
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Century City, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the purchaser.

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

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of Century City.



**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
MAJOR TRANSACTION
SETTLEMENT PROPOSAL IN RESPECT OF
THE EXCHANGEABLE BONDS AND THE CONVERTIBLE BONDS OF PALIBURG
AND
MAJOR AND CONNECTED TRANSACTIONS
THE PALIBURG ACQUISITION OF PALIBURG AND
THE SHARE SWAP OF CENTURY CITY**

**Financial adviser to Paliburg, a listed subsidiary of Century City,
in respect of the Settlement Proposal**



Ernst & Young Corporate Finance Limited

Independent financial adviser to the Independent Board Committee

ALTUS CAPITAL LIMITED

A letter from the board of directors of Century City is set out on pages 10 to 48 of this circular. A letter from the Independent Board Committee containing its recommendation regarding the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap, is set out on page 49 of this circular. A letter from Altus Capital, containing its advice to the Independent Board Committee regarding the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap, is set out on pages 50 to 78 of this circular.

A notice dated 26th August, 2002 convening a special general meeting of Century City to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 12:00 noon on Wednesday, 18th September, 2002, is set out on pages 204 to 207 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Century City's branch share registrar in Hong Kong, Tengis Limited at 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time 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.

26th August, 2002

CONTENTS

	<i>Pages</i>
Definitions	1
Letter from the Board	
Introduction	10
The transactions	10
Listing Rules requirements	11
The Stanley Transfer	12
The Stanley Transfer Agreement	12
Shareholding structures of Regal and Chest Gain	15
Reasons for the Stanley Transfer	16
Listing Rules requirements	16
The Settlement Proposal	17
The Standstill Agreement and Standstill Security	17
Economics and mechanics of the Settlement Proposal	18
Restrictions on connected party transactions and fund raising	23
Voting rights of the SPC Regal Shares	24
Equity Issues	24
Dividends, distribution and further assets derived from the SPC Regal Shares	25
Establishing reserve accounts	25
Conditions precedent	25
Reasons for the Settlement Proposal	26
Existing Bondholders' approvals	26
Listing Rules requirements	26
Effect of the Stanley Transfer and the Settlement Proposal on the shareholding structure of Regal	27
The Paliburg Acquisition	28
The Paliburg Acquisition Agreement	28
Shareholding structure of Paliburg	34
Reasons for the Paliburg Acquisition	34
Listing Rules requirements	35
The Share Swap	36
The Share Swap Agreement	36
Reasons for the Share Swap	38
Businesses of the CCIHL Group	38
Listing Rules requirements	39

CONTENTS

	<i>Pages</i>
Effect of the Paliburg Acquisition and the Share Swap on the shareholding structures of Century City and Paliburg	40
Capital reorganisations of Paliburg and Regal	43
The proposal	43
Conditions precedent	44
Effects of the capital reorganisations	44
Reasons for the capital reorganisations	46
Proposed debt restructuring of the Century City Group	46
Refreshing of the General Mandate	46
General	46
Recommendations	47
The SGM	47
Additional information	48
Letter from the Independent Board Committee	49
Letter from Altus Capital	50
Appendix I — Financial information — the CCIHL Group and the PHL Group . . .	79
Appendix II — Property valuation — the Stanley Project	169
Appendix III — Property valuation — Paliburg Plaza and Kowloon City Plaza	175
Appendix IV — Business valuation — certain subsidiaries of Leading Technology . .	182
Appendix V — Summary of the terms of the Paliburg Convertible Preference Shares	190
Appendix VI — General information	194
Notice of the SGM	204

DEFINITIONS

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

“Altus Capital”	Altus Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in relation to the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap
“Announcement”	the joint announcement dated 2nd August, 2002 made by Century City, Paliburg and Regal
“associate(s)”	as defined in the Listing Rules
“Board”	the board of Directors
“Bonds Settlement Closing”	the completion of the implementation of the Settlement Proposal at which, among other things, the Existing Bonds will be cancelled and the Property Transfer will be completed
“Business Valuation”	the business valuation of certain principal operating subsidiaries of Leading Technology as at 31st May, 2002, carried out by Grant Sherman, an independent valuer
“CCIHL Group”	Century City and its subsidiaries and associated companies
“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 and associated companies (excluding the Paliburg Group and the Regal Group)
“Century City Ordinary Shares”	ordinary shares of par value HK\$0.10 each in the share capital of Century City
“Chest Gain”	Chest Gain Development Limited, a company incorporated in Hong Kong and the owner and developer of the Stanley Project
“Consideration Shares”	1,958,333,333 Regal Ordinary Shares to be issued and allotted at a price of HK\$0.24 per share under the Stanley Transfer
“Continuing Several Guarantee”	the several guarantee which Paliburg has agreed to provide, after completion of the Stanley Transfer, in respect of the 40% of the bank borrowings of Chest Gain for the Stanley Project pursuant to the Stanley Transfer Agreement

DEFINITIONS

“Convertible Bonds”	US\$210,000,000 zero coupon guaranteed convertible bonds originally due 2002 issued by PFCBL and guaranteed by Paliburg
“Director(s)”	the director(s) of Century City
“Equity Issue(s)”	placing, rights issue and/or other kinds of equity issues which result in new Regal Ordinary Shares being issued and allotted in consideration for cash
“Exchangeable Bonds”	US\$140,000,000 3½% guaranteed exchangeable bonds due 2001 issued by PIFL and guaranteed by Paliburg
“Exchange Period”	the one-year period after the issue and allotment of the Exchangeable Preference Shares under the Share Swap Agreement
“Exchangeable Preference Shares”	the exchangeable preference shares in two series (Series A and Series B) in the share capital of the Paliburg Shares SPC
“Existing Bondholders”	holders of the Existing Bonds who are independent third parties not connected with any of the directors, chief executive and substantial shareholders of Century City, its subsidiaries and any of their respective associates
“Existing Bonds”	the Exchangeable Bonds and the Convertible Bonds
“Final Redemption Date”	the date when the Series B mature which is 21 months after Bonds Settlement Closing or such later date as the holders of the Series B Bonds may approve
“First Vendor”	Grand Modern Investments Limited, a company controlled by Mr. Lo
“FPDSavills”	FPDSavills (Hong Kong) Limited, an independent property valuer in Hong Kong for the valuation of the Stanley Project
“General Mandate”	the general mandate granted to the Directors at the annual general meeting of Century City held on 12th June, 2002 to issue, allot and dispose of Century City Ordinary Shares
“Grant Sherman”	Grant Sherman Appraisal Limited, an independent valuer in Hong Kong for the Business Valuation
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Mr. Anthony Chuang, an independent non-executive Director, for the purpose of considering and advising the Independent Shareholders in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap
“Independent Shareholders”	shareholders of Century City other than Mr. Lo and his associates in the cases of the Stanley Transfer and the Continuing Several Guarantee; or shareholders of Century City other than Mr. Lo, Ms. Lo and their respective associates in the cases of the Paliburg Acquisition and the Share Swap
“Issuing SPCs”	PIFL and PFCBL, which will be the issuers of the Series A Bonds and the Series B Bonds
“Latest Practicable Date”	22nd August, 2002, being the latest practicable date prior to the printing of this circular for ascertaining information contained in the circular
“Leading Technology”	Leading Technology Holdings Limited, a company incorporated in the British Virgin Islands and owned as to 50% by VPI and 50% by the First Vendor
“Leading Technology Group”	Leading Technology and its subsidiaries
“Listing Determination”	the determination of the underwritten price of the shares of the LTH Listing Vehicle for the purposes of the LTH Listing
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LTH Listing”	the listing of the shares of the LTH Listing Vehicle on any recognised stock exchange, including the Growth Enterprise Market of the Stock Exchange
“LTH Listing Vehicle”	any direct or indirect holding company of Leading Technology or any other company which holds substantially all the businesses and/or assets of the Leading Technology Group to be established pursuant to a corporate reorganisation for the sole purpose of the LTH Listing
“LTH Option”	the call option granted by the First Vendor to VPI giving VPI the right to acquire the LTH Option Shares from the First Vendor

DEFINITIONS

“LTH Option Shares”	the 50 ordinary shares in the issued share capital of Leading Technology directly held by the First Vendor (representing 50% of the entire issued share capital of Leading Technology as at the Latest Practicable Date); or the shares of the LTH Listing Vehicle representing the same effective interest as such shares of Leading Technology
“Master Portrait”	Master Portrait Limited, a company incorporated in the British Virgin Islands which is, and until Bonds Settlement Closing will be, an indirect wholly-owned subsidiary of Paliburg
“Mr. Lo”	Mr. Lo Yuk Sui, the chairman of the boards of directors of Century City, Paliburg and Regal
“Ms. Lo”	Ms. Lo Po Man, a director of certain subsidiaries of Regal and the daughter of Mr. Lo
“New VPI Investors”	any person and/or corporation who/which will take up new Paliburg Convertible Preference Shares through the First Vendor under the VPI Placing and the Paliburg Acquisition
“Nice Tex”	Nice Tex Investments Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of Paliburg
“Paliburg”	Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
“Paliburg Acquisition”	the proposed acquisition of the entire issued share capital of VPI from the VPI Shareholders (including taking the benefit of (but not including the exercise of) the LTH Option under the Paliburg Acquisition Agreement) by Paliburg
“Paliburg Acquisition Agreement”	the conditional sale and purchase agreement dated 2nd August, 2002 entered into between Paliburg, the Vendors and VPI in respect of the Paliburg Acquisition
“Paliburg Convertible Preference Share(s)”	convertible non-voting preference share(s) of par value HK\$0.10 each in the share capital of Paliburg to be issued by Paliburg to the VPI Shareholders under the Paliburg Acquisition
“Paliburg Group”	Paliburg and its subsidiaries and associated companies (excluding the Regal Group)

DEFINITIONS

“Paliburg Ordinary Share(s)”	ordinary share(s) of par value HK\$1.00 each in the share capital of Paliburg or in other nominal value after the relevant capital reduction of Paliburg
“Paliburg Shares SPC”	Almighty International Limited, a special purpose vehicle incorporated in the British Virgin Islands, for the purposes of, among other things, holding the Paliburg Convertible Preference Shares and issuing the Exchangeable Preference Shares pursuant to the Share Swap Agreement
“PDBVI”	Paliburg Development BVI Holdings Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Paliburg
“PDFL”	Paliburg Development Finance Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Paliburg
“PFCBL”	Paliburg Finance (C.B. 2002) Limited, a company incorporated in the British Virgin Islands which is, and until Bonds Settlement Closing will be, an indirect wholly-owned subsidiary of Paliburg
“PHL Group”	Paliburg and its subsidiaries and associated companies
“PIFL”	Paliburg International Finance Limited, a company incorporated in the British Virgin Islands which is, and until Bonds Settlement Closing will be, an indirect wholly-owned subsidiary of Paliburg
“Property Transfer”	the proposed transfer, among other things, of the entire issued share capitals of Soaring Star and Master Portrait to a company to be set up and jointly owned by the Issuing SPCs
“PRC”	the People’s Republic of China
“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 Group”	Regal and its subsidiaries and associated companies
“Regal Ordinary Share(s)”	ordinary share(s) of par value HK\$0.10 each in the share capital of Regal or in other nominal value after the relevant capital reduction of Regal

DEFINITIONS

“Regal Shares SPC”	a special purpose company to be set up by the Paliburg Group prior to Bonds Settlement Closing, which will be indirectly wholly-owned by Paliburg, for the purpose of holding, among other things, the SPC Regal Shares after Bonds Settlement Closing (subject to the terms of the Series B Bonds as more fully described in the paragraphs headed “Phased release of the SPC Regal Shares” and “Possible early release of the SPC Regal Shares” under the section headed “Economic and mechanics of the Settlement Proposal” in the Letter from the Board set out in this circular)
“Right(s) to Call”	the right(s) to be granted to Century City in relation to the Series A Exchangeable Preference Shares pursuant to which Century City can require the holders of the Series A Exchangeable Preference Shares to sell all or part of the Series A Exchangeable Preference Shares held by them (or their nominees) to Century City
“Right(s) to Put”	the right(s) under both Series A and Series B Exchangeable Preference Shares pursuant to which the holders have the right to require Century City to acquire all or part of the Exchangeable Preference Shares held by them (or their nominees)
“Second Vendor”	Select Wise Holdings Limited, a company controlled by Ms. Lo
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Series A Bonds”	new bonds to be issued by the Issuing SPCs, which are freely transferable, to the Existing Bondholders on Bonds Settlement Closing in respect of the interests in, among other things, the entire issued share capital of Soaring Star and Master Portrait and with an aggregate principal value of HK\$1 billion
“Series B Bonds”	the Series B1 Bonds and the Series B2 Bonds
“Series B1 Bonds”	new bonds to be issued by the Issuing SPCs, which are freely transferable, to the Existing Bondholders on Bonds Settlement Closing in respect of the Subject Regal Shares under the Settlement Proposal and with an aggregate principal value of HK\$250 million
“Series B2 Bonds”	new bonds to be issued by the Issuing SPCs, which are freely transferable, to holders of the Series B1 Bonds pursuant to the terms thereunder

DEFINITIONS

“Settlement Proposal”	a restructuring and settlement proposal in respect of the Existing Bonds, involving, among other things, the cancellation of the Existing Bonds, the Property Transfer and the phrased release of the SPC Regal Shares
“SGM”	a special general meeting of Century City to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 12:00 noon on Wednesday, 18th September, 2002 to approve the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition, the Share Swap and the refreshing of the General Mandate
“Shareholder’s Loan”	the shareholder’s loan from PDFL to Chest Gain (the principal amount of which is estimated to be approximately HK\$1,503 million) together with all interest accrued thereon outstanding as at the date of completion of the Stanley Transfer
“Share Swap”	the transactions contemplated under the Share Swap Agreement together with the possible acquisition of the Exchangeable Preference Shares by Century City pursuant to the Rights to Call and/or the Rights to Put
“Share Swap Agreement”	the conditional agreement dated 2nd August, 2002 entered into between Century City, the Vendors and Paliburg Shares SPC regarding, among other things, (i) the issue of the Exchangeable Preference Shares by the Paliburg Shares SPC to the Vendors and certain New VPI Investors for the acquisition of Paliburg Convertible Preference Shares from them and (ii) the transfer of the entire issued ordinary share capital of the Paliburg Shares SPC from the First Vendor to Century City
“Significant Equity Issue(s)”	the Equity Issues which take place before the date falling 9 months after Bonds Settlement Closing (or such later date as may be approved by the holders of the Series B Bonds) and which, when aggregated with the number of Regal Ordinary Shares issued by Regal since 9th November, 2001, result in an aggregate issue of at least 1,200,000,000 Regal Ordinary Shares of which at least 600,000,000 Regal Ordinary Shares were offered to or made available for subscription by persons other than members of the Century City Group, the Paliburg Group, Mr. Lo and his associates
“Soaring Star”	Soaring Star Investments Limited, a company incorporated in the British Virgin Islands which is, and until Bonds Settlement Closing will be, an indirect wholly-owned subsidiary of Paliburg

DEFINITIONS

“SPC Regal Shares”	the Regal Ordinary Shares held by the Regal Shares SPC from time to time under the Settlement Proposal and includes any other property which may be held by the Regal Shares SPC as a result of its holdings in the Regal Ordinary Shares pursuant to the Subject Regal Share Agreement
“Standstill Agreement”	the standstill agreement entered into between Paliburg and certain major holders of the Convertible Bonds on 26th April, 2002
“Standstill Security”	the first fixed charge over, among other things, the entire issued share capital of Soaring Star and Master Portrait in favour of the Existing Bondholders provided by the Paliburg Group in consideration of certain major holders of the Convertible Bonds entering into the Standstill Agreement
“Stanley Project”	the luxury residential property development project located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong
“Stanley Transfer”	the transfer from the Paliburg Group to Regal of the entire issued share capital of Nice Tex, which in turn effectively owns a 40% interest in Chest Gain, and the assignment of the Paliburg Group’s interest in the Shareholder’s Loan pursuant to the Stanley Transfer Agreement
“Stanley Transfer Agreement”	the conditional sale and purchase agreement dated 2nd August, 2002 entered into between Paliburg, PDBVI and Regal in respect of, among other things, the Stanley Transfer
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Regal Share Agreement”	the agreement to be entered into between, inter alios, Paliburg, the Regal Shares SPC and the Issuing SPCs, which will contain provisions for, among other things, the delivery of the SPC Regal Shares by the Regal Shares SPC to facilitate the exchange of the Series B Bonds into such Regal Ordinary Shares
“Subject Regal Shares”	1,896.5 million Regal Ordinary Shares to be held by the Regal Shares SPC pursuant to the Settlement Proposal
“Third Vendor”	Splendid All Holdings Limited, the ultimate beneficial owner of which is not a connected person (as defined under the Listing Rules) of Paliburg or Century City, and the entire issued share capital of which is held on trust by Mr. Lo who is also a director of this company as at the Latest Practicable Date

DEFINITIONS

“Vendors”	the First Vendor, the Second Vendor and the Third Vendor
“Vigers”	Vigers (Hong Kong) Limited, an independent valuer in Hong Kong for the valuations of Paliburg Plaza and Kowloon City Plaza
“VPI”	Venture Perfect Investments Limited, a company incorporated in the British Virgin Islands and owned by the Vendors as at the Latest Practicable Date
“VPI Group”	VPI and its subsidiaries and associated companies
“VPI Placing”	the possible placing of new shares of VPI before completion of the Paliburg Acquisition through the First Vendor, and in the event that such shares are issued under the VPI Placing, the First Vendor will transfer the relevant Paliburg Convertible Preference Shares to the New VPI Investors upon completion of the Paliburg Acquisition
“VPI Shareholders”	the Vendors and the New VPI Investors, if any
“CAD”	Canadian dollars, the lawful currency of Canada
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

Unless otherwise specified in this circular, US\$1.00 = HK\$7.8 and CAD1.00 = HK\$4.907. No representation is made that any amounts in US\$ or CAD or HK\$ could have been or could be converted at such a rate or at any other rates or at all.

LETTER FROM THE BOARD



Directors:

Mr. LO Yuk Sui
(Chairman and Managing Director)
Mr. Tommy LAM Chi Chung
Mrs. Kitty LO LEE Kit Tai
Mr. Jimmy LO Chun To
Mr. Kenneth NG Kwai Kai

Independent non-executive Directors:

Mr. Anthony CHUANG
Mr. NG Siu Chan

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

*Head office and principal
place of business:*

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

26th August, 2002

To the shareholders of Century City

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
MAJOR TRANSACTION
SETTLEMENT PROPOSAL IN RESPECT OF
THE EXCHANGEABLE BONDS AND THE CONVERTIBLE BONDS OF PALIBURG
AND
MAJOR AND CONNECTED TRANSACTIONS
THE PALIBURG ACQUISITION OF PALIBURG AND
THE SHARE SWAP OF CENTURY CITY**

INTRODUCTION

The transactions

On 2nd August, 2002, Century City issued the Announcement jointly with Paliburg and Regal in respect of, among other things, the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the Share Swap.

LETTER FROM THE BOARD

On 2nd August, 2002, Paliburg and its subsidiary, PDBVI, entered into the Stanley Transfer Agreement with Regal pursuant to which the Paliburg Group has agreed to sell and Regal has agreed to purchase the Paliburg Group's 40% interest in the Stanley Project and the Shareholder's Loan in consideration for the Consideration Shares subject to, among other things, Century City, Paliburg and Regal obtaining the approvals of their respective independent shareholders. Under the terms of the Stanley Transfer Agreement, Paliburg will provide the Continuing Several Guarantee after completion of the Stanley Transfer.

Details of the terms of the Settlement Proposal have been finalised. It is expected that the bondholders' circulars (and the notices convening the meetings of the Existing Bondholders) will be despatched to the Existing Bondholders on or before 9th September, 2002. Meetings of the Existing Bondholders, with a view to seeking necessary approvals from the Existing Bondholders for the Settlement Proposal, will be held at least 21 clear days after despatch of the relevant notices. The Settlement Proposal involves, among other things, (i) the Property Transfer and (ii) the phased release of the SPC Regal Shares by the Paliburg Group.

On 2nd August, 2002, Paliburg entered into the Paliburg Acquisition Agreement with the Vendors and VPI for the acquisition of the entire share capital of VPI in issue at the completion date of the Paliburg Acquisition Agreement. In consideration for the acquisition, Paliburg will issue 3,450 million to 4,750 million Paliburg Convertible Preference Shares to the VPI Shareholders.

On 2nd August, 2002, Century City entered into the Share Swap Agreement with the Vendors and the Paliburg Shares SPC. Under the Share Swap Agreement, (i) each of the Vendors and certain New VPI Investors (if any) will sell Paliburg Convertible Preference Shares to the Paliburg Shares SPC; (ii) the Paliburg Shares SPC will issue the Exchangeable Preference Shares to each of the Vendors and certain New VPI Investors; and (iii) the First Vendor has agreed to sell and Century City has agreed to acquire the entire issued ordinary share capital of the Paliburg Shares SPC at HK\$8.00.

Paliburg announced on 2nd August, 2002 that it proposed to carry out a capital reorganisation, involving the reduction of the par value of each of its ordinary shares from HK\$1.00 to HK\$0.01.

Regal announced on 2nd August, 2002 that it proposed to carry out a capital reorganisation, involving the reduction of the par value of each of its ordinary shares from HK\$0.10 to HK\$0.01.

Listing Rules requirements

The Stanley Transfer constitutes a discloseable transaction for Century City. In addition, the Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee constitute connected transactions for Century City and that, accordingly, approval of the Independent Shareholders is therefore required for the Stanley Transfer and the Continuing Several Guarantee under the Listing Rules. Mr. Lo and his associates will abstain from voting at the SGM for approving the Stanley Transfer and the Continuing Several Guarantee.

The Settlement Proposal constitutes a major transaction for Century City. Approval of the shareholders of Century City is required for the implementation of the Settlement Proposal under the Listing Rules.

Mr. Lo is the controlling shareholder of Century City, the chairman of the Board and the chairman of the board of directors of Paliburg. The First Vendor is effectively owned as to approximately 81.7% by Mr. Lo, approximately 3.3% by the Century City Group, 10% by the Regal

LETTER FROM THE BOARD

Group and 5% by an independent third party. The Second Vendor is effectively owned as to 60% by Ms. Lo, a director of certain subsidiaries of Regal and the daughter of Mr. Lo. Mr. Lo holds the entire issued share capital of the Third Vendor as a trustee and may have discretion over the exercise of the voting right attaching to the entire issued share capital of the Third Vendor. The First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. Hence, both the Paliburg Acquisition and the Share Swap constitute major and connected transactions for Century City. Approval of the Independent Shareholders is required for the Paliburg Acquisition and the Share Swap. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM for approving the Paliburg Acquisition and the Share Swap.

The purposes of this circular are (i) to provide you with information relating to, among other things, the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the Share Swap; (ii) to set out the letter from Altus Capital, the independent financial adviser, containing its advice to the Independent Board Committee in relation to the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap; (iii) to set out the recommendation of the Independent Board Committee in relation to the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap; and (iv) to convene the SGM with a view to seeking your approval of the resolutions in relation to the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition, the Share Swap and the refreshing of the General Mandate.

THE STANLEY TRANSFER

The Stanley Transfer Agreement

Date:	2nd August, 2002
Vendor:	PDBVI, a wholly-owned subsidiaries of Paliburg
Purchaser:	Regal
Guarantor:	Paliburg, which has agreed to guarantee the due performance and observance of all the obligations of PDBVI under the Stanley Transfer Agreement
Assets to be transferred/assigned:	the transfer of the entire issued share capital of Nice Tex and the assignment of all the rights, title and interest of PDFL in the Shareholder's Loan
Consideration:	HK\$470 million, which shall be satisfied by Regal issuing and allotting 1,958,333,333 new Regal Ordinary Shares to PDBVI (or such other person(s) as PDBVI may direct) at HK\$0.24 per share

Nice Tex

Nice Tex, an indirect wholly-owned subsidiary of Paliburg, is the sole owner of a 40% interest in the issued share capital of Chest Gain which in turn owns and develops the Stanley Project. 30% of the issued share capital of Chest Gain is held by Extra Gain Limited, an indirect wholly-owned subsidiary of Regal, and the remaining 30% of the issued share capital is held by an independent third party not connected with any of the directors, chief executive and substantial shareholders of Century City, its subsidiaries and any of their respective associates.

LETTER FROM THE BOARD

Based on the audited consolidated financial statements of Paliburg as at 31st December, 2001, the carrying value of the Paliburg Group's 40% interest in Chest Gain was approximately HK\$547.2 million, and the operating losses of Chest Gain (principally being bank loan interest expenses) attributable to the Paliburg Group in respect of the Paliburg Group's 40% interest in Chest Gain for the years ended 31st December, 2000 and 31st December, 2001 were approximately HK\$81.3 million and approximately HK\$51.9 million respectively. No accounting gain or loss will be recorded by Century City as a result of the Stanley Transfer.

Paliburg currently provides a several guarantee for 40% of the bank borrowings of Chest Gain for the Stanley Project, which amounted to approximately HK\$1,004 million as at 31st December, 2001. Under the terms of the Stanley Transfer Agreement, Paliburg has agreed to provide the Continuing Several Guarantee after completion of the Stanley Transfer. However, Paliburg's obligation under such guarantee will be limited to the security provided by Paliburg which currently comprises approximately 1,384.2 million Regal Ordinary Shares (of which the bank creditors of the Stanley Project are the major beneficiaries). Such Regal Ordinary Shares were worth approximately HK\$112.1 million and HK\$116.3 million respectively based on the closing prices per Regal Ordinary Share of the HK\$0.081 as at the date of the Announcement and HK\$0.084 as at the Latest Practicable Date. Paliburg has also warranted to Regal under the Stanley Transfer Agreement that bank creditors of the Stanley Project will have first priority sharing of not less than 75% over such security. No counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee provided by Paliburg.

After completion of the Stanley Transfer, Regal will not be required to fund the interest servicing cost of the bank borrowings of Chest Gain attributable to the 40% interest of Chest Gain acquired under the Stanley Transfer Agreement, and such payment obligation of Regal will be deferred until the loan repayment date. As part of the terms under the Stanley Transfer Agreement, Regal will provide an additional several guarantee in respect of the 40% of the bank borrowings of Chest Gain which will only be called upon in the event of any default in Chest Gain's bank borrowings for the Stanley Project, and after the Continuing Several Guarantee has been pursued. Regal's obligations under the aforesaid additional guarantee will be subordinated to the existing bank loans of the Regal Group.

After completion of the Stanley Transfer, the Regal Group's interest in Chest Gain will increase from 30% to 70% and Chest Gain will continue to be treated as a jointly controlled entity of Regal. CCIHL Group's share of the post-acquisition results and reserves of the jointly controlled entity will be included in the consolidated profit and loss account and consolidated reserves, respectively. CCIHL Group's interest in the jointly controlled entity will be stated in the consolidated balance sheet at its share of net assets under the equity method of accounting, less any impairment losses.

According to the development plan of the Stanley Project, the proposed development is expected to comprise a total of 139 luxury three-storey houses with sizes ranging from approximately 2,800 sq.ft. to 4,000 sq.ft. each. Each house will be attached with a private garden and a carport. The gross floor area of these 139 houses are approximately 39,840 sq.m. (equivalent to approximately 428,870 sq.ft). The deluxe recreational complex is complemented with a landscaped deck of approximately 60,000 sq.ft. and elegantly decorated clubhouse of approximately 26,300 sq.ft. with ample recreational facilities including a swimming pool and sunbath deck, a gymnasium, a multi-purpose hall and a children play area.

The Stanley Project commenced in 1997. It has a site area of approximately 571,848 sq.ft. and comprises two phases which are scheduled to be completed around the second quarter and fourth quarter of 2003 respectively. The superstructure works of the Stanley Project are under way and its construction progress is on schedule.

LETTER FROM THE BOARD

Basis of consideration

The consideration for the Stanley Transfer was determined after arm's length negotiations between Paliburg and Regal with reference to 40% of the valuation on the Stanley Project as at 31st May, 2002 by FPD Savill of approximately HK\$2,112.8 million, the external liabilities (including outstanding interest in arrears and estimated construction and financing costs of the Stanley Project to be incurred) attributable to the 40% interest in the Stanley Project of approximately HK\$1,590.7 million and a discount of approximately 10.0%. The valuation report for the Stanley Project is set out in Appendix II to this circular.

The Consideration Shares

The Consideration Shares represent (i) approximately 48.6% of the issued ordinary share capital of Regal as at the Latest Practicable Date; and (ii) approximately 32.7% of the enlarged issued ordinary share capital of Regal upon completion of the Stanley Transfer, assuming that there will be no change in the shareholding structure of Regal before completion of the Stanley Transfer Agreement.

The issue price of the Consideration Shares was determined after arm's length negotiations between Paliburg and Regal with reference to the trading prices of the Regal Ordinary Shares and the net asset value per Regal Ordinary Share. The issue price of the Consideration Shares of HK\$0.24 per Regal Ordinary Share represents a premium of approximately 185.7% over the closing price of HK\$0.084 per Regal Ordinary Share as quoted on the Stock Exchange as at the Latest Practicable Date, a premium of approximately 196.3% over the closing price of HK\$0.081 per Regal Ordinary Share as quoted on the Stock Exchange on 2nd August, 2002, being the date on which the Stanley Transfer Agreement was entered into, and a premium of approximately 174.3% over the average closing price as quoted on the Stock Exchange for the 10 trading days up to and including 2nd August, 2002, being approximately HK\$0.0875 per Regal Ordinary Share. As at 31st December, 2001, the consolidated net tangible asset value of Regal was approximately HK\$4,540.5 million and the net tangible asset value attributable to each Regal Ordinary Share, based on the total number of Regal Ordinary Shares then in issue, was approximately HK\$1.12. The issue price of the Consideration Shares represents a discount of approximately 78.6% to the net tangible asset value per Regal Ordinary Share as at 31st December, 2001.

The Consideration Shares shall on the date of issue rank *pari passu* in all respects with the Regal Ordinary Shares then in issue.

Conditions

The completion of the Stanley Transfer Agreement is subject to the following conditions being satisfied on or before 31st October, 2002 or such later date as shall be agreed by the parties to the Stanley Transfer Agreement.

- approval from the shareholders of Regal, other than Mr. Lo, Paliburg and their respective associates, for the Stanley Transfer;
- approvals from the shareholders of Century City and Paliburg, other than Mr. Lo and his associates, for the Stanley Transfer and the Continuing Several Guarantee;
- approval from the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares;

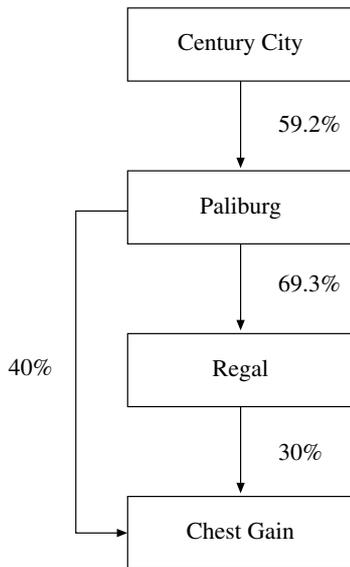
LETTER FROM THE BOARD

- the Stock Exchange granting to Regal a waiver from strict compliance with the minimum public float requirement under the Listing Rules for a period commencing from the completion of the Stanley Transfer to one month after completion of the Stanley Transfer;
- consents from the bank creditors of the Stanley Project and (if required) certain creditors of Paliburg and Regal for the Stanley Transfer having been duly obtained; and
- consent from the remaining 30% shareholder of Chest Gain for the Stanley Transfer having been duly obtained.

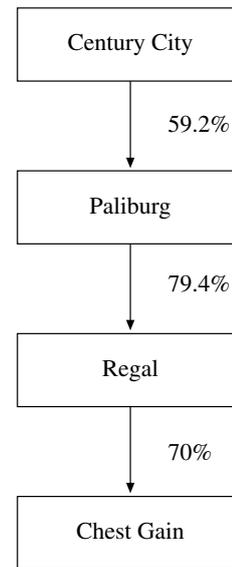
Shareholding structures of Regal and Chest Gain

The following charts illustrate, among other things, Century City's and Paliburg's shareholdings in Regal and Chest Gain as at the Latest Practicable Date and immediately upon completion of the Stanley Transfer assuming that there is no change to the shareholding structures of Paliburg and Regal before the completion of the Stanley Transfer:

Percentage shareholdings of Century City and Paliburg in Regal and Chest Gain as at the Latest Practicable Date



Percentage shareholdings of Century City and Paliburg in Regal and Chest Gain immediately upon completion of Stanley Transfer



LETTER FROM THE BOARD

Reasons for the Stanley Transfer

After completion of the Stanley Transfer, the CCIHL Group will continue to participate indirectly in the investment of the Stanley Project through its investment in Regal.

Paliburg will procure that out of the Consideration Shares, 1,896.5 million Regal Ordinary Shares will be issued and allotted to the Regal Shares SPC upon completion of the Stanley Transfer and will become the subject of the Subject Regal Share Agreement for the implementation of the Settlement Proposal. The Subject Regal Shares represent (i) approximately 47.1% of the issued ordinary share capital of Regal as at the Latest Practicable Date; and (ii) approximately 31.7% of the then enlarged issued ordinary share capital of Regal upon completion of the Stanley Transfer. Thus, the Stanley Transfer provides Paliburg with an opportunity to maintain an effective controlling interest in Regal, even after the phased release of the SPC Regal Shares to the Existing Bondholders and/or the holders of the Series B Bonds pursuant to the Settlement Proposal. Please refer to (i) the section headed “Effect of the Stanley Transfer and the Settlement Proposal on the shareholding structure of Regal” below for the percentage shareholding of Paliburg in Regal before and after completion of the Stanley Transfer and (ii) the section headed “The Settlement Proposal” for the details of and reasons for the Settlement Proposal.

The maintenance by Paliburg of a controlling interest in Regal is crucial to Regal. Mr. Lo, through his direct and indirect interest in Century City and Paliburg, being the ultimate controlling shareholder of Regal, (together with his immediate family members and any trust under which they are beneficiaries) should maintain control of Regal or an event of default would occur under certain loan obligations of Regal. The implementation of the Stanley Transfer would reduce the likelihood of such an event of default occurring.

Listing Rules requirements

The Stanley Transfer constitutes a discloseable transaction for Century City. In addition, the Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee constitute connected transactions for Century City and that, accordingly, approval of the Independent Shareholders is required for the Stanley Transfer and the Continuing Several Guarantee under the Listing Rules. Mr. Lo and his associates will abstain from voting at the SGM for approving the Stanley Transfer and the Continuing Several Guarantee.

Based on the shareholding structure of Regal as at the Latest Practicable Date, the Regal Ordinary Shares on public hands will fall to approximately 20.6% of the then enlarged issued ordinary share capital of Regal upon completion of the Stanley Transfer. Regal has applied for a waiver from the Stock Exchange from strict compliance with the minimum public float requirement under Rule 8.08 of the Listing Rules for a period commencing from the completion date of the Stanley Transfer and ending on one month thereafter. Completion of the Stanley Transfer shall take place on or before 31st October, 2002 (or such later date as shall be agreed by the parties to the Stanley Transfer Agreement), and accordingly, the waiver period shall be ended on or before 30th November, 2002 (or the date falling one month after such other agreed completion date).

LETTER FROM THE BOARD

THE SETTLEMENT PROPOSAL

The Standstill Agreement and Standstill Security

As explained in the joint announcement dated 16th November, 2001 made by Century City, Paliburg and Regal, the principal terms for a proposal to settle the Existing Bonds were formulated which certain major holders of the Convertible Bonds have indicated that in principle they are in favour of the proposal. In the course of finalising the detailed terms of this original proposal, certain revisions to this original proposal were negotiated which certain major holders of the Convertible Bonds have indicated they would support in principle.

On 26th April, 2002, Paliburg entered into the Standstill Agreement with certain major holders of the Convertible Bonds. Under the Standstill Agreement, each of such major holders of the Convertible Bonds agreed that during the standstill period:

1. it will not take any legal action, proceedings or enforcement action against the issuers of the Existing Bonds, being PIFL and PFCBL, and the guarantor of the Existing Bonds, being Paliburg, in connection with the outstanding indebtedness under the Existing Bonds and will not instruct or request the trustees of the Existing Bonds to do any of such acts; and
2. it will vote against any Existing Bondholders' resolution requesting or instructing such acts.

Under the Standstill Agreement, the standstill period means the period commencing from the date of the Standstill Agreement and ending on the earlier of:

1. the date two calendar months after posting of the bondholders' circulars by PIFL and PFCBL to the Existing Bondholders;
2. the date of the meetings of the Existing Bondholders (or, if applicable, any adjournment thereof) for considering the Settlement Proposal; and
3. the date on which the Standstill Agreement is terminated.

It is expected that the bondholders' circulars (and the notices convening the meetings of the Existing Bondholders) will be despatched on or before 9th September, 2002 and meetings of the Existing Bondholders will be held at least 21 clear days after despatch of the relevant notices.

The Standstill Agreement may be terminated if, among other reasons (such as the occurrence of an event or circumstance relating to (i) the timing of posting circulars to (a) the shareholders of Paliburg and Regal and (b) the holders of the Existing Bonds, regarding the Stanley Transfer and/or the Settlement Proposal and (ii) the delivery of certain documents in connection with the execution of the Standstill Agreement), any other creditor of the Paliburg Group or the Regal Group institutes (or takes any steps to continue) any legal action or proceeding or enforcement action in connection

LETTER FROM THE BOARD

with any outstanding indebtedness owed by any member of the Paliburg Group or the Regal Group and such action would reasonably be considered to be materially prejudicial to the Paliburg Group or the Regal Group and such action or proceedings are not withdrawn or stayed within 14 days. As at the Latest Practicable Date, the Standstill Agreement remains in full force and effect.

In consideration of the entering into the Standstill Agreement, Paliburg has provided the Standstill Security in favour of the Existing Bondholders. The Standstill Security includes, among other things, the first fixed charge over the entire issued share capital of Soaring Star and Master Portrait, which are indirect wholly-owned subsidiaries of Paliburg and indirectly own the entire interests in Paliburg Plaza and Kowloon City Plaza respectively (subject to the securitisation loan attached).

