i> )	—	225.5	—
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>7.5</u>	<u>229.9</u>	<u>—</u>



## 46. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

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

	Year ended 31st December,		
	2001 <i>HK\$'million</i>	2002 <i>HK\$'million</i>	2003 <i>HK\$'million</i>
Profit/(loss) before tax	(1,220.9)	1,333.3	449.2
Adjustments for:			
Finance costs	738.5	500.9	166.9
Share of profits less losses of a jointly controlled entity and associates	96.8	14.9	(203.8)
Interest income	(55.2)	(15.8)	(8.3)
Dividend income	(3.1)	(0.7)	—
Gain on settlement of exchangeable bonds and convertible bonds	—	(3,065.9)	—
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of exchangeable bonds	(71.5)	—	—
Loss on deemed disposal of the Group's interest in the listed subsidiary company	—	—	39.4
Loss on disposal of ordinary shares in the listed subsidiary company	—	53.7	—
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	—	—	9.7
Gain on disposal of an associate	—	(6.5)	—
Loss/(Gain) on disposal of fixed assets	3.3	1.0	(5.4)
Loss on disposal of an investment property	—	30.6	—
Depreciation	58.5	50.9	40.8
Amortisation of goodwill	—	—	14.3
Negative goodwill recognised as income	—	(1.1)	(0.4)
Write-down/(Write-back) in values of properties	61.9	67.4	(44.0)
Write back of provision against a loan receivable	—	(14.2)	—
Impairment of fixed assets	50.8	—	—
Write-back of impairment/(Impairment) of hotel properties	—	618.9	(11.4)
Deficit/(Write-back of deficit) on revaluation of hotel properties	183.7	528.9	(266.1)
Impairment of long term investment	180.0	62.0	—
Impairment of long term investments previously eliminated against long term investment revaluation reserve	—	15.0	—
Provision for doubtful debts	11.0	8.8	3.4
Provisions against other loans, promissory notes and interest receivable	56.8	—	—
Profit on sale of properties	(0.3)	—	—
Loss on disposal of long term investment	141.4	96.1	1.2
Gain on repurchase and cancellation of convertible bonds	(13.4)	—	—
Net proceeds from sale of properties	123.4	9.3	136.0
Additions to properties under development	—	(5.4)	(32.1)
Operating profit before working capital changes	<u>341.7</u>	<u>282.1</u>	<u>289.4</u>

## Year ended 31st December,

	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Operating profit before working capital changes	341.7	282.1	289.4
Decrease/(Increase) in short term investments	9.7	—	(4.0)
Decrease in debtors, deposits and prepayments	40.1	76.5	41.8
Decrease/(Increase) in hotel and other inventories	15.5	5.8	(2.5)
Decrease in creditors and accruals	(40.5)	(78.8)	(103.8)
Increase/(Decrease) in deposits received	(4.6)	1.1	28.7
Exchange difference	(0.2)	0.3	(0.7)
	<u>361.7</u>	<u>287.0</u>	<u>248.9</u>
Cash generated from operations	361.7	287.0	248.9
Hong Kong profits tax paid	(21.5)	(8.4)	(1.3)
Hong Kong profits tax refunded	—	—	0.3
Overseas taxes paid	(0.5)	(0.4)	(0.1)
Overseas taxes refunded	—	3.1	—
	<u>—</u>	<u>3.1</u>	<u>—</u>
Net cash inflow from operating activities	<u>339.7</u>	<u>281.3</u>	<u>247.8</u>

## (b) Major non-cash transactions

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

- (i) Part of the promissory notes receivable of HK\$180.0 million as at 31st December, 2001 together with the interest accrued thereon was settled in 2002, involving, inter alia, a 3-year convertible note of HK\$132.0 million issued by one of the borrowers of the promissory notes.
- (ii) In 2002, the 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 the Company.
- (iii) As detailed in note 37(iii) to the Financial Information, on 24th January, 2003 and 23rd May, 2003, a total of 100.0 million and 1,360.0 million convertible preference shares of HK\$0.10 each were converted into 100.0 million and 1,360.0 million additional ordinary shares of the Company, respectively, of HK\$0.01 each by the relevant holders of the convertible preference shares.

## (c) Restricted cash and cash equivalent balances

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

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

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

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

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

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

The results of the subsidiary company acquired in 2002 had no impact on the Group's consolidated turnover and profit after tax for that year. Refer to note 47(g) to the Financial Information for details of the acquisition.

## (e) Disposal of subsidiary companies

	At 31st December,		
	2001 HK\$'million	2002 HK\$'million	2003 HK\$'million
Net assets disposed of:			
Fixed assets	—	2,792.3	259.8
Property under development	—	—	23.9
Deferred expenditure	—	18.6	—
Hotel and other inventories	—	—	4.7
Debtors, deposits and prepayments	—	10.1	4.1
Cash and bank balances	—	110.8	2.7
Creditors and accruals	—	(400.3)	(18.0)
Provision for premium on redemption of exchangeable bonds and convertible bonds	—	(815.6)	—
Deposits received	—	(42.3)	(11.3)
Deferred tax liabilities	—	(57.7)	—
Loans and other borrowings	—	(3,842.7)	(195.8)
Bank overdrafts	—	(0.3)	—
	—	(2,227.1)	70.1
Capital reserve realised on disposal	—	—	(33.8)
Investment property revaluation reserve released on disposal	—	(1,531.6)	—
Exchange equalisation reserve released on disposal	—	—	3.1
Release of reserves attributable to minority shareholders	—	—	(6.1)
Gain/(Loss) on disposal	—	3,735.6*	(9.7)
	—	(23.1)	23.6
Satisfied by:			
Cash	—	(23.1)#	9.4
Reclassification to long term investments	—	—	14.2
	—	(23.1)	23.6

\* The gain on disposal of subsidiary companies was included as part of the gain on settlement of exchangeable bonds and convertible bonds. The Bonds Settlement involved, inter alia, the disposal of the subsidiary companies owning the two principal investment properties and the issuers of the exchangeable bonds and convertible bonds, and the phased release of certain shares in RHIHL, to the bondholders. Accordingly, the gain on completion of the Bonds Settlement of HK\$3,065.9 million comprised the gain on disposal of subsidiary companies amounting to HK\$3,735.6 million (as above) and the loss on disposal of ordinary shares in RHIHL amounting to HK\$669.7 million.

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

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

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

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

The subsidiary companies disposed of in 2002 contributed HK\$134.0 million (2001 - HK\$174.7 million) to the Group's turnover and a loss of HK\$204.7million (2001 - HK\$258.4 million) to the consolidated profit after tax and before minority interests for that year.

