



Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiary companies are hotel ownership and management, property investment and other investments.

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

The turnover and contribution to trading results by each principal activity and by geographical location are set out in note 5 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 85 to 152.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments constitute primarily its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of these hotels during the year under review, their future prospects as well as the commentary on the local hotel industry, changes in general market conditions and their potential impact on the operating performance of these hotels together with the progress and prospects on the Regalia Bay development are contained in the Chairman's Report preceding this report.

Cash Flow and Capital Structure

During the year under review, net cash inflow from operating activities totalled HK\$148.3 million (2002 – HK\$203.3 million). Net interest payment for the year amounted to HK\$135.6 million (2002 – HK\$203.7 million).

As detailed in note 25 to the financial statements, during the year, the Group received cash proceeds in the sum of US\$48.8 million (approximately HK\$380.6 million) on settlement of certain deferred consideration in respect of the Group's disposal of its hotel interests in the United States of America in 1999. The cash proceeds were substantially applied in repayment of the Group's bank borrowings.

In June 2003, 210.0 million new ordinary shares were issued by the Company to Guo Yui Investments Limited ("Guo Yui"), a wholly-owned subsidiary company of Paliburg Holdings Limited, at a price of HK\$0.048 per ordinary share following a placement by Guo Yui of 150.0 million issued ordinary shares in the Company at a price of HK\$0.048 per ordinary share.



In July 2003, a total of 180.0 million new ordinary shares were issued by the Company through placement to certain independent investors at a price of HK\$0.048 per ordinary share.

Net cash inflows to the Company from the above new share issues amounted to an aggregate sum of approximately HK\$18.4 million and were used for general working capital purposes. Further details relating to such new share issues are set out in the section headed "Issue of New Shares under the 20% General Mandate" below.

Pursuant to the subscription agreement dated 12th September, 2002 relating to the issue of 5% guaranteed convertible bonds due 2004 (the "Convertible Bonds"), entered into between, among others, Richtech Holdings Limited ("Richtech"), a wholly-owned subsidiary company of the Company and the issuer of the Convertible Bonds, and a third party purchaser (the "Bonds Purchaser"), the Bonds Purchaser initially subscribed in October 2002 Convertible Bonds in a principal amount of HK\$50.0 million (the "Firm Bonds") and has the right to subscribe for additional Convertible Bonds of up to an aggregate principal amount of HK\$50.0 million (the "Optional Bonds"). In January 2003, the Group repurchased and cancelled outstanding Convertible Bonds in a principal amount of HK\$30.0 million for a cash consideration of HK\$30.5 million, payment of which was settled by certain proceeds derived from the realisation of certain security provided for the Convertible Bonds. In July 2003, the Bonds Purchaser partially exercised the option to subscribe for the Optional Bonds and, as a result, additional Optional Bonds in an aggregate principal amount of HK\$20.0 million were issued by Richtech. The cash proceeds from the issue of the HK\$20.0 million Optional Bonds were used for general working purposes.

During the year, a total of 833,333,327 new ordinary shares were allotted and issued by the Company upon conversion of the issued Convertible Bonds (including the HK\$20 million Firm Bonds and the HK\$20.0 million Optional Bonds) based on the adjusted conversion price of HK\$0.048 per ordinary share. As at the balance sheet date, there were no outstanding Convertible Bonds in issue but the Bonds Purchaser had the right to subscribe for the remaining Optional Bonds in an aggregate principal amount of HK\$30.0 million at the adjusted conversion price of HK\$0.048 per ordinary share.

Subsequent to the balance sheet date, in January 2004, the remaining HK\$30 million Optional Bonds were subscribed by and issued to the Bonds Purchaser. During January and February 2004, Guo Yui acquired from the Bonds Purchaser Optional Bonds in an aggregate principal amount of HK\$28 million. In March 2004, such HK\$28 million Optional Bonds acquired by Guo Yui and the remaining HK\$2 million Optional Bonds held by the Bonds Purchaser were all converted and, as a result, a total of 624,999,999 new ordinary shares were issued based on the adjusted conversion price of HK\$0.048 per ordinary share.

Details of the Convertible Bonds are set out in note 28 to the financial statements.



Borrowings

As at 31st December, 2003, the Group's gross borrowings net of cash and bank balances amounted to HK\$4,401.5 million (2002 – HK\$4,993.0 million). The 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 Group expects that with the much improved outlook of the Group's hotel business and the substantial surplus funds to be realised from the Regalia Bay development project, the Group's borrowings as well as its gearing level will be further reduced significantly.

Details of the Group's pledge of assets and contingent liabilities are shown in notes 43 and 44, respectively, to the financial statements. As disclosed in note 43, most of the Group's assets have been pledged to secure general banking facilities granted to the Group and the jointly controlled entity, which is 70% owned by the Group, engaged in the Regalia Bay luxury residential project at Wong Ma Kok Road in Stanley, Hong Kong. The Group does not consider such security arrangements to be unusual, having regard to the circumstances affecting the Group in prior year. As at 31st December, 2003, the Group has contingent liabilities under a several corporate guarantee given by the Company in the amount of HK\$2,359.0 million (2002 - HK\$2,310.0 million) 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 of financing the Regalia Bay development project.