Upon expiry of the standstill period, the major holders of the Convertible Bonds who are parties to the Standstill Agreement will no longer be prevented from taking the actions described above, including instructing the trustees to take enforcement action in respect of the Existing Bonds, whereupon the Standstill Security will become enforceable, unless the Standstill Security has lapsed. The Standstill Security will lapse if, inter alia, Paliburg has posted the bondholders' circulars to the Existing Bondholders in accordance with the provisions of the Standstill Agreement, and the requisite approvals in relation to the Settlement Proposal have been obtained (including approvals of the shareholders of Paliburg and Regal), but the Settlement Proposal are rejected by the Existing Bondholders at duly convened meetings.

The Settlement Proposal as originally formulated in November 2001 has changed and now involves, among other things, the Property Transfer and the phased release of the SPC Regal Shares to the Existing Bondholders and/or the holders of the Series B Bonds.

Economics and mechanics of the Settlement Proposal

The terms of the Settlement Proposal were determined through arm's length negotiations with the informal steering committee of the Existing Bondholders.

The Settlement Proposal aims at settling the indebtedness under the Existing Bonds (including the aggregate principal amount, accrued (including default) interest, redemption premium and the guarantee in respect of the same provided by Paliburg) in full principally by the transfer of the assets described under the paragraphs headed "The Property Transfer" and "Phased release of the SPC Regal Shares" below. On Bonds Settlement Closing, all the outstanding Existing Bonds will be cancelled with immediate effect and Paliburg will be released from its obligations as the guarantor of the Existing Bonds. In return, the Series A Bonds and the Series B1 Bonds will be issued by the Issuing SPCs to the Existing Bondholders.

It is proposed that PIFL (the issuer of the Exchangeable Bonds) and PFCBL (the issuer of the Convertible Bonds), both presently being indirect wholly-owned subsidiaries of Paliburg, will be used by the Existing Bondholders as the two Issuing SPCs for the issue of the Series A Bonds and the Series B Bonds. As part of the Settlement Proposal, on or before Bonds Settlement Closing, the entire issued share capital of the two Issuing SPCs will be transferred to a charitable trust and will then become independent from and not connected with Century City, its subsidiaries, any of the directors, chief

LETTER FROM THE BOARD

executive and substantial shareholders of Century City and its subsidiaries or any of their respective associates. The trustee of the charitable trust will be decided by the Existing Bondholders prior to Bonds Settlement Closing and will be a party not connected with any of the directors, chief executive and substantial shareholders of Century City, its subsidiaries or any of their respective associates.

The charitable trust structure will involve the trustee holding the shares of the Issuing SPCs on ultimate trust for the charity but so long as the Series A Bonds and/or the Series B Bonds are outstanding, the holders of the Series A Bonds and/or the Series B Bonds will have rights to direct the exercise of the voting rights attaching to the shares of the Issuing SPCs and such shares may not be sold. The arrangement of the Issuing SPCs to be held by a charitable trust aims to dis-associate the issuers of the Series A Bonds and the Series B Bonds (i.e. the Issuing SPCs) from the Century City Group and the Paliburg Group. Under this arrangement, the only recourse of the holders of the Series A Bonds and the Series B Bonds will be the assets of the Issuing SPCs.

A number of legal documents will be entered into as part of the Settlement Proposal, including, among other things, the Subject Regal Share Agreement and other documents containing covenants and undertakings given by, inter alios, Paliburg and the Regal Shares SPC with a view to facilitating the exchange rights attached to the Series B Bonds.

The Property Transfer

It is proposed that PDBVI, a wholly-owned subsidiary of Paliburg, will transfer the entire issued share capital of Soaring Star and Master Portrait to a company to be set up and jointly owned by the Issuing SPCs. Soaring Star and Master Portrait are indirect wholly-owned subsidiaries of Paliburg which indirectly hold the entire interests (subject to the mortgages securing the securitisation loan as described below) in Paliburg Plaza and Kowloon City Plaza respectively. Paliburg Plaza is a 24-storey commercial building located in Causeway Bay, Hong Kong and Kowloon City Plaza is an 11-storey commercial building located in Kowloon City, Hong Kong. Based on the valuations carried out by Vigers, an independent professional valuer, the market value of Paliburg Plaza was estimated to be approximately HK\$650 million and that of Kowloon City Plaza was approximately HK\$1,830 million, in each case as at 31st May, 2002. The valuation report for the two properties is set out in Appendix III to this circular.

As at 31st December, 2001, the aggregate unaudited consolidated deficiency in net tangible assets of Soaring Star and Master Portrait was approximately HK\$1.9 billion.

The aggregate proforma unaudited consolidated losses both before and after taxation of Soaring Star and Master Portrait for the year ended 31st December, 2000 were approximately HK\$225.2 million. The aggregate unaudited consolidated losses both before and after taxation of these two companies for the year ended 31st December, 2001 were approximately HK\$689.8 million. Soaring Star was activated in 2000 as the holding company of its present subsidiary, Treasure Spot Investments Limited, and therefore the aggregate consolidated financial information of Soaring Star and Master Portrait for the full financial year of 2000 was prepared on a proforma basis.

LETTER FROM THE BOARD

Paliburg Plaza and Kowloon City Plaza have been mortgaged to secure a securitisation loan to the wholly-owned subsidiaries of Soaring Star and Master Portrait which, as at 31st December, 2001, had a principal amount outstanding of approximately HK\$1,217.0 million (which does not include the Paliburg Group's investment in related debt instruments). Pursuant to the Property Transfer, the Paliburg Group's effective interests in Paliburg Plaza and Kowloon City Plaza, subject to the said mortgages and together with the securitisation loan, will be transferred to the Issuing SPCs by transferring the entire issued share capital of Soaring Star and Master Portrait to the company jointly owned by the Issuing SPCs mentioned above. The relevant shareholder's loans to the subsidiaries of Soaring Star and Master Portrait as well as the Paliburg Group's investment in the debt instruments issued to fund part of the securitisation loan (with an aggregate amount of approximately HK\$3,542.5 million as at 31st December, 2001) will also be transferred to the company jointly owned by the Issuing SPCs as part of the Settlement Proposal.

As at the Latest Practicable Date, certain members of the Paliburg Group provide leasing and property management services in relation to Paliburg Plaza and Kowloon City Plaza and corporate management services to their holding companies. These Paliburg Group members will on or prior to Bonds Settlement Closing cease to provide such services.

Certain subsidiaries of the Century City have been leasing spaces, and will continue to have the right to lease such spaces after Bonds Settlement Closing, in Paliburg Plaza. Upon Bonds Settlement Closing, Century City, Paliburg and Regal will undertake with the Issuing SPCs that Century City, Paliburg, Regal and their subsidiaries and associated companies will continue to lease sufficient premises as are required for their operations in Paliburg Plaza and Kowloon City Plaza at normal market rates.

On Bonds Settlement Closing, the Issuing SPCs will issue to the Existing Bondholders the Series A Bonds which are secured on, and which derive economic value from, the entire issued share capital of Soaring Star and Master Portrait. The Series A Bonds are freely transferable but will not be listed on any stock exchange.

Phased release of the SPC Regal Shares

It is proposed that, out of the Consideration Shares, 1,896.5 million Regal Ordinary Shares will be issued and allotted to the Regal Shares SPC upon completion of the Stanley Transfer and will become the subject of the Subject Regal Share Agreement upon Bonds Settlement Closing. The Paliburg Group will be the sole shareholder of the Regal Shares SPC and will have the power to appoint directors to the board of directors of the Regal Shares SPC.

On Bonds Settlement Closing, the Issuing SPCs will issue the Series B1 Bonds (of HK\$1,000 each in principal amount) to the Existing Bondholders. The Series B1 Bonds will mature on the Final Redemption Date, when they will be redeemed by requiring the Regal Shares SPC to deliver pro rata amounts of the SPC Regal Shares to the holders of the Series B1 Bonds. On each of the dates falling 12, 15 and 18 months after Bonds Settlement Closing, the principal amount of each Series B1 Bond will be reduced by HK\$250 and on each such day corresponding to each such reduction a Series B2 Bond of HK\$250 each in principal amount will be issued by the Issuing SPCs. Each Series B2 Bond can, at any time after issue, be redeemed at the option of the holder thereof by taking delivery from

LETTER FROM THE BOARD

the Regal Shares SPC of a pro rata amount of the SPC Regal Shares. All Series B2 Bonds outstanding at the Final Redemption Date will be redeemed by delivery from the Regal Shares SPC of the pro rata amounts of the SPC Regal Shares. The Series B Bonds are freely transferable but will not be listed on any stock exchange.

Under the Subject Regal Share Agreement, the Regal Shares SPC will agree to deliver such SPC Regal Shares to the relevant holders of the Series B Bonds or as they may direct to facilitate the redemption of the Series B Bonds by the Issuing SPCs as described above. If the relevant holders of Series B Bonds have not given the required certificates of non-US beneficial ownership, the relevant SPC Regal Shares will be delivered to a selling agent for sale. In addition, under a separate legal document the Regal Shares SPC will charge, as security for its obligations under the Subject Regal Share Agreement, all the SPC Regal Shares in favour of a security trustee for the benefit of the Issuing SPCs.

Possible early release of the SPC Regal Shares

- (a) partial release of the SPC Regal Shares to the Issuing SPCs

The Regal Shares SPC will, at any time up to 30 days after completion of the Stanley Transfer, have the right to procure the transfer of a sufficient number of SPC Regal Shares from time to time to the Issuing SPCs, only to the extent such transfer would restore the public float of Regal to the minimum level required by the Listing Rules, pending release of such transferred shares to the holders of the Series B Bonds pursuant to the Subject Regal Shares Agreement. The Regal Ordinary Shares so held by the Issuing SPCs will be subject to certain restrictions in relation to their voting rights and transferability similar to those applicable to the SPC Regal Shares set out in this section. In the absence of other factors, it is not expected that the Issuing SPCs will become substantial shareholders of Regal under the present structure of the Settlement Proposal.

- (b) full early redemption of the Series B Bonds

The Regal Shares SPC will have the right to transfer all the SPC Regal Shares to the relevant holders of the Series B Bonds or as they may direct at any time before the Final Redemption Date whereupon the Subject Regal Share Agreement will terminate, save that the restrictions as described under the sub-section headed “Restrictions on connected party transactions and fund raising” below will still apply during the restricted period.

In certain circumstances, the holders of Series B Bonds are entitled to request the Issuing SPCs to redeem the Series B Bonds in full prior to the Final Redemption Date; in particular, if a Significant Equity Issue does not take place before the date falling 9 months after Bonds Settlement Closing (or such later date as the holders of the Series B Bonds may approve) or there occurs a breach by Paliburg and/or the Regal Shares SPC of any of their obligations under the Subject Regal Share Agreement.

LETTER FROM THE BOARD

Cash options available to the holders of the Series B Bonds

(a) on the Final Redemption Date/upon full early redemption:

Pursuant to the terms and conditions of the Series B Bonds, if at any time after Bonds Settlement Closing, the percentage shareholding represented by the Subject Regal Shares falls below 14.5% of the then issued ordinary share capital of Regal (on a fully diluted basis), holders of the Series B Bonds may elect at the Final Redemption Date or full early redemption (as the case may be) to receive cash in lieu of delivery of SPC Regal Shares, in full redemption of all the then outstanding Series B Bonds, at an amount equal to HK\$0.10 per SPC Regal Share which would otherwise be delivered to the relevant bondholders. Upon holders of the Series B Bonds electing for this cash redemption option, pursuant to the Subject Regal Share Agreement, Paliburg is required to acquire such number of the Subject Regal Shares in respect of which holders of the Series B Bonds have exercised the cash redemption option.

(b) prior to the Final Redemption Date:

Holders of the Series B Bonds may exercise their early cash redemption option if any of the following events occurs prior to the Final Redemption Date or the date when a full early redemption would take place:

1. where the Paliburg Group wish to acquire Regal Ordinary Shares from third party vendors, and notify the Issuing SPCs of its intention, Paliburg may offer holders of the Series B Bonds the option to redeem a specific amount of the Series B Bonds at an offer price equivalent to the price the Paliburg Group is willing to acquire Regal Ordinary Shares in the market; or
2. where the Paliburg Group has acquired Regal Ordinary Shares from third party vendors in excess of:
 - (i) 100 million Regal Ordinary Shares (the “Permitted Level”) in any of the Record Periods (as defined below) (calculated on a net basis after deducting any Regal Ordinary Shares disposed of in that Record Period), under the Subject Regal Share Agreement, Paliburg will be obliged to acquire such number of SPC Regal Shares over which the holders of the Series B Bonds have elected to exercise this early cash option and, assuming exercise of the election in full, will be equivalent to the amount by which the said Regal Ordinary Shares acquired from third party vendors exceeds the Permitted Level at an offer price equivalent to the weighted average price paid by the Paliburg Group for Regal Ordinary Shares acquired during the relevant Record Period;
 - (ii) the Permitted Level, and the amount by which it so exceeds the Permitted Level, when aggregated with the amount(s) of Regal Ordinary Shares acquired by the Paliburg Group exceeded the Permitted Level in any of the previous Record Periods, is more than 100 million Regal Ordinary Shares, under the Subject Regal Share Agreement, Paliburg will be obliged to acquire from such number of SPC Regal Shares over which the holders of the Series B Bonds have elected to exercise this early cash option and,

LETTER FROM THE BOARD

assuming exercise of the election in full, will be equivalent to the total number of Regal Ordinary Shares acquired by the Paliburg Group since Bonds Settlement Closing and then held (that is after taking into account any Regal Ordinary Shares since disposed of) at an offer price equivalent to the weighted average price paid by the Paliburg Group for Regal Ordinary Shares acquired during the previous 6 months. In this case, the cash option as set out in (i) above will no longer be exercisable.

“Record Period” means each of the following periods:

- (A) commencing on Bonds Settlement Closing and ending on the date falling six months thereafter;
- (B) commencing on the first day after the end of the first Record Period and ending on the date falling twelve months after Bonds Settlement Closing;
- (C) commencing on the first day after the end of the second Record Period and ending on the date falling eighteen months after Bonds Settlement Closing;
- (D) commencing on the first day after the end of the third Record Period and ending on the date falling twenty-one months after Bonds Settlement Closing.

In all the above cases, the consideration received from such disposal of the SPC Regal Shares by the Regal Shares SPC will be paid to the relevant holders of the Series B Bonds for redemption of the Series B Bonds corresponding to the SPC Regal Shares so sold to the Paliburg Group.

Restrictions on connected party transactions and fund raising

Under the Subject Regal Share Agreement, Paliburg will undertake that it shall use all reasonable endeavours (including the exercise of voting rights attached to the SPC Regal Shares) to procure that (i) no “connected party transactions” (as defined below) will be entered into by any member of the Regal Group prior to exchange or redemption in full of the Series B Bonds and thereafter during the restricted period; and (ii) there will be no Equity Issue carried out by Regal during the restricted period, in each case without the prior approval of the holders of the Series B Bonds. The restricted period varies from a 3-month period after the Final Redemption Date to a maximum of a 6-month period after any full early redemption depending on when the full redemption (at maturity or early) takes place.

Save as provided below, a “connected party transaction” under the Subject Regal Share Agreement shall be the same as a “connected transaction” as defined under the Listing Rules. Pursuant to the Subject Regal Share Agreement, any transaction to which Regal or its subsidiaries is a party involving assets previously owned by the Paliburg Group in the two years prior to Bonds Settlement Closing shall be deemed to be “connected party transactions” for Regal purely for the purposes of the above restrictions under the Subject Regal Share Agreement. However, any transaction of a revenue nature on arm’s length commercial terms and in the ordinary and usual course of business shall not be considered to be a “connected party transaction” for Regal solely for the purposes of the above restrictions under the Subject Regal Share Agreement.

LETTER FROM THE BOARD

Voting rights of the SPC Regal Shares

Subject to the restrictions set out under the sub-section headed “Restrictions on connected party transactions and fund raising” above and the further restrictions as described below, the voting rights attached to the SPC Regal Shares shall be exercised in accordance with the instructions of Paliburg which indirectly owns the Regal Shares SPC until such time as the SPC Regal Shares are released to the holders of the Series B Bonds.

Under the Subject Regal Share Agreement, the Regal Shares SPC will undertake that should a material adverse event (as defined below) occur and be continuing, the voting rights attached to the SPC Regal Shares will only be exercisable, where such exercise is in relation to the action or omission (or proposed action or omission) which is the subject of the material adverse event, at the direction of the holders of the Series B Bonds.

A “material adverse event” as referred to in the preceding paragraph will have occurred where there is, or is reasonably likely to be, a material adverse effect on the market value of the SPC Regal Shares (but which, for the avoidance of doubt, need not necessarily affect the market price of the Regal Ordinary Shares quoted on the Stock Exchange) resulting from an action taken or proposed to be taken by Regal (whether or not requiring shareholders’ approval) or omission or proposed omission of Regal, but excluding where the material adverse effect is caused by:

1. the deteriorating ordinary course trading performance or deteriorating general financial condition of Regal (other than where such deterioration results from any specific act or omission taken or omitted to be taken by Regal);
2. an act or omission taken or omitted to be taken at the specific instruction of, or to meet the requirements of, creditors of Regal; or
3. a write-down of assets in the books of Regal or a write-off following a disposal of assets on an arm’s length basis, or other accounting adjustment which does not affect the real market value of the Regal Group (though which may technically affect its net asset value).

In the event a “material adverse event” is triggered, Century City will make an announcement as and when required under the Listing Rules.

Equity Issues

As set out in the paragraph headed “Possible early release of the SPC Regal Shares” above, unless Regal carries out a Significant Equity Issue before the date falling 9 months after Bonds Settlement Closing (or such later date as the holders of the Series B Bonds may approve), full early redemption of the Series B Bonds will take place. A number of factors including, among other things, the then market conditions, and funding requirements, will be taken into account by the board of directors of Regal when determining the form and size of Equity Issues that should be carried out (if at all).

LETTER FROM THE BOARD

Shareholders of Century City should note that Equity Issues may or may not take place before the date falling 9 months after Bonds Settlement Closing (or such later date as the holders of the Series B Bonds may approve). Even if Equity Issues take place, there is a risk that they may not be in sufficient quantities so that a Significant Equity Issue will occur.

Regal will make further announcement if and when required under the Listing Rules in respect of any Equity Issue which may be carried out in the future.

Dividends, distribution and further assets derived from the SPC Regal Shares

Should the Regal Shares SPC receive any dividend or distribution in connection with the SPC Regal Shares (other than in the form of further Regal Ordinary Shares) or any assets or securities issued or transferred to the Regal Shares SPC as the holder of the SPC Regal Shares pursuant to any scheme of arrangement, reorganisation, amalgamation or reconstruction of any company or companies, the Regal Shares SPC will procure equivalent payments to the holders of the Series B Bonds that mirror such dividend or distribution. Any further Regal Ordinary Shares received in respect of the SPC Regal Shares shall be retained by the Regal Shares SPC and form part of the SPC Regal Shares.

Establishing reserve accounts

On Bonds Settlement Closing, Paliburg will also pre-fund other separate reserve accounts for each of the Series A Bonds and the Series B Bonds for payment of fees and expenses to be incurred incidental to the issue of such new bonds. In the event that the amounts standing to the credit of any of the reserve accounts at any time proves insufficient to cover any fees and expenses due and payable in relation to the relevant series of the new bonds, Paliburg will undertake to contribute the necessary further funds at the relevant time until all the Series A and Series B Bonds have been redeemed.

Conditions precedent

Implementation of the Settlement Proposal is conditional on, among other things, the following:

- approvals from the Existing Bondholders for the Settlement Proposal;
- approvals from the shareholders of Century City and Paliburg for the Settlement Proposal;
- completion of the Stanley Transfer; and
- consents from certain creditors of the Paliburg Group in respect of the Settlement Proposal (if required).

LETTER FROM THE BOARD

Reasons for the Settlement Proposal

As at 31st December, 2001, the aggregate principal amount, redemption premium and accrued (including default) interest outstanding on the Exchangeable Bonds and the Convertible Bonds amounted to approximately HK\$3,646.4 million, comprising approximately HK\$1,291.3 million in respect of the Exchangeable Bonds and approximately HK\$2,355.1 million in respect of the Convertible Bonds. The Exchangeable Bonds matured on 6th February, 2001. Neither PIFL nor Paliburg paid the outstanding principal amount, redemption premium and accrued (including default) interest on the Exchangeable Bonds upon maturity. Default of payment on maturity of the Exchangeable Bonds also caused cross-default of the Convertible Bonds. The Settlement Proposal is proposed by Paliburg to settle all the outstanding indebtedness of the Paliburg Group in relation to the Existing Bonds in full. Century City estimates that accounting profits before minority interests of approximately HK\$2 billion will be recorded by Century City as a result of the Settlement Proposal.

Based on the audited consolidated accounts of Paliburg as at 31st December, 2001, the Paliburg Group's indebtedness will be reduced by approximately HK\$4,863.4 million (including approximately HK\$3,646.4 million in relation to the Existing Bonds and approximately HK\$1,217.0 million in relation to the securitisation loan in respect of Paliburg Plaza and Kowloon City Plaza) as a result of the completion of the Settlement Proposal. Reduction in the indebtedness of the Paliburg Group also reduces its future interest cost burden. Paliburg is a major listed subsidiary of Century City. The Directors believe that the financial position of the Paliburg Group and in turn the CCIHL Group will be improved through the implementation of the Settlement Proposal.

Existing Bondholders' approvals

It is expected that an information memorandum, bondholders' circulars and the notices convening the meetings of the Existing Bondholders will be despatched to the Existing Bondholders on or before 9th September, 2002. It is expected that the Existing Bondholders' meetings considering and approving the Settlement Proposal will be held at least 21 clear days after despatch of the relevant notices.

Certain major holders of the Convertible Bonds holding an aggregate principal amount of approximately 65% of the outstanding aggregate principal amount of the Convertible Bonds have indicated in principle they are in favour of the Settlement Proposal.

Listing Rules requirements

The Settlement Proposal constitutes a major transaction for each of Century City and Paliburg. Approvals of the respective shareholders of Century City and Paliburg are required for the implementation of the Settlement Proposal under the Listing Rules. Mr. Lo and his associates, in the capacity as shareholders of Century City and Paliburg, do not have any interest in the Settlement Proposal which is different from that of the other shareholders of Century City and Paliburg. No shareholders of Century City are required to abstain from voting at the SGM and the special general meeting of Paliburg in respect of the Settlement Proposal.

LETTER FROM THE BOARD

EFFECT OF THE STANLEY TRANSFER AND THE SETTLEMENT PROPOSAL ON THE SHAREHOLDING STRUCTURE OF REGAL

The following table illustrates the effect of the Stanley Transfer and the Settlement Proposal upon the shareholding structure of Regal assuming that there will be no change in the shareholding structure of Regal before completion of the Stanley Transfer based on the shareholding structure of Regal as at the Latest Practicable Date, and before release of all the SPC Regal Shares:

	As at the Latest Practicable Date		Upon completion of the Stanley Transfer and Bonds Settlement Closing		After release of all the SPC Regal Shares	
	Number of Regal Ordinary Shares		Number of Regal Ordinary Shares		Number of Regal Ordinary Shares	
	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>
Paliburg	2,793.7	69.3	2,855.5	47.7	2,855.5	47.7
Regal Shares SPC	—	—	1,896.5	31.7	—	—
Mr. Lo and his associates	2.6	0.1	2.6	0.0	2.6	0.0
Other directors of Regal	1.5	0.0	1.5	0.0	1.5	0.0
Public:						
Holders of the Series B Bonds	—	—	—	—	1,896.5	31.7
Other shareholders of Regal	<u>1,231.0</u>	<u>30.6</u>	<u>1,231.0</u>	<u>20.6</u>	<u>1,231.0</u>	<u>20.6</u>
Total	<u>4,028.8</u>	<u>100.0</u>	<u>5,987.1</u>	<u>100.0</u>	<u>5,987.1</u>	<u>100.0</u>

Assuming that the issue of Consideration Shares will be the only change to the shareholding structure of Regal, immediately upon completion of the Stanley Transfer and Bonds Settlement Closing, Paliburg's economic interest in Regal will decrease from approximately 69.3% to approximately 47.7%. However, Regal will continue to be a subsidiary of Paliburg as Paliburg will continue to hold over 50% of the then voting rights of Regal (including the voting rights (subject to certain restrictions as described above) held by the Paliburg Group through the Regal Shares SPC). Paliburg does not contemplate that there will be any substantial change in the composition of the board of directors of Regal immediately upon completion of the Stanley Transfer and Bonds Settlement Closing. Upon all the SPC Regal Shares being released to the holders of the Series B Bonds, the percentage voting rights of Regal held by Paliburg will decrease from approximately 79.4% to approximately 47.7%. After approximately 1,758.5 million Regal Ordinary Shares have been released to the holders of the Series B Bonds (possibly on the Final Redemption Date or the date of full early redemption of the Series B Bonds takes place), and if there is otherwise no change in Paliburg's shareholding interest in Regal, Paliburg will then hold less than 50% of the voting rights of Regal and Regal will possibly cease to be a subsidiary of Paliburg.

LETTER FROM THE BOARD

Regal is a listed major subsidiary of Paliburg which, in turn, is a listed major subsidiary of Century City. The Regal Group is principally engaged in hotel ownership and management, property investment and other investments, including investment and trading in marketable securities, in Hong Kong, China and Canada. The audited consolidated net tangible asset value of Regal as at 31st December, 2001 was approximately HK\$4,540.5 million. The audited consolidated losses before and after taxation of Regal for the year ended 31st December, 2000 were approximately HK\$334.4 million and approximately HK\$349.5 million respectively, and those for the year ended 31st December, 2001 were approximately HK\$515.2 million and approximately HK\$515.1 million respectively.

Apart from engaging in the hotel operations business through its investment in Regal, the CCIHL Group will continue to focus on the businesses of property development and management, construction and construction related businesses and will strengthen and expand its business base through the Paliburg Acquisition by Paliburg (as described below).

THE PALIBURG ACQUISITION

The Paliburg Acquisition Agreement

On 2nd August, 2002, Paliburg, the Vendors and VPI entered into the Paliburg Acquisition Agreement. Under the Paliburg Acquisition, Paliburg has agreed to acquire the then entire issued share capital of VPI at the completion date of the Paliburg Acquisition Agreement from the VPI Shareholders.

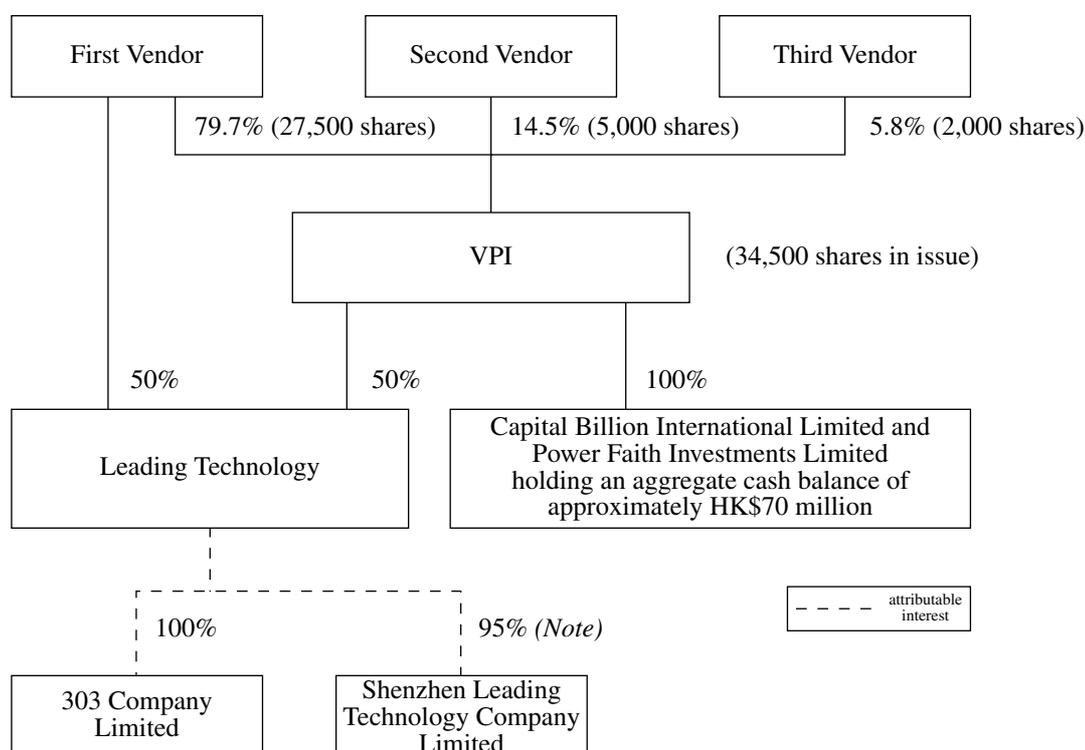
Assets to be acquired

Paliburg has agreed to acquire all the shares of VPI in issue at the completion date of the Paliburg Acquisition Agreement, including such shares in issue as at the Latest Practicable Date and all the new shares of VPI that may be issued under the VPI Placing. After completion of the Paliburg Acquisition, VPI will become a wholly-owned subsidiary of Paliburg. The VPI Placing will be carried out through the First Vendor. This arrangement aims at simplifying the structures and facilitating the executions of the Paliburg Acquisition and the Share Swap (as described below).

VPI is an investment holding company which holds a 50% interest in Leading Technology. Apart from its investment in the Leading Technology Group, as at the Latest Practicable Date, VPI also through its wholly-owned subsidiaries, being Capital Billion International Limited and Power Faith Investments Limited, held approximately HK\$70 million in cash (mainly in the form of fixed deposits which are not subject to any charge). The cash balance may increase as a result of the VPI Placing and the purchase consideration payable by Paliburg may increase accordingly as described in the paragraph headed "Consideration" below in more details.

LETTER FROM THE BOARD

The diagram below shows the simplified group structure of VPI as at the Latest Practicable Date.



Note: The remaining 5% interest is held by an independent third party not connected with any directors, chief executive, substantial shareholders of Century City, its subsidiaries and any of their respective associates.

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 the Greater China region. The core business of the Leading Technology Group can be principally categorised into offline security business, online security business and intelligent building business. Offline security business includes biometric security systems that integrate biometric and information technology in access control and security systems. Online security business includes “Security Application Software” that incorporates biometric security technology systems into the Internet and network technologies and applications, as well as the integration of the security system into other computer application software, and software customisation and localisation. Intelligent building business is an application and integration of security systems and conventional intelligent building systems for residential, office, hotel, commercial or industrial buildings.

LETTER FROM THE BOARD

VPI is a holding company and was incorporated in April 2002. The Leading Technology Group commenced business in 1998. The Leading Technology Group soft launched its security system related product in late 2001. The audited proforma consolidated net profits of the Leading Technology Group was approximately HK\$13.5 million for the period from its incorporation date (being 12th January, 2001) to 30th June, 2002. As at 30th June, 2002, the audited consolidated net asset values of the VPI Group and the Leading Technology Group were approximately HK\$403.5 million and approximately HK\$137.1 million respectively.

The LTH Option

Pursuant to the Paliburg Acquisition Agreement, the First Vendor will grant the LTH Option to VPI for acquiring all or part of the LTH Option Shares from the First Vendor on the following terms:

1. if the LTH Option is exercised within one year from the completion of the Paliburg Acquisition and the Listing Determination has not taken place, VPI can acquire any of the LTH Option Shares from the First Vendor at a price equivalent to 50% of the valuation attributable to the relevant LTH Option Shares under the Business Valuation; the consideration for the relevant LTH Option Shares can be settled in cash and/or by way of issue and allotment of new Paliburg Ordinary Shares to the First Vendor (based on average closing price of the preceding 20 trading days); or
2. if the Listing Determination has taken place within one year from the completion of the Paliburg Acquisition, VPI can acquire from the First Vendor any of the LTH Option Shares at a price based on 50% of the aggregate underwritten price (which should normally be the relevant offer price) attributable to the relevant LTH Option Shares; the consideration for the relevant LTH Option Shares shall only be settled in cash; or
3. if the LTH Option is exercised after one year from the completion of the Paliburg Acquisition and the Listing Determination has not taken place, VPI can acquire from the First Vendor the LTH Option Shares at a nominal price of HK\$1.00 in cash.

The LTH Option is exercisable in whole or in part and will expire on the earlier of (i) the date 13 months after the completion of the Paliburg Acquisition and (ii) 5 business days after the Listing Determination.

Century City and Paliburg will comply with the relevant requirements of the Listing Rules in the event when the LTH Option is exercised.

LETTER FROM THE BOARD

Consideration

The consideration for the Paliburg Acquisition shall be HK\$10,000 per share of VPI which shall be in issue as at the completion date of the Paliburg Acquisition Agreement (including 34,500 shares of VPI in issue as at the Latest Practicable Date and up to 13,000 new shares of VPI that may be issued under the VPI Placing) subject to an aggregate maximum of HK\$475 million. The consideration was determined after arm's length negotiations and with reference to the basis of the issue of the shares of VPI as follows:

1. the 27,500 shares of VPI issued to the First Vendor at HK\$10,000 each for the acquisition of a 50% interest in Leading Technology with an agreed value of HK\$275 million, representing a discount of approximately 17.5% to 50% of the Business Valuation of HK\$333.5 million (please refer to Appendix IV to this circular for the Business Valuation);
2. the 5,000 shares of VPI issued to the Second Vendor and 2,000 shares of VPI issued to the Third Vendor at HK\$10,000 each for the acquisition of two wholly-owned subsidiaries having a total cash balance of HK\$70 million; and
3. not more than 13,000 new shares of VPI that may be issued under the VPI Placing and, unless with the consent of Paliburg, the subscription price per share will not be less than HK\$10,000 in cash.

Paliburg will issue the Paliburg Convertible Preference Shares at an issue price of HK\$0.10 each to the Vendors (or any of their respective nominees) to satisfy the consideration. Each Paliburg Convertible Preference Share can be converted into one Paliburg Ordinary Share (subject to adjustment). Upon completion of the Paliburg Acquisition, Paliburg will issue 2,750 million Paliburg Convertible Preference Shares to the First Vendor (or its nominee), and 500 million and 200 million Paliburg Convertible Preference Shares respectively to the Second Vendor and the Third Vendor (or their respective nominees), and may issue up to 1,300 million Paliburg Convertible Preference Shares to the First Vendor (on behalf of the New VPI Investors). Paliburg has been advised by the First Vendor that an in-principle underwriting arrangement has been made by an underwriter to subscribe for new shares of VPI effectively at a price of HK\$10,000 each and for an aggregate consideration of not less than HK\$30 million (i.e. not less than 3,000 new shares of VPI).

Based on the number of VPI shares which will be acquired by Paliburg under the Paliburg Acquisition ranging from 34,500 to 47,500, the total consideration will be ranging from HK\$345 million to HK\$475 million and Paliburg will issue 3,450 million to 4,750 million Paliburg Convertible Preference Shares to the Vendors.

The Paliburg Convertible Preference Shares are non-voting and are freely transferable but will not be listed on any stock exchange. Each Paliburg Convertible Preference Share can be converted into one Paliburg Ordinary Share (subject to adjustment) at any time within 3 years after completion of the Paliburg Acquisition. At the end of the 3-year period after completion of the Paliburg Acquisition, all the then outstanding Paliburg Convertible Preference Shares will be converted into Paliburg Ordinary Shares on a mandatory basis. If all the Paliburg Convertible Preference Shares are converted into Paliburg Ordinary Shares, 3,450 million to 4,750 million Paliburg Ordinary Shares, representing

LETTER FROM THE BOARD

respectively approximately 148.8% and approximately 204.9% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date and respectively approximately 59.8% and approximately 67.2% of the then enlarged issued ordinary share capital of Paliburg, will be issued. If there is otherwise no change in the Century City Group's shareholding interest in Paliburg, upon conversion of the Paliburg Convertible Preference Shares by the Vendors (or other holders other than Century City or its subsidiaries) in full, Paliburg may cease to be a subsidiary of Century City. The new Paliburg Ordinary Shares which will be issued pursuant to the Paliburg Convertible Preference Shares shall rank pari passu in all respects with the Paliburg Ordinary Shares in issue on the date the conversion rights attaching to the Paliburg Convertible Preference Shares are exercised. Please refer to Appendix V to this circular for a summary of the rights and restrictions attaching to the Paliburg Convertible Preference Shares.

Each Paliburg Convertible Preference Shares can be converted into one Paliburg Ordinary Shares (subject to adjustment). The issue price of the Paliburg Convertible Preference Shares of HK\$0.10 each represents:

1. a premium of 25.0% over the closing market price of HK\$0.08 per Paliburg Ordinary Share on the Stock Exchange on 2nd August, 2002, being the date when the Paliburg Acquisition Agreement was entered into;
2. a premium of approximately 12.9% over the average closing market price of HK\$0.0886 per Paliburg Ordinary Share on the Stock Exchange for the 10 trading days up to and including 2nd August, 2002;
3. a premium of approximately 9.9% over the closing market price of HK\$0.091 per Paliburg Ordinary Share on the Stock Exchange as at the Latest Practicable Date; and
4. a premium of approximately 16.6% over the average closing market price of HK\$0.0858 per Paliburg Ordinary Share on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date.

The terms of the Paliburg Acquisition were determined after arm's length negotiations and with reference to the Business Valuation (being HK\$667 million which mainly comprise the valuations of Leading Technology's interests in 303 Company Limited and Shenzhen Leading Technology Company Limited (being the principal operating subsidiaries of Leading Technology)).

Conditions

Completion of the Paliburg Acquisition is subject to the following conditions being satisfied or, if applicable, waived on or before 31st October, 2002 or such later date as shall be agreed by the parties to the Paliburg Acquisition Agreement.

- the implementation of the Settlement Proposal;

LETTER FROM THE BOARD

- the approvals by the respective independent shareholders of Century City and Paliburg for the Paliburg Acquisition at their special general meetings, at which Mr. Lo, Ms. Lo and their respective associates should abstain from voting;
- the Stock Exchange granting approval for the listing of, and the permission to deal in, the Paliburg Ordinary Shares which may be issued upon exercise of the conversion rights attaching to the Paliburg Convertible Preference Shares;
- Paliburg being satisfied with the financial, legal and business due diligence on the VPI Group;
- all necessary approvals from the Bermuda Monetary Authority having been obtained;
- the First Vendor and VPI delivering to Paliburg a business valuation report and/or certificate by an independent professional valuer jointly engaged by the First Vendor and Paliburg stating the value of the Business Valuation of not less than HK\$600 million as at 31st May, 2002;
- the proposed capital reorganisation of Paliburg becoming effective (as more fully set out in section headed “Capital Reorganisations of Paliburg and Regal” below);
- the Vendors being satisfied with the financial condition of the Paliburg Group and that no material loan of the Paliburg Group is in default; and
- obtaining consent from certain lending banks of the Paliburg Group, if necessary.