#### 47. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	<i>Notes</i>	<b>Year ended 31st December,</b>		
		<b>2001</b>	<b>2002</b>	<b>2003</b>
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Operating lease rentals in respect of land and buildings received from a wholly-owned subsidiary company of CCIHL	(a)	15.8	7.9	—
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate of CCIHL	(b)	20.6	12.6	7.4
Management costs allocated from CCIHL	(c)	57.3	45.8	14.9
Gross construction fee income from a jointly controlled entity	(d)	2.4	0.2	31.1
Interest on loans to associates	(e)	9.9	7.5	—
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(f)	<u>2,310.0</u>	<u>2,310.0</u>	<u>2,359.0</u>

*Notes:*

- (a) The rental income in 2001 and 2002 related to the provision of head office accommodation to CCIHL. The rental was determined by reference to market rental for offices of similar quality in the same district obtained from independent sources. There was no outstanding rental as at 31st December, 2001 and 2002.

- (b) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed. In 2001, information technology services were also provided, the fees for which were charged on project basis.
- (c) The management costs included rentals and other overheads allocated from CCIHL, in 2001 and 2002, either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group (excluding the RHIHL group), the RHIHL group and the CCIHL group (excluding the Group and the RHIHL group). With effect from 1st January, 2003, such management costs were allocated from CCIHL either on the basis of specific attribution or 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.
- (d) 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.
- (e) The interest income from associates arose from loans to Cheerjoy Development Limited (“Cheerjoy”), details of which are disclosed in note 19 to the Financial Information. With effect from 1st January, 2003, such interest income was waived by mutual agreement among the shareholders of Cheerjoy.
- (f) The corporate guarantees were given by the Company and RHIHL in respect of a banking facility granted to Chest Gain (also see note (h) below).
- (g) On 2nd August, 2002, the Company 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 CCIHL. The assets of the VPI group comprised a 50% equity interest in LTH and cash deposits of approximately HK\$70 million. LTH and its subsidiary companies are principally engaged in the design, development, integration and distribution of security and building related systems, software and products in the Greater China Region.

The 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 the Company at HK\$0.10 each (the “Paliburg Convertible Preference Shares”). Each Paliburg Convertible Preference Share can be converted into an ordinary share of the Company (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.

- (h) On 2nd August, 2002, RHIHL entered into a sale and purchase agreement (the “Stanley Transfer Agreement”) with the Company and Paliburg Development BVI Holdings Limited, a wholly-owned subsidiary company of the Company, for the acquisition of 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”). The Company 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 related party transactions set out in notes 47(a), (b), (c), (g) and (h) above also constituted connected transactions as defined in the Listing Rules to the Company.

#### 48. PLEDGE OF ASSETS

At 31st December 2001, 2002 and 2003, certain of the Group's time deposits, properties held for sale, listed investments, interests in associates, fixed assets including properties and equipment, inventories and receivables with a total carrying value of HK\$12,160.0 million, HK\$7,801.1 million and HK\$7,732.4 million, respectively, and the shares in certain subsidiary companies, including certain ordinary shares in the listed subsidiary company, and 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.

#### 49. CONTINGENT LIABILITIES

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

	At 31st December,		
	2001	2002	2003
	HK\$'million	HK\$'million	HK\$'million
(a) Corporate guarantees provided in respect of:			
Attributable share of outstanding bank and other borrowings of:			
— a jointly controlled entity	<u>1,757.7</u>	<u>1,938.4</u>	<u>2,255.4</u>

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$15.1 million and HK\$12.8 million as at 31st December, 2002 and 2003, respectively, as further explained in note 2(z) to the Financial Information. The contingent liability has arisen because, at each of the balance sheet dates, a number of current employees having achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

(c) As further explained in note 26 to the Financial Information, the RHIHL Group entered into a securities purchase agreement (the "U.S. Sale Agreement") with an independent party (the "Purchaser") with respect to the disposal by the RHIHL Group to the Purchaser of its interests in hotel ownership and hotel management in the United States of America in December 1999.

The U.S. Sale Agreement contained representations, warranties and indemnification given by the RHIHL Group which were normal and usual for transactions of similar nature. As disclosed in note 26, the RHIHL Group was relieved from all the related contingent liabilities after a settlement agreement was concluded with the Purchaser in September 2003.

#### 50. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 14 and 24) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 5 years (2002 - 1 year to 5 year; 2001 - 3 months to 7 years) for 2003. The terms of the leases generally also require the tenants to pay security deposits and in certain cases, provide for periodic rent adjustments according to the terms under leases.

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

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	127.7	21.2	15.8
In the second to fifth years, inclusive	<u>119.5</u>	<u>8.7</u>	<u>12.7</u>
	<u>247.2</u>	<u>29.9</u>	<u>28.5</u>

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

(b) As lessee

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

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

	At 31st December,		
	2001	2002	2003
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Land and buildings:			
Within one year	—	7.2	3.9
In the second to fifth years, inclusive	—	27.6	10.1
After the fifth year	<u>—</u>	<u>15.0</u>	<u>2.5</u>
	<u>—</u>	<u>49.8</u>	<u>16.5</u>
Other equipment:			
Within one year	3.9	3.6	—
In the second to fifth years, inclusive	<u>1.2</u>	<u>0.6</u>	<u>—</u>
	<u>5.1</u>	<u>4.2</u>	<u>—</u>
	<u>5.1</u>	<u>54.0</u>	<u>16.5</u>



## 51. COMMITMENTS

In addition to the operating lease commitments detailed in note 50(b) above, the Group had the following outstanding commitments at the balance sheet date:

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

## (III) SUBSEQUENT EVENTS

The subsequent events that occurred from 1st January, 2004 to 15th April, 2004, the date of approval of the Group's latest published audited financial statements for the year ended 31st December, 2003 and as included in those financial statements, are set out in notes 1, 14, 34, and 37 to the Financial Information and the footnote item (i) under the list of principal subsidiary companies in Section (I) above. Subsequent to 15th April, 2004, the Group also had the following significant transactions:

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

- (b) On 3rd June, 2004, the RHIHL Group served a notice to the purchaser (the "Purchaser") for the exercise of the termination option under the sale and purchase agreement (the "SP Agreement") in relation to the disposal of the Regal Oriental Hotel to terminate the SP Agreement. Pursuant to the terms of the SP Agreement, a HK\$30.0 million deposit was returned to the Purchaser and in addition, a termination fee of HK\$39.0 million will be paid to the Purchaser, which will be satisfied by the issue of 195 million new ordinary shares of RHIHL to the Purchaser at an issue price of HK\$0.20 per share.
- (c) On 3rd June, 2004, the RHIHL Group entered into subscription agreements with certain independent third parties in relation to the issue by the RHIHL Group of certain bonds comprising (i) the firm bonds in an aggregate principal amount of HK\$200.0 million; and (ii) the optional bonds in an additional aggregate principal amount of up to HK\$200.0 million (collectively the "Bonds"). The Bonds, which are due 2007, will bear interest at 2% per annum and carry rights to convert into new ordinary shares of RHIHL at an initial conversion price of HK\$0.25 per share (subject to adjustments). The issue of the Bonds is subject to, inter alia, shareholders' approvals of RHIHL, the Company and CCIHL at its special general meeting to be convened on 19th July, 2004.