Details of the maturity profile of the Group's borrowings are set out in note 27 to the financial statements. As disclosed in note 3 to the financial statements, the Group concluded with the Group's bank lenders the Rescheduling Agreement on 30th 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 Rescheduling Agreement.

Material Disposals of Subsidiary Companies

As previously reported in the Company's 2003 Interim Report for the six months ended 30th June, 2003, 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 Group's 100% interest in a subsidiary company owning the Regal Constellation Hotel in Canada, the 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 Group, such bank loan in the principal sum of approximately HK\$195.8 million has been taken off the consolidated balance sheet of the Group as at 30th June, 2003. Details of the transaction were disclosed in an announcement of the Company dated 7th July, 2003.



As contemplated under the financial restructuring proposal leading to the Rescheduling Agreement, on 29th August, 2003, the Group entered into a sale and purchase agreement (the "SP Agreement") for the disposal of its 100% interest in a subsidiary company which indirectly owns the Regal Oriental Hotel. Subsequently, on 30th March, 2004, the parties to the SP Agreement entered into a supplemental agreement to the SP Agreement to extend the completion date of the SP Agreement to 30th June, 2004 and to reinstate the termination option (in a revised form) to the Group to terminate the SP Agreement. The arrangement under the supplemental agreement was intended to facilitate the 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. Details of the SP Agreement and the supplemental agreement were disclosed in two announcements of the Company dated 4th September, 2003 and 31st March, 2004, respectively.

Save as otherwise disclosed herein, the Group has no immediate plans for material investments or capital assets.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. As the Group's borrowings are mostly denominated in Hong Kong dollar currency, being the same currency in which the 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 Group employs approximately 1,500 staff in Hong Kong and 800 staff in The People's Republic of China. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

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

The Company adopted in 1990 an Executive Share Option Scheme under which share options had been granted to selected eligible executives.



DIVIDENDS

No interim dividend was paid to holders of ordinary shares during the year.

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

No dividend was paid to preference shareholders for the year ended 31st December, 2003. Information relating to the cumulative unpaid dividends in arrears as of 31st December, 2003 is set out in note 16 to the financial statements.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Mr. Donald Fan Tung
Mr. Dominic Lai
Mr. Tommy Lam Chi Chung
Mrs. Kitty Lo Lee Kit Tai
Mr. Jimmy Lo Chun To
Mr. Kenneth Ng Kwai Kai
Mr. Thomas Ng Wai Hung
Mr. Kai Ole Ringenson
Dr. Alex Wu Shu Chih
Ms. Belinda Yeung Bik Yiu

On 1st January, 2004, Mr. Kai Ole Ringenson, having resigned from his executive duties with the Group, was appointed as a Non-Executive Director.

On 6th January, 2004, Mr. Daniel Bong Shu Yin resigned as a Non-Executive Director and Dr. Alex Wu Shu Chih was appointed as an Independent Non-Executive Director.

In accordance with Bye-laws 100 and 109(A) of the Company's Bye-laws, Mr. Dominic Lai, Mr. Tommy Lam Chi Chung, Mrs. Kitty Lo Lee Kit Tai and Dr. Alex Wu Shu Chih retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.



The details of those Directors who are proposed to be re-elected at the forthcoming Annual General Meeting, which are required to be disclosed under Rules 13.51(2) and 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out as follows:

Name of Director	(a) Length or Proposed Length of Service with the Company (b) Position held with the members of the Group	Relationships with any Directors, Senior Management or Substantial or Controlling Shareholders of the Company	(a) Major Appointments and Qualifications (b) Other directorships held in listed public companies in the last three years	(a) Interests in Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (b) Amount of the Director's Emoluments specified in Service Contract and the Basis of Determining the Director's Emoluments
Dominic Lai (Age : 57)	(a) Appointed as an Independent Non-Executive Director of the Company in April 1999 (b) Independent Non-Executive Director of the Company	None	(a) (1) Practising solicitor in Hong Kong and senior partner in the law firm of Lu, Lai & Li (2) Admitted as solicitor in England and Wales, the Republic of Singapore and the States of New South Wales and Victoria, Australia (b) (1) Everbest Century Holdings Limited (resigned on 31st March, 2004) (2) ITC Corporation Limited (3) Midas International Holdings Limited (4) Midland Realty (Holdings) Limited (5) New World TMT Limited (6) NWS Holdings Limited (7) Oriental Press Group Limited (8) Winfoong International Limited (9) Wing On Travel (Holdings) Limited	(a) Nil (b) Note (1)
Tommy Lam Chi Chung (Age : 49)	(a) Joined the Group as Chief Financial Officer in 1999 and appointed as an Executive Director of the Company in February 2002 (b) Executive director of the Company, director of certain subsidiary companies of the Group and the Chief Financial Officer of the Group	None other than being the Chief Financial Officer of the Century City Group and an Executive Director of Century City International Holdings Limited ("CCIHL")	(a) (1) Holder of bachelor degree of science in computer science & mathematics (2) Holder of master's degree of business administration in accounting & management sciences (b) CCIHL	(a) Nil (b) Notes (1) & (2)