LETTER FROM THE BOARD

Shareholding Structure of Paliburg

The table below shows the shareholding structure of Paliburg assuming all the Paliburg Convertible Preference Shares are converted into Paliburg Ordinary Shares (based on the shareholding structure of Paliburg as at the Latest Practicable Date and without taking into consideration the effect of the Share Swap, as more fully set out in the next section headed “the Share Swap”):

	As at the Latest Practicable Date		After full conversion of the Paliburg Convertible Preference Shares			
			Based on 3,450 million Paliburg Convertible Preference Shares		Based on 4,750 million Paliburg Convertible Preference Shares	
	Number of Paliburg Ordinary Shares		Number of Paliburg Ordinary Shares		Number of Paliburg Ordinary Shares	
	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>
Century City	1,373.0	59.2	1,373.0	23.8	1,373.0	19.4
Mr. Lo and his associates (including the First Vendor)	0.2	0.0	2,750.2	47.7	2,750.2	38.9
Second Vendor	—	—	500.0	8.7	500.0	7.1
Third Vendor	—	—	200.0	3.4	200.0	2.8
New VPI Investors	—	—	—	—	1,300.0	18.4
Other directors of Paliburg and Regal	4.2	0.2	4.2	0.1	4.2	0.1
Public shareholders of Paliburg	941.1	40.6	941.1	16.3	941.1	13.3
	<u>2,318.5</u>	<u>100.0</u>	<u>5,768.5</u>	<u>100.0</u>	<u>7,068.5</u>	<u>100.0</u>

Reasons for the Paliburg Acquisition

The CCIHL Group is principally engaged in, among other things, property development and investment, property management, construction and construction-related businesses through the Paliburg Group.

The businesses of the Leading Technology Group are in similar lines of business to the businesses of the Paliburg Group as they are both engaged in property-related services businesses. The businesses of the Leading Technology Group, in fact, are beneficial to the on-going development of the Paliburg Group in those business areas given the increasing demands for higher-technology property-related services.

LETTER FROM THE BOARD

Century City is of the view that the Paliburg Acquisition will improve the financial position of the Paliburg Group. The capital base of Paliburg will expand through the issue of the Paliburg Convertible Preference Shares under the Paliburg Acquisition. Upon completion of the Paliburg Acquisition, cash of at least HK\$70 million contained in the wholly-owned subsidiaries of VPI will considerably improve the working capital position of the Paliburg Group.

Century City also considers that the Paliburg Acquisition will enrich and strengthen the businesses of the Paliburg Group. The Paliburg Acquisition, in particular the investment in the Leading Technology Group, will enhance the technology development aspects of the Paliburg Group's property-related services businesses. Century City considers that investment in the Leading Technology Group will increase the competitive strength of its existing property business, particularly in the fields of development consultancy (including architectural services), construction and management of properties.

Century City understands from the Vendors that it is the present intention that the LTH Listing will be sought in the future if market circumstances are considered appropriate. Century City believes that if the LTH Listing proceeds, the value and/or the quality of its investment in the Leading Technology Group may be further enhanced. Century City also understands that as at the Latest Practicable Date, no listing application has been made in any stock exchange in respect of the LTH Listing. Shareholders of Century City should note that the LTH Listing may or may not take place.

In addition, VPI will be granted the LTH Option to acquire the LTH Option Shares from the First Vendor giving the Paliburg Group the opportunity to enjoy further upside in the business prospects of the Leading Technology Group, at a price based on at least 50% discount to the Business Valuation or at a 50% discount to the underwritten price in the Listing Determination.

The Directors are of the view that the Paliburg Acquisition is in the interest of Century City.

Listing Rules requirements

As mentioned in the section headed "Introduction", the First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. Therefore, the Paliburg Acquisition constitutes a major and connected transaction for Century City and approval of the Independent Shareholders is required for the Paliburg Acquisition. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM in respect of the resolution for approving the Paliburg Acquisition.

The Paliburg Acquisition constitutes a very substantial acquisition for Paliburg. The Stock Exchange has confirmed to Paliburg that the Paliburg Acquisition will not be treated as a new listing application for Paliburg under Rule 14.07 of the Listing Rules.

LETTER FROM THE BOARD

THE SHARE SWAP

The Share Swap Agreement

On 2nd August, 2002, Century City, the Vendors and the Paliburg Shares SPC entered into the Share Swap Agreement. Under the Paliburg Acquisition Agreement, Paliburg Convertible Preference Shares will be issued to the Vendors. Under the Share Swap Agreement, (i) each of the Vendors (including the First Vendor on behalf of certain New VPI Investors (if any, who will in aggregate own not more than 300 million Paliburg Convertible Preference Shares)) will sell in aggregate up to 3,750 million Paliburg Convertible Preference Shares to the Paliburg Shares SPC; (ii) the Paliburg Shares SPC will issue 4 Exchangeable Preference Shares to each of the relevant Vendors and certain New VPI Investors for every Paliburg Convertible Preference Share purchased by it (up to 15,000 million Exchangeable Preference Shares); and (iii) the First Vendor has agreed to sell and Century City has agreed to acquire the entire issued ordinary share capital of the Paliburg Shares SPC at HK\$8.00.

Century City has the right to procure the Paliburg Shares SPC to exercise the conversion rights attaching to the Paliburg Convertible Preference Shares held by the Paliburg Shares SPC at any time during the Exchange Period provided that none of the events as set out below which would permit exercise of the exchange rights in respect of the Series A Exchangeable Preference Shares shall have occurred, but in any event the converted Paliburg Ordinary Shares will be held by the Paliburg Shares SPC until the expiry of the Exchange Period, unless the relevant holders exercise the exchange rights attached to the Exchangeable Preference Shares. The dividends payable on the Exchangeable Preference Shares will leave no profits available for dividends on the ordinary shares of the Paliburg Shares SPC. Such dividends shall be payable upon the receipt by the Paliburg Shares SPC of distributions arising from its holding in any Paliburg Ordinary Shares (as converted from the Paliburg Convertible Preference Shares held by it).

The audited consolidated net tangible asset value of Paliburg as at 31st December, 2001 was approximately HK\$2,133.7 million. The audited consolidated losses before and after taxation of Paliburg for the year ended 31st December, 2000 were approximately HK\$810.0 million and HK\$828.9 million respectively, and those for the year ended 31st December, 2001 were approximately HK\$1,221.6 million and HK\$1,217.8 million respectively.

The terms of the Share Swap Agreement were determined after arm's length negotiations between Century City and the Vendors.

The Exchangeable Preference Shares

The Exchangeable Preference Shares will be issued by the Paliburg Shares SPC, which is not a company listed on any stock exchange, and are freely transferable. The Exchangeable Preference Shares will be issued in two series: Series A will be issued to the First Vendor and Series B will be issued to the Second Vendor, the Third Vendor and certain New VPI Investors. Every 4 Exchangeable Preference Shares are exchangeable at the option of the holder for 1 Paliburg Convertible Preference Share, or 1 Paliburg Ordinary Share (subject to adjustment) so converted pursuant to the Paliburg Convertible Preference Share. At the end of the Exchange Period, all the exchange rights attaching to the Exchangeable Preference Shares will be exercised on a mandatory basis.

LETTER FROM THE BOARD

Under the Share Swap Agreement, the First Vendor (or such other holder(s), who may subsequently acquire the Series A Exchangeable Preference Shares, other than Century City (or its nominees)) may not exercise the exchange rights attaching to the Series A Exchangeable Preference Shares held by it during the Exchange Period unless (i) a material adverse change has occurred in relation to the financial, business and/or listing status of the Century City Group (in the reasonable opinion of the First Vendor); or (ii) any creditor of any member of the Century City Group takes or purports to take any precipitating action against any member of the Century City Group; or (iii) any creditor of any member of the Century City Group takes or purports to take any action which, in the opinion of the First Vendor, could materially prejudice the position of the holders of the Exchangeable Preference Shares or in any way delay or impede the exercise of any of their rights as holders of such Shares; or (iv) Mr. Lo (a) ceases to be in direct or indirect control of over 50% of the voting rights of Century City or (b) ceases to have the right to nominate more than 50% of the Directors to the Board.

The Rights to Put and the Rights to Call

The Exchangeable Preference Shares will be issued with the following features:

1. Each holder of the Exchangeable Preference Shares (both Series A and Series B) can at any time during the Exchange Period (provided that the Paliburg Shares SPC remains a wholly-owned subsidiary of Century City) exercise the Rights to Put requiring Century City to acquire its investment in the Exchangeable Preference Shares and, in return Century City will issue one Century City Ordinary Share (subject to adjustment) for every Exchangeable Preference Share acquired.
2. At any time during the Exchange Period (provided that the Paliburg Shares SPC remains a wholly-owned subsidiary of Century City), Century City can, subject to the following conditions, exercise the Rights to Call to acquire the Series A Exchangeable Preference Shares from the holders by issuing one new Century City Ordinary Share (subject to adjustment) for every Series A Exchangeable Preference Share then acquired. Century City may not exercise the Rights to Call unless (i) the Century City Group has successfully restructured its debts (in the reasonable opinion of the First Vendor) within the period in which the Rights to Call can be exercised; (ii) Mr. Lo (a) remains in direct or indirect control of over 50% of the voting rights of Century City and (b) has the right to nominate more than 50% of the Directors to the Board; (iii) the Century City Ordinary Shares remain listed on the Stock Exchange; and (iv) the Century City Group is no longer in default of any material loan. Despite the above conditions, Century City may always exercise the Rights to Call with the consent of the First Vendor.

If a total of 15,000 million Exchangeable Preference Shares (Series A and Series B) are acquired by Century City pursuant to the Rights to Put and/or the Rights to Call, Century City will issue 15,000 million new Century City Ordinary Shares (representing approximately 393.0% of the issued share capital of Century City as at the Latest Practicable Date and approximately 79.7% of the issued share capital of Century City as enlarged by the issue of such new shares).

LETTER FROM THE BOARD

The new Century City Ordinary Shares which may be issued pursuant to the Rights to Put and/or the Rights to Call shall rank pari passu in all respects with the Century City Ordinary Shares in issue on the exercise date of the relevant rights.

Repurchase right of the First Vendor

During the Exchange Period, the First Vendor will be given the right to acquire the entire issued ordinary share capital of the Paliburg Shares SPC for HK\$8.00 if any creditor of any member of the Century City Group takes or purports to take any action which could, in the opinion of the First Vendor, materially prejudice the position of the holders of the Exchangeable Preference Shares or in any way delay or impede the exercise of any of their rights as holders of such shares.

Conditions

Completion of the Share Swap Agreement is subject to the following conditions being satisfied or, if applicable, waived on or before 31st October, 2002 or such later date as shall be agreed by the parties to the Share Swap Agreement:

- the approval by the Independent Shareholders for the transactions contemplated under the Share Swap Agreement;
- the Stock Exchange granting approval for the listing of, and the permission to deal in, the Century City Ordinary Shares which may be issued under the Share Swap; and
- completion of the Paliburg Acquisition Agreement.

Reasons for the Share Swap

Paliburg is a listed major subsidiary of Century City. Century City's shareholding interest in Paliburg may be diluted and Paliburg may cease to be a subsidiary of Century City upon exercise of the conversion rights attaching to the Paliburg Convertible Preference Shares to be issued under the Paliburg Acquisition. The Share Swap gives Century City a mechanism to maintain a controlling interest in Paliburg. Century City is of the view that the Share Swap is in its interest as it can help maintaining a controlling stake in Paliburg and can facilitate the negotiation and implementation of the debt restructuring of the Century City Group.

Businesses of the CCIHL Group

Century City, an investing holding company, through its subsidiaries is principally engaged in property development, investment and management, construction and construction related businesses and hotel ownership and management. The Century City Group also has other investments in communication and information technology related businesses, including a 10% direct interest in 8D Matrix Limited, a 10% direct interest in 8D International (BVI) Limited and an approximately 9.7% interest in Prism Communications International Limited. 8D Matrix Limited, through its subsidiary, is engaged in advertising, promotion and communications businesses. 8D International (BVI) Limited, through its associates, is involved in information technology and broadband network businesses in the

LETTER FROM THE BOARD

PRC. Prism Communications International Limited, through its wholly-owned subsidiary, is principally engaged in telecommunications and internet-related businesses and equipment trading, and provides international voice and fax long distance services. The total investment cost of the Century City Group in the above companies as at 31st July, 2002 was approximately HK\$60 million.

Following completion of the Share Swap, the Century City Group will, apart from the investment holding in the Paliburg Group and the Regal Group, continue to seek to be further involved in the information technology and telecommunications businesses and to explore other suitable business opportunities, if circumstances are considered appropriate.

The audited consolidated deficiency in net tangible assets of Century City as at 31st December, 2001 was approximately HK\$209.7 million. The audited consolidated losses before and after taxation of Century City for the year ended 31st December, 2000 were approximately HK\$646.9 million and HK\$665.8 million respectively, and those for the year ended 31st December, 2001 were approximately HK\$2,237.9 million and HK\$2,234.2 million respectively.

The Stock Exchange has indicated that it will monitor the businesses and activities of Century City after completion of the Paliburg Acquisition Agreement and the Share Swap Agreement. The Stock Exchange reserves its right to review whether Century City has sufficient assets and operations to warrant Century City's continued listing when the Stock Exchange considers the circumstances necessitate, including but not limited to, the event that Paliburg ceases to be a subsidiary of Century City.

Listing Rules requirements

As mentioned above, the First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. The Share Swap also constitutes a major and connected transaction for Century City. Approval of the Independent Shareholders is required for the Share Swap. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM in respect of the resolution for approving the Share Swap.

Century City has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and permission to deal in, the Century City Ordinary Shares which may be issued under the Share Swap.

LETTER FROM THE BOARD

The following table illustrates the possible effect of the Paliburg Acquisition and the Share Swap upon the shareholding structure of Century City:

	As at the Latest Practicable Date		Scenario 1		Scenario 2	
	Number of Century City Ordinary Shares		Number of Century City Ordinary Shares		Number of Century City Ordinary Shares	
	<i>million</i>	%	<i>million</i>	%	<i>million</i>	%
Mr. Lo and his associates (including the First Vendor)	1,941.8	50.9	12,941.8	73.5	12,941.8	68.8
Second Vendor	—	—	2,000.0	11.4	2,000.0	10.6
Third Vendor	—	—	800.0	4.5	800.0	4.2
Certain New VPI Investors	—	—	—	—	1,200.0	6.4
Other directors of Century City, Paliburg and Regal	17.1	0.4	17.1	0.1	17.1	0.1
Public shareholders of Century City	<u>1,857.9</u>	<u>48.7</u>	<u>1,857.9</u>	<u>10.5</u>	<u>1,857.9</u>	<u>9.9</u>
	<u>3,816.8</u>	<u>100.0</u>	<u>17,616.8</u>	<u>100.0</u>	<u>18,816.8</u>	<u>100.0</u>

Scenario 1: Assuming (i) a minimum of 3,450 million Paliburg Convertible Preference Shares are issued by Paliburg; and (ii) 13,800 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

Scenario 2: Assuming (i) at least 3,750 million to a maximum of 4,750 million Paliburg Convertible Preference Shares are issued by Paliburg; and (ii) 15,000 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

LETTER FROM THE BOARD

The following table illustrates the possible effect of the Paliburg Acquisition and the Share Swap upon the shareholding structure of Paliburg:

	As at the Latest Practicable Date		Scenario 1		Scenario 2	
	Number of Paliburg Ordinary Shares <i>million</i>	%	Number of Paliburg Ordinary Shares <i>million</i>	%	Number of Paliburg Ordinary Shares <i>million</i>	%
Century City	1,373.0	59.2	4,823.0	83.6	5,123.0	72.5
Mr. Lo and his associates	0.2	0.0	0.2	0.0	0.2	0.0
Other directors of Paliburg and Regal	4.2	0.2	4.2	0.1	4.2	0.1
New VPI Investors	—	—	—	—	1,000.0	14.1
Public shareholders of Paliburg	<u>941.1</u>	<u>40.6</u>	<u>941.1</u>	<u>16.3</u>	<u>941.1</u>	<u>13.3</u>
	<u>2,318.5</u>	<u>100.0</u>	<u>5,768.5</u>	<u>100.0</u>	<u>7,068.5</u>	<u>100.0</u>

Scenario 1: Assuming (i) a minimum of 3,450 million Paliburg Convertible Preference Shares are issued by Paliburg and all of them are converted by the Paliburg Shares SPC; and (ii) 13,800 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

Scenario 2: Assuming (i) a maximum of 4,750 million Paliburg Convertible Preference Shares are issued by Paliburg and all of them are converted (including the 3,750 million Paliburg Convertible Preference Shares converted by the Paliburg Shares SPC); and (ii) 15,000 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

Based on the shareholding structure of Century City and Paliburg as at the Latest Practicable Date, the respective percentages of the issued Century City Ordinary Shares and Paliburg Ordinary Shares held by public may fall below the minimum percentage of 25% as required by Rule 8.08 of the Listing Rules after exercise of the Rights to Put and/or the Rights to Call attached to the Exchangeable Preference Shares and/or the conversion rights attached to the Paliburg Convertible Preference Shares. Each of Century City and Paliburg has respectively undertaken to the Stock Exchange that it will not cause its public float to fall below the minimum public float requirement under Rule 8.08 of the Listing Rules as a result of exercise of the Rights to Call attached to the Exchangeable Preference Shares and/or the conversion rights attached to the Paliburg Convertible Preference Shares. Mr. Lo has also undertaken to the Stock Exchange that he will not cause the public float of Century City and Paliburg to fall below the minimum public float required under Rule 8.08 of the Listing Rules as a result of exercise of the Rights to Put attached to the Exchangeable Preference Shares and/or the conversion rights attached to the Paliburg Convertible Preference Shares owned by him and his associates.

The Exchange has indicated to Paliburg that no waiver will be granted to Paliburg regarding the requirement under Rule 8.08 of the Listing Rules in case Paliburg encounters any public float problem as a result of the conversion of the Paliburg Convertible Preference Shares by the Vendors.

LETTER FROM THE BOARD

CAPITAL REORGANISATIONS OF PALIBURG AND REGAL

The proposal

Century City understands that the board of directors of Paliburg has proposed to carry out a capital reorganisation which comprises the following:

1. the nominal value of each issued Paliburg Ordinary Share as at the effective date of the capital reorganisation of Paliburg will be reduced from HK\$1.00 to HK\$0.01 by the cancellation of HK\$0.99 of the paid-up capital on each issued Paliburg Ordinary Share;
2. the credit created in 1. above will be used to eliminate the accumulated losses of Paliburg, if any, as at the effective date of the capital reorganisation of Paliburg with any remaining balance being transferred to the contributed surplus account of Paliburg;
3. the entire amount standing to the credit of the share premium account of Paliburg as at the effective date of the capital reorganisation of Paliburg will be cancelled;
4. the credit created in 3. above will also be transferred to the contributed surplus account of Paliburg; and
5. the then existing authorised but unissued share capital of Paliburg will be cancelled and the authorised share capital of Paliburg will be subsequently increased to HK\$675 million by the creation of additional 17,681,502,548 adjusted Paliburg ordinary shares of HK\$0.01 each and 4,750 million Paliburg Convertible Preference Shares of HK\$0.10 each.

Century City also understands that the board of directors of Regal has proposed to carry out a capital reorganisation which comprises the following:

1. the nominal value of each issued Regal Ordinary Share as at the effective date of the capital reorganisation will be reduced from HK\$0.10 to HK\$0.01 by the cancellation of HK\$0.09 of the paid-up capital on each issued Regal Ordinary Share;
2. the credit created in 1. above will be used to eliminate part of the accumulated losses of Regal as at the effective date of the capital reorganisation of Regal;
3. the entire amount standing to the credits of the share premium account of Regal as at the effective date of the capital reorganisation of Regal will be cancelled;
4. the credit created in 3. above will be used to eliminate the remaining balance of the accumulated losses of Regal as at the effective date of the capital reorganisation of Regal, and the balance of such credit, if any, will be transferred to the contributed surplus account of Regal; and

LETTER FROM THE BOARD

5. the then existing authorised but unissued share capital of Regal will be cancelled and the authorised ordinary share capital of Regal will be subsequently increased to approximately HK\$100 million by the creation of additional 5,971,227,497 (or such other amount which will make up the total number of adjusted ordinary shares of Regal to 10,000 million) adjusted ordinary shares of Regal.

Conditions precedent

Both the capital reorganisations of Paliburg and Regal are subject to, among other things, the following conditions:

- the passing of the special resolution by the respective shareholders of Paliburg and Regal to approve the proposed capital reorganisation;
- the Stock Exchange granting the listing of, and permission to deal in, the adjusted ordinary shares of Paliburg and Regal; and
- the publication of a notice by Paliburg and Regal respectively in relation to their capital reorganisations in Bermuda in accordance with the Companies Act 1981 of Bermuda.

Century City and its associates, together beneficially holding approximately 59.2% of the Paliburg Ordinary Shares in issue as at the Latest Practicable Date, have indicated to the board of directors of Paliburg that they will vote in favour of the relevant resolution in relation to the capital reorganisation of Paliburg at the special general meeting of Paliburg.

Paliburg and its associates, together beneficially holding approximately 69.3% of the Regal Ordinary Shares in issue as at the Latest Practicable Date, have indicated to the board of directors of Regal that they will vote in favour of the relevant resolution in relation to the capital reorganisation of Regal at the special general meeting of Regal.

Effects of the capital reorganisations

Paliburg

As at the Latest Practicable Date, the authorised share capital of Paliburg was HK\$6,000 million divided into 6,000 million Paliburg Ordinary Shares of par value HK\$1.00 each. 2,318,497,452 Paliburg Ordinary Shares were in issue and fully paid or credited as fully paid, and there was an amount of approximately HK\$68.3 million standing to the credit of the share premium account of Paliburg as at the Latest Practicable Date. As at 31st December, 2001, Paliburg had audited accumulated losses of approximately HK\$539.7 million.

LETTER FROM THE BOARD

Upon the capital reorganisation of Paliburg becoming effective, the issued and paid-up share capital of Paliburg will be reduced by approximately HK\$2,295.3 million and the then entire balance standing to the credit of the share premium account of Paliburg as at the effective date of the capital reorganisation will be cancelled. The credit arising as a result of the capital reduction of the nominal value of the Paliburg Ordinary Shares in issue and the cancellation of the entire amount in the share premium account of Paliburg will be used to eliminate the accumulated losses of Paliburg as at the effective date of the capital reorganisation, if any, with any remaining balance being transferred to the contributed surplus account of Paliburg.

The authorised but unissued share capital of Paliburg will be cancelled and the authorised share capital of Paliburg will be subsequently increased to HK\$675 million comprising (i) HK\$200 million divided into 20,000 million Paliburg Ordinary Shares of HK\$0.01 each and (ii) HK\$475 million divided into 4,750 million Paliburg Convertible Preference Shares of HK\$0.10 each upon the capital reorganisation becoming effective.

Regal

As at the Latest Practicable Date, the authorised share capital of Regal was approximately HK\$623.2 million divided into 6,000 million Regal Ordinary Shares of par value HK\$0.10 each and 300,000 Regal Convertible Preference Shares of US\$10 (equivalent to approximately HK\$77.30 based on the predetermined exchange rate) each. 4,028,772,503 Regal Ordinary Shares and 16,748 Regal Convertible Preference Shares were in issue and fully paid or credited as fully paid, and there was an aggregate amount of approximately HK\$1,657.2 million standing to the credit of the share premium account of Regal as at the Latest Practicable Date. As at 31st December, 2001, Regal had an audited accumulated losses of approximately HK\$2,551.2 million.

Upon the capital reorganisation of Regal becoming effective, the issued and paid-up share capital of Regal will be reduced by approximately HK\$362.6 million and the entire balance of HK\$1,657.2 million (or such other amounts should there be any change in the share capital of Regal taking place subsequent to the Latest Practicable Date but before the effective date of the capital reorganisation) standing to the credit of the share premium account of Regal as at the effective date of Regal's capital reorganisation will be cancelled. The credit arising as a result of the reduction of nominal value of the Regal Ordinary Shares in issue and the cancellation of the entire amount in the share premium account of Regal will be used to eliminate the accumulated losses of Regal as at the effective date of the capital reorganisation, and the balance of such credit, if any, will be transferred to the contributed surplus account of Regal.

The then existing authorised but unissued share capital of Regal will be cancelled and the authorised share capital of Regal will be subsequently increased to approximately HK\$101.3 million comprising (i) HK\$100 million divided into 10,000 million Regal Ordinary Shares of HK\$0.01 each and (ii) approximately HK\$1.3 million divided into 16,748 convertible preference shares of Regal of US\$10 (equivalent to approximately HK\$77.30 based on a predetermined exchange rate) each upon the capital reorganisation of Regal becoming effective.

LETTER FROM THE BOARD

Reasons for the capital reorganisations

The capital reorganisations of Paliburg and Regal will reduce the par value of the Paliburg Ordinary Shares and the Regal Ordinary Shares respectively, this can enhance Paliburg's and Regal's future fund raising capability. By offsetting all or part of the accumulated losses of Paliburg and Regal, Paliburg and Regal will be able to declare dividends to their respective shareholders at an earlier opportunity than by generating future profits to offset their respective accumulated losses.

PROPOSED DEBT RESTRUCTURING OF THE CENTURY CITY GROUP

As mentioned in the 2001 annual report of Century City and in the Announcement, the Century City Group has encountered liquidity problem and has been negotiating with its financial creditors in respect of the restructuring of its indebtedness. Century City has presented a debt restructuring proposal to its financial creditors for their consideration and approval. Further announcement regarding the status of Century City's debt restructuring will be made in due course as and when required.

REFRESHING OF THE GENERAL MANDATE

In order to allow more flexibility, Century City proposed to refresh the General Mandate, the details of which are set out in Ordinary Resolution No. 5 set out in the notice of the SGM.

GENERAL

Ernst & Young Corporate Finance Limited has been appointed as the financial adviser to Paliburg, a listed subsidiary of Century City, in respect of the Settlement Proposal.

Implementation of the Settlement Proposal will be conditional on, among other things, obtaining of all necessary consents and approvals, including approvals from the Existing Bondholders and the shareholders of Century City and Paliburg and the completion of the Stanley Transfer which in turn is conditional on, among other things, obtaining approval from the independent shareholders of Century City, Paliburg and Regal and consents from the bank creditors of the Stanley Project. Completion of the Paliburg Acquisition Agreement and the Share Swap Agreement will be conditional on, among other things, Bonds Settlement Closing, the proposed capital reorganisation of Paliburg becoming effective and the independent shareholders' approval of Century City and Paliburg. Implementation of the Settlement Proposal is not conditional upon the completion of the Paliburg Acquisition Agreement or the Share Swap Agreement. **There is no assurance that all the necessary consents and approvals will be obtained. The Stanley Transfer and/or the Settlement Proposal and/or the Paliburg Acquisition and/or the Share Swap may or may not proceed. The issue of this circular does not in any way imply that the Stanley Transfer and/or the Settlement Proposal and/or the Paliburg Acquisition and/or the Share Swap will necessarily be implemented and completed.**

LETTER FROM THE BOARD

RECOMMENDATIONS

The Directors consider that the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition, the Share Swap and the refreshing of the General Mandate are in the interest of Century City.

The Directors have appointed the Independent Board Committee, comprising Mr. Anthony Chuang, to advise the Independent Shareholders in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap. Since Mr. Ng Siu Chan, another independent non-executive Director of Century City, is also an independent non-executive director of Paliburg, he is not appointed as a member of the Independent Board Committee. Altus Capital is appointed as the independent financial adviser to the Independent Board Committee in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap. The Independent Board Committee has considered the respective terms and conditions of the Stanley Transfer Agreement, the Paliburg Acquisition Agreement and the Share Swap Agreement and the advice given by Altus Capital, and is of the opinion that the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap are fair and reasonable as far as the interests of the Independent Shareholders are concerned.

The Directors recommend the shareholders of Century City to vote in favour of the resolutions to be proposed at the SGM to approve the Settlement Proposal and the refreshing of the General Mandate. The Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap.

THE SGM

Set out on pages 204 to 207 of this circular is a notice convening the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, at 12:00 noon on Wednesday, 18th September, 2002. The SGM will be held for the purpose of considering, and, if thought fit, approving (i) the Settlement Proposal and the refreshing of the General Mandate by the shareholders of Century City; and (ii) the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap by the Independent Shareholders.

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to Century City's branch share registrar in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or at any adjourned meeting should you so wish.

LETTER FROM THE BOARD

Century City understands that a special general meeting of Paliburg will be held on 18th September, 2002 with a view to seeking approvals from its shareholders for the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the capital reorganisation of Paliburg, and a special general meeting of Regal will be held on the same date with a view to seeking approvals from its shareholders for the Stanley Transfer, the Continuing Several Guarantee and the capital reorganisation of Regal.

ADDITIONAL INFORMATION

Your attention is drawn to (i) the letter from the Independent Board Committee containing its recommendations regarding the resolutions to be proposed at the SGM to approve the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap; (ii) the letter from Altus Capital, the independent financial adviser to the Independent Board Committee containing its advice in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap; and (iii) the further information set out in the appendices to this circular including the financial information on the CCIHL Group and the PHL Group, the valuation on the Stanley Project, the valuations on Paliburg Plaza and Kowloon City Plaza and the summary of the terms of the Paliburg Convertible Preference Shares.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



26th August, 2002

To the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
MAJOR AND CONNECTED TRANSACTIONS
THE PALIBURG ACQUISITION OF PALIBURG AND
THE SHARE SWAP OF CENTURY CITY**

The Independent Board Committee refers to the circular issued by Century City to its shareholders dated 26th August, 2002 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter, unless the context otherwise requires.

The Independent Board Committee has been established to consider the terms and conditions of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap, and to advise you in connection therewith. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee in this regard.

The Independent Board Committee wishes to draw your attention to the “Letter from the Board”, as set out on pages 10 to 48 of the Circular, which sets out, among other things, information relating to and the reasons for the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap, and the letter from Altus Capital which contains its advice to the Independent Board Committee in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap as set out on pages 50 to 78 of the Circular.

The Independent Board Committee has considered the principal factors taken into account by Altus Capital in arriving at its opinion regarding the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap as set out in its letter. The Independent Board Committee considers that the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions as set out in the notice of SGM on pages 204 to 207 of the Circular.

Yours faithfully,
Mr. Anthony Chuang
Independent Board Committee

LETTER FROM ALTUS CAPITAL

The following is the text of the letter of advice to the Independent Board Committee from Altus Capital dated 26 August, 2002 prepared for incorporation in this Circular.

ALTUS CAPITAL LIMITED

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

Tel : (852) 2522 6122
Fax: (852) 2522 6992

26 August, 2002

The Independent Board Committee
Century City International Holdings Limited
18th Floor, Paliburg Plaza,
68 Yee Wo Street,
Causeway Bay,
Hong Kong.

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
MAJOR TRANSACTION
SETTLEMENT PROPOSAL IN RESPECT OF
THE EXCHANGEABLE BONDS AND THE CONVERTIBLE BONDS OF PALIBURG
AND
MAJOR AND CONNECTED TRANSACTIONS
THE PALIBURG ACQUISITION OF PALIBURG AND
THE SHARE SWAP OF CENTURY CITY**

INTRODUCTION

We refer to the circular to the shareholders of Century City dated 26 August, 2002 (the "Circular") issued by Century City of which this letter forms part and to our appointment as independent financial adviser to the Independent Board Committee in respect of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap, the details of which are set out in the Letter from the Board contained in this Circular. Capitalised terms used in this letter shall have the same meanings ascribed to them in the Circular unless the context otherwise requires.

The Stanley Transfer constitutes a discloseable transaction for Century City. The Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee which Paliburg has agreed to provide in respect of 40% of the bank borrowings of Chest Gain under the Stanley Transfer Agreement constitute connected transactions for Century City.

LETTER FROM ALTUS CAPITAL

Mr. Lo is the controlling shareholder of Century City, chairman of the Board and chairman of the board of directors of Paliburg. The First Vendor is effectively owned as to approximately 81.7% by Mr. Lo, approximately 3.3% by the Century City Group, 10% by the Regal Group and 5% by an independent third party. The Second Vendor is effectively owned as to 60% by Ms. Lo, a director of certain subsidiaries of Regal and the daughter of Mr. Lo. Mr. Lo holds the entire issued share capital of the Third Vendor as a trustee and may have discretion over the exercise of the voting rights attaching to the entire issued share capital of the Third Vendor. Therefore, the First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. The Paliburg Acquisition constitutes a major and connected transaction for Century City under the Listing Rules.

As mentioned above, the First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. The Share Swap also constitutes a major and connected transaction for Century City.

Approval of the Independent Shareholders is therefore required for the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap. Mr. Lo and his associates will abstain from voting at the SGM for approving the Stanley Transfer and the Continuing Several Guarantee. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM for approving the Paliburg Acquisition and the Share Swap.

The Independent Board Committee has been established to advise the Independent Shareholders as to whether the terms of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap are fair and reasonable so far as the Independent Shareholders are concerned. As Mr. Ng Siu Chan, an independent non-executive Director, is also an independent non-executive director of Paliburg, he has not been appointed to the Independent Board Committee. Thus, the Independent Board Committee comprises Mr. Anthony Chuang, an independent non-executive Director.

BASIS OF OUR OPINION

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

We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the Stanley Transfer, the Continuing Several Guarantee, the Paliburg

LETTER FROM ALTUS CAPITAL

Acquisition and the Share Swap and to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinions. We have no reason to suspect that any material facts or information (which is known to Century City) have been omitted or withheld from the information supplied or opinions expressed in the Circular nor to doubt the truth and accuracy of the information and facts, or the reasonableness of the opinions expressed by Century City and the Directors which have been provided to us. We have not, however, carried out any independent verification on the information provided to us by the Directors, nor have we conducted an independent in-depth investigation into the business and affairs of Century City, Paliburg, Regal, VPI, Leading Technology or any of their respective subsidiaries or associates.

THE STANLEY TRANSFER

Background

On 2 August, 2002, Paliburg and its subsidiary, PDBVI, entered into the Stanley Transfer Agreement with Regal pursuant to which the Paliburg Group has agreed to sell and Regal has agreed to purchase the entire issued share capital of Nice Tex and the assignment of all rights, title and interest of PDFL in the Shareholder's Loan for an aggregate consideration of HK\$470 million.

Nice Tex, an indirect wholly owned subsidiary of Paliburg, is the sole owner of a 40% interest in the issued share capital of Chest Gain which in turn owns and develops the Stanley Project. 30% of the issued share capital of Chest Gain is held by a subsidiary of Regal and the remaining 30% is held by an independent third party.

Under the Stanley Transfer Agreement, Paliburg has agreed to provide after completion of the Stanley Transfer, the Continuing Several Guarantee for 40% of the bank borrowings of Chest Gain for the Stanley Project, which amounted to approximately HK\$1,004 million as at 31 December, 2001. However, Paliburg's obligation under such guarantee will be limited to the security provided by Paliburg which currently comprises approximately 1,384.2 million Regal Ordinary Shares (of which the bank creditors of the Stanley Project are the major beneficiaries). Such Regal Ordinary Shares were worth approximately HK\$116.3 million based on the closing price per Regal Ordinary Share of HK\$0.084 as at the Latest Practicable Date. Paliburg has also warranted to Regal under the Stanley Transfer Agreement that bank creditors of the Stanley Project will have first priority sharing of not less than 75% over such security. No counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee.

After completion of the Stanley Transfer, Regal will not be required to fund the interest servicing cost of the bank borrowings of Chest Gain attributable to the 40% interest of Chest Gain acquired under the Stanley Transfer Agreement, and such payment obligation of Regal will be deferred until the loan repayment date. As part of the terms under the Stanley Transfer Agreement, Regal will provide an additional several guarantee in respect of 40% of the bank borrowings of Chest Gain which will only be called upon in the event of any default in Chest Gain's bank borrowings for the Stanley Project, and after the Continuing Several Guarantee has been pursued.

LETTER FROM ALTUS CAPITAL

After completion of the Stanley Transfer, the Regal Group's interest in Chest Gain will increase from 30% to 70% and Chest Gain will continue to be treated as a jointly controlled entity of Regal. No accounting gain or loss will be recorded by Century City as a result of the Stanley Transfer.

The Stanley Project commenced in 1997. It has a site area of approximately 571,848 sq.ft. and comprises two phases which are scheduled to be completed around the second quarter and the fourth quarter of 2003 respectively.

The consideration under the Stanley Transfer Agreement

The consideration of HK\$470.0 million for the Stanley Transfer was determined after arm's length negotiations between Paliburg and Regal with reference to 40% of the valuation on the Stanley Project as at 31 May, 2002 by an independent property valuer, FPDSavills, of approximately HK\$2,112.8 million, the external liabilities (including outstanding interest in arrears and estimated construction and financing costs of the Stanley Project to be incurred) attributable to the 40% interest in the Stanley Project of approximately HK\$1,590.7 million and a discount of approximately 10.0%.

The consideration shall be satisfied by the issue and allotment of approximately 1,958.3 million new Regal Ordinary Shares, being the Consideration Shares, by Regal to PDBVI (or such other person(s) as PDBVI may direct).

The Consideration Shares represent (i) approximately 48.6% of the issued ordinary share capital of Regal as at the Latest Practicable Date; and (ii) approximately 32.7% of the issued ordinary share capital of Regal as enlarged by the issue of the Consideration Shares, assuming that there will be no change in the shareholding structure of Regal before completion of the Stanley Transfer Agreement.

Conditions

The completion of the Stanley Transfer Agreement is subject to certain conditions being satisfied on or before 31 October, 2002 or such later date as shall be agreed by the parties to the Stanley Transfer Agreement. The conditions include, among other things, the approval from the Independent Shareholders for the Stanley Transfer and the Continuing Several Guarantee. Details of the other conditions are set out on pages 14 and 15 in the "Letter from the Board".

Listing Rules requirements

The Stanley Transfer constitutes a discloseable transaction for Century City. In addition, the Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee constitute connected transactions for Century City. Approval of the Independent Shareholders is required for the Stanley Transfer and the Continuing Several Guarantee under the Listing Rules. Mr. Lo and his associates will abstain from voting at the SGM for approving the Stanley Transfer and the Continuing Several Guarantee.