#### (IV) SUBSEQUENT FINANCIAL STATEMENTS

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

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

## A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

## I. Unaudited Pro forma Consolidated Balance Sheet

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

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

	<b>31st December,</b>	<b>Pro forma</b>	<b>Adjusted</b>
	<b>2003</b>	<b>adjustments</b>	<b>balances</b>
<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7,185.5		7,185.5
Goodwill	260.5		260.5
Negative goodwill	(4.1)		(4.1)
Properties under development	7.2		7.2
Property held for future development	26.7		26.7
Interest in a jointly controlled entity	1,298.6		1,298.6
Interests in associates	245.3		245.3
Long term investments	114.1		114.1
Loans and other long term receivable	109.1		109.1
Deferred tax assets	10.4		10.4
Deferred expenditure	38.7		38.7
	<u>9,292.0</u>		<u>9,292.0</u>
<b>CURRENT ASSETS</b>			
Short term investments	4.0		4.0
Properties held for sale	215.1		215.1
Hotel and other inventories	23.0		23.0
Debtors, deposits and prepayments	127.8		127.8
Pledged time deposits	25.9		25.9
Time deposits	110.9		110.9
Cash and bank balances	1	400.0	426.9
	<u>26.9</u>		<u>426.9</u>
	<u>533.6</u>		<u>933.6</u>

		<b>31st December, 2003</b>	<b>Pro forma adjustments</b>	<b>Adjusted balances</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>CURRENT LIABILITIES</b>				
Creditors and accruals		320.9		320.9
Tax payable		16.0		16.0
Interest bearing bank and other borrowings		1,076.7		1,076.7
Deposits received		<u>81.6</u>		<u>81.6</u>
		<u>1,495.2</u>		<u>1,495.2</u>
<b>NET CURRENT LIABILITIES</b>		<u>(961.6)</u>		<u>(561.6)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>8,330.4</u>		<u>8,730.4</u>
<b>NON-CURRENT LIABILITIES</b>				
Interest bearing bank and other borrowings		(3,546.7)		(3,546.7)
Advances from minority shareholders of subsidiary companies		(42.4)		(42.4)
Deferred tax liabilities		(64.4)		(64.4)
Other payable		<u>(28.7)</u>		<u>(28.7)</u>
		<u>(3,682.2)</u>		<u>(3,682.2)</u>
Minority interests	2	<u>(2,362.5)</u>	(554.7)	<u>(2,917.2)</u>
<b>NET ASSETS</b>		<u>2,285.7</u>		<u>2,131.0</u>
<b>SHAREHOLDERS' EQUITY</b>	3	<u>2,285.7</u>	(154.7)	<u>2,131.0</u>

## II. Unaudited Pro forma Consolidated Profit and Loss account

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

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

		<b>Year ended</b>		
		<b>31st December,</b>	<b>Pro forma</b>	<b>Adjusted</b>
		<b>2003</b>	<b>adjustments</b>	<b>balances</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Turnover		877.4		877.4
Cost of sales		<u>(624.1)</u>		<u>(624.1)</u>
Gross profit		253.3		253.3
Other revenue		32.3		32.3
Administrative expenses		(79.6)		(79.6)
Other operating expenses	4	(105.5)	(0.1)	(105.6)
Write-back of provisions for write-downs and impairments	5	310.1	(46.7)	263.4
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	6	(9.7)	(4.8)	(14.5)
Write-back of impairment of a hotel property		<u>11.4</u>		<u>11.4</u>
Profit from operating activities		412.3		360.7
Finance costs		(166.9)		(166.9)
Share of profits less losses of:				
Jointly controlled entity		206.6		206.6
Associates		<u>(2.8)</u>		<u>(2.8)</u>
Profit before tax		449.2		397.6
Tax		<u>63.2</u>		<u>63.2</u>
Profit before minority interests		512.4		460.8
Minority interests	7	<u>(124.8)</u>	(13.4)	<u>(138.2)</u>
Net profit from ordinary activities attributable to shareholders		<u><u>387.6</u></u>		<u><u>322.6</u></u>

## III. Unaudited Pro forma Consolidated Cash Flow Statement

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

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

		<b>Year ended</b>		
		<b>31st December,</b>	<b>Pro forma</b>	<b>Adjusted</b>
		<b>2003</b>	<b>adjustments</b>	<b>balances</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Profit before tax	4, 5, 6	449.2	(51.6)	397.6
Adjustments for:				
Finance costs		166.9		166.9
Share of profits less losses of a jointly controlled entity and associates		(203.8)		(203.8)
Interest income		(8.3)		(8.3)
Loss on deemed disposal of the Paliburg Group's interest in the listed subsidiary company	4	39.4	0.1	39.5
Loss on disposal of overseas subsidiary companies attributable to discontinued operation	6	9.7	4.8	14.5
Gain on disposal of fixed assets		(5.4)		(5.4)
Depreciation		40.8		40.8
Amortisation of goodwill		14.3		14.3
Negative goodwill recognised as income		(0.4)		(0.4)
Write-back in values of properties		(44.0)		(44.0)
Write-back of impairment of hotel properties		(11.4)		(11.4)
Write-back of deficit on revaluation of hotel properties	5	(266.1)	46.7	(219.4)
Provisions for doubtful debts		3.4		3.4
Loss on disposal of long term investments		1.2		1.2
Net proceeds from sale of properties		136.0		136.0
Additions to properties under development		(32.1)		(32.1)