Report of the Directors (Cont'd)

Name of Director	(a) Length or Proposed Length of Service with the Company (b) Position held with the members of the Group	Relationships with any Directors, Senior Management or Substantial or Controlling Shareholders of the Company	(a) Major Appointments and Qualifications (b) Other directorships held in listed public companies in the last three years	(a) Interests in Shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance (b) Amount of the Director's Emoluments specified in Service Contract and the Basis of determining the Director's Emoluments
Kitty Lo Lee Kit Tai (Age : 53)	(a) Appointed as a Non-Executive Director of the Company in October 1999 (b) Non-Executive Director of the Company	The spouse of Mr. Lo Yuk Sui, Chairman and the indirect controlling shareholder of the Company, and a Non-Executive Director of CCIHL and Paliburg Holdings Limited ("PHL"), both controlling shareholders of the Company	(a) Nil (b) (1) CCIHL (2) PHL	(a) Beneficially holds 2,370,000 Ordinary Shares in the Company (b) Note (1)
Wu Shu Chih, Alex (Age : 83)	(a) Appointed as an Independent Non-Executive Director of the Company in January 2004 (b) Independent Non-Executive Director of the Company	None other than being an Independent Non-Executive Director of PHL	(a) (1) Former member of the Legislative Council (2) Former vice chairman of The Stock Exchange of Hong Kong Limited (3) Former member of the Advisory Committee of the Securities & Futures Commission (4) Life Honorary President of Hong Kong Printers Association (5) Appointed as a Hong Kong Affairs Adviser in April 1995 (6) Appointed as a Member of the Selection Committee for the First Government of The Hong Kong Special Administrative Region in November 1996 (7) C.B.E., LL. D., F.B.I.M. F.I.O.P., F.Inst.D., J.P. (b) (1) Alpha General (Holdings) Limited (2) Hong Kong Aircraft Engineering Company Limited (3) Hong Kong Ferry (Holdings) Company Limited (4) Hung Hing Printing Group Limited (5) K. Wah International Holdings Limited (6) National Electronics Holdings Limited (7) PHL	(a) Nil (b) Note (1)

**Notes:**

- (1) None of the Directors proposed to be re-elected at the forthcoming Annual General Meeting has a service contract with the Group, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).
- (2) The emoluments of Directors are determined by reference to industry norm and market conditions, with discretionary bonus based on performance.

DIRECTORS' INTERESTS IN CONTRACTS

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

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

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

During the year, none of the Directors exercised options to subscribe for shares under the Schemes of the Company and PHL.



DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") of the Company), which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

		Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the Issued Shares)
				Personal Interests	Family Interests	Corporate Interests	Other Interests	
1.	The Company	Mr. Lo Yuk Sui	Ordinary (issued)	220,000	-	4,682,520,933 (Notes a(v) & d)	-	4,682,740,933 (62.27%)
			Preference (issued)	-	-	3,440 (Note a(v))	-	3,440 (20.54%)
		Mr. Daniel Bong Shu Yin (note j)	Ordinary (issued)	1,440,000	-	-	-	1,440,000 (0.019%)
		Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	-	-	-	2,370,000 (0.032%)
		Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	1,080,000 (Note g)	-	-	-	1,080,000 (0.014%)
		Name of Associated Corporation						
2.	CCIHL	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%)

Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held				Total (Approximate percentage of the Issued Shares)	
			Personal Interests	Family Interests	Corporate Interests	Other Interests		
2. CCIHL	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	-	-	-	1,659,800 (0.031%)	
	Ms. Belinda Yeung Bik Yiu	Ordinary (issued)	2,000	-	-	-	2,000 (0.00004%)	
3. PHL	Mr. Lo Yuk Sui	Ordinary (i) issued	442,765	-	2,526,817,477 (Note a(iii))	200,000,000 (Note b)	2,727,260,242	
		(ii) unissued	4,562,500 (Note f)	-	1,990,000,000 (Notes a(iv) & c)	-	1,994,562,500	
	Total (i) & (ii):						4,721,822,742 (120.19%)	
		Preference (issued)	-	-	1,990,000,000 (Notes a(iv) & c)	-	1,990,000,000 (100%)	
	Mr. Daniel Bong Shu Yin (Note j)	Ordinary (issued)	1,025,390	-	-	-	1,025,390 (0.026%)	
	Mr. Donald Fan Tung	Ordinary (i) issued	2,718	-	-	-	2,718	
		(ii) unissued	5,000,000 (Note f)	-	-	-	5,000,000	
	Total (i) & (ii):						5,002,718 (0.127%)	
		Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	-	-	-	100,000 (0.003%)
		Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	-	-	-	284,000 (0.007%)
	Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	1,000,000 (Note f)	-	-	-	1,000,000 (0.025%)	
4. 8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary (issued)	-	-	1,000 (Note h)	-	1,000 (100%)	
5. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	-	-	50,000 (Note i)	-	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, 99.90% owned by Mr. Lo Yuk Sui.