LETTER FROM ALTUS CAPITAL

THE PALIBURG ACQUISITION

Background

On 2 August, 2002, Paliburg, the Vendors and VPI entered into the Paliburg Acquisition Agreement pursuant to which Paliburg has agreed to acquire all the shares of VPI in issue at the completion date of the Paliburg Acquisition Agreement, including such shares in issue as at the Latest Practicable Date and all the new shares of VPI that may be issued under the VPI Placing. In return, Paliburg will issue between 3,450 million to 4,750 million Paliburg Convertible Preference Shares to the VPI Shareholders. After completion of the Paliburg Acquisition, VPI will become a wholly-owned subsidiary of Paliburg.

VPI is an investment company which holds a 50% interest in Leading Technology. 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 the Greater China region. The core business of the Leading Technology Group can be principally categorised into offline security business, online security business and intelligent building business. In addition to the investment in the Leading Technology Group, VPI, through its wholly owned subsidiaries held approximately HK\$70 million in cash as at the Latest Practicable Date. In the event that new VPI Shares are issued under the VPI Placing, the cash balance within VPI, and thus the consideration payable by Paliburg, will increase correspondingly. The group structure of VPI and its financial results can be found on pages 29 and 30 in the “Letter from the Board”.

The proposed VPI Placing

Under the proposed VPI Placing, the New VPI Investors may subscribe for new shares of VPI through the First Vendor and new VPI shares will be issued to the First Vendor on behalf of the New VPI Investors. The VPI Placing is intended to raise further cash before completion of the Paliburg Acquisition. Upon completion of the Paliburg Acquisition, the First Vendor will transfer the relevant Paliburg Convertible Preference Shares to the New VPI Investors upon completion of the Paliburg Acquisition.

The LTH Option

Pursuant to the Paliburg Acquisition Agreement, the First Vendor will grant the LTH Option to VPI for acquiring all or part of the LTH Option Shares from the First Vendor on the following terms:

- (i) if the LTH Option is exercised within one year from the completion of the Paliburg Acquisition and the Listing Determination has not taken place, VPI can acquire any of the LTH Option Shares from the First Vendor at a price equivalent to 50% of the valuation attributable to the relevant LTH Option Shares under the Business Valuation; the consideration for the relevant LTH Option Shares can be settled in cash and/or by way of issue and allotment of new Paliburg Ordinary Shares to the First Vendor (based on the average closing price of the preceding 20 trading days); or

LETTER FROM ALTUS CAPITAL

- (ii) if the Listing Determination has taken place within one year from the completion of the Paliburg Acquisition, VPI can acquire from the First Vendor any of the LTH Option Shares at a price based on 50% of the aggregate underwritten price (which should normally be the relevant offer price) attributable to the relevant LTH Option Shares; the consideration for the relevant LTH Option Shares shall only be settled in cash; or
- (iii) if the LTH Option is exercised after one year from the completion of the Paliburg Acquisition and the Listing Determination has not taken place, VPI can acquire from the First Vendor the LTH Option Shares at a nominal price of HK\$1.00 in cash.

The LTH Option is exercisable in whole or in part and will expire on the earlier of (i) the date 13 months after the completion of the Paliburg Acquisition; and (ii) five business days after the Listing Determination.

Consideration under the Paliburg Acquisition

The consideration for the Paliburg Acquisition shall be HK\$10,000 per share of VPI which shall be in issue as at the completion date of the Paliburg Acquisition Agreement (including 34,500 shares of VPI in issue as at the Latest Practicable Date and up to 13,000 new shares of VPI that may be issued under the VPI Placing) subject to an aggregate maximum of HK\$475 million.

Paliburg will issue the Paliburg Convertible Preference Shares at an issue price of HK\$0.10 each to the Vendors (or any of their respective nominees) to satisfy the consideration. Upon completion of the Paliburg Acquisition, Paliburg will issue:

- (a) 2,750 million Paliburg Convertible Preference Shares to the First Vendor (or its nominee);
- (b) 500 million and 200 million Paliburg Convertible Preference Shares respectively to the Second Vendor and the Third Vendor (or their respective nominees); and
- (c) up to 1,300 million Paliburg Convertible Preference Shares to the First Vendor, on behalf of the New VPI Investors.

Based on the above, the total consideration will be ranging from HK\$345 million to HK\$475 million and the number of Paliburg Convertible Preference Shares to be issued to the Vendors will be between 3,450 million and 4,750 million.

The Paliburg Convertible Preference Shares

Each Paliburg Convertible Preference Share can be converted into one Paliburg Ordinary Share (subject to adjustment) at any time within three years after completion of the Paliburg Acquisition. At the end of the 3-year period after completion of the Paliburg Acquisition, all the then outstanding Paliburg Convertible Preference Shares will be converted into Paliburg Ordinary Shares on a mandatory basis. The Paliburg Convertible Preference Shares are freely transferable but will not be listed on any stock exchange.

LETTER FROM ALTUS CAPITAL

If all the Paliburg Convertible Preference Shares are converted into Paliburg Ordinary Shares, 3,450 million to 4,750 million Paliburg Ordinary Shares, representing respectively approximately 148.8% and approximately 204.9% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date and respectively approximately 59.8% and 67.2% of the then enlarged issued ordinary share capital of Paliburg, will be issued. As such, if there is otherwise no change in Century City's shareholding interest in Paliburg, upon conversion of the Paliburg Convertible Preference Shares by the Vendors (or other holders other than Century City or its subsidiaries) in full, Paliburg may cease to be a subsidiary of Century City.

Conditions

Completion of the Paliburg Acquisition is subject to certain conditions being satisfied or, if applicable, waived on or before 31 October, 2002 or such later date as shall be agreed by the parties to the Paliburg Acquisition Agreement. The conditions include, among other things, the approval from the Independent Shareholders for the Paliburg Acquisition. Details of the other conditions are set out on pages 32 and 33 in the "Letter from the Board".

Listing Rules requirements

The First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. Therefore, the Paliburg Acquisition constitutes a major and connected transaction for Century City and approval of the Independent Shareholders is required for the Paliburg Acquisition. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM in respect of the resolution for approving the Paliburg Acquisition. The Paliburg Acquisition constitutes a very substantial acquisition for Paliburg and the Stock Exchange has confirmed to Paliburg that the Paliburg Acquisition will not be treated as a new listing application under Rule 14.07 of the Listing Rules.

THE SHARE SWAP

Background

On 2 August, 2002, Century City, the Vendors and the Paliburg Shares SPC entered into the Share Swap Agreement, which is conditional upon, among others, the completion of the Paliburg Acquisition Agreement. Under the Paliburg Acquisition, Paliburg Convertible Preference Shares will be issued to the VPI Shareholders. Under the Share Swap Agreement:

- (i) each of the Vendors (including the First Vendor on behalf of certain New VPI Investors (if any, who will in aggregate own not more than 300 million Paliburg Convertible Preference Shares)) will sell in aggregate up to 3,750 million Paliburg Convertible Preference Shares to the Paliburg Shares SPC;
- (ii) the Paliburg Shares SPC will issue four Exchangeable Preference Shares to each of the relevant Vendors and certain New VPI Investors for every Paliburg Convertible Preference Share purchased by it (up to 15,000 million Exchangeable Preference Shares); and

LETTER FROM ALTUS CAPITAL

- (iii) the First Vendor has agreed to sell and Century City has agreed to acquire the entire issued ordinary share capital of the Paliburg Shares SPC at HK\$8.00.

Century City has the right to procure the Paliburg Shares SPC to exercise the conversion rights attaching to the Paliburg Convertible Preference Shares held by the Paliburg Shares SPC at any time during the Exchange Period provided that none of the events stated in the section headed “Features of the Exchangeable Preference Shares” which would permit exercise of the exchange rights in respect of the Series A Exchangeable Preference Shares shall have occurred, but in any event the converted Paliburg Ordinary Shares will be held by the Paliburg Shares SPC until the expiry of the Exchange Period, unless the relevant holders exercise the exchange rights attached to the Exchangeable Preference Shares.

Features of the Exchangeable Preference Shares

The Exchangeable Preference Shares will be issued by the Paliburg Shares SPC (a company not listed on any stock exchange) and are freely transferable. The Exchangeable Preference Shares will be issued in two series: Series A will be issued to the First Vendor and Series B will be issued to the Second Vendor, the Third Vendor and the certain New VPI Investors. Every four Exchangeable Preference Shares are exchangeable at the option of the holder for one Paliburg Convertible Preference Share, or one Paliburg Ordinary Share (subject to adjustment) so converted pursuant to the Paliburg Convertible Preference Share. At the end of the Exchange Period, which is the one-year period after the issue and allotment of the Exchangeable Preference Shares, all the exchange rights attaching to the Exchangeable Preference Shares will be exercised on a mandatory basis.

Under the Share Swap Agreement, the First Vendor (or such other holder(s) of the Series A Exchangeable Preference Shares other than Century City (or its nominees)) may not exercise the exchange rights attaching to the Series A Exchangeable Preference Shares, that is to exchange for Paliburg Convertible Preference Shares or Paliburg Ordinary Shares, during the Exchange Period unless:

- (i) a material adverse change has occurred in relation to the financial, business and/or listing status of the Century City Group (in the reasonable opinion of the First Vendor); or
- (ii) any creditor of any member of the Century City Group takes or purports to take any precipitating action against any member of the Century City Group; or
- (iii) any creditor of any member of the Century City Group takes or purports to take any action which, in the opinion of the First Vendor could materially prejudice the position of the holders of the Exchangeable Preference Shares or in any way delay or impede the exercise of any of their rights as holders of such Shares; or
- (iv) Mr. Lo (a) ceases to be in direct or indirect control of over 50% of the voting rights of Century City or (b) ceases to have the right to nominate more than 50% of the Directors to Board.

LETTER FROM ALTUS CAPITAL

The Rights to Put and the Rights to Call

The Exchangeable Preference Shares will be issued with the following features:

1. Each holder of the Exchangeable Preference Shares (both Series A and Series B) can at any time during the Exchange Period (provided that the Paliburg Shares SPC remains a wholly-owned subsidiary of Century City) exercise the Rights to Put requiring Century City to acquire its investment in the Exchangeable Preference Shares and in return, Century City will issue one Century City Ordinary Share (subject to adjustment) for every Exchangeable Preference Share acquired.
2. At any time during the Exchange Period (provided that the Paliburg Shares SPC remains a wholly-owned subsidiary of Century City), Century City can, subject to the following conditions, exercise the Rights to Call to acquire the Series A Exchangeable Preference Shares from the holders by issuing one new Century City Ordinary Share (subject to adjustment) for every Series A Exchangeable Preference Share then acquired. Century City shall not exercise the Rights to Call unless (i) the Century City Group has successfully restructured its debts (in the reasonable opinion of the First Vendor) within the period in which the Rights to Call can be exercised; (ii) Mr. Lo (a) maintains direct or indirect control of over 50% of the voting rights of Century City and (b) has the right to nominate more than 50% of the Directors to the Board; (iii) the Century City Ordinary Shares remain listed on the Stock Exchange; and (iv) the Century City Group is no longer in default of any material loan. Despite the above conditions, Century City may always exercise the Rights to Call with the consent of the First Vendor.

If a total of 15,000 million Exchangeable Preference Shares (Series A and Series B) are acquired by Century City pursuant to the Rights to Put and/or the Rights to Call, Century City will issue 15,000 million new Century City Ordinary Shares (representing approximately 393.0% of the issued share capital of Century City as at the Latest Practicable Date and approximately 79.7% of the issued share capital of Century City as enlarged by the issue of such new Century City Ordinary Shares).

Repurchase right of the First Vendor

During the Exchange Period, the First Vendor will be given the right to acquire the entire issued ordinary share capital of the Paliburg Shares SPC for HK\$8.00 if any creditor of any member of the Century City Group takes or purports to take any action which could, in the opinion of the First Vendor, materially prejudice the position of the holders of the Exchangeable Preference Shares or in any way delay or impede the exercise of any of their rights as holders of the Exchangeable Preference Shares.

Conditions

Completion of the Share Swap Agreement is subject to certain conditions being satisfied or, if applicable, waived on or before 31 October, 2002 or such later date as shall be agreed by the parties to the Share Swap Agreement. The conditions include, among other things, the approval from the Independent Shareholders for the transactions contemplated under the Share Swap Agreement. Details of the other conditions are set out on page 38 in the "Letter from the Board".

LETTER FROM ALTUS CAPITAL

Listing Rules requirements

The First Vendor, the Second Vendor and the Third Vendor are connected persons of Century City. The Share Swap constitutes a major and connected transaction for Century City. Approval of the Independent Shareholders is required for the Share Swap. Mr. Lo, Ms. Lo and their respective associates will abstain from voting at the SGM for approving the Share Swap.

PRINCIPAL FACTORS CONSIDERED FOR THE STANLEY TRANSFER, THE CONTINUING SEVERAL GUARANTEE, THE PALIBURG ACQUISITION AND THE SHARE SWAP

In arriving at our recommendation, we have considered the following principal factors:

1. The financial restructuring of the Century City Group, the Paliburg Group and the Regal Group

The business and financial position of Paliburg, a major listed subsidiary of Century City, has been adversely affected by the Asian financial crisis which started in 1997. Since October 1998, the Century City Group and the Paliburg Group have encountered liquidity problem and conducted discussions with their respective financial creditors for the purpose of implementing standstill arrangements in order to permit the Century City Group and the Paliburg Group to suspend the repayment of their outstanding indebtedness. In particular, in February 2001, Paliburg defaulted on its payment obligation of the US\$140 million Exchangeable Bonds, which triggered a cross-default to the US\$210 million Convertible Bonds originally due in 2002. These indebtedness, including premium and interest, amounted in aggregate to approximately HK\$3,646.4 million as at 31 December, 2001. Such defaults have adversely affected the financial position of the CCIHL Group.

The Settlement Proposal

As described in the joint announcement dated 26 April, 2002 made by Century City, certain major holders of the Existing Bonds entered into a standstill agreement with Paliburg and have indicated their in-principle support for the Settlement Proposal. Under the Settlement Proposal, all outstanding indebtedness of the Paliburg Group under the Existing Bonds will be settled in full in return for, among other things, the Property Transfer and the phased release of the SPC Regal Shares to the Existing Bondholders. It is estimated that accounting profits before minority interests of approximately HK\$2 billion will be recorded by Century City as a result of the Settlement Proposal.

The Directors believe that the financial position of the CCIHL Group will be improved through the implementation of the Settlement Proposal. Based on the audited consolidated accounts of Paliburg as at 31 December, 2001, the Paliburg Group's indebtedness will be reduced by approximately HK\$4,863.4 million (including approximately HK\$3,646.4 million in relation to the Existing Bonds and approximately HK\$1,217.0 million in relation to the securitisation

LETTER FROM ALTUS CAPITAL

loan in respect of Paliburg Plaza and Kowloon City Plaza) as a result of the implementation of the Settlement Proposal. Reduction in the indebtedness of the Paliburg Group also reduces its future interest cost burden. This will put Century City in a better position in its continued debt restructuring negotiations.

2. Rationale for the Stanley Transfer, the Paliburg Acquisition and the Share Swap

Facilitate the Settlement Proposal and reducing the likelihood of breach of loan covenant by Regal

Paliburg is a major listed subsidiary of Century City. The Settlement Proposal is crucial in order to relieve the Paliburg Group from its immediate financial stress. The Stanley Transfer, pursuant to which Paliburg proposes to transfer its 40% interest in the Stanley Project to Regal in return for new Regal Ordinary Shares, will facilitate the implementation of the Settlement Proposal. The Stanley Transfer also provides a mechanism for Century City, through Paliburg, to maintain an effective controlling interest in Regal, even after the phased release of the SPC Regal Shares to the Existing Bondholders pursuant to the Settlement Proposal. The maintenance by Paliburg of a controlling interest in Regal is crucial to Regal. Mr. Lo, the controlling shareholder of Century City (together with his immediate family members and any trust under which they are beneficiaries) should maintain control of Regal, as failure to maintain such controlling interests constitutes breach of the loan covenant and is an event of default under certain loan obligations of Regal. This will indirectly affect the financial position of Century City.

The stability of ownership of Century City, Paliburg and Regal is also a crucial factor for their on-going discussions with their respective creditors. Successful implementation of the Stanley Transfer would therefore allow Mr. Lo, through Century City and Paliburg, to maintain indirect control over Regal, thus reducing the likelihood of such an event of default occurring.

Stabalise and enrich the business of Century City

The principal activity of Century City is that of a holding company. The principal activities of its subsidiaries are property development and investment, property management, construction and construction-related businesses, hotel ownership and management. The Century City Group also has other investments in communication and information technology related businesses.

Upon completion of the Settlement Proposal (which include the Property Transfer), the assets and business of the Paliburg Group, and thus Century City, will be further depleted. The Paliburg Acquisition will enable Paliburg, and thus Century City indirectly, to enter into new business ventures which help to broaden the scope and enhance the current businesses of Paliburg and will provide the necessary capital for their expansion and future development.

LETTER FROM ALTUS CAPITAL

The Paliburg Acquisition is in line with Paliburg's business strategy

As mentioned earlier, 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. Paliburg believes that this is in the similar line of business to those presently undertaken by the Paliburg Group as they are both engaged in property-related services businesses. The business of Leading Technology Group, in particular, the security and building business will enhance and be beneficial to the on-going development of the technology aspects of the Paliburg Group's property-related services businesses, thereby increasing its competitive strength, particularly in the fields of development consultancy (including architectural services), construction and management of properties. The Paliburg Acquisition allows the Paliburg Group to enter into a business in the relatively high growth technology business segment which, at the same time, is synergistic with its existing property development business. The investment in Leading Technology Group is therefore consistent with Paliburg's overall business strategy and should be beneficial to Century City.

Mechanism for Century City to maintain majority interest in Paliburg

Paliburg is a major listed subsidiary of Century City. However, Century City's shareholding in Paliburg may be diluted and Paliburg may cease to be a subsidiary of Century City upon the conversion rights attached to the Paliburg Convertible Preference Shares to be issued under the Paliburg Acquisition being exercised by their holders (other than the Paliburg Share SPC or other members of Century City Group).

The Share Swap provides Century City with a mechanism to maintain a majority interest in Paliburg. We concur with the view of the Directors that it will be beneficial to Century City to maintain a majority stake in Paliburg and that can place Century City in a better position in the negotiation and implementation of Century City Group's debt restructuring. Maintaining majority control also allows Century City to benefit from the potential growth of the Paliburg Group, especially when its financial position has been stabilised and strengthened after the implementation of the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition.

3. Importance of financial stability of the Century City Group, the Paliburg Group and the Regal Group

Audit qualifications

As stated in the annual report of Century City for the year ended 31 December, 2001, Century City incurred an audited consolidated net loss attributable to shareholders of HK\$1,650.7 million compared with a net loss of HK\$278.1 million, as restated, for the year ended 31 December, 2000. The loss for the year ended 31 December, 2001 was principally attributable to Century City's share of the loss of HK\$634.2 million of Paliburg, and a charge of revaluation deficit of hotel properties and investment properties of HK\$999.0 million. As at 31 December, 2001, Century City had negative net worth of HK\$160.3 million.

LETTER FROM ALTUS CAPITAL

In addition, the financial statements of Century City for the year ended 31 December, 2001 were qualified by the auditors, who have expressed concern on the fundamental uncertainties relating to the appropriateness of the going concern basis with respect to the preparation of the said financial statements. The circumstances giving rise to the fundamental uncertainties relating to Century City included, but are not limited to, the following:

- (i) the outcome of a proposed restructuring of the existing outstanding indebtedness of the Century City Group (which is not connected with the transactions contemplated in the Circular) to replace its existing informal standstill arrangements;
- (ii) the outcome of the proposed restructuring of a syndicated loan of HK\$3,822.1 million and a construction loan of HK\$1,079.5 million as at 31 December, 2001 of the Regal Group;
- (iii) the outcome of the proposed fund-raising arrangement of the Regal Group through equity issues; and
- (iv) the continued successful implementation of the assets disposal programmes of the Paliburg Group and the Regal Group.

It was further noted that in the event that the going concern basis were not to be appropriate, adjustments would have to be made to restate the value of Century City's assets to their recoverable amounts, and to provide for any further liabilities which might arise and to re-classify non-current assets and liabilities as current assets and liabilities respectively. Further information on the developments of items (i) to (iv) above can be found in the section headed "Working Capital of the CCIHL Group" in Appendix I on pages 162 and 163 of the Circular.

Independent Shareholders should note that Century City had a net deficiency in assets of HK\$160.3 million as at 31 December, 2001 and the auditors have qualified their opinion on Century City's financial statements for the year ended 31 December, 2001. Accordingly, in the event that creditors call for liquidation of Century City, shareholders of Century City may not derive any benefit from the realisation of its assets.

Independent Shareholders should also note that the financial statements of Paliburg for the year ended 31 December, 2001 were qualified by its auditors, who have expressed concern on the fundamental uncertainties relating to the appropriateness of the going concern basis with respect to the preparation of the said financial statements. After the implementation of the Settlement Proposal, the business and asset base of the Paliburg Group will be substantially curtailed. We concur with the view of the Directors that in the absence of the Paliburg Acquisition, the business prospects of the Paliburg Group cannot be readily revived. Century City can only benefit from its investments in Paliburg, being its most major assets, if the financial position of Paliburg can be stabilised and strengthened, and this is also important to facilitate the debt restructuring of Century City.

LETTER FROM ALTUS CAPITAL

4. Effects on Century City's financial position

Net asset value

As at 31 December, 2001, the net deficiency in assets of the CCIHL Group was HK\$160.3 million. The issue of the Century City Ordinary Shares to acquire the interest in Prism Communications International Limited as announced by Century City in its announcements dated 19 February, 2002 and 23 July, 2002, improved the net assets of the CCIHL Group by HK\$49 million. Upon completion of the Stanley Transfer and Settlement Proposal but before the Paliburg Acquisition, the financial position of CCIHL Group would further improve to a net asset position of HK\$105.6 million, representing HK\$0.028 per Century City Ordinary Shares (based on 3,816.8 million Century City Ordinary Shares in issue).

The effects on the financial position of the CCIHL Group after the completion of:

- (a) the Paliburg Acquisition and assuming there is no Share Swap and full conversion of the Paliburg Convertible Preference Shares (“No Share Swap Scenario”); and
- (b) the Paliburg Acquisition, the Share Swap and full conversion of the Paliburg Convertible Preference Shares (“With Share Swap Scenario”) are as shown in the tables below.

No Share Swap Scenario	Assuming 3,450 million Paliburg Convertible Preference Shares are issued for the Paliburg Acquisition (HK\$ million)	Assuming 4,750 million Paliburg Convertible Preference Shares are issued for the Paliburg Acquisition (HK\$ million)
Proforma net asset value after Stanley Transfer and Settlement Proposal	105.6	105.6
Dilution in net asset value after the Paliburg Acquisition and the conversion of Paliburg Convertible Preference Shares in full	<u>(819.7)</u>	<u>(921.3)</u>
Proforma net asset value under the No Share Swap Scenario	<u><u>(714.1)</u></u>	<u><u>(815.7)</u></u>
Net asset value per Century City Ordinary Share (HK\$)	<u><u>Not meaningful</u></u>	<u><u>Not meaningful</u></u>

LETTER FROM ALTUS CAPITAL

With Share Swap Scenario	Assuming 3,450 million Paliburg Convertible Preference Shares are issued for the Paliburg Acquisition (HK\$ million)	Assuming 4,750 million Paliburg Convertible Preference Shares are issued for the Paliburg Acquisition (HK\$ million)
Proforma net asset value after Stanley Transfer and Settlement Proposal	105.6	105.6
Improvement in net asset value after the Paliburg Acquisition, the Share Swap and the conversion of Paliburg Convertible Preference Shares in full	<u>912.3</u>	<u>683.8</u>
Proforma net asset value under the With Share Swap Scenario	<u>1,017.9</u>	<u>789.4</u>
Net asset value per Century City Ordinary Share (HK\$)	<u>0.058</u>	<u>0.042</u>

From the tables above, the net asset value of the CCIHL Group will decrease from approximately HK\$105.6 million to a net deficit position under the No Share Swap Scenario. Nevertheless, the net asset value position would improve to between HK\$789.4 million and HK\$1,017.9 million under the With Share Swap Scenario. On a per Century City Ordinary Share basis, the position will improve from a deficit to approximately HK\$0.028 after the Stanley Transfer and the Settlement Proposal and back to a deficit position under the No Share Swap Scenario. However, under the With Share Swap Scenario, the position will improve from a deficit to approximately HK\$0.028 after the Stanley Transfer and the Settlement Proposal and further increase to HK\$0.058 in the case where 3,450 million Paliburg Convertible Preference Shares or to HK\$0.042 if 4,750 million Paliburg Convertible Preference Shares are issued under the Paliburg Acquisition.

We therefore note that assuming the Stanley Transfer, Settlement Proposal and Paliburg Acquisition are approved, the Share Swap would provide Century City with a mechanism to improve the net asset value per Century City Ordinary Share.

LETTER FROM ALTUS CAPITAL

Working Capital

Upon completion of the Paliburg Acquisition, the Paliburg Group will receive cash injection of at least approximately HK\$70 million and with the possibility of increasing to HK\$200 million (taking into consideration the VPI Placing). This would considerably improve the working capital position of the Paliburg Group. We note that Century City can only benefit from its investments in Paliburg if the financial position of Paliburg can be stabilised and strengthened, and this is important to facilitate the debt restructuring of Century City. The issuance of the Paliburg Convertible Preference Shares pursuant to the Paliburg Acquisition will also expand the capital base of the Paliburg Group, allowing it to further develop its businesses.

There will be no material direct impact on the working capital position of the Century City Group upon completion of the Stanley Transfer, the Settlement Proposal, the implementation of the Paliburg Acquisition and the Share Swap.

Indebtedness

Upon completion of the Settlement Proposal, the Paliburg Group's indebtedness will be reduced substantially. The indebtedness to be reduced thereby amounted to approximately HK\$4,968.0 million as at 30 June, 2002 (comprising approximately HK\$3,751.0 million of the Existing Bonds and approximately HK\$1,217.0 million of the asset securitisation loan in relation to Kowloon City Plaza and Paliburg Plaza) and consequently, the future interest burden of the Paliburg Group will also be significantly reduced. There will be no material direct impact on the indebtedness position of the Century City Group upon completion of the Stanley Transfer, the Settlement Proposal, the implementation of the Paliburg Acquisition and the Share Swap.

Earnings

The Directors estimated that accounting profits before minority interests of approximately HK\$2 billion will be recorded by Century City as a result of the Settlement Proposal. This accounting profit mainly represents the difference between the total indebtedness amount of the Existing Bonds and the aggregate carrying values of CCIHL Group in the Subject Regal Shares and the two properties to be transferred under the Settlement Proposal. Century City considered that, subject to further review, there should be no material taxation impact on the aforesaid accounting profits.

LETTER FROM ALTUS CAPITAL

5. Effects on the shareholding interests in Regal, Paliburg and Century City upon completion of the Stanley Transfer, the Paliburg Acquisition and the Share Swap

The following illustrates the effect of the Stanley Transfer and the Settlement Proposal on the shareholding of Regal:

	As at the Latest Practicable Date		Upon completion of the Stanley Transfer and the Settlement Proposal		After release of all the SPC Regal Shares	
	Number of Regal Ordinary Shares	%	Number of Regal Ordinary Shares	%	Number of Regal Ordinary Shares	%
	<i>(million)</i>		<i>(million)</i>		<i>(million)</i>	
Paliburg	2,793.7	69.3	2,855.5	47.7	2,855.5	47.7
Regal Shares SPC	—	—	1,896.5	31.7	—	—
Mr. Lo and his associates	2.6	0.1	2.6	n.m.	2.6	n.m.
Other directors of Regal	1.5	n.m.	1.5	n.m.	1.5	n.m.
Public:						
Holders of the Series B Bonds	—	—	—	—	1,896.5	31.7
Other shareholders	<u>1,231.0</u>	<u>30.6</u>	<u>1,231.0</u>	<u>20.6</u>	<u>1,231.0</u>	<u>20.6</u>
Total	<u>4,028.8</u>	<u>100.0</u>	<u>5,987.1</u>	<u>100.0</u>	<u>5,987.1</u>	<u>100.0</u>

n.m.: not meaningful

Following completion of the Stanley Transfer and the Settlement Proposal, and the phased release of the SPC Regal Shares to the Existing Bondholders pursuant to the Settlement Proposal, Paliburg's interest in Regal will decrease from approximately 69.3% to approximately 47.7% and Regal may possibly cease to be a subsidiary of Paliburg. Nevertheless, we note that Paliburg will continue to maintain an effective controlling interest in Regal.

LETTER FROM ALTUS CAPITAL

If all the Paliburg Convertible Preference Shares are converted into Paliburg Ordinary Shares by the holders other than the Paliburg Shares SPC or other members of the Century City Group, the shareholding structure of Paliburg (based on the shareholding structure of Paliburg as at the Latest Practicable Date) will be as follows:

	Existing		After full conversion of the Paliburg Convertible Preference Shares			
			Based on 3,450 million Paliburg Convertible Preference Shares		Based on 4,750 million Paliburg Convertible Preference Shares	
	Number of Paliburg Ordinary Shares	%	Number of Paliburg Ordinary Shares	%	Number of Paliburg Ordinary Shares	%
	<i>(million)</i>		<i>(million)</i>		<i>(million)</i>	
Century City	1,373.0	59.2	1,373.0	23.8	1,373.0	19.4
Mr. Lo and his associates (including the First Vendor)	0.2	n.m.	2,750.2	47.7	2,750.2	38.9
Second Vendor	—	—	500.0	8.7	500.0	7.1
Third Vendor	—	—	200.0	3.4	200.0	2.8
New VPI Investors	—	—	—	—	1,300.0	18.4
Other directors of Paliburg and Regal	4.2	0.2	4.2	0.1	4.2	0.1
Other shareholders	<u>941.1</u>	<u>40.6</u>	<u>941.1</u>	<u>16.3</u>	<u>941.1</u>	<u>13.3</u>
	<u><u>2,318.5</u></u>	<u><u>100.0</u></u>	<u><u>5,768.5</u></u>	<u><u>100.0</u></u>	<u><u>7,068.5</u></u>	<u><u>100.0</u></u>

n.m.: not meaningful

From the above, we note that the shareholding interests of Century City in Paliburg will be reduced to between 19.4% and 23.8% from approximately 59.2% if all the Paliburg Convertible Preference Shares issued to the Vendors are converted into Paliburg Ordinary Shares by them.

However, the Share Swap will provide Century City with a mechanism to acquire from the Vendors such number of Paliburg Convertible Preference Shares convertible into Paliburg Ordinary Shares, which enable it to maintain a shareholding interest of approximately between 72.5% and 83.6% in Paliburg after all the Paliburg Convertible Preference Shares are converted by it or through the Paliburg Shares SPC. We, however, wish to highlight that the implementation of the Share Swap is subject to Century City being able to exercise the Rights to Call under the Share Swap which is subject to it fulfilling certain conditions and also subject to the non-occurrence of the events which may cause the Paliburg Shares SPC subject to repurchase as

LETTER FROM ALTUS CAPITAL

described on page 58. Given that the conditions imposed are to ensure the financial soundness and stability of Century City before the Rights to Call being exercised, we are of the view that such terms are fair and reasonable and do not prejudice against the interest of the Independent Shareholders.

Assuming a total of 15,000 million Exchangeable Preference Shares are acquired by Century City pursuant to the Rights to Call and/or the Rights to Put, Century City will issue 15,000 million new Century City Ordinary Shares (representing approximately 393.0% of the issued share capital of Century City as at Latest Practicable Date and approximately 79.7% of the issued share capital of Century City as enlarged by the issue of the new Century City Ordinary Shares).

Based on the above, after implementation of the Share Swap and the conversion of the Paliburg Convertible Preference Shares, the respective percentages of the issued Century City Ordinary Shares and Paliburg Ordinary Shares held by public may fall below the minimum percentage of 25% as required by Rule 8.08 of the Listing Rules. Each of Century City and Paliburg has respectively undertaken to the Stock Exchange that it will not cause its public float to fall below the aforesaid minimum public float requirement as a result of the exercise of the Rights to Call and/or the conversion of the Paliburg Convertible Preference Shares. Mr. Lo has also undertaken to the Stock Exchange that he will not cause the public float of Century City and Paliburg to fall below the aforesaid minimum public float requirement as a result of the exercise of the Rights to Put and/or the conversion of the Paliburg Convertible Preference Shares owned by him and his associates.

The table below sets out the effects of the Share Swap on the shareholding structure of Century City under two scenarios:

	Existing		Scenario 1		Scenario 2	
	Number of Century City Ordinary Shares (million)	%	Number of Century City Ordinary Shares (million)	%	Number of Century City Ordinary Shares (million)	%
Mr. Lo and his associates (including the First Vendor)	1,941.8	50.9	12,941.8	73.5	12,941.8	68.8
Second Vendor	—	—	2,000	11.4	2,000	10.6
Third Vendor	—	—	800	4.5	800	4.2
Certain New VPI Investors	—	—	—	—	1,200	6.4
Other Directors, directors of Paliburg and Regal	17.1	0.4	17.1	0.1	17.1	0.1
Other shareholders	<u>1,857.9</u>	<u>48.7</u>	<u>1,857.9</u>	<u>10.5</u>	<u>1,857.9</u>	<u>9.9</u>
	<u>3,816.8</u>	<u>100.0</u>	<u>17,616.8</u>	<u>100.0</u>	<u>18,816.8</u>	<u>100.0</u>

LETTER FROM ALTUS CAPITAL

Scenario 1: Assuming (i) a minimum of 3,450 million Paliburg Convertible Preference Shares are issued by Paliburg; and (ii) 13,800 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

Scenario 2: Assuming (i) at least 3,750 million to a maximum of 4,750 million Paliburg Convertible Preference Shares are issued by Paliburg; and (ii) 15,000 million Exchangeable Preference Shares are issued by the Paliburg Shares SPC and all of them are acquired by Century City pursuant to the Rights to Put and/or Rights to Call.

As at the Latest Practicable Date, Mr. Lo beneficially owns Century City Ordinary Shares representing approximately 50.9% of the issued share capital of Century City. The other Directors, directors of Paliburg and directors of Regal own approximately 0.4% of the issued share capital of Century City and the other shareholders of Century City own the remaining balance of approximately 48.7% of the issued share capital of Century City. Under Scenario 1 and Scenario 2, the shareholding of Mr. Lo and his associates (including the First Vendor) in Century City will increase from an aggregate of 50.9% to 73.5% and 68.8% respectively. Excluding the Second Vendor, Third Vendor, certain New VPI Investors and the other directors of Century City, Paliburg and Regal, the shareholding of other shareholders of Century City will be diluted significantly from 48.7% to 10.5% and 9.9% respectively.

Notwithstanding the significant dilution of the shareholding of Independent Shareholders, the Share Swap provides a mechanism for Century City to maintain a majority interest in Paliburg. This can facilitate the negotiation and implementation of the debt restructuring of the Century City Group and will also enable the Independent Shareholders to benefit from the consolidation of Century City's shareholding interest in the financially improved Paliburg upon completion of the Paliburg Acquisition as well as the potential upside of the Paliburg Acquisition such as the potential growth of the business of Leading Technology Group and the prospects of the LTH Listing. In addition, assuming the completion of the Stanley Transfer, the Settlement Proposal, the implementation of the Paliburg Acquisition and the Share Swap and the subsequent conversion in full of the Paliburg Convertible Preference Shares into Paliburg Ordinary Shares, the financial position of CCIHL Group would improve from net deficit to net asset position as described under the sub-heading "Net asset value" on pages 63 and 64. Consequently, we are of the view that the dilution of shareholding interest of the Independent Shareholders, although material, is acceptable given the lack of viable alternative proposals immediately available to Century City based on our discussions with the Directors.

6. Consideration for the Stanley Transfer

Consideration of the 40% interest of Paliburg in the Stanley Project

The consideration of HK\$470 million for the Stanley Transfer was determined between Paliburg and Regal after arm's length negotiation with reference to 40% of the valuation as at 31 May, 2002 of the Stanley Project by an independent property valuer, FPDSavills, of approximately HK\$2,112.8 million, the external liabilities (including outstanding interest in arrears and estimated construction and financing costs of the Stanley Project to be incurred) attributable to the 40% interest in the Stanley Project of approximately HK\$1,590.7 million and a discount of approximately 10.0%.

LETTER FROM ALTUS CAPITAL

Paliburg is required to continue to provide, after completion of the Stanley Transfer, the Continuing Several Guarantee for 40% of the bank borrowings of Chest Gain for the Stanley Project which amounted to approximately HK\$1,004 million as at 31 December, 2001. In addition, no counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee. However, Paliburg's obligation under such guarantee will be limited to the security provided by Paliburg which currently comprises approximately 1,384.2 million Regal Ordinary Shares (of which the bank creditors of the Stanley Project are the major beneficiaries). Such Regal Ordinary Shares were worth approximately HK\$116.3 million based on the closing price per Regal Ordinary Share of HK\$0.084 as at the Latest Practicable Date.

We note that under normal circumstances, guarantee provided by a vendor will usually be released by the bank following the completion of a sale transaction. However, in view of the relationship between Paliburg and Regal and the contemplated banking arrangements following completion of the Stanley Transfer, Paliburg is required to continue to provide the Continuing Several Guarantee for 40% of the bank borrowings of Chest Gain in order to secure the consent from the bank creditors of the Stanley Project for the Stanley Transfer. However, we agree with the Directors who, having reviewed the selling prices of similar developed property projects within the vicinity of Stanley, compared the expected selling price of the Stanley Project with the aforesaid prices, and considered the independent property valuation of the Stanley Project as well as the economic outlook of Hong Kong, have come to the view that the risk to continue granting the Continuing Several Guarantee by Paliburg will be manageable as the amount of the risk exposure of the Paliburg Group is limited to the 1,384.2 million Regal Ordinary Shares. The Directors are also of the view that with the successful completion of the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition, the Paliburg Group and the Regal Group will be better positioned to restructure their respective outstanding indebtedness, which in turn will result in greater stability for the businesses of the CCIHL Group. Given the fact that the Continuing Several Guarantee is crucial in order to secure the consent of the bank creditors of the Stanley Project for the Stanley Transfer which in turn will facilitate the Settlement Proposal and taking into consideration the aforesaid limit to the risk exposure of the Paliburg Group, the Directors have accepted that the provision of the Continuing Several Guarantee to be necessary and is in the interests of Century City and its shareholders as a whole. Based on the aforesaid explanation, we concur with the view of the Directors that the provision of the Continuing Several Guarantee is in the interest of the CCIHL Group as a whole.