	<b>Year ended</b>	<b>Pro forma</b>	<b>Adjusted</b>
	<b>31st December,</b>	<b>adjustments</b>	<b>balances</b>
<i>Notes</i>	<b>2003</b>	<b>HK\$'million</b>	<b>HK\$'million</b>
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Operating profit before working capital changes	289.4		289.4
Increase in short term investments	(4.0)		(4.0)
Decrease in debtors, deposits and prepayments	41.8		41.8
Increase in hotel and other inventories	(2.5)		(2.5)
Decrease in creditors and accruals	(103.8)		(103.8)
Increase in deposits received	28.7		28.7
Exchange difference	(0.7)		(0.7)
	<u>248.9</u>		<u>248.9</u>
Cash generated from operations	248.9		248.9
Hong Kong profits tax paid	(1.3)		(1.3)
Hong Kong profits tax refunded	0.3		0.3
Overseas taxes paid	(0.1)		(0.1)
	<u>247.8</u>		<u>247.8</u>
Net cash inflow from operating activities	<u>247.8</u>		<u>247.8</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Consolidation of a subsidiary company	0.1		0.1
Acquisition of additional interest in the listed subsidiary company	(2.9)		(2.9)
Proceeds on disposal of other fixed assets	5.8		5.8
Proceeds on disposal of long term investments	0.1		0.1
Disposal of subsidiary companies	6.7		6.7
Deposit received from disposal of an associate	40.0		40.0
Decrease in loans receivable	7.7		7.7
Purchases of fixed assets	(21.0)		(21.0)
Proceeds on settlement of deferred consideration in respect of the Paliburg Group's disposal of its hotel interests in the United States of America in a prior year	380.6		380.6
Advance to associates	(3.4)		(3.4)
Advance to a jointly controlled entity	(37.2)		(37.2)
Interest received	8.3		8.3
Decrease in pledged time deposits	17.9		17.9
	<u>402.7</u>		<u>402.7</u>
Net cash inflow from investing activities	<u>402.7</u>		<u>402.7</u>

		<b>Year ended</b>		
		<b>31st December,</b>	<b>Pro forma</b>	<b>Adjusted</b>
		<b>2003</b>	<b>adjustments</b>	<b>balances</b>
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
<b>CASH FLOWS FROM FINANCING</b>				
<b>ACTIVITIES</b>				
Proceeds from issue of ordinary shares		17.0		17.0
Proceeds from issue of ordinary shares by the listed subsidiary company		18.7		18.7
Share issue expenses		(0.8)		(0.8)
Issue of 5% convertible bonds		20.0		20.0
Repurchase of 5% convertible bonds		(30.0)		(30.0)
Advance from a minority shareholder of a subsidiary company		0.1		0.1
Drawdown of a new loan		1.9		1.9
Repayments of bank loans and other loans		(515.4)		(515.4)
Interest paid		<u>(144.6)</u>		<u>(144.6)</u>
Net cash outflow from financing activities		<u>(633.1)</u>		<u>(633.1)</u>
Net increase in cash and cash equivalents		17.4		17.4
Cash and cash equivalents at beginning of year	1	119.9	400.0	519.9
Effect of foreign exchange rate changes, net		<u>0.4</u>		<u>0.4</u>
Cash and cash equivalents at end of year		<u>137.7</u>		<u>537.7</u>
<b>Analysis of balances of cash and cash</b>				
<b>equivalents</b>				
Cash and bank balances	1	26.9	400.0	426.9
Non-pledged time deposits with original maturity of less than three months when acquired		<u>110.9</u>		<u>110.9</u>
		137.8		537.8
Bank overdrafts		<u>(0.1)</u>		<u>(0.1)</u>
		<u>137.7</u>		<u>537.7</u>



**IV. Notes to Pro forma Financial Information**

1. The adjustment represents the cash proceeds (before expenses) generated assuming that the maximum amount of the Bonds had been issued. No application of such cash proceeds is assumed.
2. The adjustment reflects the Paliburg Group's minority interest in Regal based on the Paliburg Group's adjusted economic interest in Regal as at 31st December, 2003.
3. The adjustment reflects the changes in the Paliburg Group's reserves as a result of its adjusted economic interest in Regal.
4. The adjustment is to record the adjusted loss arising from the Paliburg Group's actual deemed disposal of interest in Regal during the year, based on the Paliburg Group's adjusted economic interest in Regal.
5. The adjustment reflects the decrease in the write-back of the attributable deficit on revaluation of hotel properties based on the Paliburg Group's adjusted economic interest in Regal as at 31st December, 2003.
6. The adjustment reflects the additional loss incurred due to less attributable reserves released upon the disposal as a result of the Paliburg Group's adjusted economic interest in Regal.
7. The adjustment reflects the increase in minority interests based on the Paliburg Group's adjusted economic interest in Regal for the year.

**B. Letter from Ernst & Young**

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



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

30th June, 2004

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

Dear Sirs,

We report on the unaudited pro forma financial information of Paliburg Holdings Limited (the “Company”) and its subsidiary companies (the “Group”) set out on pages 129 to 135 of the circular of the Company dated 30th June, 2004 (the “Circular”) in connection with the very substantial disposal (deemed disposal) of interests in Regal Hotels International Holdings Limited (“Regal”), the listed subsidiary company of the Company, relating to the proposed issue of 2% Guaranteed Convertible Bonds due 2007 of Regal (the “Bonds”). The unaudited pro forma financial information has been prepared by the Directors of the Company, for illustrative purposes only, to provide information about how the assumed full conversion of the Bonds might have affected the financial information presented in respect of the Group.

**Responsibilities of Directors and reporting accountants**

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

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

**Basis of opinion**

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

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

**Opinion**

In our opinion:

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

Yours faithfully,  
**Ernst & Young**  
*Certified Public Accountants*  
Hong Kong

**A. INDEBTEDNESS**

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

As at the close of business on 31st May, 2004, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Paliburg Group had outstanding borrowings of approximately HK\$4,543,174,000 comprising:

- (1) secured bank loans of approximately HK\$4,522,025,000; and
- (2) secured other loans of approximately HK\$21,149,000.

As at the close of business on 31st May, 2004, the Paliburg Group had contingent liabilities in respect of guarantees for a bank loan made available to a jointly controlled entity, together with the related overdue normal contractual interest payable, of approximately HK\$1,433,346,000.

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

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

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

**B. WORKING CAPITAL**

The Directors are of the opinion that, after taking into account the Paliburg Group's existing cash and bank balances as well as the present available banking facilities, and with the loan rescheduling agreement entered into by Regal on 30th September, 2003 with the lenders of two bank loans with an aggregate amount of HK\$4,428.0 million as at 31st December, 2003, comprising a syndicated loan of HK\$3,373.8 million and a construction loan of HK\$1,054.2 million, in place together with the surplus funds expected to be generated from the Regalia Bay development project in Stanley, Hong Kong, the Paliburg 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 Paliburg Group since 31st December, 2003, the date to which the latest audited consolidated financial statements of the Paliburg Group were made up.