(ii) The interests in these shares of CCIHL 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 CCIHL, in which Mr. Lo Yuk Sui held 50.57% shareholding interests.

(iv) The interests in these shares of PHL 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 PHL, in which CCIHL held 64.32% shareholding interests.

- (b) Mr. Lo Yuk Sui is the trustee for Select Wise Trust, of which Select Wise Holdings Limited, a substantial shareholder of CCIHL and the Company, is the beneficiary.
- (c) 1,990,000,000 convertible preference shares of PHL (“PHL Preference Shares”) are convertible into 1,990,000,000 ordinary shares of PHL on the basis of one PHL Preference Share for one ordinary share of PHL.
- (d) As at 31st December, 2003, a balance of 1,611,950,656 shares (the “Exchange Property”) were charged by a wholly-owned subsidiary of PHL in favour of a trustee for the holders of the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the PHL Group which closed on 31st October, 2002 (the “Closing Date”) to form the initial exchange property in respect of the Series B Bonds. The Exchange Property is to be released to the holders of the Series B Bonds in four quarterly tranches (with the first tranche comprising the balance of 189,575,656 shares as at 31st December, 2003, and the other three tranches each comprising 474,125,000 shares) on each dates falling 12, 15, 18 and 21 months after the Closing Date, subject to certain early release provisions.
- (e) Details of Directors’ interests in share options granted by the Company are set out in note 31 to the financial statements.
- (f) Interests in share options granted by PHL pursuant to its Executive Share Option Scheme (the “PHL Share Option Scheme”):

Terms of option	Grantee	Number of ordinary shares under the share options	
		(I) Vested	(II) Unvested
Date of grant: 22/2/1994 Exercise price per share: HK\$10.40 Vesting period: (Note 1) Exercise period: (Note 1)	Mr. Lo Yuk Sui	(I) 4,562,500 (Note 1(c)) (II) –	
	Mr. Donald Fan Tung	(I) 1,875,000 (Note 1(c)) (II) –	
	Mr. Kenneth Ng Kwai Kai	(I) 1,000,000 (Note 1(c)) (II) –	
Date of grant: 15/9/1995 (Original Grant Date: 22/2/1994 (Note 2)) Exercise price per share: HK\$3.5392 Vesting period: (Note 3) Exercise period: (Note 3)	Mr. Donald Fan Tung	(I) 3,125,000 (Note 3(d)) (II) –	

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

3. Vesting/Exercise Periods of Options:

	On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Share Option Scheme for those PIHL Options already vested under PIHL Option Scheme (see Note 1)	Exercisable until 10 years after Original Grant Date
(b)	3 years after Original Grant Date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after Original Grant Date)



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|-----|--|---|--|
| (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) |
- (g) Details of Directors' interests in share options granted by the Company are set out in note 31 to the financial statements.
- (h) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (i) The shares were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.
- (j) Mr. Daniel Bong Shu Yin resigned as a Non-Executive Director of the Company on 6th January, 2004.

Save as disclosed herein, as at 31st December, 2003, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed in note 31 to the financial statements, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company and no option granted to such persons has been cancelled and/or lapsed:

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

**SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL**

As at 31st December, 2003, the following substantial shareholders (as defined in the Listing Rules) (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

(I) Long Position

Name of Substantial Shareholder	Number of Issued Ordinary Shares Held	Approximate percentage of the Issued Ordinary Shares
CCIHL (Notes i and v)	4,683,736,841	62.28
Century City BVI Holdings Limited (Notes ii and v)	4,683,736,841	62.28
PHL (Notes iii and v)	4,683,736,841	62.28
Paliburg Development BVI Holdings Limited (Notes iv and v)	4,683,736,841	62.28
Paliburg International Holdings Limited (Note iv)	2,390,392,820	31.79
Paliburg BVI Holdings Limited (Note iv)	2,390,392,820	31.79
Taylor Investments Ltd. (Note iv)	1,402,111,870	18.64
Smart Emerald Limited ("Smart Emerald") (Notes iv and v)	1,613,166,564	21.45
Tower Bright Limited ("Tower Bright") (Notes iv and v)	1,613,166,564	21.45
AB (Ultimate Holdings) Limited ("ABUH")	1,613,166,564	21.45
AB Issuer (No.1) Limited ("ABI No.1") (Notes vi and vii)	1,613,166,564	21.45
AB Issuer (No.2) Limited ("ABI No.2") (Notes vi and vii)	1,613,166,564	21.45

(II) Short Position

Name of Substantial Shareholder	Number of Issued Ordinary Shares Held	Approximate percentage of the Issued Ordinary Shares
ABUH	1,613,166,564	21.45
ABI No. 1 (Notes vi and vii)	1,613,166,564	21.45
ABI No. 2 (Notes vi and vii)	1,613,166,564	21.45