We wish to stress that the Stanley Transfer is part of the scheme to stabilise and enhance the financial position of CCIHL Group as a whole and to facilitate the respective on-going debt restructuring negotiations with creditors of the Regal Group, the Paliburg Group and the Century City Group. On the basis that one of the ultimate objectives of the Stanley Transfer is to facilitate the implementation of the Settlement Proposal, the Directors are of the view that the potential benefits arising from the successful implementation of the Stanley Transfer out-weigh the 10% discount to the net value of Paliburg's 40% interest in the Stanley Project under the consideration of the Stanley Transfer. Moreover, upon completion of the Stanley Transfer and the Settlement Proposal, it is estimated that accounting profits before minority interests of approximately HK\$2

LETTER FROM ALTUS CAPITAL

billion will be recorded by Century City. In view of the above, we are of the view that, in the absence of any immediate viable alternative based on our discussions with the Directors, the basis for determining the consideration for the Stanley Transfer is commercially acceptable, fair and reasonable and is in the interests of Century City and its shareholders as a whole.

Issue price of the Consideration Shares

Under the Stanley Transfer Agreement, the consideration for the Stanley Transfer of HK\$470.0 million is to be satisfied by the issue and allotment of approximately 1,958.3 million Regal Ordinary Shares, being the Consideration Shares, by Regal to PDBVI (or such other person(s) as PDBVI may direct). The issue price of the Consideration Shares of HK\$0.24 per Regal Ordinary Share was determined after arm's length negotiation between Regal and Paliburg with reference to the trading prices of the Regal Ordinary Shares and represents:

- a premium of approximately 185.7% over the closing price of HK\$0.084 per Regal Ordinary Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 186.7% over the average closing price of approximately HK\$0.0837 per Regal Ordinary Shares as quoted on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date;
- a premium of approximately 196.3% over the closing price of HK\$0.081 per Regal Ordinary Share as quoted on the Stock Exchange on 2 August, 2002, being the date on which the Stanley Transfer Agreement were entered into;
- a premium of approximately 174.3% over the average closing price of approximately HK\$0.0875 per Regal Ordinary Share as quoted on the Stock Exchange for the 10 trading days up to and including 2 August, 2002; and
- a discount of approximately 78.6% to the net tangible asset value per Regal Ordinary Share of approximately HK\$1.12 as at 31 December, 2001.

The share prices of Century City, Paliburg and Regal have been on a declining trend and under immense pressure since the first announcement of the liquidity problem by the Century City and the Paliburg in October 1998. In particular, the share price of Regal was HK\$0.084 as at the Latest Practicable Date, which represents a significant discount to the net asset value per Regal Ordinary Share as at 31 December, 2001 of HK\$1.126. In view of the particular situation faced by the CCIHL Group, we are of the view that the share prices of Century City, Paliburg and Regal do not truly reflect their respective fundamentals. Given the current overriding priority of implementing the Settlement Proposal and that the Stanley Transfer is part of the overall scheme to facilitate the implementation of the Settlement Proposal, which as noted above is beneficial to the CCIHL Group as a whole, we are, therefore of the view that the issue price of the Consideration Shares under the Stanley Transfer should not be construed as the only determining factor for the fairness and reasonableness of the Stanley Transfer and it is inappropriate to compare the issue price per Consideration Share under the Stanley Transfer with the prevailing market price of the Regal Ordinary Shares.

LETTER FROM ALTUS CAPITAL

Despite the issue price of HK\$0.24 per Consideration Share represents a substantial premium to the closing price per Regal Ordinary Share of HK\$0.084 as at the Latest Practicable Date, we wish to stress that the Stanley Transfer is part of the scheme to stabilise and enhance the financial position of the CCIHL Group as a whole and to facilitate the respective on-going debt restructuring negotiations with creditors of the Regal Group, the Paliburg Group and the Century City Group. Based on our discussions with the Directors, we concur with the view of the Directors that as there is no better alternatives immediately available to facilitate the debt restructuring exercise of the Paliburg Group and the Regal Group other than the current proposals, the potential benefit arising from the completion of the Stanley Transfer and the Settlement Proposal (as described in the preceding section) out-weigh the premium over the prevailing market price of Regal Ordinary Shares payable by Paliburg to Regal with respect to the Consideration Shares. Furthermore, the issue price of HK\$0.24 per Consideration Share represents a significant discount to the net asset value per Regal Ordinary Share as at 31 December, 2001 of HK\$1.126. Hence, notwithstanding the substantial premium of the issue price of the Consideration Shares to the closing price per Regal Ordinary Share as at the Latest Practicable Date, we are of the view that the consideration payable for the Stanley Transfer is fair and reasonable and is in the interest of Independent Shareholders when viewed as a whole.

7. Consideration for the Paliburg Acquisition

The total consideration for the Paliburg Acquisition will be ranging from HK\$345 million to HK\$475 million. Paliburg will issue between 3,450 million and 4,750 million Paliburg Convertible Preference Shares at an issue price of HK\$0.10 each to the Vendors (or any of their respective nominees) to satisfy the consideration. The Directors have confirmed that the purchase price of the Paliburg Acquisition has been determined after arm's length negotiations and has taken into account the Business Valuation which is set out in Appendix IV of the Circular.

The conversion price of HK\$0.10 per Paliburg Convertible Preference Share represents:

- (a) a premium of approximately 25.0% over the closing market price of HK\$0.08 per Paliburg Ordinary Share on the Stock Exchange on 2 August, 2002, being the date when the Paliburg Acquisition Agreement was entered into;
- (b) a premium of approximately 12.9% over the average closing market price of HK\$0.0886 per Paliburg Ordinary Share on the Stock Exchange for the 10 trading days up to and including 2 August, 2002; and
- (c) a premium of approximately 9.9% over the closing market price of HK\$0.091 per Paliburg Ordinary Share on the Stock Exchange on the Latest Practicable Date.

Based on the above, we note that the issue price of HK\$0.10 per Paliburg Convertible Preference Share represents a premium over the prevailing market price of each Paliburg Ordinary Shares.

LETTER FROM ALTUS CAPITAL

As previously discussed, we are of the view that the share price of Paliburg does not truly reflect its fundamentals, therefore we believe it is inappropriate to compare the share price of Paliburg with the conversion price of the Paliburg Convertible Preference Share. However, having considered the Rights to Call granted to Century City and the restrictions on the exchange rights attached to the Series A Exchangeable Preference Shares for Paliburg Convertible Preference Shares or Paliburg Ordinary Shares during the Exchange Period, thus allowing Century City a one-year period to restructure its debts, we are of the view that the terms of the Paliburg Convertible Preference Shares are fair and reasonable.

In addition, Paliburg is granted the LTH Option under which Paliburg would be entitled to any further potential upside in the business prospects of the Leading Technology Group. The exercise price of the LTH Option is based on at least 50% discount to its present Business Valuation or at a 50% discount to the aggregate underwritten price of the LTH Listing. We are therefore of the view that the LTH Option is beneficial to Century City and is fair and reasonable.

The Business Valuation and Leading Technology Group

Leading Technology Group is principally engaged in the relatively high growth security and building related system, software and product businesses with its major market targeted in the Greater China region. According to the Business Valuation, the fair value of 100% interest in the Leading Technology Group is HK\$667 million as at 31 May, 2002. As stated in the “Letter from the Board”, the consideration for the Paliburg Acquisition (before taking into consideration the VPI Placing) is based on:

- (i) VPI’s 50% investment in the Leading Technology Group at an aggregate value of HK\$275 million which represents approximately 17.5% discount to 50% of the Business Valuation of HK\$333.5 million; and
- (ii) the amount of cash held by the wholly owned subsidiaries of VPI, being approximately HK\$70 million as at the Latest Practicable Date.

The audited proforma consolidated net profits of the Leading Technology Group was approximately HK\$13.5 million for the period from its incorporation in January 2001 to 30 June, 2002. The audited consolidated net asset values of VPI and the Leading Technology Group as at 30 June, 2002 were approximately HK\$403.5 million and HK\$137.1 million.

In assessing the reasonableness of the consideration for the Paliburg Acquisition, we have discussed with Grant Sherman the bases and assumptions underlying the Business Valuation, including, inter alia, the methodology for appraising the economic benefits of the Leading Technology Group, and the financial projections and discount rate used for the valuation of the Leading Technology Group. However, due to limited operating history of the Leading

LETTER FROM ALTUS CAPITAL

Technology Group, the major assumptions underlying the Business Valuation, including the expected sales turnover, the cost structure, the estimated gross and operating profit margins, which form the basis of the projected cash flows, could not be easily assessed. However, having considered and discussed (i) the business plans of the Leading Technology Group with the Directors and Grant Sherman; and (ii) the business operations with management of the Leading Technology Group, we have no reason to doubt the basis and assumptions and the methodology applied in the Business Valuation.

Although no listing application has currently been made, it is the present intention that the LTH Listing will be sought by Leading Technology in the future if market circumstances are considered appropriate. We note that there is no certainty as to the occurrence or the timing of the LTH Listing. However, if the LTH Listing is successful, the value and/or quality of Paliburg's investment in VPI may be enhanced through, for instance, having a broader shareholder base and financial resources.

Taking into account the discount to the fair value based on the Business Valuation, the potential benefits of the Paliburg Acquisition such as the potential growth of the business of Leading Technology Group and the LTH Option, we are of the view that the terms of the Paliburg Acquisition is fair and reasonable so far as the Independent Shareholders are concerned. The prospects of the LTH Listing will augment the benefits of the Paliburg Acquisition.

8. Terms of the Share Swap Agreement

The Conversion ratio

Pursuant to the Rights to Put, Century City is required to issue one Century City Ordinary Share for every Exchangeable Preference Share acquired and every four Exchangeable Preference Shares so acquired by Century City may be exchanged at the option of Century City/the Paliburg Shares SPC for (a) one Paliburg Convertible Preference Share; or (b) one Paliburg Ordinary Share so converted pursuant to the Paliburg Convertible Preference Share. In other words, the Rights to Put under the Share Swap Agreement provides the Vendors the option of indirectly exchanging every Paliburg Convertible Preference Share originally owned by them into four Century City Ordinary Shares instead of into one Paliburg Ordinary Share (the "Conversion Ratio").

LETTER FROM ALTUS CAPITAL

The table below set out the monthly average closing share prices of Paliburg Ordinary Shares and Century City Ordinary Shares since January 2002:

2002	Average closing prices of Paliburg Ordinary Shares (HK\$)	Average closing prices of Century City Ordinary Shares (HK\$)	Implied Discount of Century City Ordinary Shares based on the Conversion Ratio %
January	0.1301	0.0430	24.3
February	0.1199	0.0392	23.5
March	0.1223	0.0375	18.5
April	0.1115	0.0321	13.2
May	0.1115	0.0443	37.1
June	0.1077	0.0411	34.5
July	0.0985	0.0364	32.3
August (up to the Latest Practicable Date)	0.0844	0.0279	24.4

If the Vendors exercise the Rights to Put, they will receive four Century City Ordinary Shares instead of one Paliburg Convertible Preference Share or one Paliburg Ordinary Share for every four Exchangeable Preference Shares. Based solely on the average closing share prices of Century City Ordinary Shares and Paliburg Ordinary Shares in the past seven months and in August 2002 set out in the table above, the value of four Century City Ordinary Shares would be higher than the value of one Paliburg Ordinary Share. In other words, the Share Swap Agreement, subject to other conditions, would allow the Vendors to swap its shareholdings in Paliburg for shareholdings in Century City at a discount, if based solely on their current market prices. The discounts based on the Conversion Ratio in the past seven months and in August 2002 are also set out in the table above.

Both Paliburg and Century City were loss making in their financial year ended 31 December, 2001. As at 31 December, 2001, the net asset value per Paliburg Ordinary Share was HK\$0.941 while Century City has a deficiency in net assets of approximately HK\$160.3 million. Based on the above and our previous discussion on the price trends, we wish to point out that the trading prices of the Paliburg Ordinary Shares and the Century City Ordinary Shares may not fully reflect the fundamentals of Paliburg and Century City.

Assuming the completion of the Stanley Transfer, the Settlement Proposal, the implementation of the Paliburg Acquisition, the Share Swap and the subsequent conversion in full of the Paliburg Convertible Preference Shares into Paliburg Ordinary Shares, the net asset value per Paliburg Ordinary Shares will range between HK\$0.428 and HK\$0.502 and the net asset value per Century City Ordinary Shares will range between HK\$0.042 and HK\$0.058 as referred to in the table on page 64. Thus, solely on net assets basis, the value per Paliburg Ordinary Share is approximately eight to 10 times of the value per Century City Ordinary Share and hence the Conversion Ratio would imply a premium to Century City Ordinary Shares. On this basis, we are of the view that the Conversion Ratio is fair and reasonable.

LETTER FROM ALTUS CAPITAL

Rights to Put

Pursuant to the Rights to Put, the holders of the Exchangeable Preference Shares (both Series A and Series B) can at any time during the Exchange Period require Century City to acquire its Exchangeable Preference Shares in return for Century City Ordinary Shares. The Rights to Put is therefore an obligation on the part of Century City which reduces its flexibility in terms of implementation of the Share Swap and when viewed on a stand alone basis, may not be favourable to Century City. We however wish to note that the Rights to Put provides a mechanism which facilitates the Exchangeable Preference Shares being acquired by Century City in the event that Century City is not yet able to exercise the Rights to Call and such acquisition may be in the interest of Century City.

Rights to Call

Pursuant to the Rights to Call, Century City may, during the Exchange Period, acquire the Series A Exchangeable Preference Shares from its holders by issuing new Century City Ordinary Shares for the Series A Exchangeable Preference Shares then acquired. The Rights to Call therefore provides an opportunity for Century City to increase its investment in Paliburg. Nevertheless, the Rights to Call is not exercisable by Century City unless (i) the Century City Group has successfully restructured its debts (in the reasonable opinion of the First Vendor) within the Exchange Period; (ii) Mr. Lo (a) maintains direct or indirect control of over 50% of the voting rights of Century City and (b) has the right to nominate more than 50% of the Directors to the Board; (iii) the Century City Ordinary Shares remain listed on the Stock Exchange; and (iv) the Century City Group is no longer in default of any material loan. Despite the above conditions, Century City may always exercise the Rights to Call with the consent of the First Vendor.

As such, in the event that the debt restructuring efforts of the Century City Group are not successful or that Mr. Lo loses his majority control of the voting rights or in the composition of the Board, the Vendors may likely not exercise their Rights to Put and Century City will not be able to exercise its Rights to Call, resulting in Century City not being able to increase its investment in Paliburg and to benefit from such investment.

In addition to the above, the First Vendor has the right to acquire the entire issued ordinary share capital of the Paliburg Shares SPC during the Exchange Period if certain actions are taken by creditors of any member of the Century City Group as discussed in the sub-heading “Repurchase right of the First Vendor” on page 58.

Notwithstanding the conditions attached, the Rights to Call provides Century City with flexibility in the implementation of the Share Swap which is in the interest of the Century City.

Restrictions on holders of Series A Exchangeable Preference Share

During Exchange Period, the First Vendor or such other holders of the Series A Exchangeable Preference Shares (other than Century City or its nominees) cannot exercise the

LETTER FROM ALTUS CAPITAL

exchange rights attached to the Series A Exchangeable Preference Shares, that is to exchange for Paliburg Convertible Preference Shares or Paliburg Ordinary Shares, held by it during the Exchange Period unless the events as stated under the sub-heading “Features of the Exchangeable Preference Shares” on page 57 have occurred.

The above restrictions will ensure that the First Vendor or the aforesaid other holders shall not exercise its exchange rights into Paliburg Convertible Preference Shares or Paliburg Ordinary Shares during the Exchange Period, unless there are, among others, material adverse changes in the financial, business and/or listing status of the Century City Group. This ensures that at least 2,750 million Paliburg Convertible Preference Shares/Paliburg Ordinary Shares will be retained in the Paliburg Share SPC, therefore allowing Century City a one-year period to restructure its debts to enable it to exercise the Rights to Call. The aforesaid restrictions are thus favourable and are in the interests of Century City.

Based on the above and taking into consideration the benefits of the Share Swap to Century City as a whole, we are of the view that the terms of the Share Swap Agreement are fair and reasonable and are in the interest of the Independent Shareholders when viewed as a whole.

9. Future plans of Century City Group

Century City is an investment holding company. Its subsidiaries are principally engaged in, among other things, property development and investment, property management, construction and construction related businesses, hotel ownership and management. The Century City Group also has other investments in communication and information technology related businesses.

We concur with the Directors’ view that the Paliburg Acquisition will enrich and strengthen the businesses of the Paliburg Group. In particular, the investment in the Leading Technology Group which is principally engaged in the relatively high growth security and building related system, software and product businesses, will enhance the technology development aspects of the Paliburg Group’s property related services businesses. We also concur with the Directors’ view that this will increase the competitive strength of the Paliburg Group’s existing property business, particularly in the fields of development consultancy (including architectural services), construction and management of properties.

Meanwhile, the Share Swap will enable the Century City Group to increase its interest in Paliburg thereby allowing it to have greater degree of benefit from the potential growth of Paliburg pursuant to its acquisition of VPI. As discussed, VPI has 50% shareholding, or upon exercise of the LTH Option, 100% interest in the Leading Technology Group. Although no listing application has currently been made, it was stated that the LTH Listing is intended to be sought by Leading Technology in future. If the LTH Listing is successful, the value and/or quality of Paliburg’s investment in VPI may be enhanced. We concur with the Directors’ view that the Share Swap allows Century City to capitalise on the potential upside of its investment in Paliburg, the financial and business prospects of which will be strengthened and enhanced through the Paliburg Acquisition.

LETTER FROM ALTUS CAPITAL

In addition to the above, it was stated on page 39 in the “Letter from the Board” that upon completion of the Paliburg Acquisition and the Share Swap, the Century City Group will, apart from the investment holding in the Paliburg Group and the Regal Group, seek to be further involved in the information technology and telecommunications businesses and to explore other suitable business opportunities. We concur with the Directors’ view that greater interest in Paliburg and thus the Leading Technology Group, may facilitate the aforesaid expansion plan as Century City may leverage on the expertise of the Leading Technology Group for such future business development plans.

RECOMMENDATION

Having considered the factors in this letter and taken into account the current financial position of Century City and its subsidiaries, we concur with the view of the Directors that the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the Share Swap will significantly alleviate the current financial difficulties faced by the CCIHL Group, broaden its capital base and strengthen its overall working capital position. The Paliburg Acquisition allows Paliburg to broaden its capital base as well as its business base in fields which are in the similar line with Paliburg’s current business. Meanwhile, the Share Swap allows Century City to maintain a majority interest in Paliburg, ensuring stability of its shareholding structure and long-term financial position which will facilitate Century City’s on-going debt restructuring discussion with its creditors.

Having considered the terms of the Stanley Transfer, the Settlement Proposal, the Continuing Several Guarantee, the Paliburg Acquisition, the Share Swap and taking into account their overall impact on the financial position of the CCIHL Group, the effects on the shareholdings of Independent Shareholders, the on-going debt restructuring of the Century City Group and the future plans of Century City Group, we are of the view that although the Conversion Ratio represents a discount in terms of the current market value of the Century City Ordinary Shares to the Paliburg Ordinary Shares, the overall benefits of the Share Swap outweighs such discount. In addition, we note that there is a premium on the Conversion Ratio when compared on the basis of the net asset value per Century City Ordinary Share to the net asset value per Paliburg Ordinary Share.

In summary, and in the absence of any alternative proposal immediately available to Century City based on our discussions with the Directors, we consider that the terms of the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap to be fair and reasonable to the Independent Shareholders as far as they are concerned and their implementations to be in the interests of Century City and its shareholders as a whole. Accordingly, we recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of all the relevant resolutions proposed at the SGM to consider the Stanley Transfer, the Continuing Several Guarantee, the Paliburg Acquisition and the Share Swap.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Arnold Ip **Michael Yip**
Director *Director*

1. CONSOLIDATED PROFIT AND LOSS ACCOUNT OF THE CCIHL GROUP

Set out below are summaries of the audited consolidated profit and loss accounts of the CCIHL Group for the three years ended 31st December, 2001, extracted from the audited financial statements of the CCIHL Group.

	Year ended 31st December,		
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>	1999 <i>HK\$'million</i> <i>(Restated)</i>
Turnover	<u>1,952.1</u>	<u>1,890.5</u>	<u>4,739.5</u>
Profit/(Loss) from operating activities	(1,268.3)	452.2	(647.0)
Finance costs	(872.2)	(959.1)	(1,267.7)
Share of profits less losses of:			
Jointly controlled entity	(90.9)	(142.3)	(138.4)
Associates	<u>(6.5)</u>	<u>2.3</u>	<u>21.5</u>
Loss before tax	(2,237.9)	(646.9)	(2,031.6)
Tax	<u>3.7</u>	<u>(18.9)</u>	<u>(54.7)</u>
Loss before minority interests	(2,234.2)	(665.8)	(2,086.3)
Minority interests	<u>583.5</u>	<u>387.7</u>	<u>824.7</u>
Net loss from ordinary activities attributable to shareholders	<u>(1,650.7)</u>	<u>(278.1)</u>	<u>(1,261.6)</u>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE CCIHL GROUP

The following information is extracted from the annual report of Century City for the year ended 31st December, 2001. Reference to page numbers are to page numbers of such annual report.

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

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 76 to 161 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of Directors and auditors

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Fundamental uncertainty — Provisions against investments in two investee companies

In forming our opinion, we have considered the adequacy of the disclosures made in note 20 to the financial statements concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies") during 2000, which is included in long term investments under non-current assets of Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, and its subsidiary companies (the "PHL Group"). The carrying value of the PHL Group's investments in the Investee Companies amounted to HK\$118.9 million (2000 - HK\$298.9 million) as at 31st December, 2001. As further explained in note 20 to the financial statements, the directors of PHL are currently unable to determine with reasonable certainty the outcome of the negotiations for the reversion of the land site to the Investee Companies. Accordingly, it is not possible to determine at this stage as to whether any further provision against the PHL Group's investments in the Investee Companies is necessary. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Fundamental uncertainty — Provision against a receivable

In forming our opinion, we have considered the adequacy of the disclosures made in note 27 to the financial statements concerning the outcome in respect of a receivable of approximately HK\$400.1 million as at 31st December, 2001 included in debtors, deposits and prepayments under current assets of Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of PHL, and its subsidiary companies (the "RHIHL Group"). The receivable comprised (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 in December 1999 (the "Disposal"); and (ii) interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable") which was due to be paid by the purchaser (the "Purchaser") on 17th December, 2001. As more fully explained in note 27 to the financial statements, the Purchaser alleges that the aggregate amount of certain indemnity claims, relating to litigation cases underlying the third party claims covered by indemnifications given by the RHIHL Group under the Disposal agreement, exceeds the deferred consideration, and has withheld payment to the RHIHL Group of the Consideration Receivable. The directors of RHIHL are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved and the timing of the receipt of the Consideration Receivable. Accordingly, the directors of RHIHL are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

Fundamental uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 3 to the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:

- i. the outcome of the proposed restructuring of the existing outstanding indebtedness of the Group to replace the Group's existing informal standstill arrangement;
- ii. the outcome of completion of the proposed settlement with the bondholders of two outstanding bonds of the PHL Group;
- iii. the outcome of finalisation of the proposed bilateral facilities arrangement with the financial creditors of the PHL Group to replace its existing informal standstill arrangement;
- iv. the outcome of the proposed restructuring of a syndicated loan of HK\$3,822.1 million (the "Syndicated Loan") and a construction loan of HK\$1,079.5 million (collectively, the "Regal Loans") as at 31st December, 2001, of the RHIHL Group;
- v. the successful recovery of the RHIHL Group's Consideration Receivable;
- vi. the outcome of the proposed fund-raising arrangement of the RHIHL Group through equity issues; and
- vii. the continued successful implementation of the assets disposal programmes of the PHL Group and the RHIHL Group.

For the reasons detailed in note 3 to the financial statements, notwithstanding the non-compliance of certain loan covenants specified under the relevant loan agreements of the Regal Loans, the RHIHL Group has classified the Regal Loans as current or non-current liabilities as at 31st December, 2001 in accordance with their original maturity dates, on the basis that (i) the agents of the Regal Loans have not served and the directors of RHIHL do not expect that they will serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable; and (ii) the lenders of the Syndicated Loan have not exercised and the directors of RHIHL do not expect that they will exercise their respective individual put options to require the RHIHL Group to prepay their respective participations in the remaining outstanding indebtedness by serving a notice to the RHIHL Group, during the forthcoming year. The Directors of the Company have also adopted such classification for the Group for the same reasons. Were such notices and put options to be served and fully exercised, liabilities of HK\$4,349.5 million classified as non-current as at 31st December, 2001 have to be reclassified as current and the liability position and the continuance of the RHIHL Group would be adversely affected.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of implementation of the measures noted above. The financial statements do not include any adjustments that would result from the failure of implementation of such measures. If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group's assets to their recoverable amounts, to provide for any further liabilities, in addition to those described in the preceding paragraph, which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

We consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that we have disclaimed our opinion.

Disclaimer of opinion

On account of the foregoing fundamental uncertainties relating to the appropriateness of the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2001 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young*Certified Public Accountants*

Hong Kong

19th April, 2002

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP****Consolidated Profit and Loss Account***For the year ended 31st December, 2001*

		2001	2000
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
TURNOVER	6	1,952.1	1,890.5
Cost of sales		<u>(1,623.4)</u>	<u>(1,430.2)</u>
Gross profit		328.7	460.3
Other revenue	6	152.7	105.1
Gain on disposal of an overseas associate		—	58.8
Administrative expenses		(152.2)	(160.1)
Other operating expenses	7	(230.2)	(111.5)
Provisions for write-downs and impairments, net	7	(1,367.3)	(256.9)
Write back of provisions for indemnity/guarantee given		—	370.3
Loss on disposal of overseas subsidiary companies		<u>—</u>	<u>(13.8)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	(1,268.3)	452.2
Finance costs	9	(872.2)	(959.1)
Share of profits less losses of:			
Jointly controlled entity		(90.9)	(142.3)
Associates		<u>(6.5)</u>	<u>2.3</u>
LOSS BEFORE TAX		(2,237.9)	(646.9)
Tax	12	<u>3.7</u>	<u>(18.9)</u>
LOSS BEFORE MINORITY INTERESTS		(2,234.2)	(665.8)
Minority interests		<u>583.5</u>	<u>387.7</u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	13	<u>(1,650.7)</u>	<u>(278.1)</u>
Loss per share (HK\$):	14		
Basic		<u>(0.50)</u>	<u>(0.08)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP****Consolidated Statement of Recognised Gains and Losses***For the year ended 31st December, 2001*

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>
Deficit on revaluation of investment properties	41	(60.9)	(123.2)
Deficit on revaluation of long term equity investments	41	(13.4)	(26.0)
Exchange differences on translation of the financial statements of foreign entities	42	(1.1)	(1.7)
Gain on deemed disposal of the Group's interest in a listed subsidiary company		<u>—</u>	<u>2.5</u>
Net losses not recognised in the profit and loss account		(75.4)	(148.4)
Net loss from ordinary activities attributable to shareholders:			
Current year/prior year (as previously reported)		(1,650.7)	(121.6)
Effect of retrospective change in accounting policy		<u>—</u>	<u>(156.5)</u>
		<u>(1,650.7)</u>	<u>(278.1)</u>
Total recognised gains and losses		(1,726.1)	(426.5)
Share of goodwill of an associate eliminated directly against reserves	40	<u>—</u>	<u>(10.0)</u>
		<u>(1,726.1)</u>	<u>(436.5)</u>
<p>In addition to the gains and losses detailed above, losses arose since 31st December, 2000 as a result of prior year adjustments arising from the change in accounting policy summarised in note 2 to the financial statements, as follows:</p>			
For the year ended 31st December, 2001, as reported above		(1,726.1)	
Recognised losses arising from prior year adjustments, relating to year ended 31st December, 2000		<u>(156.5)</u>	
Total recognised gains and losses arising since the last financial statements		<u>(1,882.6)</u>	

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP****Consolidated Balance Sheet***As at 31st December, 2001*

		2001	2000
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
NON-CURRENT ASSETS			
Fixed assets	15	11,497.8	13,729.7
Properties under development	16	50.1	58.1
Property held for future development	17	26.7	26.7
Interest in a jointly controlled entity	18	1,036.9	1,073.5
Interests in associates	19	260.9	249.0
Long term investments	20	161.3	452.0
Loans and other long term receivable	21	303.3	370.0
Intangible assets	22	2.5	7.0
Deferred expenditure		46.9	73.4
Other assets	23	0.3	2.5
Deposit for acquisition of interest in a hotel property		<u>5.6</u>	<u>2.5</u>
		<u>13,392.3</u>	<u>16,044.4</u>
CURRENT ASSETS			
Short term loans receivable	24	0.9	0.9
Short term investments	20	9.9	27.7
Properties under development	16	117.0	156.0
Properties held for sale	25	209.2	279.6
Hotel and other inventories	26	29.4	41.2
Debtors, deposits and prepayments	27, 29	651.2	724.9
Pledged time deposits		3.8	122.1
Time deposits		169.8	409.8
Cash and bank balances		<u>51.0</u>	<u>66.9</u>
		<u>1,242.2</u>	<u>1,829.1</u>
CURRENT LIABILITIES			
Creditors and accruals	28, 29	986.8	824.5
Tax payable		36.9	61.7
Interest bearing bank and other borrowings	30	2,197.8	1,882.1
Exchangeable bonds	31	1,004.9	1,090.3
Convertible bonds	32	1,620.8	1,638.0
Provision for premium on redemption of exchangeable bonds and convertible bonds	33	815.6	779.2
Deposits received		63.2	73.2
Provisions	34	<u>298.5</u>	<u>376.5</u>
		<u>7,024.5</u>	<u>6,725.5</u>
NET CURRENT LIABILITIES		<u>(5,782.3)</u>	<u>(4,896.4)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>7,610.0</u>	<u>11,148.0</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

		2001	2000
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,610.0	11,148.0
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings	30	(5,536.5)	(5,957.8)
Advances from minority shareholders of subsidiary companies	35	<u>(38.6)</u>	<u>(36.4)</u>
		(5,575.1)	(5,994.2)
Minority interests		<u>(2,195.2)</u>	<u>(3,598.6)</u>
		<u>(160.3)</u>	<u>1,555.2</u>
CAPITAL AND RESERVES			
Issued capital	36	332.7	332.7
Reserves	37	<u>(493.0)</u>	<u>1,222.5</u>
		<u>(160.3)</u>	<u>1,555.2</u>

Consolidated Cash Flow Statement*For the year ended 31st December, 2001*

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Net cash inflow from operating activities	47(a)	<u>333.2</u>	<u>254.0</u>
Returns on investments and servicing of finance			
Interest received		22.2	48.9
Dividends received from listed and unlisted investments		3.4	2.3
Interest paid		<u>(419.2)</u>	<u>(797.0)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(393.6)</u>	<u>(745.8)</u>
Taxation			
Hong Kong profits tax paid		(21.5)	(18.6)
Overseas taxes paid		<u>(0.5)</u>	<u>(10.5)</u>
Taxes paid		<u>(22.0)</u>	<u>(29.1)</u>
Investing activities			
Proceeds on disposal of other fixed assets		0.8	1.4
Proceeds on disposal of long term investments		77.6	3.5
Disposal of subsidiary companies	47(c)	3.4	76.6
Proceeds received from disposal of subsidiary companies/partnerships in prior year		—	183.2
Disposal of an associate		—	104.5
Net proceeds from disposal of ordinary shares in a listed subsidiary company		3.7	—
Decrease in loans receivable		13.3	14.6
Additions to hotel property under development		—	(52.1)
Purchases of fixed assets		(85.8)	(24.7)
Deposit for acquisition of interest in a hotel property		(3.1)	(2.5)
Investments in associates		—	(4.8)
Advance to associates		(13.1)	(26.3)
Advance to a jointly controlled entity		(58.9)	(149.2)
Decrease in other assets		0.4	—
Decrease in pledged time deposits		<u>122.1</u>	<u>41.7</u>
Net cash inflow from investing activities		<u>60.4</u>	<u>165.9</u>
Net cash outflow before financing		<u>(22.0)</u>	<u>(355.0)</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

		2001	2000
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Net cash outflow before financing		(22.0)	(355.0)
Financing			
Proceeds from issue of shares	47(b)	—	171.1
Share issue expenses	47(b)	—	(3.9)
Draw down of new loans	47(b)	67.5	1,447.1
Repayments of bank loans and other loans	47(b)	(297.2)	(1,448.3)
Payment of deferred expenditure		(1.5)	(35.8)
Net repayment to minority shareholders of subsidiary companies	47(b)	—	(0.8)
Net cash inflow/(outflow) from financing		<u>(231.2)</u>	<u>129.4</u>
Decrease in cash and cash equivalents		(253.2)	(225.6)
Cash and cash equivalents at beginning of year		473.0	698.3
Effect of foreign exchange rate changes, net		<u>(0.2)</u>	<u>0.3</u>
Cash and cash equivalents at end of year		<u><u>219.6</u></u>	<u><u>473.0</u></u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		51.0	66.9
Non-pledged time deposits with original maturity of less than three months when acquired		169.8	409.8
Time deposits with original maturity of less than three months when acquired, pledged as security for general banking facilities		<u>3.8</u>	—
		224.6	476.7
Bank overdrafts		<u>(5.0)</u>	<u>(3.7)</u>
		<u><u>219.6</u></u>	<u><u>473.0</u></u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP****Balance Sheet***As at 31st December, 2001*

		2001	2000
	<i>Notes</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
NON-CURRENT ASSETS			
Interests in subsidiary companies	43	201.9	1,882.6
CURRENT ASSETS			
Deposits and prepayments		1.1	0.7
Cash and bank balances		<u>1.0</u>	<u>1.0</u>
		<u>2.1</u>	<u>1.7</u>
CURRENT LIABILITIES			
Creditors and accruals		10.8	6.6
Interest bearing bank borrowings	30	55.0	55.0
Provisions	34	<u>298.5</u>	<u>267.5</u>
		<u>364.3</u>	<u>329.1</u>
NET CURRENT LIABILITIES		<u>(362.2)</u>	<u>(327.4)</u>
		<u>(160.3)</u>	<u>1,555.2</u>
CAPITAL AND RESERVES			
Issued capital	36	332.7	332.7
Reserves	37	<u>(493.0)</u>	<u>1,222.5</u>
		<u>(160.3)</u>	<u>1,555.2</u>

Notes to Financial Statements*31st December, 2001***1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in property development and investment, property management, construction and construction-related businesses, hotel ownership and management, securities brokering and other investments (including investment and trading in marketable securities).

During the year, the Group ceased its securities brokering businesses upon the disposal of the Group's two principal subsidiary companies engaged in the provision of securities brokering services.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"
- Interpretation 12 : "Business combinations - subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. This has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, and therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for operating leases, which are further detailed in note 51 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. This has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 5 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. This has had no major impact on these financial statements. Provisions are now disclosed as a separate line item on the face of the balance sheet and note 34 to the financial statements. "Provisions" has been revised to include the new required additional disclosures.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. This has had no major impact on these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 4 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has resulted in a prior year adjustment, further details of which are included in note 40 to the financial statements. The required new additional disclosures are included in note 40 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. BASIS OF PRESENTATION AND FUNDAMENTAL UNCERTAINTIES IN RESPECT OF GOING CONCERN

The Group sustained a net loss from ordinary activities attributable to shareholders of HK\$1,650.7 million for the year ended 31st December, 2001 (2000 - HK\$278.1 million, as restated). As at the balance sheet date, the Group had consolidated net current liabilities of HK\$5,782.3 million (2000 - HK\$4,896.4 million) and reported a deficiency in assets of HK\$160.3 million (2000 - net assets of HK\$1,555.2 million).

Since October 1998, the Group and Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, including its subsidiary companies (the "PHL Group"), have encountered liquidity problems. They both have conducted discussions with their respective financial creditors for the purpose of implementing standstill arrangements in order to permit the Group and the PHL Group to suspend the repayment of their respective outstanding indebtedness (the "Standstill Arrangements"). Informal Standstill Arrangements of the Group and the PHL Group have been in operation since the formal Standstill Arrangements last expired on 31st October, 2000 and 30th September, 1999, respectively.

Due to the changes in the market environment as well as in the financial position of the Group since late 2000, the planned investment by the Group in an information technology project in the People's Republic of China, previously approved by the shareholders of the Company in September 2000, has not been proceeded with. The Group will continue to keep under review its position with regard to its participation in this project.

While continuing discussions were maintained with the financial creditors of the Group since 2000, no consensual debt restructuring proposal has yet been agreed by the financial creditors. At the request of the financial creditors, the Group has recently appointed another independent financial adviser to assist in the formulation of a consensual proposal for the restructuring of the terms of the Group's outstanding indebtedness with its financial creditors (the "Debt Restructuring") in order to replace the existing informal Standstill Arrangement of the Group.

Since the completion of the refinancing programme in September 2000 which involved a mortgage-backed securitisation for the PHL Group's two principal properties, namely, Paliburg Plaza and Kowloon City Plaza (the "Securitisation Properties"), the PHL Group has been conducting discussions with its financial creditors to replace the existing informal Standstill Arrangement with new bilateral facilities (the "Bilateral Facilities Arrangement") which have been concluded with a majority of the financial creditors. The directors of PHL expect that the Bilateral Facilities Arrangement with the remaining financial creditors will be finalised in the near future.

At the balance sheet date, the PHL Group had US\$140 million 3½% Exchangeable Guaranteed Bonds which matured on 6th February, 2001 (the "Exchangeable Bonds") (note 31) and US\$210 million Zero Coupon Guaranteed Convertible Bonds due on 12th March, 2002 (the "Convertible Bonds") (note 32) (collectively, the "Paliburg Bonds"). The principal, interest and accrued redemption premium in respect of the Paliburg Bonds outstanding as at 31st December, 2001 amounted to HK\$3,646.4 million. As a result of the maturity default in repayment of the outstanding principal, interest and redemption premium of the Exchangeable Bonds on 6th February, 2001, the trustee of the Convertible Bonds served a notice to the PHL Group on 15th March, 2001 to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. In October 2000, the PHL Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Paliburg Bonds and continuous meetings and discussions have since been held with the holders of the Paliburg Bonds (the "Bondholders").