**D. MANAGEMENT DISCUSSION AND ANALYSIS****Operating Highlights***Paliburg Holdings Limited*

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

**The PHL Group****I. Properties****(a) Hong Kong****(1) Ap Lei Chau Inland Lot No. 129, Ap Lei Chau East**

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

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

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

**(3) 211 Johnston Road, Wanchai**

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

**(4) Various lots in Demarcation District No. 251, Sharp Island, Sai Kung**

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

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

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

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

(2) Development Site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing

The development plan for the entire project has recently been approved by the Beijing Municipal Commission of Urban Planning in December 2003 and further negotiations are being conducted with the relevant local government authorities for the formal vesting of the requisite land title. The PHL Group is holding sale negotiations with prospective investors at an indicative price which is substantially higher than the written down carrying value of the PHL Group's investment in this project. It is the intention of the PHL Group to sell its interest in this project if the final offered terms are considered to be favourable.

(c) *United States of America*

A formal settlement has been reached with the Unified School District for the determination of the final compensation for its compulsory acquisition of the Crown Hill site in Los Angeles previously owned by the PHL Group at approximately US\$13.9 million. The compensation money has since been received by the PHL Group, most of which was applied for repayment of the PHL Group's borrowings. A write back of the provision previously made has been reflected in the results for the year 2003.

**II. Construction and building related businesses**

(a) *Construction Business*

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

**(b) Building Related Businesses**

The PHL Group has acquired, through the Paliburg Acquisition (as defined in the 2002 Circulars) completed in December 2002, a 50% interest in the Leading Technology Holdings Limited and its subsidiaries (together, the “Leading Technology Group”). The Leading Technology Group is principally engaged in the design, development, integration and distribution of innovative and technologically advanced security and building related systems, software and products. In 2003, the Leading Technology Group has commercialised and launched a second generation version of its fingerprint access control system and, at the same time, has successfully developed and launched a property management system for hotels. While the Leading Technology Group will continue to expand, develop and refine the commercial application of its own designed products, it is also considering to diversify into other manufacturers products customised and marketed under its own brand name, and to be undertaken in conjunction with the planned expansion of its sales and marketing network both locally and in the PRC market. Though still in its early stage of development, the Leading Technology Group has attained for the year under review positive EBITDA (earnings before interests, taxation, depreciation and amortisation) on its business operations.

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

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

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

**The Regal Group**

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

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

## I. Hotels

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

On account of the serious disruption caused by the SARS outbreak, the combined average occupancy for the five Regal Hotels in Hong Kong for 2003 has trailed behind 2002 by about 19.3%, but in terms of the combined average room rate, an increase of over 2% was attained. Except for the period affected by the SARS outbreak, the Regal Hotels in Hong Kong have in fact been able to achieve continuous improvements in their gross operating profit margins during the past few years, despite the competitive market conditions.

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

The year round operating results of the two hotels in Shanghai managed by the Regal Group had similarly been adversely affected by the outbreak of SARS. Having regard to the buoyant economic condition presently prevailing in Shanghai and Mainland China overall, their operating results and, hence, the management fee income attributable to the Regal Group, are anticipated to improve in 2004. With its strong operating base in Hong Kong and the established presence in Shanghai, the Regal Group is planning to expand its hotel management network in Mainland China as and when suitable opportunities arise.



The Regal Group entered into the SP Agreement with the Purchaser in August 2003 for the sale of its interests in the Regal Oriental Hotel. In view of the changed circumstances and the improved prospects for the local hotel sector since the entering into of the SP Agreement, the Regal Group reconsidered the relative merits of selling the Regal Oriental Hotel, particularly having regard to the long held objective of positioning itself as one of the largest hotel owners and operators in Hong Kong. In order to provide the Regal Group with additional time and flexibility for its contemplation of other alternative proposals and arrangements which may serve better commercial benefits to the Regal Group than the disposal of the Regal Oriental Hotel under the sale agreement, the Regal Group initiated discussions with the Purchaser and, in March 2004, a supplemental agreement was finalised and signed. Under the supplemental agreement, the completion date was extended from 31st March, 2004 to 30th June, 2004 and the ROH Termination Option (in a revised form) was reinstated for the Regal Group, exercisable at its sole discretion, to terminate the sale agreement before the extended completion date. As set out in the Letter from the Board contained in this circular, the Regal Group exercised the ROH Termination Option to terminate the SP Agreement in June 2004.

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

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

## II. Properties - Regalia Bay

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

The sale programme for this development was first launched in September 2003. The development has gained general recognition as one of the most prestigious luxury residential estates and the sale progress achieved so far has been most satisfactory. It is anticipated that, by the third quarter of 2004, all the project loans outstanding on the development would have been fully repaid through the net proceeds receivable from the sale of the houses and further proceeds thereafter will accrue to the joint venture partners in accordance with their respective entitlements.

The Regal Group has in the year 2003 written back a minority portion of the provision previously made against the Regal Group's investment in this development project by reference to the sales achieved. Based on the latest transacted price, the going market trend as well as the growing demand for quality luxurious residential properties in Hong Kong Island, it is expected that the sale price for the remaining houses should be significantly higher than the average selling price achieved for the houses sold to date. Accordingly, it can be anticipated that, when the remaining houses are sold, a substantially larger write back amount will be recognised as profit contribution in the financial year ending 31st December, 2004.

### Cash Flow and Capital Structure

Net cash inflow from operating activities during the year under review amounted to HK\$247.8 million (comprising approximately HK\$99.5 million from the PHL Group and approximately HK\$148.3 million for the Regal Group) (2002 - HK\$281.3 million (comprising approximately HK\$78.0 million from the PHL Group and approximately HK\$203.3 million from the Regal Group)). Net interest payment for the year amounted to HK\$136.3 million (2002 - HK\$305.1 million).

As at 31st December, 2003, the Paliburg Group had time deposits of approximately HK\$110.9 million, pledged time deposits of approximately HK\$25.9 million and cash and bank balances of approximately HK\$26.9 million. Approximately 86% of the above balances was denominated in Hong Kong dollars with the remaining balances denominated in Renminbi or United States dollars.

In October 2003, 150 million new Shares were issued by Paliburg to Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of Century City, at HK\$0.113 each following a placement by Almighty of 150 million Shares at HK\$0.113 each.

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

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

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

In June 2003, 210.0 million new Regal Shares were issued by Regal to Guo Yui Investments Limited ("Guo Yui"), a wholly-owned subsidiary company of Paliburg, at HK\$0.048 per Regal Share following a placement by Guo Yui of 150 million Regal Shares at HK\$0.048 each.