**Notes:**

- (i) These shares were duplicated in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) This company is a wholly owned subsidiary company of CCIHL and its interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) PHL is a listed subsidiary company of CCIHL (which, as at 31st December, 2003, held 64.32% shareholding interests in PHL) and its interests in the shares of the Company are included in the interests held by CCIHL.
- (iv) These companies are wholly owned subsidiary companies of PHL and their interests in the shares of the Company are included in the interests held by PHL.
- (v) 1,613,166,564 shares were charged by Tower Bright in favour of a trustee for the holders of the Series B Bonds (as referred to in Note (d) under "Directors' Interests in Share Capital"), as last reported by CCIHL and PHL prior to 31st December, 2003.
- (vi) These companies are wholly owned subsidiary companies of ABUH and their interests in the shares of the Company are included in the interests held by ABUH.
- (vii) 1,613,166,564 shares are deemed interests held by ABI No.1 and ABI No.2, which are the issuers of the Series B Bonds (as referred to in Note (d) under "Directors' Interests in Share Capital"), as last reported by such companies prior to 31st December, 2003.

Save as disclosed herein, there is no person who, as at 31st December, 2003, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO.

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

- (1) Messrs. Lo Yuk Sui and Kenneth Ng Kwai Kai are directors of CCIHL.
- (2) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of all the above-named companies which are controlled by CCIHL.
- (3) Mr. Tommy Lam Chi Chung is a director of CCIHL, Smart Emerald and Tower Bright.
- (4) Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To are directors of CCIHL and PHL.
- (5) Dr. Alex Wu Shu Chih is a director of PHL.

**ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE**

- (1) Pursuant to a subscription agreement dated 3rd June, 2003 made between the Company and Guo Yui Investments Limited ("Guo Yui"), a wholly-owned subsidiary company of PHL, Guo Yui subscribed for 210 million new ordinary shares (the "210M Subscription Shares") of HK\$0.01 each in the share capital of the Company (the "Shares") in cash at a subscription price of HK\$0.048 per Share (the "210M Subscription"). The subscription price of HK\$0.048 per Share represented (i) a discount of approximately 5.88% to the closing price of HK\$0.051 per Share as quoted on the Stock Exchange on 3rd June, 2003, being the last trading day of the Shares immediately prior to the suspension of trading of the Shares on 5th June, 2003; and (ii) a discount of approximately 7.34% to the average closing price of HK\$0.0518 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 3rd June, 2003.

The 210M Subscription was subject to, inter alia, the placing of 150 million existing Shares held by Guo Yui through Uni-Alpha Securities Limited ("Uni-Alpha") as placing agent, to independent investors, which was completed on 10th June, 2003. On 16th June, 2003, the 210M Subscription Shares were issued to Guo Yui. The 210M Subscription Shares were issued under the general mandate granted to the Directors at the special general meeting of the Company held on 15th February, 2003, ranking *pari passu* in all respects with the then existing issued Shares.

The 210M Subscription was intended to raise working capital for the Company while broadening the shareholder base and the capital base of the Company. The net proceeds of approximately HK\$10 million so raised were used for general working capital purposes.

Details of the placing of 150 million existing Shares and the 210M Subscription were disclosed in an announcement dated 5th June, 2003 made by the Company.

- (2) Pursuant to a placing agreement dated 8th July, 2003 made between the Company and Uni-Alpha as the placing agent of the Company, 180 million new Shares (the "180M Placement Shares") were placed to certain independent investors in cash at a placing price of HK\$0.048 per Share (the "180M Placement"). The placing price of HK\$0.048 per Share represented (i) a discount of approximately 11.11% to the closing price of HK\$0.054 per Share quoted on the Stock Exchange on 8th July, 2003 and (ii) a discount of approximately 4.38% to the average closing price of HK\$0.0502 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 8th July, 2003.

On 24th July, 2003, the 180M Placement Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 12th June, 2003, ranking *pari passu* in all respects with the then existing issued Shares.

The 180M Placement was intended to raise working capital for the Company while broadening the shareholder base and the capital base of the Company. The net proceeds of approximately HK\$8.4 million so raised were used for general working capital purposes.

Details of the 180M Placement were disclosed in an announcement dated 8th July, 2003 made by the Company.

Details of movements in the share capital of the Company during the year are set out in note 31 of the financial statements.

CONNECTED TRANSACTIONS

ON-GOING TRANSACTIONS AND MAIN HOTEL CONTRACT

For the purpose of this sub-section, the "PHL Group" refers to PHL and its subsidiary companies other than those comprising the Group, and the "CCIHL Group" refers to CCIHL and its subsidiary companies other than those comprising the PHL Group and the Group.