On 16th November, 2001, the Company, together with PHL, and Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of PHL, jointly announced that the principal terms of a settlement proposal for the Paliburg Bonds had been formulated following protracted negotiations with an informal committee acting for a number of the Bondholders (the "Bonds Settlement"). Such proposal involves the exchange and cancellation of the outstanding principal, interest and redemption premium of the Paliburg Bonds, in return for (i) a 100% equity interest in the Securitisation Properties with the securitised loan attached; (ii) the transfer of 1,432,798,472 existing shares of RHIHL held by PHL, representing 36.4% of the then issued share capital of RHIHL; and (iii) the issue of 463,669,490 new shares of PHL, representing approximately 16.7% of the enlarged issued share capital of PHL. The transfer and issue of the shares in RHIHL and PHL mentioned in (ii) and (iii), respectively, above would be subject to a lock-up arrangement. Certain major Bondholders have agreed in principle to support the proposal. The completion of the Bonds Settlement is subject to, among others, the approvals by the Bondholders and the shareholders of PHL.

The PHL Group continued to implement an orderly asset disposal programme. In June 2001, the PHL Group completed the disposal of a commercial property in Shau Kei Wan, Hong Kong, generating proceeds of HK\$100.0 million which were partly applied towards the repayment of certain loan principal and interest and partly retained as working capital. RHIHL and its subsidiary companies (the "RHIHL Group") has adopted similar measures (collectively, the "Disposal Programmes") as further described below. The PHL Group will continue to implement its Disposal Programme to dispose of certain other identified assets.

Between 1998 and 2000, the net asset value attributable to shareholders of RHIHL has declined significantly, which was largely attributable to the revaluation deficits arising in respect of the RHIHL Group's hotel properties and operating losses incurred by the RHIHL Group. 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. Due to the continued economic downturn, the RHIHL Group also recorded substantial revaluation deficits of HK\$1,515.1 million on its hotel properties for the year ended 31st December, 2001, thereby contributing to a further decline in the net asset value attributable to shareholders of RHIHL from HK\$6,486.8 million as at 31st December, 2000 to HK\$4,563.5 million as at

31st December, 2001. Again, in 2001, certain other financial ratios specified under the loan covenants have not been complied with by the RHIHL Group. The total outstanding loans affected in this respect amounted to HK\$4,901.6 million as at 31st December, 2001, comprising a syndicated loan of HK\$3,822.1 million (the “Syndicated Loan”) and a construction loan of HK\$1,079.5 million (the “Construction Loan”) (collectively, the “Regal Loans”) (note 30).

In addition to the foregoing, certain interest and/or principal instalments of the Construction Loan, and a term loan borrowed by a subsidiary company of RHIHL in Canada, with outstanding principal as at 31st December, 2001 of CAD\$35.5 million (approximately HK\$174.2 million) (the “Canada Loan”), remained unpaid during the year and to date.

Pursuant to the terms of the respective loan agreements, the failure either to maintain the financial ratios specified thereunder, where applicable, or a default in interest and/or principal repayments constitutes an event of default. In respect of the Regal Loans, as confirmed in a legal opinion obtained from RHIHL’s legal advisers, the agents who act on behalf of the relevant lenders thereof (the “Agents”) may, upon receiving notice as to the non-compliance with the loan covenants, require remedy of such breach and, after lapse of a specified period of time for the remedy of the cause of such non-compliance, upon the instruction of the specified majority of the relevant lenders, may serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable. The Agents have been informed of the RHIHL Group’s non-compliance with the loan covenants. Unless and until the notice is served by the Agents to declare the Regal Loans immediately due and repayable, the Regal Loans remain repayable in accordance with their original stated maturity dates.

With respect to the Canada Loan, which is secured by a pledge of RHIHL’s hotel property in Canada, upon the occurrence of an event of default, the lender may exercise its discretion to declare the loan immediately due and repayable. To date, no such discretion has been exercised by the lender. However, the RHIHL Group has appointed an agent to sell the hotel property in Canada with a view to fully repay the Canada Loan.

The Syndicated Loan agreement contains cross default provisions to the effect that if, inter alia, any indebtedness in respect of borrowed money of any principal subsidiary companies within the RHIHL Group (i) is not paid when due or within any applicable grace period; or (ii) becomes due and payable prematurely by reason of an event of default, the Syndicated Loan will become immediately due and repayable once a notice is served by the agent of the lenders of the Syndicated Loan (the “Syndicated Loan Lenders”). To date, neither the notice has been served by the agent who acts on behalf of the lenders of the Construction Loan (the “Construction Loan Lenders”), nor has the discretion been exercised by the lender of the Canada Loan, to declare an event of default. Accordingly, there is currently no cross default in respect of the Syndicated Loan.

Pursuant to the terms of the loan agreement in respect of the Syndicated Loan, put options (the “Put Options”) were granted to the respective Syndicated Loan Lenders who may require the RHIHL Group to prepay their respective participations in the remaining outstanding indebtedness on the option exercise date on 8th September, 2002, by serving a notice to the RHIHL Group at least 3 months before the option exercise date. To date, as confirmed by the agent of the Syndicated Loan, no notice to exercise the Put Options has been served by the Syndicated Loan Lenders to the RHIHL Group.

On the basis that (i) the Agents of the Regal Loans have not served and the directors of RHIHL do not expect that they will serve notice to the RHIHL Group to declare the Regal Loans immediately due and repayable; and (ii) the Syndicated Loan Lenders have not exercised and the directors of RHIHL do not expect that they will exercise their respective Put Options, during the forthcoming year, and having regard to the past and anticipated support the RHIHL Group has and hopes to continue to receive with respect to the Regal Loans, the directors of RHIHL consider it appropriate to continue to classify the Regal Loans as current and non-current liabilities as at 31st December, 2001 in accordance with their original maturity terms under the loan agreements. The Directors of the Company have also adopted such classification for the Group for the same reasons.

The RHIHL Group continues to hold discussions with the lenders of the Regal Loans with a view to securing their ongoing support. In April 2002, RHIHL appointed a financial adviser to assist in the discussions on a proposed restructuring of the Regal Loans, which would include a rescheduling of the principal repayments of the Regal Loans (the “Regal Loans Restructuring”) in order to allow time and provide financial stability to the RHIHL Group to (i) improve the performance and hence the value of its core hotel assets; (ii) realise other non-hotel related receivables, including the US\$45.0 million deferred consideration plus interest in relation to RHIHL’s disposal of its hotel interests in the United States of America in 1999 (the “Consideration Receivable”) (see note 27 for further details); and (iii) implement an asset disposal programme and complete the Financing Arrangements as further detailed below. The directors of RHIHL are hopeful that, with the continued support of the lenders of the Regal Loans, the RHIHL Group’s overall financial position will gradually stabilise.

With a view to improving its cash flow and profitability, the RHIHL Group is actively working on the disposal of certain of its hotel and other non-core assets under its Disposal Programme so that additional resources may be directed to its core hotel operations. Furthermore, the RHIHL Group is also considering other financing arrangements, including the raising of additional working capital through equity issues (“Financing Arrangements”).

On the bases that the Debt Restructuring, the Bonds Settlement, the Bilateral Facilities Arrangement, the Regal Loans Restructuring, the recovery of the Consideration Receivable and the Financing Arrangements will be successful, and the Disposal Programmes will continue to be successfully implemented, the Directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the Directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

If the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the Group’s assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of preparation**

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

(b) **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary companies for the year ended 31st December, 2001, together with the Group’s share of the results for the year and the post-acquisition undistributed reserves of its associates and jointly controlled entity. The results of subsidiary companies, associates and jointly controlled entity acquired or disposed of during the year are included from or to their effective dates of acquisition or disposal, as applicable. All significant intra-group transactions and balances are eliminated on consolidation.

(c) **Goodwill/Negative goodwill**

Goodwill arising on the acquisition of subsidiary companies 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 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 prior years, goodwill/negative goodwill arising on acquisitions was eliminated against consolidated reserves/credited to the capital reserve in the year of acquisition. The Group has adopted the transitional provision of SSAP 30 that permits goodwill/negative goodwill on acquisitions which occurred prior to 1st January, 2001, to remain eliminated against consolidated reserves/credited to the capital reserve. Goodwill/Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiary companies, 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 previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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

(d) Subsidiary companies

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

The Company's interests in subsidiary companies are stated in the Company's balance sheet at cost less any impairment losses.

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

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

(e) Joint venture companies

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

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

A joint venture company is treated as:

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

(f) **Jointly controlled entity**

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

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

(g) **Associates**

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

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

(h) **Impairment of assets**

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

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

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

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

(i) **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

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

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

(j) **Hotel properties**

Hotel properties are interests in land and buildings and their integral fixed plants which are collectively used in the operation of hotels and are stated at their open market values for existing use on the basis of annual 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.

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 (t) below.

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

(k) Properties under development

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

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

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

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

(l) Properties held for future development

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

(m) Capitalised borrowing costs

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

(n) Deferred expenditure

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

(o) Properties held for sale

Properties held for sale, consisting of completed properties and properties under development intended 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.

(p) **Intangible assets**

Intangible assets, representing the eligibility rights to trade on or through The Stock Exchange of Hong Kong Limited (“SEHK Trading Right”) and the Hong Kong Futures Exchange Limited (“HKFE Trading Right”), are stated at cost less accumulated amortisation. Cost was determined by the Directors according to the methodology detailed in note 22 to the financial statements.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over a period of 10 years and is charged to the profit and loss account.

(q) **Other assets**

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

(r) **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 recent 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. Where the circumstances and events which led to an impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist in the foreseeable future, the amount of the impairment previously charged and any appreciation in fair value is credited to the profit and loss account to the extent of the amount previously charged.

(s) **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.

(t) **Fixed assets and depreciation**

Fixed assets, other than investment and hotel properties and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly

demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of that asset. As stated in (i) above, where an asset is reclassified from investment properties to leasehold properties, the cost of such an asset on transfer is deemed to be the carrying amount of the asset as at the date of the reclassification.

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

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

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

(u) **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.

(v) **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.

(w) **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.

(x) **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.

(y) **Revenue recognition**

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

- (i) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (ii) income on sale of completed properties and outright sale of an entire development prior to completion, on the exchange of legally binding unconditional sales contracts;
- (iii) income on pre-sale of properties under development, when the construction work has progressed to a stage where the ultimate realisation of profit can be reasonably determined and on the basis set out in (k) above;
- (iv) fee income on short term construction contracts, on completion of the construction work;
- (v) fee income on long term construction contracts, on the percentage of completion basis as further explained in (w) 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;
- (ix) proceeds from sale of short term and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and
- (x) commission and brokerage income on dealings in securities, futures and other derivatives, on the transaction dates when the relevant contract notes are exchanged.

(z) Foreign currencies

The financial records of the Company and its subsidiary companies operating in Hong Kong are maintained and the financial statements are stated in Hong Kong dollars.

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Foreign currency transactions during the year are recorded at the rates existing on the respective transaction dates. Profits and losses on exchange 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 at the applicable rates of exchange ruling at the balance sheet date. All translation differences arising on consolidation are dealt with in the exchange equalisation reserve.

(aa) Deferred tax

Provision is made for deferred tax, using the liability method, on all material timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

(ab) 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.

(ac) Off-balance sheet financial instruments

The Group transacts in total return share swaps and put/call option transactions as part of its investment and/or financing activities which are accounted for as follows:

- (i) the net settlements arising from swaps undertaken are recognised on an accrual basis and are dealt with in the profit and loss account; and
- (ii) the net premium paid/received from the writing of options is dealt with in the profit and loss account, and provision is made for any shortfall in the market prices of the underlying securities in respect of which the options are written below the contracted strike prices under the option agreements.

(ad) 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. The MPF Scheme has operated since 1st December, 2000. 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 became vested with the employee partly or fully, in accordance with the rules of the MPF Scheme.

Prior to the MPF Scheme being effective, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible to participate in the scheme. This scheme operated in a similar way to the MPF Scheme, except that when an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group were reduced by the relevant amount of forfeited contributions.

The employees of the Group's subsidiary companies which operate in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiary companies are required to contribute 27% of its payroll costs to the central pension scheme.

(ae) **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.

(af) **Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

(ag) **Provisions**

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

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

5. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. 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 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 property management segment is engaged in the provision of property management services;
- (c) the construction and construction-related segment is engaged in construction works contracts and construction-related businesses, including the provision of development consultancy and project management services and cement production;
- (d) the hotel ownership and management segment is engaged in hotel operation and the provision of hotel management services;
- (e) the brewery operations segment represents the Group's brewery operations in the PRC; and
- (f) the other segment mainly comprises the Group's securities trading, securities brokerage, financing, travel services, restaurant operations, florist and wedding services.

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

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

(a) Business segments

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

GROUP

	Property development and investment		Property management		Construction and construction-related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	302.4	241.4	22.5	21.5	558.0	433.4	1,001.5	1,075.7	19.9	29.0	47.8	89.5	—	—	1,952.1	1,890.5
Intersegment sales	66.9	67.7	1.6	2.2	22.6	35.9	0.9	1.1	—	—	16.0	11.2	(108.0)	(118.1)	—	—
Total	369.3	309.1	24.1	23.7	580.6	469.3	1,002.4	1,076.8	19.9	29.0	63.8	100.7	(108.0)	(118.1)	1,952.1	1,890.5
Segment results	(364.9)	59.6	17.5	17.8	3.1	15.0	(577.1)	263.5	(69.0)	(80.2)	(36.2)	(91.9)	(46.9)	(43.3)	(1,073.5)	140.5
Interest income and unallocated non-operating and corporate gains																125.0
Unallocated non-operating and corporate expenses																(319.8)
Profit/(Loss) from operating activities																(1,268.3)
Finance costs																(872.2)
Share of profits less losses of:																
Jointly controlled entity	(90.9)	(142.3)	—	—	—	—	—	—	—	—	—	—	—	—	(90.9)	(142.3)
Associates	—	—	—	—	—	—	—	3.9	—	—	(6.5)	(1.6)	—	—	(6.5)	2.3
Loss before tax																(2,237.9)
Tax																3.7
Loss before minority interests																(2,234.2)
Minority interests																583.5
Net loss from ordinary activities attributable to shareholders																(1,650.7)

(a) Business segments (Continued)

GROUP

	Property development and investment		Construction and construction-related businesses				Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	4,538.8	1.2	0.9	134.3	164.4	8,577.6	10,163.6	53.6	117.4	86.7	148.1	(62.9)	(156.2)	12,350.8	14,977.0
Interests in associates	215.8	209.8	—	—	—	—	—	—	—	—	45.1	39.2	—	—	260.9	249.0
Interest in a jointly controlled entity	1,036.9	1,073.5	—	—	—	—	—	—	—	—	—	—	—	—	1,036.9	1,073.5
Cash and unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	985.9	1,574.0
Total assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14,634.5	17,873.5
Segment liabilities	(102.3)	(130.2)	(0.5)	(0.5)	(244.8)	(325.1)	(157.2)	(241.9)	(19.3)	(21.5)	(12.9)	(31.4)	62.9	156.2	(474.1)	(594.4)
Bank and other borrowings and unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,125.5)	(12,125.3)
Total liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,599.6)	(12,719.7)
Other segment information:																
Depreciation	12.7	14.0	—	—	0.5	0.5	37.5	33.8	5.3	5.3	3.9	4.8	—	—	—	—
Impairment losses recognised in the profit and loss account	180.0	—	—	—	—	—	—	—	50.8	71.7	—	102.8*	—	—	—	—
Capital expenditure	2.0	55.4	—	—	0.5	0.2	33.1	98.8	0.5	1.7	1.0	—	—	—	—	—
Other non-cash expenses	353.7	108.8	—	—	—	—	714.4	3.1	—	—	4.9	—	—	—	—	—

* The impairment loss related to goodwill arising from acquisition of the securities brokerage business in prior year, the business was disposed of in 2001.

(b) Geographical segments

The following table presents revenue, profit/(loss) and certain asset and expenditure information for the Group's geographical segments.

Group	Hong Kong		Canada		PRC		USA		Eliminations		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	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	1,834.7	1,733.1	95.6	127.3	21.8	30.1	—	—	—	—	1,952.1	1,890.5
Segment results	(762.0)	228.3	(2.5)	12.9	(268.2)	(99.1)	(40.8)	(1.6)	—	—	(1,073.5)	140.5
Other segment information:												
Segment assets	11,764.2	14,042.7	205.2	239.5	264.4	538.8	117.0	156.0	—	—	12,350.8	14,977.0
Capital expenditure	34.0	96.0	2.1	3.7	1.0	56.4	—	—	—	—	—	—

6. TURNOVER AND REVENUE

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

Revenue from the following activities has been included in turnover:

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>
Rental income:		
Investment properties	178.4	195.2
Properties held for sale	6.7	—
Hotel properties	34.5	27.9
Construction and construction-related income	558.0	433.4
Proceeds from the sale of properties	113.9	46.1
Estate management fees	22.5	21.5
Property development consultancy and project management fees	3.4	0.1
Hotel operations and management services*	967.0	1,047.8
Other operations, including travel services, florist, restaurant operations, wedding services and brewery operations	48.3	58.3
Proceeds from the sale of short term investments	13.6	45.0
Commission and brokerage income on dealings in securities, futures and other derivatives	5.8	15.2
Turnover	<u>1,952.1</u>	<u>1,890.5</u>

* In previous years, service charges in respect of the Group's room sales and food and beverage sales were credited directly to staff costs included in the cost of sales. During the current year, the Group considered it more appropriate to include the service charges in the Group's turnover, to be in line with general accounting practice in hotel industry. The comparative amounts of turnover and cost of sales have been restated to conform to the current year presentation.

APPENDIX I

**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Other revenue include the following items:		
Profit on disposal of ordinary shares in a listed subsidiary company arising from exchange of Exchangeable Bonds	64.7	—
Gain on repurchase and cancellation of Convertible Bonds	<u>13.4</u>	<u>—</u>

7. OTHER OPERATING EXPENSES/PROVISIONS FOR WRITE-DOWNS AND IMPAIRMENTS, NET

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Other operating expenses include the following items:		
Provisions for guarantees and indemnity given	2.7	18.1
Loss on disposal of ordinary shares in a listed subsidiary company	8.5	—
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$140.4 million)	142.6	—
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	<u>—</u>	<u>24.2</u>

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> (Restated)
Provisions for write-downs and impairments, net, represent the following items:		
Provisions against other loans, promissory notes and interest receivable	(75.6)	(13.1)
Write-down in values of properties	(61.9)	(106.0)
Impairment of long term investments	(180.0)	—
Impairment of fixed assets	(50.8)	—
Write back of deficit/(Deficit) on revaluation of hotel properties	(710.4)	65.8
Deficit on revaluation of investment properties	(288.6)	—
Write back of provision for loss on deposit paid	—	10.0
Write back of provision against advances and interest receivable	—	9.6
Impairment of goodwill previously eliminated against capital reserve (note 40)	<u>—</u>	<u>(223.2)</u>
	<u>(1,367.3)</u>	<u>(256.9)</u>

The above amounts in the prior year were classified as other operating expenses, net. To accord with the presentation in the current year which, in the opinion of the Directors, better reflects the nature of the transactions, they have been reclassified to provisions for write-downs and impairments, net.

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Cost of completed properties sold	112.9	40.7
Cost of inventories sold and other services provided*	633.0	675.2
Staff costs (exclusive of directors' remuneration disclosed in note 10):		
Wages and salaries**	538.2	534.1
Staff retirement scheme contributions	25.3	20.9
Less: Unvested contributions forfeited	<u>(4.3)</u>	<u>(8.0)</u>
Net retirement scheme contributions	<u>21.0</u>	<u>12.9</u>
	559.2	547.0
Less: Staff costs capitalised in respect of property development projects and construction contracts:		
Wages and salaries	(45.9)	(50.1)
Staff retirement scheme contributions	<u>(2.1)</u>	<u>(0.6)</u>
	<u>511.2</u>	<u>496.3</u>
Auditors' remuneration	5.2	5.7

* Refer to note 6 to the financial statements.

Inclusive of an amount of HK\$410.9 million (2000 - HK\$408.1 million, as restated) classified under cost of inventories sold and services provided.

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> (Restated)
Depreciation	62.7	61.9
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(1.5)</u>	<u>(1.7)</u>
	<u>61.2</u>	<u>60.2</u>
Loss on disposal of fixed assets	3.3	3.3
Unrealised loss on revaluation of short term investments	5.7	5.7
Minimum lease payments under operating leases:		
Land and buildings	—	0.8
Other equipment	1.0	1.1
Amortisation of trading rights	0.6	0.5
and after crediting:		
Gross rental income	219.6	223.1
Less: Outgoings	<u>(62.6)</u>	<u>(57.5)</u>
Net rental income	<u>157.0</u>	<u>165.6</u>
Interest income from:		
Associates	9.9	11.8
Bank balances	13.7	36.9
Other loans and receivables	<u>32.9</u>	<u>35.4</u>
	<u>56.5</u>	<u>84.1</u>
Unrealised gain on revaluation of short term investments	—	15.0
Gain on disposal of listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.9 million)	—	26.5
Dividend income from:		
Listed investments	2.1	1.0
Unlisted investment	<u>1.3</u>	<u>1.3</u>

9. FINANCE COSTS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Interest in respect of:		
Bank loans and overdrafts	402.0	562.8
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<u>384.1</u>	<u>177.9</u>
	786.1	740.7
Premium provided on exchangeable bonds and convertible bonds	<u>60.6</u>	<u>213.1</u>
	846.7	953.8
Interest capitalised in respect of property development projects and construction contracts	<u>(2.5)</u>	<u>(34.8)</u>
	844.2	919.0
Amortisation of deferred expenditure	16.5	23.4
Write-off of deferred expenditure	10.0	15.9
Other loan costs	<u>1.5</u>	<u>0.8</u>
Total finance costs	<u><u>872.2</u></u>	<u><u>959.1</u></u>

10. DIRECTORS' REMUNERATION

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

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Fees	1.6	1.6
Salaries and other allowances	8.6	8.3
Performance related/discretionary bonuses	—	0.7
Staff retirement scheme contributions	<u>0.6</u>	<u>—</u>
	<u><u>10.8</u></u>	<u><u>10.6</u></u>

The remuneration of the Directors fell within the following bands:

HK\$	2001	2000
	Number of Directors	Number of Directors
Nil - 1,000,000	4	4
2,000,001 - 2,500,000	1	—
2,500,001 - 3,000,000	—	1
6,000,001 - 6,500,000	—	1
6,500,001 - 7,000,000	1	—
	<u>1</u>	<u>—</u>

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

The independent Non-Executive Directors of the Company were entitled to a total sum of HK\$0.4 million (2000 - HK\$0.4 million) as Directors' fees, including the Director's fee from PHL to an independent Non-Executive Director who is also an independent Non-Executive Director of PHL and the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2001.

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

During the year, no share options were granted to the Directors in respect of their services to the Group. Further details of the share option schemes of the listed subsidiary companies of the Group are set out under the respective headings "Directors' Interests in and Movements in Share Options granted by Paliburg Holdings Limited" and "Directors' Interests in and Movements in Share Options granted by Regal Hotels International Holdings Limited" in the Report of the Directors.

11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included two (2000 - two) Directors, details of whose remuneration are disclosed in note 10 to the financial statements. The emoluments of the other three (2000 - three) individuals, who were not Directors, are as follows:

	GROUP	
	2001	2000
	HK\$'million	HK\$'million
Salaries and other emoluments	4.5	4.5
Staff retirement scheme contributions	<u>0.3</u>	<u>0.2</u>
	<u>4.8</u>	<u>4.7</u>

The emoluments of the three (2000 - three) individuals fell within the following bands:

HK\$	2001 Number of individuals	2000 Number of individuals
1,000,001 - 1,500,000	2	2
1,500,001 - 2,000,000	<u>1</u>	<u>1</u>

The emoluments included the emoluments received by those individuals from PHL and RHIHL in connection with the management of the affairs of these subsidiary companies during the year.

During the year, no share options were granted to the three non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the listed subsidiary companies of the Group are included in the disclosures set out under the respective headings “Directors’ Interests in and Movements in Share Options granted by Paliburg Holdings Limited” and “Directors’ Interests in and Movements in Share Options granted by Regal Hotels International Holdings Limited” in the Report of the Directors.

12. TAX

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
The Company and subsidiary companies:		
Provision for tax in respect of profits for the year:		
Hong Kong	2.3	5.4
Overseas	<u>0.3</u>	<u>2.8</u>
	<u>2.6</u>	<u>8.2</u>
Prior year overprovisions:		
Hong Kong	(5.0)	(0.8)
Overseas	<u>(1.6)</u>	<u>—</u>
	<u>(6.6)</u>	<u>(0.8)</u>
Capital gains tax - overseas	—	12.3
Transfer from deferred tax	<u>—</u>	<u>(0.8)</u>
	(4.0)	18.9
Associates:		
Hong Kong	0.2	—
Overseas	<u>0.1</u>	<u>—</u>
	<u>0.3</u>	<u>—</u>
Tax charge/(credit) for the year	<u>(3.7)</u>	<u>18.9</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16% (2000 - 16%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiary companies and associates 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 was earned by the jointly controlled entity during the year.

At the balance sheet date, the Group had no material unprovided deferred tax liabilities (2000 - nil).

13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,715.5 million (2000 - HK\$295.9 million).

14. LOSS PER SHARE**(a) Basic loss per share**

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$1,650.7 million (2000 - HK\$278.1 million, as restated) and on the weighted average of 3,326.8 million (2000 - 3,288.5 million) shares of the Company in issue during the year.

(b) Diluted loss per share

No diluted loss per share is presented for the years ended 31st December, 2000 and 2001, as no diluting events existed during the year.

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**
15. FIXED ASSETS
GROUP

	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 sales <i>HK\$ million</i>	Transfer from leasehold properties <i>HK\$ million</i>	Disposals/ write-off <i>HK\$ million</i>	Deficit on revaluation <i>HK\$ million</i>	31st December, 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	126.2	—	2.6	—	—	—	(16.5)	—	112.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	28.2	—	0.2	—	—	—	—	—	28.4
Motor vehicles	6.5	—	0.2	—	—	—	(0.7)	—	6.0
	14,044.8	(15.1)	37.5	—	(63.2)	(22.0)	(17.5)	(2,075.9)	11,888.6
Accumulated depreciation and impairment:									
Hotel furniture, fixtures and equipment	156.2	(2.4)	36.5	—	—	—	—	—	190.3
Leasehold properties	85.1	—	13.8	—	—	(22.0)	—	—	76.9
Leasehold improvements, furniture, fixtures and equipment	67.1	—	11.5	22.4	—	—	(12.7)	—	88.3
Site equipment	1.7	—	—	—	—	—	—	—	1.7
Construction in progress	—	—	—	28.4	—	—	—	—	28.4
Motor vehicles	5.0	—	0.9	—	—	—	(0.7)	—	5.2
	315.1	(2.4)	62.7	50.8	—	(22.0)	(13.4)	—	390.8
Net book value	13,729.7								11,497.8

* The impairment loss for construction in progress and certain equipment represents 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 have a value in use nor a value for resale.

Analysis of net book value by geographical location:

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Leasehold land and buildings situated in Hong Kong:		
Investment properties, at valuation at balance sheet date:		
Long term	499.9	512.9
Medium term	2,125.0	2,579.1
Hotel properties, at valuation at balance sheet date:		
Long term	3,426.0	3,973.0
Medium term	4,811.0	5,739.0
Leasehold properties, at cost or deemed cost:		
Long term	379.0	512.5
Medium term	4.8	4.9
	<u>11,245.7</u>	<u>13,321.4</u>
Properties situated in the People's Republic of China (the "PRC"):		
Medium term leasehold properties, at cost	31.0	32.5
Long term leasehold land and investment properties, at valuation at balance sheet date	<u>—</u>	<u>63.2</u>
	<u>31.0</u>	<u>95.7</u>
Properties situated overseas:		
Freehold land and hotel property in Canada, at valuation at balance sheet date	<u>196.3</u>	<u>223.8</u>
	<u>11,473.0</u>	<u>13,640.9</u>

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

The valuations of the hotel properties and investment properties situated in Hong Kong at 31st December, 2001 were performed by independent valuers with an RICS qualification on an open market, existing use basis.

The valuation of the hotel property situated overseas at 31st December, 2001 was performed by an independent valuer with an AACI qualification on an open market, existing use basis.

At 31st December, 2000, the Group's investment properties situated in the PRC were stated at their subsequent selling prices as, in the opinion of the Directors, this approximated the open market value as at the balance sheet date. During the year, the Group changed its intention to dispose of such investment properties and, accordingly, such investment properties have been reclassified as properties held for sale.

Certain of the 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 51(a) to the financial statements.

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

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

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Investment properties	1,125.8	1,170.9
Hotel properties	5,405.5	5,413.0
Leasehold properties	<u>112.0</u>	<u>151.1</u>
	<u><u>6,643.3</u></u>	<u><u>6,735.0</u></u>

16. PROPERTIES UNDER DEVELOPMENT

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	214.1	1,420.4
Exchange adjustments	—	0.6
Other additions in land and development costs	—	133.2
Interest capitalised	—	32.4
Disposal of subsidiary companies	—	(596.8)
Transfer to hotel property	—	(755.7)
Write-down in values of properties under development	<u>(47.0)</u>	<u>(20.0)</u>
Balance at end of year	167.1	214.1
Properties under development included in current assets	<u>(117.0)</u>	<u>(156.0)</u>
Non-current portion	<u><u>50.1</u></u>	<u><u>58.1</u></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>22.2</u>
Freehold land in the U.S.A., at cost less write-down in value	<u>117.0</u>	<u>156.0</u>
Leasehold land and buildings in the PRC, at cost less write-down in value:		
Long term	25.5	25.5
Medium term	<u>10.4</u>	<u>10.4</u>
	<u>35.9</u>	<u>35.9</u>
	<u><u>167.1</u></u>	<u><u>214.1</u></u>

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

17. PROPERTY HELD FOR FUTURE DEVELOPMENT

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Medium term leasehold land in Hong Kong, at cost:		
Balance at beginning and end of year	<u>26.7</u>	<u>26.7</u>

At 31st December, 2001, 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

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Share of post-acquisition losses	(2,005.0)	(1,914.1)
Loans to the jointly controlled entity	2,674.9	2,646.5
Amount due from the jointly controlled entity, net	<u>367.0</u>	<u>341.1</u>
	<u>1,036.9</u>	<u>1,073.5</u>

The share of post-acquisition losses included a provision for foreseeable loss in respect of a property development project amounting to HK\$1,633.3 million (2000 - HK\$1,633.3 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.

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	2000	
Chest Gain Development Limited ("Chest Gain")	Corporate	Hong Kong	70	70	Property development

The percentage of equity interest represents the aggregate of the 40% and the 30% held by wholly-owned subsidiary companies of PHL and RHIHL, respectively, which was in turn 59.2% and 43.1% (2000 - 60.4% and 44.6%) owned by the Group as at 31st December, 2001, respectively.

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

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

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
State of affairs		
Non-current assets	3,934.6	4,145.0
Current assets	0.4	0.2
Current liabilities	(151.5)	(72.1)
Non-current liabilities	<u>(7,818.0)</u>	<u>(7,441.7)</u>
Net liabilities attributable to venturers	<u>(4,034.5)</u>	<u>(3,368.6)</u>
Income and losses		
Income	<u>—</u>	<u>—</u>
Net loss from ordinary activities attributable to venturers	<u>(665.9)</u>	<u>(543.4)</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:

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Authorised and contracted for	562.8	15.9
Authorised, but not contracted for	<u>—</u>	<u>555.8</u>
	<u>562.8</u>	<u>571.7</u>

19. INTERESTS IN ASSOCIATES

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Unlisted companies:		
Share of net liabilities	(3.2)	(14.0)
Loans to associates	254.8	233.0
Amounts due from associates	<u>9.7</u>	<u>30.4</u>
	261.3	249.4
Less: Provision for impairment	<u>(0.4)</u>	<u>(0.4)</u>
	<u>260.9</u>	<u>249.0</u>
At balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(308.8)</u>	<u>(305.6)</u>

The loans to associates are unsecured and not repayable within one year. Except for an amount of HK\$138.0 million (2000 - HK\$126.3 million) and a prior year balance of HK\$2.9 million which bear interest at Hong Kong prime rate and 10% per annum, respectively, the remaining balances are interest free.

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

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

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Details of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operation	Class of equity interest held	Percentage of equity interest attributable to the Group		Principal activities
				2001	2000	
Talent Faith Investments Ltd.	Corporate	British Virgin Islands	Ordinary shares	50.00 ⁽¹⁾	50.00 ⁽¹⁾	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75 ⁽¹⁾	22.75 ⁽¹⁾	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00 ⁽¹⁾	30.00 ⁽¹⁾	Property development
Weifang Futuan Building Materials Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	25.00 ⁽²⁾	25.00 ⁽²⁾	Cement production
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	40.00 ⁽³⁾	40.00 ⁽³⁾	Investment holding
8D Matrix Limited	Corporate	British Virgin Islands	Ordinary shares	48.00 ⁽⁴⁾	40.00 ⁽⁴⁾	Investment holding
8D International Limited	Corporate	Hong Kong	Ordinary shares	48.00 ⁽⁴⁾	40.00 ⁽⁴⁾	Promotions, communications and information technology

* Not audited by Ernst & Young

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

(2) The percentage of equity interest represents equity interest attributable to a 75% owned subsidiary company of PHL.

(3) The percentage of equity interest represents the aggregate of the 10% (2000 - 10%) and the 30% (2000 - 30%) equity interests attributable to the Company and RHIHL, respectively. RHIHL was in turn 43.1% (2000 - 44.6%) owned by the Group as at 31st December, 2001.

(4) The percentage of equity interest represents the aggregate of the 12% (2000 - 10%) (including a 2% attributable interest held by the Company through 8D-BVI) and the 36% (2000 - 30%) (including a 6% attributable interest held by RHIHL through 8D-BVI) equity interests attributable to the Company and RHIHL, respectively.

All associates are indirectly held by the Company.

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

20. INVESTMENTS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Long term investments		
Listed equity investments, at market value:		
Hong Kong	34.3	144.8
Elsewhere	<u>7.8</u>	<u>8.0</u>
	<u>42.1</u>	<u>152.8</u>
Unlisted equity investments, at fair value:		
Carrying value	392.7	392.7
Provisions for impairments in values	<u>(273.5)</u>	<u>(93.5)</u>
	<u>119.2</u>	<u>299.2</u>
	<u><u>161.3</u></u>	<u><u>452.0</u></u>

Listed long term investments with an aggregate market value at the balance sheet date amounting to HK\$33.1 million (2000 - HK\$32.3 million) were pledged to secure general credit facilities granted to the Group.

Included in the unlisted long term investments is an amount of HK\$118.9 million (2000 - HK\$298.9 million) which represents the PHL Group's investments of 23% interest each in two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") in Beijing, the PRC. Despite the PHL Group's holding of 23% interests in the Investee Companies, the directors of PHL confirm that the PHL Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a contractual arrangement made with the independent third parties to exchange the PHL Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the directors of PHL consider it appropriate to account for the investments therein as long term investments.

In November 2000, the land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on grounds of its prolonged idle condition. The joint venture partners to the Investee Companies have the right to make an application to the relevant PRC government authorities for an administrative review but have not done so to date. Instead, the PHL Group and the other investor parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. A valuation of the hotel portion of the land site was carried out by an independent valuer at RMB265.0 million (approximately HK\$249.9 million) as at 31st December, 2001, based on an open market value, ready for hotel development basis and on the assumption that the owners of the land site have enforceable title thereto. Taking into account the estimated cost of approximately HK\$131.0 million to be incurred for bringing the hotel portion of the land site to a ready for development basis, an impairment loss of HK\$180.0 million was charged against the profit and loss account in the current year. In the opinion of the directors of PHL, it is not possible to determine at this stage with reasonable certainty the ultimate outcome of the negotiations and hence any further provision required to be made against the PHL Group's investments in the Investee Companies.

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Short term investments		
Listed equity investment in Hong Kong, at market value	<u>9.9</u>	<u>27.7</u>

The prior year short term investments with market values amounting HK\$2.0 million were pledged to secure general credit facilities granted to the Group.

21. LOANS AND OTHER LONG TERM RECEIVABLE

	<i>Notes</i>	GROUP	
		2001	2000
		<i>HK\$'million</i>	<i>HK\$'million</i>
Promissory notes receivable	(a)	168.0	180.0
Long term mortgage loans	(b)	57.3	74.3
Other loans	(c)	<u>78.0</u>	<u>115.7</u>
		<u>303.3</u>	<u>370.0</u>

- (a) This represented promissory notes receivable in the aggregate amount of HK\$180.0 million (2000 - HK\$180.0 million) which were repayable on demand. 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. Subsequent to the balance sheet date, on 7th March, 2002, a settlement agreement was entered into between the 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 issued by one of the borrowers (the "Entitlements"). The convertible note, which the Group intends to hold as held-to-maturity securities and will otherwise be due in 2005 (the "Initial Maturity Date") (subject to an extension for further 2 years due 2007 (the "Final Maturity Date") upon fulfilment of certain conditions), bears interest at 3% per annum from the date of issue of the note to the Initial Maturity Date and is convertible into shares of the note 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 in the fair value of the Entitlements aggregating HK\$168.0 million received by the 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), has been provided for in the current year financial statements.
- (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 the second mortgages over the properties sold and are repayable by instalments. The long term mortgage loans bear interest at Hong Kong prime rate plus 1.75% to 2% per annum with certain of the loans having interest free periods of up to thirty-six months from the respective drawdown dates of such loans.

- (c) The other loans include a loan of US\$10.0 million (HK\$78.0 million) (2000 - HK\$78.0 million) advanced to a hotel owner to assist financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the 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.

The prior year amount also included loans of RMB40.0 million (HK\$37.7 million) advanced to an independent third party in connection with a proposed investment in an information technology project which has been suspended due to unfavourable market conditions. Accordingly, a full provision has been made by the Group in the current year financial statements. The loans were secured on the investment in the project, bore interest at Hong Kong prime rate per annum and had no fixed terms of repayment.