In July 2003, a total of 180.0 million new Regal Shares were issued by Regal through placement to certain independent investors at HK\$0.048 each.

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

**Borrowings**

Based on the audited financial statements of the Paliburg Group, as at 31st December, 2003, the Paliburg Group's gross borrowings net of cash and bank balances amounted to HK\$4,459.7 million, as compared to HK\$5,190.2 million in 2002. Gearing ratio based on total assets of HK\$9,825.6 million as at 31st December, 2003 (2002 - HK\$9,647.6 million) was 45.4% (2002 - 53.8%).

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

The Paliburg Group expects that with the much improved outlook of the hotel business and the substantial surplus funds to be realised from the Regalia Bay development project, the Paliburg Group's borrowings as well as its gearing level will be further reduced significantly.

Details of the Paliburg Group's pledge of assets and contingent liabilities are shown in notes 48 and 49 to the Financial Information in the Accountants' Report set out in Appendix I to this circular (the "Financial Information"). As disclosed in note 48, most of the Paliburg Group's assets have been pledged to secure general banking facilities granted to the Paliburg Group and the jointly controlled entity, which is 70% owned by the Paliburg Group, engaged in the Regalia Bay luxury residential project at Wong Ma Kok Road in Stanley, Hong Kong. The Paliburg Group does not consider such security arrangements to be unusual, having regard to the past circumstances affecting the Paliburg Group. As at 31st December, 2003, the Paliburg Group had contingent liabilities under certain corporate guarantees in the amount of HK\$2,359.0 million (2002 - HK\$2,310.0 million) provided in respect of the banking facilities granted to the jointly controlled entity. These banking facilities were granted to the jointly controlled entity solely for the purpose to finance the Regalia Bay development project.

Details of the maturity profile of the Paliburg Group's borrowings as at 31st December, 2003 are set out in notes 29 and 34 to the Financial Information. As disclosed in note 29, the Regal Group concluded the loan rescheduling agreement with its bank lenders in September 2003 and accordingly, the maturity profile of the relevant bank loans in an aggregate amount of HK\$4,428.0 million is stated in accordance with the terms contained in the loan rescheduling agreement.

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

	<b>The PHL Group</b> <i>HK\$'million</i>	<b>The Regal Group</b> <i>HK\$'million</i>	<b>Total (the Paliburg Group)</b> <i>HK\$'million</i>
Bank loans and overdrafts:			
Secured	155.7	4,446.4	4,602.1
Unsecured	0.1	—	0.1
Secured other loans wholly repayable within five years	<u>17.0</u>	<u>4.2</u>	<u>21.2</u>
	<u>172.8</u>	<u>4,450.6</u>	<u>4,623.4</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	172.8	903.9	1,076.7
More than 1 year but not exceeding 2 years	—	360.0	360.0
More than 2 years but not exceeding 5 years	—	2,622.5	2,622.5
More than 5 years	<u>—</u>	<u>564.2</u>	<u>564.2</u>
	<u>172.8</u>	<u>4,450.6</u>	<u>4,623.4</u>

Approximately 80% of the above indebtedness of the Paliburg Group was denominated in Hong Kong dollars with the remaining balances denominated in Renminbi or United States dollars.

### Material Disposals of Subsidiary Companies

As previously reported in Paliburg's 2003 Interim Report, in June 2003, following the default by a third party purchaser in the closing of a sale and purchase agreement dated 3rd September, 2002 for the disposal of the Regal Group's 100% interest in a subsidiary company then owning the Regal Constellation Hotel in Canada, the Regal Group divested of its 100% shareholding interest in the immediate holding company of such subsidiary company to another third party purchaser for a nominal consideration, with sharing arrangements on any recovery from the defaulted purchaser. As the principal repayment obligation under the bank loan originally secured on the Regal Constellation Hotel was without recourse to the Regal Group, such bank loan in the principal sum of approximately HK\$195.8 million has been taken off the consolidated balance sheet of the Regal Group in 2003.

**Funding and Treasury Policy**

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

**Remuneration Policy**

The Paliburg Group employs approximately 1,700 staff in Hong Kong (of which approximately 200 are employed by the PHL Group and 1,500 are employed by the Regal Group) and 800 staff in The People's Republic of China (most of which are employed by the Regal Group). The Paliburg Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Paliburg 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 Paliburg Group include provident fund scheme and medical and life insurance.

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

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Paliburg. The directors of Paliburg 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 Paliburg in the shares, underlying shares and debentures of Paliburg or any associated corporation (within the meaning of Part XV of the SFO) of Paliburg, which (a) are required to be notified to Paliburg 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 Paliburg is taken or deemed to have under such provisions of the SFO); or (b) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) are required, pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies in the Listing Rules to be notified to Paliburg and the Stock Exchange, were as follows:

	Name of Director	Class of shares held	Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal interests	Family interests	Corporate interests	Other interests	
1. Paliburg	Mr. Lo Yuk Sui	Ordinary					
		(i) issued	442,765	—	3,276,817,477 (Notes a(iii))	200,000,000 (Note b)	3,477,260,242
		(ii) unissued		—	1,240,000,000 (Notes a(iv) & c)	—	1,240,000,000
							Total (i) & (ii): 4,717,260,242 (93.25%)
		Preference (issued)	—	—	1,240,000,000 (Notes a(iv) & c)	—	1,240,000,000 (100%)
	Mr. Donald Fan Tung	Ordinary					
		issued	2,718	—	—	—	2,718 (0.00005%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	—	—	—	100,000 (0.002%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	—	—	—	284,000 (0.006%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	536,500	—	—	536,500 (0.011%)

	Name of Director	Class of shares held	Number of Shares Held				Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
			Personal interests	Family interests	Corporate interests	Other interests	
<b>Associated Corporation</b>							
2. Century City	Mr. Lo Yuk Sui	Ordinary					
		(i) issued	543,344,843	—	2,185,994,246 (Note a(i))	—	2,729,339,089
		(ii) unissued	—	—	10,210,000,000 (Note a(ii))	—	10,210,000,000
							Total (i) & (ii): 12,939,339,089 (239.76%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	—	—	—	2,510,000 (0.047%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	—	—	—	1,659,800 (0.031%)
	Mr. Ng Siu Chan	Ordinary (issued)	—	15,453,000	—	—	15,453,000 (0.286%)
3. Regal	Mr. Lo Yuk Sui	Ordinary (issued)	220,000	—	4,370,380,259 (Notes a(v) & d)	—	4,370,600,259 (53.66%)
		Preference (issued)	—	—	3,440 (Note a(v))	—	3,440 (20.54%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	—	—	—	2,370,000 (0.032%)
4. 8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary (issued)	—	—	1,000 (Note e)	—	1,000 (100%)
5. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	—	—	50,000 (Note f)	—	50,000 (25%)