On 9th February, 1998, the Company issued a circular (the "Circular") regarding various on-going transactions ("On-going Transactions") and future similar transactions ("Future Connected Transactions") between respective subsidiary companies of the CCIHL Group, the PHL Group and the Group, and the award of the Main Hotel Contract (referred to below) by the Group to the PHL Group (collectively, the "Connected Transactions"), all conducted within their ordinary and normal course of businesses.

The Connected Transactions constituted or would constitute connected transactions for the Company under the Listing Rules. The Stock Exchange, on application by the Company, issued a letter to the Company granting a waiver (the "1998 Waiver") of strict compliance by the Company with the announcing requirement under the Listing Rules in respect of Future Connected Transactions, subject to, inter alia, the approval by independent shareholders of the Company of the authority to be granted to the Directors in relation to such transactions. At the Special General Meeting held on 26th February, 1998 (the "SGM"), the required approvals were given by independent shareholders in respect of the Future Connected Transactions and the award of the Main Hotel Contract.

Development Consultancy Services

- (1) During year 1997, Bauhinia Hotels Limited ("Bauhinia"), a wholly owned subsidiary company of the Company, formally appointed Paliburg Development Consultants Limited ("PD Consultants"), a wholly owned subsidiary company of PHL, as the development consultant for architectural design, and co-ordinating and supervising the construction of the development of the new Regal Airport Hotel (the "Hotel Development") at a consultancy fee of 5% of the total construction cost (excluding professional fees) of this development. Based on the contracted construction cost of the development, the consultancy fee would amount to approximately HK\$86.3 million. The fee was payable in stages according to the progress of the development. The term of this appointment was until completion of the development including the making good of defects therein, if any. The consultancy fee paid till 2002 amounted to HK\$98.2 million. During the year, no further consultancy fee was paid.



- (2) During year 2000, Cityability Limited, Gala Hotels Limited, Ricobem Limited and Regal Riverside Hotel Limited, wholly-owned subsidiary companies of the Company, appointed PD Consultant as the development consultant for providing architectural design and project co-ordination and supervision services for certain renovation works of their respective hotels (the "Renovation Works"), namely Regal Hongkong Hotel, Regal Kaitak Hotel (now known as "Regal Oriental Hotel"), Regal Kowloon Hotel and Regal Riverside Hotel, at consultancy fees ranging from 8% to 12.5% of the total renovation costs (excluding professional fees). The scale of the consultancy fees was based on the scope of services provided and the extent of the renovation works involved. Based on the contracted cost of the works, the consultancy fee would amount to approximately HK\$3.8 million. The fee was payable upon the completion of the works or in stages according to the progress of the works. The terms of these appointments were until completion of the works, including the making good of defects therein, if any. The Renovation Works were substantially completed during 2001 and an amount of HK\$3.8 million was paid to PD Consultants as consultancy fee for the Renovation Works. During the year, no further consultancy fee was paid.
- (3) During year 2002, Bauhinia appointed PD Consultants as the consultant for co-ordinating and supervising the litigation and arbitration proceedings with certain sub-contractors in connection with the construction works of the Regal Airport Hotel. The total fees included a basic fee plus a success fee calculated at 15% on the actual savings, subject to a cap, upon settlement of the related claims. A total fee of HK\$2.8 million was paid in 2002. During the year, no further consultancy fee was paid.

Miscellaneous Connected Transaction

An associate of the CCIHL Group provided advertising and promotion services to the Group on retainers of about HK\$2.1 million for the year 2003 and at a standard fee of about HK\$1.0 million based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The associate is owned as to 10% by the CCIHL Group, 30% by the Group (the Group also holds an additional 6% attributable interest through its holding in 8D-BVI) and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI.

Compliance with the 1998 Waiver Conditions

The On-going Transactions relating to the transactions under Development Consultancy Services and Miscellaneous Connected Transaction disclosed above were carried out on normal commercial terms and on an arm's length basis. The relevant amounts payable under such On-going Transactions for 2003 were within the respective caps set out in the 1998 Waiver, as detailed below:

- (a) the aggregate amount (i.e. nil) payable to PD Consultants for Development Consultancy Services rendered in 2003 did not exceed 1.5% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2002 adjusted to take into account of the results for the six-month period ended 30th June, 2003 (the "Consolidated NTA"); and
- (b) the aggregate amount of HK\$3.1 million payable for Miscellaneous Connected Transaction for 2003 did not exceed 0.25% of the Consolidated NTA.



The above transactions have been reviewed by the Directors and separately by the independent Non-Executive Directors, and the independent Non-Executive Directors have confirmed that they considered the above transactions to have been entered into in the ordinary and usual course of business, on normal commercial terms and on a fair and reasonable basis so far as the shareholders of the Company are concerned.

The Auditors of the Company have confirmed to the Directors in writing in respect of the above On-going Transactions that they considered the above transactions to have been entered into on normal commercial terms and in accordance with the terms of the agreement relating to such transactions in question or, if there is no such agreement, on terms no less favourable than terms available to or from independent third parties.

Corporate Services Transactions

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

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

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



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

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

Based on the new sharing basis amongst the three listed groups, the amount of services fee that was shared by the Group for the sharing of corporate management services was HK\$8.7 million for the year ended 31st December, 2003.