## Notes:

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

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

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

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

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

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

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

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



- (b) Mr. Lo Yuk Sui is the trustee for Select Wise Trust, of which Select Wise Holdings Limited, a substantial shareholder of Century City and Paliburg, is the beneficiary.
- (c) 1,240,000,000 convertible preference shares of Paliburg (“Paliburg Preference Shares”) are convertible into 1,240,000,000 Shares on the basis of one Paliburg Preference Share for one Share.
- (d) Included the balance of 716,576,649 shares charged by a wholly-owned subsidiary of Paliburg (the “SPV”) in favour of a trustee for the holders of, and forming the exchange property (the “Exchange Property”) in respect of, the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the Paliburg Group on 31st October, 2002 (the “Settlement Closing Date”). The Exchange Property was/is to be released to the holders of the Series B Bonds (the “Series B Bondholders”) in four quarterly tranches on each dates falling 12, 15, 18 and 21 months after the Settlement Closing Date, subject to certain early release provisions. A total balance of 242,451,649 shares under the first three tranches (the “Released Tranches”) remained within the Exchange Property which are deliverable to the Series B Bondholders at any time upon request. The Exchange Property, including any remaining balance of shares under the Released Tranches and the fourth tranche comprising 474,125,000 shares, will be released and ceased to be held by the SPV on 31st July, 2004.
- (e) 400 shares were held through companies controlled by Century City and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (f) The shares were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.

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

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

<b>Name of substantial shareholder</b>	<b>Number of issued ordinary shares held</b>	<b>Number of underlying ordinary shares (unissued) held</b>	<b>Total number of ordinary shares (issued and unissued) held</b>	<b>Approximate percentage of the issued ordinary shares</b>
Century City <i>(Notes i, ii and iii)</i>	3,276,817,477	1,240,000,000	4,516,817,477	89.29%
Century City BVI Holdings Limited ("CCBVI") <i>(Notes ii and iii)</i>	3,276,817,477	1,240,000,000	4,516,817,477	89.29%
Almighty International Limited ("Almighty") <i>(Notes ii and iii)</i>	1,910,000,000	1,240,000,000	3,150,000,000	62.27%
Century City Holdings Limited ("CCH") <i>(Notes ii and iii)</i>	767,458,989	—	767,458,989	15.17%
Manyways Technology Limited ("Manyways") <i>(Notes iii and iv)</i>	—	2,552,500,000	2,552,500,000	50.46%
8D International (BVI) Limited ("8D BVI") <i>(Notes iii, iv and v)</i>	—	2,552,500,000	2,552,500,000	50.46%
Task Master Technology Limited ("Task Master") <i>(Notes iii, iv and vi)</i>	—	2,552,500,000	2,552,500,000	50.46%
Secure Way Technology Limited ("Secure Way") <i>(Notes iii and iv)</i>	—	2,552,500,000	2,552,500,000	50.46%

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares
Net Community Limited ("Net Community") (Notes iii, iv and vii)	—	2,552,500,000	2,552,500,000	50.46%
Century Digital Holdings Limited ("Century Digital") (Notes iii, iv and viii)	—	2,552,500,000	2,552,500,000	50.46%
Grand Modern Investments Limited ("Grand Modern") (Notes iii, iv and ix)	—	2,552,500,000	2,552,500,000	50.46%
Miss Lo Po Man (Note x)	303,546,000	202,500,000	506,046,000	10.00%
Wealth Master International Limited ("Wealth Master") (Notes x and xi)	303,546,000	202,500,000	506,046,000	10.00%
Select Wise Holdings Limited ("Select Wise") (Notes x and xii)	303,546,000	202,500,000	506,046,000	10.00%

## Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 50.57% shareholding interests in Century City and the interests in these Shares held by Century City through its wholly owned subsidiaries were included in the corporate interests of Mr. Lo Yuk Sui in the Shares as disclosed above.
- (ii) These companies are wholly owned by Century City and their interests in the Shares were included in the interests held by Century City.
- (iii) These companies are controlled by Mr. Lo Yuk Sui and their interests in these Shares were included in the corporate interests of Mr. Lo Yuk Sui in the Shares as disclosed above.
- (iv) The interests in these underlying shares were directly held by Grand Modern.
- (v) 8D BVI is 60% owned by Manyways.
- (vi) Task Master is wholly owned by 8D BVI.
- (vii) Net Community is 33.33% owned by Task Master and 66.67% owned by Secure Way.
- (viii) Century Digital is wholly owned by Net Community.
- (ix) Grand Modern is wholly owned by Century Digital.

- (x) The interests in 103,546,000 issued shares and 202,500,000 unissued shares are directly held by Select Wise and 200,000,000 issued shares are directly held by Select Wise Trust, of which Select Wise is the beneficiary.
- (xi) Wealth Master is wholly owned by Miss Lo Po Man.
- (xii) Select Wise is wholly owned by Wealth Master.

Save as disclosed herein, there is no person known to the directors or chief executive of Paliburg who, as at the Latest Practicable Date, had an interest or short position in the shares and underlying shares of Paliburg which would fall to be disclosed to Paliburg 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 Paliburg or any of its subsidiaries or had any options in respect of such capital.

- (c) As at the Latest Practicable Date, none of the directors of Paliburg has a service contract with Paliburg or any its subsidiaries which does not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).
- (d) As at the Latest Practicable Date, none of the directors of Paliburg was materially interested in any contract or arrangement entered into by Paliburg or any of its subsidiaries subsisting at the Latest Practicable Date which was significant in relation to the business of Paliburg and its subsidiaries and none of the directors of Paliburg 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 Paliburg were made up), acquired or disposed of by or leased to Paliburg or any of its subsidiaries, or which was proposed to be acquired or disposed of by or leased to Paliburg or any of its subsidiaries.