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

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

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

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



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

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

For the year ended 31st December, 2003, the actual rental for the Offices allocated by CCIHL to the Group was HK\$1.8 million, before a rental adjustment of HK\$0.8 million for the prior year.

New Waiver for Corporate Management Services and Rental Arrangement

As mentioned above, in 1998, the Company obtained from the Stock Exchange the 1998 Waiver in respect of, among other things, the Ongoing Connected Transactions relating to the Corporate Services Transactions. The 1998 Waiver was subject to the condition that the annual aggregate amounts of the corporate management costs payable by the Company for the Corporate Services Transactions would not exceed 0.50% of the latest published audited consolidated net tangible assets of the Company from time to time. Up to 31st December, 2002, the Company had complied with such cap amounts under the 1998 Waiver.

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



Compliance with New Waiver Conditions

The Company has complied with the conditions of the above new waiver for the transactions under the sharing of Corporate Management Services and the Rental Arrangement set out below for the year ended 31st December, 2003:

- (1) the transactions were:
 - (i) entered into by the Group in the ordinary and usual course of its business; and
 - (ii) conducted on terms that are fair and reasonable so far as the shareholders of the Company are concerned and no less favourable to the Group than terms available from independent third parties;
- (2) the aggregate annual amount of each class of the transactions under the sharing of Corporate Management Services and the Rental Arrangement of the Group for the year of 2003 did not exceed 3% of the latest published consolidated net tangible asset value of the Company in the financial year of 2003;
- (3) the independent Non-Executive Directors of the Company have reviewed the sharing of Corporate Management Services and the Rental Arrangement for the year of 2003 and confirmed in this annual report of the Company for the financial year of 2003 that the sharing of Corporate Management Services and the Rental Arrangement were conducted in the manner as stated in paragraphs (1) and (2) above;
- (4) the Auditors of the Company have reviewed the subject transactions for the year of 2003 and confirmed in a letter to the Board of Directors of the Company (a copy of which shall be provided to the Listing Division of the Stock Exchange) stating:
 - (i) the transactions have received the approval of the Board of Directors of the Company;
 - (ii) the transactions have been carried out in accordance with the terms of the agreements governing such transactions, if any; and
 - (iii) the aggregate annual amount of each class of the transactions under the sharing of Corporate Management Services and the Rental Arrangement for the financial year of 2003 has not exceeded the maximum amount as stated in paragraph (2) above; and
- (5) details of the transactions under the sharing of Corporate Management Services and the Rental Arrangement in the financial year of 2003 have been disclosed according to the relevant disclosure requirements under the Listing Rules in this annual report of the Company for the financial year of 2003 together with a statement of the opinion of its independent Non-Executive Directors referred to in paragraph (3) above.



Main Hotel Contract

By way of a letter of intent dated 30th December, 1997 issued by Bauhinia and accepted by Chatwin Engineering Limited ("Chatwin"), the main contract work for the Hotel Development (the "Main Hotel Contract") was awarded to Chatwin at the contract sum of HK\$1,180 million, conditional upon the approval by independent shareholders of the Company. At the SGM, the award of the Main Hotel Contract and the relevant authority to the Directors in relation to the implementation of the Main Hotel Contract were approved by independent shareholders of the Company. The contract sum was payable in stages in accordance with the progress of the Main Hotel Contract. During the year, no further progress payment was paid. The final contract sum is still subject to final account adjustment and the total progress payments up to 31st December, 2003 amounted to HK\$978.2 million.

Information relating to the On-going Transactions and the Main Hotel Contract is also contained in note 42 to the financial statements.

**DISCLOSURE PURSUANT TO RULES 13.13, 13.16 AND 13.18 OF CHAPTER 13 OF THE LISTING RULES**

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rules 13.13, 13.16 and 13.18 of Chapter 13 of the Listing Rules:

Advances to an Entity (Rule 13.13 of Chapter 13)

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by the Company and 30% by China Overseas Land & Investment Limited, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules), by the Company and its subsidiary companies (the "Group") as at 31st December, 2003 are set out below:

Advances	Group (HK\$'million)
(A) Principal Amount of Advances	2,730.3
(B) Interest Receivable	379.2
(C) Several Guarantee for:	
(a) Principal Amount of Bank Facilities	2,359.0
(b) Amount of Bank Facilities Drawdown	2,255.4
Total: (A)+(B)+(C)(a)	<u>5,468.5</u>
(A)+(B)+(C)(b)	<u>5,364.9</u>