## 3. PARTICULARS OF DIRECTORS

<b>Name</b>	<b>Address</b>
Mr. Lo Yuk Sui	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Donald Fan Tung	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mrs. Kitty Lo Lee Kit Tai	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Jimmy Lo Chun To	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Kenneth Ng Kwai Kai	18th Floor, Paliburg Plaza 68 Yee Wo Street Causeway Bay Hong Kong
Mr. Ng Siu Chan	13th Floor 8 Queen's Road Central Hong Kong
Hon Abraham Shek Lai Him, JP	Room 806 Manning House 48 Queen's Road Central Hong Kong
Dr. Wu Shu Chih, Alex, CBE, LL D, FBIM FIOP, F Inst D, JP	14th Floor, Hart House 12-14 Hart Avenue Kowloon Hong Kong

**Mr. Lo Yuk Sui**, aged 59; Chairman and Managing Director — Chairman and Managing Director since 1993. Mr. Lo has been the Managing Director and the Chairman of the predecessor listed companies of Paliburg since 1984 and 1986 respectively. He is also the chairman and managing director of Century City and Regal. Mr. Lo is a qualified architect. In his capacity as the chief executive officer, Mr. Lo oversees the overall policy and decision making of the Paliburg Group.

**Mr. Donald Fan Tung**, aged 47; Executive Director — Appointed to the Board in 1993. Mr. Fan has been with the Paliburg Group since 1987 and is principally involved in the Paliburg Group's property development, architectural design and project management functions. Mr. Fan is a qualified architect. He is also a director of Regal.

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

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

**Mr. Kenneth Ng Kwai Kai**, aged 49; Executive Director — Appointed to the Board in 1995. Mr. Ng has been with the Paliburg Group since 1985 and is in charge of the company secretarial and corporate finance functions of Paliburg. Mr. Ng is a Chartered Secretary. He is also a director of Century City and Regal.

**Mr. Ng Siu Chan**, aged 73; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 1995. Mr. Ng is also an independent non-executive director of Century City. He is a director of The Kowloon Motor Bus Holdings Limited and an independent non-executive director of Wing Lung Bank Limited, both of which are publicly listed in Hong Kong.

**Hon Abraham Shek Lai Him, JP**, aged 59; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 2002. Mr. Shek holds a bachelor degree of Arts. He is currently a member of the Legislative Council for the Hong Kong Special Administrative Region. He has been appointed as Member of Managing Board of Kowloon-Canton Railway Corporation with effect from 1st February, 2004.

**Dr. Wu Shu Chih, Alex, CBE, LL D, FBIM FIOP, F Inst D, JP**, aged 83; Independent Non-Executive Director — Invited to the Board as Independent Non-Executive Director in 1993. Dr. Wu is also an independent non-executive director of Regal. He was a former member of the Legislative Council and formerly the vice chairman of the Stock Exchange, and also a former member of the Advisory Committee of the Securities & Futures Commission. He is the Life Honorary President of Hong Kong Printers Association, the chairman of Fidelity Management Limited and non-executive director of a number of listed companies including Hong Kong Aircraft Engineering Company Limited, Hong Kong

Ferry (Holdings) Company Limited, Hung Hing Printing Group Limited and K. Wah International Holdings Limited. Dr. Wu was appointed a Hong Kong Affairs Adviser in April 1995 and a member of The Selection Committee for the First Government of the Hong Kong Special Administrative Region in November 1996.

#### 4. LITIGATION

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

#### 5. MATERIAL CONTRACTS

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

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

- f. the supplemental agreement to the Paliburg Acquisition Agreement dated 31st October, 2002 entered into between Paliburg, the Vendors and VPI for, among others, extending the long stop date for the satisfaction of the conditions to the completion of the Paliburg Acquisition Agreement from 31st October, 2002 to 31st December, 2002;
- g. the placing agreement dated 26th November, 2002 entered into by, among others, Taylor Investments Ltd. (“Taylor”), a wholly-owned subsidiary of Paliburg, as the vendor, for the placing of 155,000,000 Regal Shares held by Taylor at a price of HK\$0.065 per Regal Share; and the top-up subscription agreement entered into between Guo Yui Investments Limited, (“Guo Yui”), another wholly-owned subsidiary of Paliburg, Taylor and Regal on the same date for the subscription of 155,000,000 new Regal Shares by each of Guo Yui and Taylor at a price of HK\$0.065 per Regal Share;
- h. the agreement dated 15th January, 2003 entered into by, among others, Richtech and Faith Master for the repurchase of the 2004 Bonds with an aggregate principal amount of HK\$30,000,000 at a cash consideration of HK\$30,500,000;
- i. the placing agreement dated 3rd June, 2003 entered into by, among others, Guo Yui as the vendor for the placing of 155,000,000 Regal Shares held by Guo Yui at a price of HK\$0.048 per Regal Share; and the top-up subscription agreement entered into between Guo Yui and Regal on the same date for the subscription of 210,000,000 new Regal Shares by Guo Yui at a price of HK\$0.048 each;
- j. the placing agreement dated 8th July, 2003 entered into by, among others, Regal in respect of the placing of 180,000,000 new Regal Shares at a price of HK\$0.048 per Regal Shares;
- k. the SP Agreement (please refer to the letter from the Board contained in this circular for details);
- l. the top-up subscription agreement dated 22nd October, 2003 entered into between Paliburg and Almighty International Limited (“Almighty”) for the subscription of 150,000,000 new Shares by Almighty at HK\$0.113 each;
- m. the top-up subscription agreement dated 15th January, 2004 entered into between Paliburg and Almighty for the subscription of 180,000,000 new Shares by Almighty at a price of HK\$0.128 each;
- n. the top-up subscription agreement dated 4th May, 2004 entered into between Paliburg and Almighty for the subscription of 200,000,000 new Shares by Almighty at HK\$0.21 each; and
- o. the Subscription Agreements (please refer to the letter from the Board contained in this circular for details).

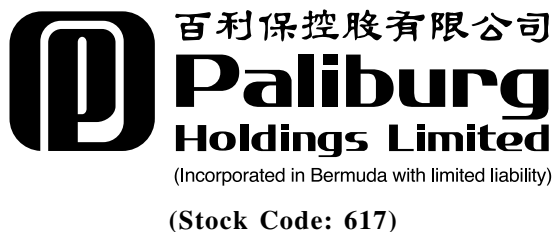




**8. DOCUMENTS AVAILABLE FOR INSPECTION**

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

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



**NOTICE IS HEREBY GIVEN** that a special general meeting of Paliburg Holdings Limited (the “Company”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Monday, 19th July, 2004 at 11:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ordinary resolutions of the Company:

**ORDINARY RESOLUTION NO. 1**

**“THAT:**

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

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## NOTICE OF SGM

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### ORDINARY RESOLUTION NO. 2

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

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

Hong Kong, 30th June, 2004

*Head office and principal place of business:*

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

*Registered office:*

Rosebank Centre  
11 Bermudiana Road  
Pembroke  
Bermuda

**Notes:**

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