The above advances to Chest Gain in an aggregate sum of HK\$3,109.5 million (before a provision of HK\$1,407.6 million) included an amount of HK\$1,701.1 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from PHL in 2002 as detailed in last year's audited consolidated financial statements. Such contribution of funds to Chest Gain are required to be provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest had been accrued at prime rate up to 31st December, 1998. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of its property project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Stanley Site"). The Stanley Site was acquired by Chest Gain at the government land auction held on 3rd June, 1997. The above guarantee was provided by the Company on a several basis in proportion to its shareholding interests in Chest Gain and was given in respect of the bank loan facilities of HK\$3,370.0 million made available to Chest Gain for the purposes of refinancing part of the consideration for the acquisition of the Stanley Site and financing the estimated construction costs required for the luxury residential development at the Stanley Site.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 2003 provided by the Group to Chest Gain in the respective sums of (a) HK\$5,468.5 million (based on the total available amount of the bank facilities) and (b) HK\$5,364.9 million (based on the amount of bank facilities drawdown) represented (a) 62.2% and (b) 61.0% of the consolidated total assets of the Company of HK\$8,793.3 million (the "Regal TA"), by reference to its latest audited financial statements for the year ended 31st December, 2003.

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

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the Group as at 31st December, 2003 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)		Guarantee given for Bank Facilities	
			(i) Principal Amount of Bank Facilities (HK\$'million)	(ii) Amount of Bank Facilities Drawdown (HK\$'million)
Chest Gain	(A) 2,730.3	(B) 379.2	(C)(i) 2,359.0	(C)(ii) 2,255.4
8D International (BVI) Limited	(D) 28.8	-	Nil	Nil
8D Matrix Limited	(E) 0.5	-	Nil	Nil
Bright Future (HK) Limited	(F) 5.6	-	Nil	Nil
Network Sky Limited	(G) 0.9	-	Nil	Nil
			Total: (A)+(B)+(C)(i)+(D) to (G)	5,504.3
			(A)+(B)+(C)(ii)+(D) to (G)	5,400.7

Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Rule 13.13 of Chapter 13 of the Listing Rules.

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which is now principally involved in the development and distribution of technologically advanced security and building related systems and software development and promotions businesses. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo Yuk Sui. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest free and have no fixed term of repayment.



Report of the Directors (Cont'd)

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company (the Company also holds an additional 6% attributable interest through its holding in 8D-BVI), which is involved in promotions businesses. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix. The advances are unsecured, interest free and have no fixed term of repayment.

Bright Future (HK) Limited ("Bright Future"), a 50% owned associate of the Company, owns a 90% effective equity interest in a foreign enterprise engaged in the operation of a hotel in Qinghai in the People's Republic of China. The remaining 50% shareholding interest in Bright Future and the remaining 10% equity interest in the aforesaid foreign enterprise are owned by third parties respectively, which are independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Bright Future were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Bright Future, for the purpose of funding the working capital requirements of Bright Future. The advances to Bright Future are unsecured, interest free and have no fixed term of repayment.

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

Calculated on the basis shown above, as at 31st December, 2003, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group in the respective sums of (a) HK\$5,504.3 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$5,400.7 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 62.6% and (b) 61.4% of the Regal TA.

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

	Pro-forma combined balance sheet (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	60.9	21.4
Current assets	5,496.3	3,843.6
Current liabilities	(3,550.1)	(2,483.8)
Non-current liabilities	(5,947.7)	(4,120.6)
	<hr/>	<hr/>
Net liabilities	(3,940.6)	(2,739.4)
	<hr/> <hr/>	<hr/> <hr/>

Loan agreements with covenants relating to specific performance obligation of the controlling shareholders (Rule 13.18 of Chapter 13)

The agreements for the following loans to the Group impose specific performance obligations on the controlling shareholders of the Company:

	Outstanding Balance of Bank Facilities as at 31st December, 2003 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
The Group	(a) 1,054.2	December 2012	Note (i)
	(b) 3,373.8	December 2006	Note (ii)
	<hr/>		
Total:	4,428.0		
	<hr/> <hr/>		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL, which owns a 67.5% shareholding interest in PHL (which in turn owns a 59.7% shareholding interest in the Company), and/or members of his immediate family, or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control of the Company.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in the Company.



CORPORATE GOVERNANCE

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

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee, which currently comprises Mr. Dominic Lai (Chairman of the Committee), Mr. Thomas Ng Wai Hung and Dr. Alex Wu Shu Chih, all independent Non-Executive Directors of the Company. Mr. Daniel Bong Shu Yin resigned as a Non-Executive Director and a member of the Audit Committee of the Company on 6th January, 2004. Dr. Alex Wu was appointed as a member of the Audit Committee on 26th March, 2004. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

FIXED ASSETS

The details of movements in the Group's fixed assets during the year are set out in note 18 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 27 to the financial statements.



SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in note 31 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 31 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in note 33 to the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 34 to the financial statements.

SPECIAL RESERVE

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

REVALUATION RESERVES

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

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in note 37 to the financial statements.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 38 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly controlled entity and associates are set out in notes 19 and 20 to the financial statements, respectively.



CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 39 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2003, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$3,450.8 million.

In addition, the Company's share premium account, in the amount of HK\$513.2 million, may be distributed in the form of fully paid bonus shares.

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 47 to the financial statements.

AUDITORS

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

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong

15th April, 2004