22. INTANGIBLE ASSETS

	GROUP <i>HK\$'million</i>
Cost:	
At beginning of year	7.5
Disposal of subsidiary companies	<u>(4.5)</u>
At 31st December, 2001	<u>3.0</u>
Accumulated amortisation:	
At beginning of year	0.5
Provided during the year	0.6
Disposal of subsidiary companies	<u>(0.6)</u>
At 31st December, 2001	<u>0.5</u>
Net book value:	
At 31st December, 2001	<u><u>2.5</u></u>
At 31st December, 2000	<u><u>7.0</u></u>

23. OTHER ASSETS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
At cost:		
Deposits with the HKFE, SEHK and the SEHK Option		
Clearing House Limited	0.1	1.8
Others	<u>0.2</u>	<u>0.7</u>
	<u><u>0.3</u></u>	<u><u>2.5</u></u>

24. SHORT TERM LOANS RECEIVABLE

The short term loans receivable of the Group represents an unsecured and interest free loan to a consortium in the amount of HK\$0.9 million (2000 - HK\$0.9 million).

25. PROPERTIES HELD FOR SALE

Certain of the Group's properties held for sale with carrying amount of HK\$158.9 million (2000 - HK\$271.6 million) were pledged to secure banking facilities granted to the Group. In addition, the sale proceeds in respect of certain properties held for sale with carrying amount of HK\$42.7 million were assigned to lenders to secure a loan facility granted to the Group.

Certain of the Group's properties held for sale are leased to third parties under operating leases, further summary details of which are included in note 51(a) to financial statements.

26. HOTEL AND OTHER INVENTORIES

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Hotel merchandise	21.1	24.7
Raw materials	2.9	6.4
Work in progress	4.4	8.2
Finished goods	<u>1.0</u>	<u>1.9</u>
	<u>29.4</u>	<u>41.2</u>

As at 31st December, 2001, the carrying amount of inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK\$6.6 million (2000 - HK\$9.8 million).

27. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$163.0 million (2000 - HK\$199.9 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2001	2000
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	112.9	147.3
Between 4 to 6 months	7.2	5.3
Between 7 to 12 months	5.3	14.0
Over 1 year	<u>56.8</u>	<u>52.1</u>
	182.2	218.7
Provisions	<u>(19.2)</u>	<u>(18.8)</u>
	<u>163.0</u>	<u>199.9</u>

Debtors, deposits and prepayments of the RHIHL Group also include a receivable amount of approximately HK\$400.1 million, comprising (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the "Deferred Consideration") which arose in connection with the RHIHL Group's disposal of its hotel interests in the United States of America ("USA") in December 1999 (the "Disposal"); and (ii) interest aggregating HK\$49.1 million accrued thereon at 7% per annum (collectively, the "Consideration Receivable"). Pursuant to the terms of the securities purchase agreement dated 18th November, 1999 (the "SP Agreement") entered into between the RHIHL Group and the purchaser (the "Purchaser") in respect of the Disposal, the Consideration Receivable was due to be paid by the Purchaser on the second anniversary of the completion date of the Disposal i.e. on 17th December, 2001. A 50% of the Consideration Receivable was assigned to the lenders of the Syndicated Loan of the RHIHL Group (note 3) for the prepayment of a loan instalment.

The SP Agreement contains certain indemnifications given by the RHIHL Group which cover, inter alia, liabilities for third party claims relating to events/conditions which existed prior to the completion of the Disposal (the "Pre-closing Liabilities"). The RHIHL Group has now been notified by the Purchaser of certain indemnity claims, allegedly related to Pre-closing Liabilities for third party legal claims, indemnifiable by the RHIHL Group under the SP Agreement. The Purchaser also alleges that the aggregate amount of these potential claims exceeds the Deferred Consideration and has withheld payment to the RHIHL Group of the Consideration Receivable. The RHIHL Group has retained an independent law firm to review the litigation cases underlying the third party claims and the related indemnity claims made by the Purchaser. Based on the advice obtained from the independent law firm, the RHIHL Group considers that (i) the majority of the underlying legal claims are either weak in their grounds, or are likely to be settled for amounts considerably less than the amounts claimed by the plaintiffs in the litigation cases; and (ii) in any event, a certain portion of the Consideration Receivable should be settled by the Purchaser regardless of the status of the resolution of certain major litigation cases underlying the third party claims. The RHIHL Group is currently consulting with its legal advisers to initiate appropriate recovery action against the Purchaser.

The directors of RHIHL expect that as and when the underlying third party legal claims are resolved, the Consideration Receivable will be released to the RHIHL Group in stages, a significant portion of which should be forthcoming within a reasonable timeframe. However, given the inherent complications associated with litigation proceedings in the USA, the directors of RHIHL are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved and the timing of the receipt of the Consideration Receivable. Accordingly, the directors of RHIHL are currently unable to determine whether a provision, if any, is required against the Consideration Receivable.

Credit Terms

Trade debtors, which generally have credit terms of 2 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.

Included in the Group's trade debtors are amounts due from the Group's jointly controlled entity of HK\$34.0 million (2000 - HK\$31.8 million), which are repayable on negotiated terms.

28. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$110.9 million (2000 - HK\$109.3 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	84.3	79.4
Between 4 to 6 months	3.6	3.1
Between 7 to 12 months	1.4	1.9
Over 1 year	<u>21.6</u>	<u>24.9</u>
	<u>110.9</u>	<u>109.3</u>

29. CONSTRUCTION CONTRACTS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Gross amount due from contract customers included in debtors, deposits and prepayments	—	2.4
Gross amount due to contract customers included in creditors and accruals	<u>(110.1)</u>	<u>(119.6)</u>
	<u>(110.1)</u>	<u>(117.2)</u>
Contract costs incurred plus recognised profits less recognised losses to date	1,406.3	1,092.9
Less: Progress billings	<u>(1,516.4)</u>	<u>(1,210.1)</u>
	<u>(110.1)</u>	<u>(117.2)</u>

At 31st December, 2001, retentions held by customers for contract works, as included in debtors, deposits and prepayments under current assets, amounted to approximately HK\$25.9 million (2000 - HK\$25.6 million).

As 31st December, 2001, advances from customers for contract works, as included in creditors and accruals under current liabilities, amounted to approximately HK\$22.8 million (2000 -HK\$23.2 million).

30. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP		COMPANY	
	2001	2000	2001	2000
	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Bank loans and overdrafts:				
Secured	5,922.4	6,044.5	55.0	55.0
Unsecured	256.5	223.7	—	—
Other loans wholly repayable within five years:				
Secured	1,243.8	1,464.7	—	—
Unsecured	311.6	107.0	—	—
	<u>7,734.3</u>	<u>7,839.9</u>	<u>55.0</u>	<u>55.0</u>
Portion of borrowings due within one year included under current liabilities:				
Bank loans and overdrafts	(1,829.4)	(1,519.9)	(55.0)	(55.0)
Other loans	(368.4)	(362.2)	—	—
	<u>(2,197.8)</u>	<u>(1,882.1)</u>	<u>(55.0)</u>	<u>(55.0)</u>
Long term borrowings	<u>5,536.5</u>	<u>5,957.8</u>	<u>—</u>	<u>—</u>
The bank loans and overdrafts and other loans are repayable in varying instalments within a period of:				
On demand or not exceeding 1 year	2,197.8	1,882.1	55.0	55.0
More than 1 year but not exceeding 2 years	1,895.0	496.3	—	—
More than 2 years but not exceeding 5 years	3,342.0	5,069.5	—	—
More than 5 years	299.5	392.0	—	—
	<u>7,734.3</u>	<u>7,839.9</u>	<u>55.0</u>	<u>55.0</u>

The other loans carried fixed interest rates ranging from 8.78% to 13.5% (2000 - 8.78% to 13.5%) per annum at the balance sheet date.

At the balance sheet date, RHIHL Group had not complied with certain loan covenants in respect of a syndicated loan amounting to HK\$3,822.1 million (the "Syndicated Loan") and a construction loan amounting to HK\$1,079.5 million (the "Construction Loan"). For the reasons detailed in note 3 to the financial statements, the directors of RHIHL consider it appropriate to continue to classify the Syndicated Loan and the Construction Loan as current or non-current liabilities in accordance with their original maturity terms.

31. EXCHANGEABLE BONDS

In February 1996, the PHL Group issued US\$140 million 3½% exchangeable guaranteed bonds (the “Exchangeable Bonds”) which fall due in 2001. The Exchangeable Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Exchangeable Bonds was 100% of their principal amount and they bear interest at the rate of 3½% per annum.

As at 1st January, 2001, the outstanding Exchangeable Bonds in the amount of US\$139.8 million were exchangeable, at the option of the bondholders, into an aggregate of 536.7 million fully paid ordinary shares in RHIHL (“Regal Shares”) owned by the PHL Group at an effective exchange price of HK\$2.0144 per Regal Share, subject to adjustments, based on an exchange rate of HK\$7.735 to US\$1.00. The exchange period for the Exchangeable Bonds was from 6th April, 1996 to 23rd January, 2001, both dates inclusive (which period was extended by 90 days to 23rd April, 2001 pursuant to a second supplemental trust deed dated 23rd January, 2001).

The PHL Group had the right to redeem on or after 13th February, 1999 all or part of the Exchangeable Bonds, subject to certain conditions, at a redemption price of not less than their principal amount and to be determined by reference to the specified percentage, as applicable to the year in which the redemption takes place, together with interest accrued to the date of redemption.

The Exchangeable Bonds were redeemable on maturity on 6th February, 2001 at 121.85% of their principal amount, if not previously exchanged or redeemed. The Exchangeable Bonds remained unpaid on the due date. Further details are set out in note 3 to the financial statements. Following the maturity default of the Exchangeable Bonds, the outstanding Exchangeable Bonds shall continue to bear interest at the original rate in accordance with the terms of the trust deed governing the issue of the Exchangeable Bonds.

During the year, Exchangeable Bonds in the amount of US\$10.95 million was exchanged for 42.05 million Regal Shares. The full exchange of the remaining Exchangeable Bonds as at 31st December, 2001 for Regal Shares would, with the capital structure of RHIHL as at 31st December, 2001, and based on the issued ordinary share capital of RHIHL and the PHL Group’s 72.8% interest therein as at that date, reduce the PHL Group’s shareholding in RHIHL to 60.2%.

32. CONVERTIBLE BONDS

On 12th March, 1997, the PHL Group issued US\$210 million of zero coupon guaranteed convertible bonds (the “Convertible Bonds”) which mature in 2002. The Convertible Bonds are listed on the Luxembourg Stock Exchange. The issue price of the Convertible Bonds was 100% of their principal amount.

As at 1st January, 2001, the Convertible Bonds were convertible, at the option of the bondholders, into an aggregate of 193.7 million fully paid shares of HK\$1.00 each in PHL at a conversion price of HK\$8.40 per share, subject to adjustments, based on an exchange rate of HK\$7.749 to US\$1.00. The conversion period for the Convertible Bonds is from 21st April, 1997 to 5th March, 2002, both dates inclusive.

The PHL Group has the right to redeem the Convertible Bonds, in whole or in part, on or after 12th March, 2000, subject to certain conditions, at a redemption price based on the principal amount plus a time pro-rata portion of the final redemption premium calculated by reference to the number of days elapsed since the date of issue to the date of the redemption.

The Convertible Bonds are redeemable on maturity on 12th March, 2002 at 145.875% of their principal amount, if not previously redeemed, purchased and cancelled or converted.

Up to 31st December, 2001, none of the Convertible Bonds had been converted into shares of PHL. During the year, Convertible Bonds in the amount of US\$2.2 million were repurchased by the Group at a consideration of US\$1.9 million (HK\$15.0 million) and were cancelled. The full conversion of the remaining Convertible Bonds would, with the capital structure of PHL as at 31st December, 2001 and based on the issued share capital of PHL and the Group's 59.2% interest therein as at that date, dilute the Group's shareholding in PHL to 54.7%.

As more fully explained in note 3 to the financial statements, as a result of the maturity default of the Exchangeable Bonds (note 31), on 15th March, 2001, the trustee of the Convertible Bonds served a notice to declare the Convertible Bonds to be immediately due and payable by virtue of the cross default provisions contained in the trust deeds governing the issue of the Convertible Bonds. Accordingly, the Convertible Bonds had been classified as current liabilities since 31st December, 2000.

Following the cross default of the Convertible Bonds, the outstanding Convertible Bonds shall continue to bear interest at an effective rate of 7.844% per annum in accordance with the terms of the trust deed governing the issue of the Convertible Bonds.

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

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	779.2	563.9
Exchange adjustments	—	2.2
Provision during the year	60.6	213.1
Provision released upon the exchange of Exchangeable Bonds prior to maturity	(18.3)	—
Provision released upon the repurchase and cancellation of Convertible Bonds	(5.9)	—
Balance at end of year	<u>815.6</u>	<u>779.2</u>

The above provision for premium was classified as a current liability on the same basis as the related Exchangeable Bonds and Convertible Bonds as explained in notes 31 and 32 to the financial statements, respectively.

34. PROVISIONS

	GROUP		
	Guarantee on bank loan granted to:		
	an associate	an independent third party	Total
	<i>HK\$' million</i>	<i>HK\$' million</i>	<i>HK\$' million</i>
Balance at beginning of year	109.0	267.5	376.5
Additional provision	9.8	31.0	40.8
Reclassification as a bank loan (notes 47(b) and 48(e))	<u>(118.8)</u>	<u>—</u>	<u>(118.8)</u>
Balance at end of year	<u>—</u>	<u>298.5</u>	<u>298.5</u>

	COMPANY	
	Guarantee on bank loan granted to an independent third party	
	<i>HK\$'million</i>	
Balance at beginning of year		267.5
Additional provision		<u>31.0</u>
Balance at 31st December, 2001		<u>298.5</u>

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

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 (2000 - HK\$28.4 million) which bears interest at 1% above Hong Kong prime rate per annum, the remaining amount is interest free.

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**
36. SHARE CAPITAL

	COMPANY	
	Number of shares of HK\$0.10 each 'million	HK\$'million
Authorised:		
Balance at beginning and at end of year	<u>20,000.0</u>	<u>2,000.0</u>
Issued and fully paid:		
Balance at beginning and at end of year	<u>3,326.8</u>	<u>332.7</u>

37. RESERVES

	Notes	GROUP		COMPANY	
		2001 HK\$'million	2000 HK\$'million (Restated)	2001 HK\$'million	2000 HK\$'million
Share premium	38	888.4	888.4	888.4	888.4
Capital redemption reserve	39	4.4	4.4	4.4	4.4
Capital reserve	40	3,325.9	3,383.4	—	—
Revaluation reserves	41	53.9	64.7	—	—
Exchange equalisation reserve	42	(4.2)	(3.2)	—	—
Contributed surplus	44	—	—	1,893.5	1,893.5
Accumulated losses	45	<u>(4,761.4)</u>	<u>(3,115.2)</u>	<u>(3,279.3)</u>	<u>(1,563.8)</u>
		<u>(493.0)</u>	<u>1,222.5</u>	<u>(493.0)</u>	<u>1,222.5</u>

38. SHARE PREMIUM

	COMPANY	
	2001 HK\$'million	2000 HK\$'million
Balance at beginning of year	888.4	747.0
Premium on issue of new shares	—	145.3
Share issue expenses	<u>—</u>	<u>(3.9)</u>
Balance at end of year	<u>888.4</u>	<u>888.4</u>

39. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	4.4	4.4

40. CAPITAL RESERVE

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year		
As previously reported	3,226.9	3,239.4
Prior year adjustments (note 45)*	156.5	—
As restated	3,383.4	3,239.4
Impairment of goodwill eliminated against capital reserve (note 45)*	—	156.5
Release on disposal of ordinary shares in a listed subsidiary company	(43.1)	—
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	(14.4)	—
Release as a result of the deemed disposal of the Group's interest in a listed subsidiary company	—	(2.5)
Share of goodwill of an associate eliminated directly against reserves	—	(10.0)
Balance at end of year	3,325.9	3,383.4

* SSAP 30 was adopted during the year. As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1st January, 2001, to remain eliminated against the capital reserve.

Due to the adoption of SSAP 30, the Group has adopted a policy to assess goodwill eliminated against reserves for impairment. As a result, the Group has recognised an impairment of the goodwill previously eliminated against the capital reserve of HK\$156.5 million in the year ended 31st December, 2000 as detailed in the table below. This change of accounting policy has been accounted for retrospectively as prior year adjustments, the effect of which is to increase both the accumulated losses and the capital reserve of the Group as at 1st January, 2001 by HK\$156.5 million, (net of minority interests of HK\$66.7 million) (notes 7 and 45). There is no attributable tax effect in respect of the prior year adjustments.

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

The amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiary companies and that of an associate shared by the Group prior to 1st January, 2001, are as follows:

	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 beginning of year	10.0	156.5	(2,168.3)
Release on disposal of ordinary shares in a listed subsidiary company	—	—	43.1
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	—	—	14.4
At 31st December, 2001	<u>10.0</u>	<u>156.5</u>	<u>(2,110.8)</u>
Accumulated impairment:			
At beginning of year			
As previously reported	—	—	—
Prior year adjustment and as restated	—	(156.5)	—
At 31st December, 2001	<u>—</u>	<u>(156.5)</u>	<u>—</u>
Net amount:			
At 31st December, 2001	<u>10.0</u>	<u>—</u>	<u>(2,110.8)</u>
At 31st December, 2000	<u>10.0</u>	<u>—</u>	<u>(2,168.3)</u>

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

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**
41. REVALUATION RESERVES

	GROUP					Total <i>HK\$'million</i>
	Associates*	Investment properties	Hotel properties	Leasehold properties	Long term investments	
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	
At 1st January, 2000	4.9	109.0	—	151.5	(42.1)	223.3
Movement in fair value	—	—	—	—	(26.0)	(26.0)
Reclassification of leasehold properties as investment properties	—	16.3	—	(16.3)	—	—
Release on deemed disposal of the Group's interest in a listed subsidiary company	(0.1)	—	—	—	0.1	—
Release on disposal	(4.8)	—	—	—	0.4	(4.4)
Transfer to retained profits (note 46)	—	—	—	(5.0)	—	(5.0)
Surplus/(Deficit) on revaluation	—	(123.2)	65.8	—	—	(57.4)
Write back of deficit previously charged to profit and loss account	—	—	(65.8)	—	—	(65.8)
At 31st December, 2000 and at 1st January, 2001	—	2.1	—	130.2	(67.6)	64.7
Movement in fair value	—	—	—	—	(13.4)	(13.4)
Reclassification of leasehold properties as investment properties	—	51.5	—	(51.5)	—	—
Reclassification of investment properties as properties held for sale	—	7.3	—	—	—	7.3
Release on disposal of ordinary shares in a listed subsidiary company	—	—	—	(2.6)	1.3	(1.3)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	—	—	—	—	0.8	0.8
Release on disposal	—	—	—	—	61.2	61.2
Transfer to retained profits (note 46)	—	—	—	(4.5)	—	(4.5)
Deficit on revaluation	—	(60.9)	—	—	—	(60.9)
At 31st December 2001	—	—	—	71.6	(17.7)	53.9

* This represented the Group's share of revaluation reserve of associates in relation to hotel properties.

The revaluations of the Group's hotel properties and investment properties in Hong Kong do not constitute timing differences because the realisation of the revaluation surplus would not be subject to Hong Kong profits tax.

42. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year	(3.2)	2.0
Release on disposal of ordinary shares in a listed subsidiary company upon the exchange of Exchangeable Bonds	0.1	—
Release on disposal of overseas subsidiary companies	—	(1.4)
Release on disposal of an overseas associate	—	(2.1)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	<u>(1.1)</u>	<u>(1.7)</u>
Balance at end of year	<u><u>(4.2)</u></u>	<u><u>(3.2)</u></u>

43. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Unlisted shares, at cost	2,059.0	2,059.0
Amount due from a subsidiary company	<u>1,056.0</u>	<u>1,059.8</u>
	3,115.0	3,118.8
Provision for impairment	<u>(2,913.1)</u>	<u>(1,236.2)</u>
	<u><u>201.9</u></u>	<u><u>1,882.6</u></u>

Details of the principal subsidiary companies are as follows:

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Aikford Financial Services Limited	Hong Kong	HK\$2	100	100	Securities investment
Century City Brokerage Limited*	Hong Kong	HK\$25,800,000	—	100	Brokerage services
Century City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Century City (F.S.) Management Limited	Hong Kong	HK\$2	100	100	Management services
Century City Finance Limited	Hong Kong	HK\$2	100	100	Financing
Century City Funds Management Limited	Hong Kong	HK\$2	100	100	Fund management
Century City Futures Limited*	Hong Kong	HK\$10,000,000	—	100	Brokerage services
Century City Holdings Limited	Hong Kong	HK\$264,488,059	100	100	Investment holding
Century City (Nominees) Limited	Hong Kong	HK\$2	100	100	Nominee services
Century City (Secretaries) Limited	Hong Kong	HK\$2	100	100	Secretarial services
Century Pacific Development Limited	Hong Kong	HK\$2	100	100	Financing
Cityline Finance Limited	Hong Kong	HK\$2	100	100	Financing
Gentwin Investment Limited	Hong Kong	HK\$2	100	100	Financing
Meylink Limited	British Virgin Islands	US\$1	100	100	Investment holding
Splendour Corporation	British Virgin Islands	US\$1	100	100	Investment holding
T.M. Nominees Limited	Hong Kong	HK\$2	100	100	Nominee services
Wise Assets Holdings Limited	British Virgin Islands	US\$1	100	100	Securities investment
Paliburg Holdings Limited	Bermuda	HK\$2,318,497,452	59.2	60.4	Investment holding
Bajan Company Limited	Hong Kong	HK\$2	59.2	60.4	Securities trading
Cathay City BVI Holdings Limited	British Virgin Islands	HK\$10	59.2	60.4	Investment holding
Cathay City Investments Limited	Hong Kong	HK\$89,626,000	59.2	60.4	Investment holding
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	59.2	60.4	Property development and investment

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Cathay City Property Management, Inc.	U.S.A.	US\$10,000	59.2	60.4	Property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	47.4	48.3	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	44.4	45.3	Investment holding
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	44.4	45.3	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	59.2	60.4	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	59.2	60.4	Investment Holding
Fine Cosmos Development Limited	Hong Kong	HK\$2	59.2	60.4	Property Development and investment
Finso Limited	Hong Kong	HK\$2	59.2	60.4	Investment Holding
Gain World Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Investment Holding
Glaser Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Investment Holding
Glory Legend Development Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Good Focus Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Property Investment
Granco Development Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
H.P. Nominees Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding and nominee services
Landstar Investment Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Lead Fortune Development Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Linkprofit Limited	Hong Kong	HK\$2	59.2	60.4	Investment holding
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	59.2	60.4	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	59.2	60.4	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	59.2	60.4	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	59.2	60.4	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	59.2	60.4	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	59.2	60.4	Estate management
Paliburg Finance (C.B. 2002) Limited	British Virgin Islands	US\$1	59.2	60.4	Financing
Paliburg Finance Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Paliburg International Finance Limited	British Virgin Islands	US\$1	59.2	60.4	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	59.2	60.4	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	59.2	60.4	Investment holding
Polarfine Inc	British Virgin Islands	HK\$3,000,000	47.4	48.3	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	59.2	60.4	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	59.2	60.4	Property investment
Rich Pearl Limited	Hong Kong	HK\$10,000	59.2	60.4	Financing
Sanefix Development Limited	Hong Kong	HK\$2	59.2	60.4	Property investment

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Shenyang Paliburg Plaza Limited**	The People's Republic of China	US\$9,820,000	59.2	60.4	Property development and investment
Sonnix Limited	Hong Kong	HK\$2	59.2	60.4	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Treasure Spot Investments Limited	British Virgin Islands	US\$1	59.2	60.4	Property investment
Vertex Investments Limited	Hong Kong	HK\$2	59.2	60.4	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd.#	The People's Republic of China	US\$8,130,000	31.1	31.7	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	59.2	60.4	Investment holding
Regal Hotels International Holdings Limited	Bermuda	Ordinary - HK\$393,877,250 Preference - US\$167,480	43.1	44.6	Investment holding
Bauhinia Hotels Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	43.1	44.6	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	38.8	40.1	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	43.1	44.6	Property investment
Cityability Limited	Hong Kong	HK\$10,000	43.1	44.6	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	43.1	44.6	Securities investment and trading
Fortune Nice Investment Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Gala Hotels Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
HK 168 Limited	Republic of Liberia	US\$1	43.1	44.6	Securities investment
Kaifeng Yatai Brewery Co., Ltd.**	The People's Republic of China	RMB35,923,300	38.8	40.1	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.**	The People's Republic of China	RMB30,576,700	38.8	40.1	Production and distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	43.1	44.6	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	43.1	44.6	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	43.1	44.6	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK\$2	43.1	44.6	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	43.1	44.6	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	43.1	44.6	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	43.1	44.6	Hotel management
Regal International Limited	British Virgin Islands	US\$20	43.1	44.6	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	43.1	44.6	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	43.1	44.6	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	43.1	44.6	Investment holding
Regal Quality Foods Limited	Hong Kong	HK\$2	43.1	—	Bakery and retail operations

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Regal Riverside Hotel Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	43.1	44.6	Trademark holding
Ricobem Limited	Hong Kong	HK\$2	43.1	44.6	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$1,500,000	43.1	44.6	Travel services
Tenshine Limited	Hong Kong	HK\$2	43.1	44.6	Restaurant operations
Winner Team Investment Limited	Hong Kong	HK\$2	43.1	44.6	Securities investment
World Way Management Limited	Hong Kong	HK\$2	43.1	44.6	Management services

* The entire interests in these subsidiary companies were disposed of during the year.

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

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

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

All of the above subsidiary companies operate in the place of their incorporation/registration except for Paliburg Holdings Limited, Good Focus Holdings Limited, Paliburg Finance (C.B. 2002) Limited, Paliburg International Finance Limited, Paliburg International Holdings Limited, Treasure Spot Investments Limited and Regal Hotels International Holdings Limited, which are incorporated in either Bermuda or the British Virgin Islands, but operate in Hong Kong.

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

44. CONTRIBUTED SURPLUS

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

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

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**
45. ACCUMULATED LOSSES

	GROUP		COMPANY	
	2001	2000	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning of year:				
As previously reported	(2,958.7)	(2,844.6)	(1,563.8)	(1,267.9)
Prior year adjustments (note 40)	<u>(156.5)</u>	<u>—</u>	<u>—</u>	<u>—</u>
As restated	<u>(3,115.2)</u>	<u>(2,844.6)</u>	<u>(1,563.8)</u>	<u>(1,267.9)</u>
Net loss for the year:				
As previously reported	(1,650.7)	(121.6)	(1,715.5)	(295.9)
Prior year adjustments (note 40)	<u>—</u>	<u>(156.5)</u>	<u>—</u>	<u>—</u>
As restated	(1,650.7)	(278.1)	(1,715.5)	(295.9)
Gain on deemed disposal of the Group's interest in a listed subsidiary company	—	2.5	—	—
Appropriation:				
Transfer from other reserves (note 46)	<u>4.5</u>	<u>5.0</u>	<u>—</u>	<u>—</u>
Balance at end of year, as restated	<u>(4,761.4)</u>	<u>(3,115.2)</u>	<u>(3,279.3)</u>	<u>(1,563.8)</u>

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> (Restated)
Accumulated losses at end of year accumulated in:		
The Company and subsidiary companies	(3,508.4)	(1,912.0)
Associates	(198.6)	(196.4)
Jointly controlled entity	<u>(1,054.4)</u>	<u>(1,006.8)</u>
Balance at end of year	<u>(4,761.4)</u>	<u>(3,115.2)</u>

46. TRANSFER FROM OTHER RESERVES

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Transfer from revaluation reserve of the portion of depreciation charge on leasehold properties attributable to the revaluation surplus in relation thereto (notes 41 and 45)	<u>4.5</u>	<u>5.0</u>

47. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>
Profit/(Loss) from operating activities	(1,268.3)	452.2
Loss on disposal of ordinary shares in a listed subsidiary company	8.5	—
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of Exchangeable Bonds	(64.7)	—
Loss on disposal of overseas subsidiary companies	—	13.8
Profit on disposal of an overseas associate	—	(58.8)
Loss on disposal of unlisted subsidiary companies	2.7	—
Gain on repurchase and cancellation of Convertible Bonds	(13.4)	—
Deficit/(Write back of deficit) on revaluation of hotel properties	710.4	(65.8)
Realised losses and provisions for losses in short term investments	—	0.4
Provision for deposit paid	—	4.7
Provisions against other loans, promissory notes and interest receivable	75.6	13.1
Impairment of long term investments	180.0	—
Write-down in values of properties	61.9	106.0
Deficit on revaluation of investment properties	288.6	—
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	—	24.2
Write back of provision against advances and interest receivable	—	(9.6)
Impairment of fixed assets	50.8	—
Write back of provisions for guarantee and indemnity given	—	(370.3)
Provisions for guarantees and indemnity given	2.7	18.1
Write back of provision for loss on deposit paid	—	(10.0)
Interest income	(56.5)	(84.1)
Dividend income from listed and unlisted investments	(3.4)	(2.3)
Depreciation	61.2	60.2
Impairment of goodwill	—	223.2
Amortisation of trading rights	0.6	0.5
Provisions for doubtful debts	12.1	5.0
Loss on disposal of fixed assets	3.3	3.3
Profit on sale of properties	(0.3)	(3.9)
Loss/(Gain) on disposal of long term investments	142.6	(0.7)
Net proceeds from sale of properties	123.4	143.8
Additions to properties under development for sale and properties held for future development	—	(54.5)
Decrease in debtors, deposits and prepayments	35.5	10.2
Decrease/(Increase) in short term investments	17.8	(15.1)
Decrease/(Increase) in hotel and other inventories	15.5	(0.3)
Decrease in creditors and accruals	(43.2)	(144.3)
Decrease in deposits received	(10.0)	(16.6)
Exchange difference	(0.2)	11.6
	<u>333.2</u>	<u>254.0</u>
Net cash inflow from operating activities	<u>333.2</u>	<u>254.0</u>

APPENDIX I
**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

(b) Analysis of changes in financing

	Share capital (including share premium) <i>HK\$'million</i>	Loans, exchangeable bonds, convertible bonds and advances from minority shareholders of subsidiary companies <i>HK\$'million</i>	Minority interests <i>HK\$'million</i> (Restated)
Balance at 1st January, 2000	1,053.9	10,605.3	3,987.4
Net cash inflow/(outflow) from financing	167.2	(1.2)	(0.8)
Share of loss for the year	—	—	(387.7)
Share of revaluation deficit	—	—	(39.1)
Share of exchange difference on consolidation	—	—	(1.2)
Share of capital reserve on consolidation	—	—	58.0
Arising from deemed disposal of interest in a listed subsidiary company	—	—	2.1
Disposal of subsidiary companies	—	(98.9)	(0.9)
Disposal of an overseas associate	—	—	(19.2)
Interest expenses capitalised	—	9.4	—
Reclassification from creditors and accruals	—	98.2	—
Reclassification to interest payable	—	(20.8)	—
Effect of foreign exchange rate changes	—	8.9	—
Balance at 31st December, 2000	<u>1,221.1</u>	<u>10,600.9</u>	<u>3,598.6</u>
Balance at 1st January, 2001	1,221.1	10,600.9	3,598.6
Net cash outflow from financing	—	(229.7)	—
Share of loss for the year	—	—	(583.5)
Share of revaluation deficit	—	—	(949.5)
Share of exchange difference on consolidation	—	—	(1.5)
Arising from disposal of ordinary shares in a listed subsidiary company	—	—	56.6
Reclassification from creditors and accruals	—	—	20.0
Exchange of Exchangeable Bonds for ordinary shares in a listed subsidiary company	—	(85.4)	54.5
Repurchase and cancellation of Convertible Bonds	—	(17.2)	—
Interest expenses capitalized	—	16.4	—
Reclassification of a provision for guarantee as a bank loan (note 34)	—	118.8	—
Effect of foreign exchange rate changes	—	(10.2)	—
Balance at 31st December, 2001	<u>1,221.1</u>	<u>10,393.6</u>	<u>2,195.2</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

(c) Disposal of subsidiary companies

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Net assets disposed of:		
Fixed assets	—	0.5
Properties under development	—	596.8
Intangible assets	3.9	—
Other assets	1.8	—
Debtors, deposits and prepayments	9.2	7.7
Cash and bank balances	15.2	0.5
Creditors and accruals	(8.6)	(23.5)
Tax payable	—	(0.2)
Advances from minority shareholders	—	(98.9)
	<u>21.5</u>	<u>482.9</u>
Exchange equalisation reserve realised on disposal	—	(1.4)
Release of reserves attributable to minority shareholders	—	(0.9)
Loss on disposal	(2.7)	(13.8)
	<u>18.8</u>	<u>466.8</u>
Satisfied by:		
Cash	18.6	77.1
Debtors	0.2	8.2
Reclassification to long term investments	—	298.9
Reclassification to interests in associates	—	82.6
	<u>18.8</u>	<u>466.8</u>

Analysis of net inflow of cash and cash equivalents in respect of disposal of subsidiary companies:

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Cash and bank balances disposed of	(15.2)	(0.5)
Cash consideration	18.6	77.1
	<u>3.4</u>	<u>76.6</u>
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies	<u>3.4</u>	<u>76.6</u>

The subsidiary companies disposed of during the year utilised HK\$6.7 million of the Group's net operating cash flows and contributed HK\$0.9 million in respect of the net returns on investments and servicing of finance.

The subsidiary companies disposed of in the prior year contributed HK\$5.1 million to the Group's net operating cash flows and utilised HK\$54.5 million for investing activities.

48. CONNECTED AND RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate	(a)	20.8	29.7
Gross construction fee income from a jointly controlled entity	(b)	2.4	—
Interest on loans to associates	(c)	9.9	11.8
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(d)	2,310.0	2,310.0
Guarantee given in respect of a banking facility granted to an associate	(e)	—	109.0

Notes:

- (a) The advertising and promotion fees were paid to 8D International Limited (“8D”) and comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed. During the year, information technology services were also provided, the fees for which were charged on project basis.
- (b) The gross construction fee income from a jointly controlled entity was charged to Chest Gain Development Limited (“Chest Gain”) in respect of a property development project, pursuant to construction contracts awarded through competitive tendering process. Details of the Group’s trade balances with its jointly controlled entity as at the balance sheet date, are disclosed in note 27 to the financial statements.
- (c) The interest income from associates in the current year arose from loans to Cheerjoy Development Limited. The prior year interest income also included interest income arose from loans to Bostonian Hotel Limited Partnership and Century King Investment Limited. The details of the terms of such loans are disclosed in note 19 to the financial statements.
- (d) The corporate guarantees were given by PHL and RHIHL in respect of a banking facility granted to Chest Gain.
- (e) The prior year corporate guarantee was given by PHL in respect of a banking facility granted to Rapid Growth Holdings Limited, the then holding company of Chi Cheung Investment Company, Limited. The obligation under the guarantee was fully provided for in prior year and reclassified as a bank loan in the current year.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

The related party transactions set out in notes 48(a) to (e) above did not constitute connected transactions as defined in the Listing Rules.

49. PLEDGE OF ASSETS

At the balance sheet date, certain of the Group's time deposits, listed investments, fixed assets including properties and equipment, properties under development, inventories and receivables with a total carrying value of HK\$12,160.0 million (2000 - HK\$14,235.0 million) and certain ordinary shares in the listed subsidiary companies and the shares in a jointly controlled entity were pledged to secure general banking facilities granted to the Group and the jointly controlled entity and to secure exchange rights under the Exchangeable Bonds issued by the PHL Group.

50. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2001	2000	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank and other borrowings of:				
- a jointly controlled entity	1,757.7	1,757.7	—	—
- subsidiary companies	<u>—</u>	<u>—</u>	<u>896.8</u>	<u>880.9</u>
	<u>1,757.7</u>	<u>1,757.7</u>	<u>896.8</u>	<u>880.9</u>

(b) As detailed in note 27 to the financial statements, on 18th November, 1999, the RHIHL Group entered into a securities purchase agreement (the "SP 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 USA.

The SP Agreement also contains representations, warranties and indemnification given by the RHIHL Group which are normal and usual for transactions of similar nature. At the date of this report, the directors of RHIHL are unable either to assess the likelihood of the crystallisation of any contingent liability or to estimate the amounts thereof with reasonable accuracy. Further details in respect of the unresolved allegedly indemnifiable claims made by the Purchaser are set out in note 27 to the financial statements.

51. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Group leases certain of its properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 7 years. The terms of the leases generally also require the tenants to pay security deposits and in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 31st December, 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Within one year	125.4	135.1
In the second to fifth years, inclusive	119.5	133.5
After five years	<u>—</u>	<u>5.2</u>
	<u>244.9</u>	<u>273.8</u>

During the year, the Group recognised HK\$0.4 million (2000 - HK\$0.8 million) in respect of contingent rental receivable.

(b) **As lessee**

The Group leases certain of its office equipment under operating lease arrangements. Leases for office equipment are negotiated for terms ranging from 1 month to 9 years.

At 31st December, 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Other equipment:		
Within one year	3.9	4.5
In the second to fifth years, inclusive	<u>1.2</u>	<u>3.6</u>
	<u>5.1</u>	<u>8.1</u>

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

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

52. COMMITMENTS

In addition to the operating lease commitments detailed in note 51(b) above, the Group had the following commitments at the balance sheet date:

	GROUP	
	2001 <i>HK\$ million</i>	2000 <i>HK\$ million</i>
Capital commitments in respect of acquisition of interests in a hotel property in the PRC:		
Authorised and contracted for	3.4	6.5
Capital commitments in respect of renovation or improvement of hotel properties:		
Authorised and contracted for	22.2	26.0
Authorised, but not contracted for	<u>51.4</u>	<u>81.0</u>
	<u>73.6</u>	<u>107.0</u>
Capital commitments in respect of property and hotel development projects:		
Authorised and contracted for	2.4	2.9
Authorised, but not contracted for	<u>28.3</u>	<u>36.0</u>
	<u>30.7</u>	<u>38.9</u>
	<u><u>107.7</u></u>	<u><u>152.4</u></u>

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

53. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	GROUP	
	2001 <i>HK\$ million</i>	2000 <i>HK\$ million</i>
Notional amount of options	<u>30.9</u>	<u>43.4</u>

The notional amounts of the above instruments indicate the volume of the transactions outstanding at the balance sheet date, and do not represent the amount at risk.

54. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events as detailed elsewhere in the financial statements, the Group entered into the following significant transactions:

- (a) On 7th March, 2002, 90 million ordinary shares of HK\$0.10 each of RHIHL were issued to Taylor Investments Ltd. (“Taylor”), a wholly-owned subsidiary company of PHL, at HK\$0.14 per ordinary share for a total consideration of HK\$12.6 million, following a placing of 150 million ordinary shares at the same price by Taylor to independent places on 27th February, 2002. The net proceeds from the above placement were used for general working capital purposes.
- (b) On 8th March, 2002, 250,000,000 new shares (“Consideration Shares”) of HK\$0.10 each of the Company were allotted, issued and credited as fully paid to a nominee of Prism Communications International Limited (“Prism”) at HK\$0.10 per Consideration Share in satisfaction of the consideration for the subscription by Expert Link Technology Limited, a wholly-owned subsidiary company of the Company for 10,000,000 ordinary shares of HK\$0.01 each in Prism pursuant to a Share Exchange Agreement dated 18th February, 2002 (the “Agreement”) entered into between, inter alia, the Company and Prism. Pursuant to the Agreement, the Group has also been granted an option by Prism to subscribe for up to a further 30 million shares in Prism at an exercise price of 25 new shares of the Company per Prism share, subject to certain adjustments.

The principal activity of Prism is the provision of telecommunications and internet-related businesses and equipment trading through its subsidiary company which is an emerging Internet Telephony Service Provider of international voice and fax long distance services.

55. COMPARATIVE AMOUNTS

In addition to the reclassification/restatement of certain comparative amounts as detailed in notes 6 and 7 to the financial statements, due to the adoption of certain new and revised SSAPs during the year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements as further explained in note 2. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year’s presentation.

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2002.

3. FINANCIAL INFORMATION ON THE PHL GROUP

- (a) Set out below is a summary of the auditors' report of Paliburg for the financial year ended 31st December, 2001.

Fundamental uncertainties**– Provision against investments in two investee companies**

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements for the year ended 31st December, 2001 concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying value of the PHL Group's investments in the Investee Companies amounted to HK\$118.9 million (2000 - HK\$298.9 million) as at 31st December, 2001. The Directors are currently unable to determine with reasonable certainty the outcome of the negotiations for the reversion of the land site to the Investee Companies. Accordingly, it is not possible to determine at this stage as to whether any further provision against the PHL Group's investments in the Investee Companies is necessary. The Auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

– Provision against a receivable

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements concerning the outcome in respect of a receivable of approximately HK\$400.1 million comprising (i) a deferred consideration of US\$45 million (HK\$351 million) which arose in connection with the disposal by Regal Hotels International Holdings Limited, Paliburg's principal listed subsidiary, of its hotel interests in the United States of America in December 1999 (the "Disposal") and (ii) interest aggregating HK\$49.1 million accrued thereon (collectively, the "Consideration Receivable") which was due to be paid by the purchaser (the "Purchaser") on 17th December, 2001. The Purchaser alleges that the aggregate amount of certain third party claims covered by indemnifications given by Regal group under the Disposal agreement exceeds the deferred consideration and has withheld payment of the Consideration Receivable. The directors of Regal are currently unable to determine with reasonable certainty the time required for the resolution of the underlying legal claims, the legal or settlement costs that may be involved, and the timing of the receipt of the Consideration Receivable. Accordingly, the directors of Regal are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. The Auditors consider that appropriate disclosures have been made and their opinion is not qualified in this respect.

Fundamental uncertainties relating to the going concern basis

- The Auditors, in forming their opinion, have considered the adequacy of the disclosures made in the financial statements which explain the circumstances giving rise to the fundamental uncertainties relating to:
 1. the outcome of completion of the proposed settlement with the bondholders of the two outstanding bonds of the Paliburg Group;
 2. the outcome of finalisation of the proposed bilateral facilities arrangement with the financial creditors of the Paliburg Group to replace the Paliburg Group's existing informal standstill arrangement;
 3. the outcome of the proposed restructuring of a syndicated loan and a construction loan, with outstanding amounts of HK\$3,822.1 million and HK\$1,079.5 million as at 31st December, 2001, respectively, of Regal group;
 4. the successful recovery of Regal group's Consideration Receivable;
 5. the outcome of the proposed fund-raising arrangement of Regal group through equity issues; and
 6. the continued successful implementation of assets disposal programmes of the Paliburg Group and Regal group.

The Auditors consider that appropriate disclosures have been made but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme that they have disclaimed their opinion.

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

- (b) Set out below are summaries of the audited consolidated profit and loss accounts of the PHL Group for the three years ended 31st December, 2001, extracted from the audited financial statements of the PHL Group.

	Year ended 31st December,		
	2001	2000	1999
	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
		<i>(Restated)</i>	<i>(Restated)</i>
Turnover	<u>1,951.8</u>	<u>1,855.5</u>	<u>4,729.5</u>
Profit/(Loss) from operating activities	(386.3)	157.6	(337.6)
Finance costs	(738.5)	(827.8)	(1,138.2)
Share of profits less losses of:			
Jointly controlled entity	(90.9)	(142.3)	(138.4)
Associates	<u>(5.9)</u>	<u>2.5</u>	<u>21.5</u>
Loss before tax	(1,221.6)	(810.0)	(1,592.7)
Tax	<u>3.8</u>	<u>(18.9)</u>	<u>(55.9)</u>
Loss before minority interests	(1,217.8)	(828.9)	(1,648.6)
Minority interests	<u>146.8</u>	<u>98.7</u>	<u>285.0</u>
Net loss from ordinary activities attributable to shareholders	<u>(1,071.0)</u>	<u>(730.2)</u>	<u>(1,363.6)</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

- (c) Set out below are the consolidated balance sheets of the PHL Group as at 31st December, 2000 and 2001, extracted from the annual report of Paliburg for the year ended 31st December, 2001.

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
NON-CURRENT ASSETS		
Fixed assets	11,496.1	13,725.4
Properties under development	50.1	58.1
Property held for future development	26.7	26.7
Interest in a jointly controlled entity	1,036.9	1,073.5
Interests in associates	255.3	245.9
Long term investments	161.1	449.6
Loans and other long term receivable	303.3	351.1
Deferred expenditure	46.9	73.4
Deposit for acquisition of interest in a hotel property	5.6	2.5
	<u>13,382.0</u>	<u>16,006.2</u>
CURRENT ASSETS		
Short term loans receivable	0.9	0.9
Short term investments	—	9.7
Properties under development	117.0	156.0
Properties held for sale	209.2	279.6
Hotel and other inventories	29.4	41.2
Debtors, deposits and prepayments	645.5	713.9
Pledged time deposits	3.8	122.1
Time deposits	154.5	380.3
Cash and bank balances	47.0	48.3
	<u>1,207.3</u>	<u>1,752.0</u>
CURRENT LIABILITIES		
Creditors and accruals	736.6	652.5
Tax payable	39.0	63.9
Interest bearing bank and other borrowings	1,245.5	937.4
Exchangeable bonds	1,004.9	1,090.3
Convertible bonds	1,620.8	1,638.0
Provision for premium on redemption of exchangeable bonds and convertible bonds	815.6	779.2
Deposits received	65.4	70.0
Provisions	—	109.0
	<u>5,527.8</u>	<u>5,340.3</u>
NET CURRENT LIABILITIES	<u>(4,320.5)</u>	<u>(3,588.3)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>9,061.5</u>	<u>12,417.9</u>

APPENDIX I**FINANCIAL INFORMATION —
THE CCIHL GROUP AND THE PHL GROUP**

	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	9,061.5	12,417.9
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	(5,536.5)	(5,957.8)
Advances from minority shareholders of subsidiary companies	<u>(38.6)</u>	<u>(36.4)</u>
	(5,575.1)	(5,994.2)
Minority interests	<u>(1,305.8)</u>	<u>(1,748.5)</u>
	<u>2,180.6</u>	<u>4,675.2</u>
CAPITAL AND RESERVES		
Issued capital	2,318.5	2,318.5
Reserves	<u>(137.9)</u>	<u>2,356.7</u>
	<u>2,180.6</u>	<u>4,675.2</u>

4. INDEBTEDNESS OF THE CCIHL GROUP

As at the close of business on 30th June, 2002, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the CCIHL Group had outstanding borrowings (including overdue normal contractual interest payable but excluding default interest payable on the borrowings of the CCIHL Group) of approximately HK\$11,532,865,000, comprising:

- (1) secured bank loans of approximately HK\$5,885,478,000;
- (2) unsecured bank loans of approximately HK\$278,599,000;
- (3) secured other loans of approximately HK\$1,242,848,000;
- (4) unsecured other loans of approximately HK\$374,976,000; and
- (5) convertible bonds and exchangeable bonds, including related premium and overdue interest, in the amount of approximately HK\$2,442,018,000 and approximately HK\$1,308,946,000, respectively.

As at the close of business on 30th June, 2002, the CCIHL Group had contingent liabilities in respect of guarantees for bank loans made available to a jointly controlled entity and a third party, together with related overdue normal contractual interest payable, of approximately HK\$2,257,119,000 in aggregate.

Save as disclosed above and apart from intra-group liabilities, the CCIHL Group did not have, as at the close of business on 30th June, 2002, 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 30th June, 2002, the CCIHL Group's contingent liabilities in respect of guarantees for a bank loan made available to a jointly controlled entity has increased by approximately HK\$18,024,000 as a result of a further drawdown from the bank loan facility by that jointly controlled entity.

Save as disclosed herein, the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the CCIHL Group since 30th June, 2002.

5. WORKING CAPITAL OF THE CCIHL GROUP

Since October 1998, the Century City Group and the Paliburg Group have encountered liquidity problems and conducted discussions with their respective financial creditors for the purpose of implementing standstill arrangements in order to permit the Century City Group and the Paliburg Group to suspend the repayment of their outstanding indebtedness (the “Standstill Arrangements”). Informal Standstill Arrangement of the Century City Group has been in operation since the formal Standstill Arrangement last expired on 31st October, 2000 while the Paliburg Group has now substantially finalised the bilateral facilities arrangements with its relevant financial creditors to replace its informal Standstill Arrangement.

As noted in the 2001 annual report of Century City, while continuing discussions were being maintained by Century City with the financial creditors of the Century City Group since 2000, no consensual debt restructuring proposal has yet been agreed with the financial creditors. At the request of the financial creditors, the Century City Group appointed in November 2001 another independent financial adviser to assist in the formulation of a consensual proposal for the restructuring of the terms of the Century City Group’s outstanding indebtedness with its financial creditors (the “Debt Restructuring”) in order to replace the existing informal Standstill Arrangement of the Century City Group.

Moreover, the Paliburg Group is in the final stage of implementation of the Settlement Proposal. The principal, interest and accrued redemption premium in respect of the Existing Bonds outstanding as at 31st December, 2001 amounted to HK\$3,646.4 million. Details of the Settlement Proposal were contained in the section headed “The Settlement Proposal” in the Letter of the Board which forms part of this circular. Certain major holders of the Convertible Bonds have agreed in principle to support the proposal. The completion of the Settlement Proposal is subject to, among others, the approvals by the Existing Bondholders and the respective shareholders of Century City and Paliburg.

Since 1998, certain of the Regal 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 as at 31st December, 2001, comprising a syndicated loan of HK\$3,822.1 million (the “Syndicated Loan”) and a construction loan of HK\$1,079.5 million (the “Construction Loan”) (collectively, the “Regal Loans”).

In addition to the foregoing, certain principal repayment instalments of the Construction Loan and a term loan with outstanding principal as at 31st December, 2001 of CAD35.5 million (approximately HK\$174.2 million) made to a subsidiary company of Regal in Canada (the “Canada Loan”) remained unpaid to date.

However, to date, no notice has been served by the agents who act on behalf of the lenders of the Regal Loans, nor a discretion has been exercised by the lender of the Canada Loan, to declare either loan immediately due and repayable.

With respect to the Canada Loan, which is secured by a pledge of a hotel property in Canada owned by the Regal Group, Regal is conducting detailed negotiations with prospective purchasers for the sale of the hotel property with a view to repaying the Canada Loan in full.

Pursuant to the terms of the loan agreement in respect of the Syndicated Loan, as supplemented by two letters dated 29th May, 2002 and 31st July, 2002 signed by the Regal Group, the lenders of the Syndicated Loan can exercise options to require the Regal Group to prepay their respective participations in the remaining outstanding indebtedness on the option exercise date of 8th September, 2002.

The Regal Group continues to hold discussions with the lenders of the Regal Loans with a view to securing their ongoing support. In April 2002, Regal appointed a financial adviser to assist in the discussions on a proposed restructuring of the Regal Loans. The directors of Regal are hopeful that a standstill arrangement (the “Regal Standstill Arrangement”) can be put in place in the near future in order to allow time and provide financial stability to the Regal Group to (i) improve the performance and hence the value of its core hotel assets; (ii) realise other non-hotel related receivables, including the US\$45.0 million (approximately HK\$351.0 million) deferred consideration plus interest in relation to the Regal Group’s disposal of its hotel interests in the United States of America in 1999 (the “Consideration Receivable”); and (iii) implement an asset disposal programme and the financing arrangements as further detailed below.

With a view to improving its cash flow and profitability, the Regal Group is actively working on the disposal of certain of its hotel and other non-core assets (the “Disposal Programme”) so that additional resources may be directed to its core hotel operations. Furthermore, the Regal Group is also considering other financing arrangements, including the raising of additional working capital through equity issues (the “Financing Arrangements”).

On the bases that the Debt Restructuring, the Settlement Proposal, the Regal Standstill Arrangement, the recovery of the Consideration Receivable, and the implementation of the Disposal Programme and the Financing Arrangements will be successful, the Directors are of the opinion that the CCIHL Group as a whole has sufficient working capital for its present requirements.

6. MATERIAL ADVERSE CHANGE OF THE CCIHL GROUP

Save as disclosed in this circular, the Directors are not aware of any material adverse change in the financial or trading position of the CCIHL Group since 31st December, 2001, being the date to which the latest published audited consolidated accounts of Century City and its subsidiaries were made up.

7. PROFORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET
TANGIBLE ASSETS OF THE CCIHL GROUP

	Scenario 1 HK\$'million (Note 6)	Scenario 2 HK\$'million (Note 6)
Audited consolidated deficiency in net tangible assets as at 31st December, 2001	(209.7)	(209.7)
Acquisition of an approximately 9.7% equity interest in Prism Communications International Limited after 31st December, 2001	49.0	49.0
Attributable share of the decrease in the consolidated net tangible assets of the PHL Group between 31st December, 2001 and the Latest Practicable Date (Note 1)	<u>(99.1)</u>	<u>(99.1)</u>
Proforma adjusted consolidated deficiency in net tangible assets as at the Latest Practicable Date	(259.8)	(259.8)
<i>Effect of the Stanley Transfer</i>		
Attributable share of the increase in the proforma adjusted consolidated net tangible assets of the PHL Group (Note 2)	<u>184.1</u>	<u>184.1</u>
Proforma adjusted consolidated deficiency in net tangible assets immediately after the Stanley Transfer	(75.7)	(75.7)
<i>Effect of the Settlement Proposal</i>		
Attributable share of the increase in the proforma adjusted consolidated net tangible assets of the PHL Group (Note 3)	<u>258.4</u>	<u>258.4</u>
Proforma adjusted consolidated net tangible assets immediately after the Settlement Proposal	182.7	182.7
<i>Effect of the Paliburg Acquisition</i>		
Net effect of the decrease in shareholding interest in Paliburg and the increase in proforma adjusted consolidated net tangible assets of the PHL Group (Note 4)	<u>(944.5)</u>	<u>(1,041.2)</u>
Proforma adjusted consolidated deficiency in net tangible assets after the Paliburg Acquisition and conversion of the Paliburg Convertible Preference Shares in full	(761.8)	(858.5)

	Scenario 1 <i>HK\$'million</i> <i>(Note 6)</i>	Scenario 2 <i>HK\$'million</i> <i>(Note 6)</i>
Proforma adjusted consolidated deficiency in net tangible assets after the Paliburg Acquisition and conversion of the Paliburg Convertible Preference Shares in full	(761.8)	(858.5)
<i>Effect of the Share Swap</i>		
Increase in shareholding interest in Paliburg as a result of the acquisition of all the issued Exchangeable Preference Shares (assuming after full conversion of the Paliburg Convertible Preference Shares) <i>(Note 5)</i>	<u>1,664.9</u>	<u>1,546.0</u>
Proforma adjusted consolidated net tangible assets immediately after the Share Swap and conversion of the Paliburg Convertible Preference Shares in full	<u>903.1</u>	<u>687.5</u>
	<i>HK\$</i>	<i>HK\$</i>
Audited consolidated net tangible assets per Century City Ordinary Share as at 31st December, 2001 based on 3,326,773,953 shares then in issue	<u>N/A</u>	<u>N/A</u>
Proforma adjusted consolidated net tangible assets per Century City Ordinary Share:		
as at the Latest Practicable Date based on 3,816,773,953 shares then in issue	<u>N/A</u>	<u>N/A</u>
immediately after the Stanley Transfer based on 3,816,773,953 shares then in issue	<u>N/A</u>	<u>N/A</u>
immediately after the Settlement Proposal based on 3,816,773,953 shares then in issue	<u>0.048</u>	<u>0.048</u>
after the Paliburg Acquisition and conversion of the Paliburg Convertible Preference Shares in full based on 3,816,773,953 shares then in issue	<u>N/A</u>	<u>N/A</u>
after the Share Swap (after conversion of the Paliburg Convertible Preference Shares in full and acquisition of all the issued Exchangeable Preference Shares) based on 17,616,773,953 shares (Scenario 1) and 18,816,773,953 shares (Scenario 2) then in issue	<u>0.051</u>	<u>0.037</u>

Notes:

1. Based on the audited financial statements of Paliburg as at 31st December, 2001, the consolidated net tangible assets of the PHL Group was approximately HK\$2,133.7 million. The consolidated net tangible assets of the PHL Group decreased to approximately HK\$1,966.4 million as at the Latest Practicable Date. The shareholding interest of the Century City Group in Paliburg was approximately 59.22% as at 31st December, 2001 and remained unchanged as at the Latest Practicable Date, and thus the consolidated net tangible assets of the PHL Group attributable to the CCIHL Group as at the Latest Practicable Date decreased by approximately HK\$99.1 million from approximately HK\$1,263.6 million to approximately HK\$1,164.5 million.
2. Further to Note 1. above, the proforma adjusted consolidated net tangible assets of the PHL Group will increase from approximately HK\$1,966.4 million as at the Latest Practicable Date to approximately HK\$2,277.3 million as a result of the Stanley Transfer. The attributable share of the CCIHL Group in such increase in the proforma adjusted consolidated net tangible assets of the PHL Group is approximately HK\$184.1 million.
3. Further to Note 2. above, the proforma adjusted consolidated net tangible assets of the PHL Group will further increase from approximately HK\$2,277.3 million to approximately HK\$2,713.6 million as a result of the Settlement Proposal. The attributable share of the CCIHL Group in such increase in the proforma adjusted consolidated net tangible assets of the PHL Group is approximately HK\$258.4 million.
4. Further to Note 3. above, the proforma adjusted consolidated net tangible assets of the PHL Group will increase from approximately HK\$2,713.6 million to approximately HK\$2,783.6 million (Scenario 1) or HK\$2,913.6 million (Scenario 2) as a result of the Paliburg Acquisition. The shareholding interest of the Century City Group in Paliburg will decrease from approximately 59.22% to approximately 23.80% (Scenario 1) or 19.42% (Scenario 2) after conversion of the Paliburg Convertible Preference Shares in full by holders other than Century City or its subsidiaries. As such, the attributable share of the CCIHL Group in the proforma adjusted consolidated net tangible assets of the PHL Group will decrease from approximately HK\$1,607.0 million to (i) approximately HK\$662.5 million, representing a decrease of approximately HK\$944.5 million (Scenario 1) or (ii) approximately HK\$565.8 million, representing a decrease of approximately HK\$1,041.2 million (Scenario 2).
5. Further to Note 4. above, the shareholding interest of the Century City Group in Paliburg will increase (i) from approximately 23.80% to approximately 83.61% (Scenario 1) or (ii) from approximately 19.42% to approximately 72.48% (Scenario 2). The attributable share of the CCIHL Group in the proforma adjusted consolidated net tangible assets of the PHL Group will increase (i) from approximately HK\$662.5 million to HK\$2,327.4 million, representing an increase of approximately HK\$1,664.9 million (Scenario 1) or (ii) from approximately HK\$565.8 million to approximately HK\$2,111.8 million, representing an increase of approximately HK\$1,546.0 million (Scenario 2).
6. Scenario 1: assuming (i) 3,450 million Paliburg Convertible Preference Shares will be issued, (ii) the consolidated net tangible assets of the VPI Group will amount to approximately HK\$70 million as at completion of the Paliburg Acquisition and (iii) 13,800 million Exchangeable Preference Shares will be issued.

Scenario 2: assuming (i) 4,750 million Paliburg Convertible Preference Shares will be issued, (ii) the consolidated net tangible assets of the VPI Group will amount to approximately HK\$200 million as at completion of the Paliburg Acquisition and (iii) 15,000 million Exchangeable Preference Shares will be issued.

8. PROFORMA STATEMENT OF UNAUDITED ADJUSTED CONSOLIDATED NET
TANGIBLE ASSETS OF THE PHL GROUP

	Scenario 1	Scenario 2
	<i>HK\$'million</i>	<i>HK\$'million</i>
	<i>(Note 5)</i>	<i>(Note 5)</i>
Audited consolidated net tangible assets as at 31st December, 2001	2,133.7	2,133.7
Decrease in shareholding interest in Regal since 31st December, 2001 up to the Latest Practicable Date <i>(Note 1)</i>	(141.9)	(141.9)
Decrease in liabilities upon decrease in shareholding interest in Regal	9.7	9.7
Disposal of Redhill Plaza <i>(Note 2)</i>	<u>(35.1)</u>	<u>(35.1)</u>
Proforma adjusted consolidated net tangible assets as at the Latest Practicable Date	1,966.4	1,966.4
<i>Effect of the Stanley Transfer</i>		
Carrying value of 40% interest in the Stanley Project as at 31st December, 2001	(547.2)	(547.2)
Net effect in the increase in shareholding interest in Regal <i>(Note 3)</i>	<u>858.1</u>	<u>858.1</u>
Proforma adjusted consolidated net tangible assets immediately after the Stanley Transfer	2,277.3	2,277.3
<i>Effect of the Settlement Proposal</i>		
The aggregate value of the net tangible assets under the Property Transfer as at 31st December, 2001 to be transferred out	(1,643.4)	(1,643.4)
The aggregate indebtedness of the Existing Bonds as at 31st December, 2001 to be cancelled	3,646.4	3,646.4
Decrease in economic interest in Regal upon Bonds Settlement Closing <i>(Note 4)</i>	<u>(1,566.7)</u>	<u>(1,566.7)</u>
Proforma adjusted consolidated net tangible assets immediately after the Settlement Proposal	2,713.6	2,713.6
<i>Effect of the Paliburg Acquisition</i>		
Consolidated net tangible assets of the VPI Group <i>(Note 5)</i>	<u>70.0</u>	<u>200.0</u>
Proforma adjusted consolidated net tangible assets immediately after the Paliburg Acquisition	<u><u>2,783.6</u></u>	<u><u>2,913.6</u></u>

Notes:

1. Based on the audited financial statements of Regal as at 31st December, 2001, the consolidated net tangible assets of the Regal Group attributable to the Regal Ordinary Shares as at 31st December, 2001 was approximately HK\$4,411.0 million. Regal carried out an equity issue raising a net cash proceeds of approximately HK\$12.3 million in March 2002. The shareholding interest of the Paliburg Group in Regal decreased from approximately 72.75% as at 31st December, 2001 to approximately 69.34% as at the Latest Practicable Date. The consolidated net tangible assets of the Regal Group attributable to the PHL Group as at the Latest Practicable Date accordingly decreased by HK\$141.9 million from approximately HK\$3,209.0 million to approximately HK\$3,067.1 million.
2. The PHL Group disposed of its entire interest in a property known as Redhill Plaza in Hong Kong in June 2002 for a consideration of HK\$169.9 million.
3. Further to Note 1. above, upon completion of the Stanley Transfer (and assuming there will be no other transactions which would affect the consolidated net tangible assets of the Regal Group), the consolidated net tangible assets of the Regal Group attributable to Regal Ordinary Shares will increase to approximately HK\$4,945.4 million. The percentage shareholding of the Paliburg Group in Regal will increase from approximately 69.34% to approximately 79.37% as a result of the Stanley Transfer. The consolidated net tangible assets of the Regal Group attributable to the PHL Group will accordingly increase by HK\$858.1 million from approximately HK\$3,067.1 million to approximately HK\$3,925.2 million.
4. Further to Notes 1. and 3. above, upon Bonds Settlement Closing, the economic interest of the Paliburg Group in Regal will decrease from approximately 79.37% to approximately 47.69%. The consolidated net tangible assets of the Regal Group attributable to the PHL Group will accordingly decrease by approximately HK\$1,566.7 million from approximately HK\$3,925.2 million to approximately HK\$2,358.5 million.
5. Scenario 1: assuming (i) 3,450 million Paliburg Convertible Preference Shares will be issued and (ii) the consolidated net tangible assets of the VPI Group will amount to approximately HK\$70 million as at completion of the Paliburg Acquisition.

Scenario 2: assuming (i) 4,750 million Paliburg Convertible Preference Shares will be issued and (ii) the consolidated net tangible assets of the VPI Group will amount to approximately HK\$200 million as at completion of the Paliburg Acquisition.

The following is the text of a letter with valuation certificate, prepared for the purpose of inclusion in this circular, received from FPD Savills, an independent property valuer, in connection with its valuation as at 31st May, 2002 on the Stanley Project.



26th August, 2002

The Directors
Paliburg Holdings Limited
Regal Hotels International Holdings
Limited
18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central, Hong Kong

Telephone: 2801 6100
Direct Line: 2842 4306
Direct Fax: 2530 0756

www.fpd Savillsproperty.com
www.fpd Savills.com

The logo for FPD Savills International, consisting of the text "FPD savills" in a black box followed by the word "International" in a black, sans-serif font.

Dear Sirs,

Re: The Proposed Residential Development, Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong (the “Property”)

In accordance with your instructions for us to prepare a report on open market value of the Gross Development Value of the Property as at 31st May, 2002 assuming it has been completed and ready for immediate occupation, we confirm that we have inspected the property, caused land searches at the Land Registry, made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the value of the Property as at 31st May, 2002.

For the purpose of this valuation, we would define “open market value” as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Gross Development Value is the open market value of the proposed development on the subject site, **assuming** that it has been **completed today** according to the details of the proposed development provided to us.

Our valuation is made in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors.

Our valuation has been made on the assumption that the owner sells the Property in the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the Property.

We have relied to a very considerable extent on information provided by the owner of the Property and have accepted advice given to us on such matters as statutory notices, occupancy details, easements, floor area and other relevant matters.

All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the owner of the Property and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by the owner of the Property. We have also been advised by the owner of the Property that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Other special assumptions of the Property have been stated in the footnotes of the valuation certificate for the Property.

We have not been provided with copies of the title documents relating to the Property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us.

No allowance has been made in our report for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

No structural or site survey has been made nor were any tests carried out on any of the services provided in the Property. We are, therefore, unable to report whether the Property is free from rot, infestation or any other structural defects. We have not carried out any investigation on site to determine the suitability of the ground conditions and services, etc. Our valuation has been prepared on the assumption that these aspects are satisfactory.

We have not verified and make no representation that the Property, including any plant and equipment therein, is millennium compliant, or that the value of the Property is not adversely affected in any way by any part of it not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

Our valuation certificate is attached hereto.

Yours faithfully,

For and on behalf of

FPDSavills (Hong Kong) Limited

Daniel Y M Mak

MSc, BSc, MRICS, AHKIS, RPS (GP)

Director

Valuation and Consultancy

Gilbert C H Chan

BSc (Hons), AHKIS, MRICS, RPS(GP)

Associate Director

Valuation and Consultancy

Note: Both Mr. Daniel Y M Mak and Mr. Gilbert C H Chan are chartered surveyors with over 9 years' valuation experience on all landed properties in Hong Kong.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Gross Development Value as at 31st May, 2002
The Proposed Residential Development, Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong	The property comprises a proposed residential development on a site having a registered site area of approximately 53,126 sq.m. (571,848 sq.ft.). Upon completion, the proposed development in two phases (i.e. Phase I and Phase II) will comprise a total of 139 luxury 3-storey houses with sizes ranging from about 2,800 sq.ft. to 4,000 sq.ft. each (building plan calculations).	The proposed development is currently under construction. We have been advised that 80% of the foundation works had been completed. The scheduled completion dates of the Phase I and II are: Phase I - 2nd Quarter 2003 Phase II - 4th Quarter 2003	HK\$5,282,000,000 <i>(refer to Note 6)</i>
Rural Building Lot No. 1138	According to the information provided to us, the total approved Gross Floor Area (GFA) of the Property under building plans is approximately 39,844 sq.m. (428,877 sq.ft.) whilst the total Non-accountable GFA of the property is approximately 40,055 sq.m. (431,148 sq.ft.). The property is held under Conditions of Sale No. 12461 for a lease term commencing on 3rd June, 1997 to 30th June, 2047.		

Notes:

1. The current registered owner of the property is Chest Gain Development Limited (“Chest Gain”) vide Conditions of Sale No. 12461 dated 3rd June, 1997.
2. The property is subject to the following encumbrances:
 - (i) Debenture incorporating Building Mortgage and Floating Charge in favour of Bank of China, Hong Kong Branch (now known as Bank of China (Hong Kong) Limited), Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, The Bank of East Asia, Limited and Bank of China, Macau Branch (“Lenders”), Hang Seng Finance Limited (as “Agent”) vide Memorial No. 7336567 dated 28th October, 1997.
 - (ii) Modification Letter vide Memorial No. 8348530 dated 22nd March, 2001
 - (iii) Supplemental to Debenture of Memorial No. 7336567 in favour of Bank of China, Hong Kong Branch (now known as Bank of China (Hong Kong) Limited), Hang Seng Bank Limited, The Hongkong and Shanghai Banking Corporation Limited, The Bank of East Asia, Limited and Bank of China, Macau Branch (“Lenders”), Hang Seng Finance Limited (as “Agent”) vide Memorial No. 8552966 dated 27th November, 2001

3. The salient development conditions as contained in the Conditions of Sale No. 12461 as modified by a Modification Letter (vide Memorial No. 8348530) include, inter alia, the following:
- SC (8) “The Purchaser [Chest Gain] shall develop the lot by the erection thereon of a building or buildings ... to be completed and made fit for occupation on or before the 30th day of June, 2001.”
- SC (9) “the lot or any part thereof or any building or part of any building erected or to be erected thereon shall not be used for any purpose other than for private residential (excluding service apartments) purposes.”
- SC (11) “the total gross floor area of any building or buildings erected or to be erected on the lot shall not be less than 23,900 square metres and shall not exceed 39,844 square metres;”
- SC (11) “the total site coverage of any building or buildings erected or to be erected on the lot shall not exceed 25% of the area of the lot;...and...as may be approved by the Director [of Lands] shall not be taken into account for the purpose of calculating the total site coverage hereinafter stipulated:-
- (a) cantilevered/elevated open landscaped decks/areas (excluding those over driveway and carpark);
 - (b) elevated open areas and stairs outside the domestic building lines;
 - (c) elevated passageways/stairs connecting the 4 rows of houses; and
 - (d) elevated open yards/courtyards;”
- SC (11) “any building or buildings erected or to be erected thereon shall not exceed three storeys (including any floor or space below the level of the ground)...and...as may be approved by the Director shall not be taken into account for the purpose of calculating the number of storeys hereinafter stipulated:-
- (a) E&M floor in House Types B, B4 and H;
 - (b) One storey covered landscaped area, two storeys E&M facilities and one storey refuse storage chamber underneath the club house open foyer;”
- SC (11) “no building or buildings or other structure or structures of any description resting upon supporting columns of the type commonly known as “stilts” shall be erected, constructed, or maintained on the lot unless the Purchaser satisfies the Director that no other form of construction is suitable”
- SC (12) “[Chest Gain]... may erect, construct and provide within the lot such recreational facilities and facilities ancillary thereto ... as may be approved in writing by the Director.”
- SC (19) “No building or structure or support for any building or structure may be erected or constructed on, over, under, above, below or within the areas shown coloured pink hatched black on the plan annexed hereto except”
- SC (20) “Spaces or car ports or both shall be provided within the lot to the satisfaction of the Director for the parking of private motor vehicles at the rate of not less than 1.5 spaces or car ports for every residential unit in the building or buildings erected or to be erected on the lot and at the rate of not less than 2 spaces or car ports for every house with single residence erected or to be erected on the lot.”
- SC (22) “[Chest Gain]...shall have no right of ingress or egress to or from the lot for the passage of motor vehicles except between the points X and Y through Z shown and marked on the plan annexed hereto”

4. According to the information provided by the owner of the Property, the approved Gross Floor Area (GFA) as per the building plans and the Non-accountable GFA of the proposed development are as follows:

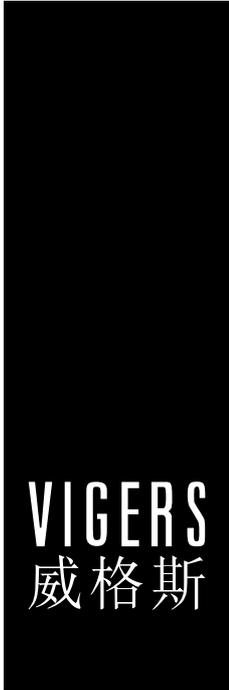
House Type	No. of House	Total GFA (Building Plan) (sq.m.) (A)	Total Non-accountable GFA (Building Plan) (sq.m.) (B)	Total GFA and Non-accountable GFA (Building Plan) (sq.m.) (A+B)	Common Area (sq.m.)	Slope Area (sq.m.)
Phase I	84	24,148.434	24,477.587	48,626.021	13,401.866	32,231.149
Phase II	55	15,695.121	15,577.509	31,272.630	2,228.807	11,998.172
Total	139	39,843.555	40,055.096	79,898.651	15,630.673	44,229.321

5. With reference to Note 3 above, we noted that the building covenant (i.e. to complete and make fit for occupation on or before 30th June, 2001) has not been complied with by Chest Gain. Nevertheless, our valuation has been conducted on the basis that the property is free from any encumbrances of onerous nature affecting its value.
6. The Gross Development Value is the open market value of the proposed development on the subject site assuming it had been completed today in accordance with the floor areas, house type, master layout, and other details of the proposed development that have been provided to us. We have assumed that the property had been finished and fitted to a high quality standard commensurate with other luxurious houses in the locality. We have also assumed that all outstanding construction costs and other associated development costs would have been fully paid and settled when they fell due.
7. In arriving at our opinion of Gross Development Value, comparison method has been adopted. Recent sales transactions of similar properties in the locality are obtained and analysed. Necessary adjustments have been made to reflect the inherent characteristics, such as size, location and other factors between the subject property and the comparables.
8. We have made reference to the development scheme and the architectural plans furnished to us and have assumed that the proposed property will be sold with the benefit of vacant possession. Furthermore, we have valued each of the houses individually and have not allowed for any bulk discount for selling the whole of, or portfolio(s) of houses in the development.

The following is the text of a letter with valuation certificate, prepared for the purpose of inclusion in this circular, received from Vigers, an independent property valuer, in connection with its valuations as at 31st May, 2002 on Paliburg Plaza and Kowloon City Plaza.

Vigers Hong Kong Ltd.
International Property Consultants

Suites 1607-12, 16/F
Miramar Tower
132 Nathan Road
Tsimshatsui
Kowloon
Hong Kong



VIGERS
威格斯

26th August, 2002

The Board of Directors
Paliburg Holdings Limited
18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs

In accordance with your instructions for us to value Paliburg Plaza and Kowloon City Plaza which are held by the subsidiaries of Paliburg Holdings Limited (together with Paliburg Holdings Limited referred to as the “Group”), we confirm that we have carried out inspections, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the open market values of these property interests as at 31st May, 2002.

Our valuations represent our opinion of the open market value. We define open market value as “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the owner sold the properties on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase or decrease the value of the properties. In additions, no forced sale situation in any manner is assumed in our valuations.

We have caused searches to be made at the Land Registry and in some instances we have been provided with extracts from title documents relating to those properties. We have not, however, searched the original documents to verify ownership or to verify the existence of any lease amendments which do not appear on the copies handed to us. All documents and leases have been used for reference only. All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Group and therefore only approximation.

We have inspected the exterior and, where possible, the interior of all properties included in the attached valuation certificates. However, we have not carried out any structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible. We are therefore unable to confirm whether the properties are free from rot, infestation or any other defects. No tests were carried out on any of the services.

In valuing the property interests, we have adopted the investment approach which capitalises the current rent receivable from the existing tenancy and the potential reversionary market rent of the property interests with taking into account the latest market rental comparables in the open market.

We have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, particulars of occupancy, lettings, rental income and revenue, joint venture agreements, development plans, construction costs estimates, site and floor areas, the identification of those properties in which the Group has valid interests and all other relevant matters.

Moreover, we must point out that we have not carried out site investigations in order to determine the suitability of the ground conditions or the services for any property development erected or to be erected thereon. Nor did we undertake archaeological, ecological or environmental surveys for the property interests. Our valuation is on the assumption that these aspects are satisfactory and that where development is contemplated, no extraordinary expenses or delays will be incurred during the construction period. Should it be discovered that contamination, subsidence or other latent defects exists in the property interests or on adjoining or neighbouring land, or that the property interests have been or are being put to contaminated use, we reserve right to revise the open market value aforesaid. Our valuation is prepared on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We were also advised by the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

These valuation certificates are issued subject to our General Service Conditions.

We enclose herewith our summary of valuation and valuation certificates.

Yours faithfully,
For and on behalf of
VIGERS HONG KONG LIMITED
Joseph K P Leung MRICS AHKIS
Registered Professional Surveyor
Director
Valuation Department

Note: Mr. Joseph K P Leung, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in the People's Republic of China and Hong Kong with more than two years' experience as required by Practice Note 12 to the Listing Rules.

SUMMARY OF VALUES**Property interests held for investment by the Group in Hong Kong**

Property	Capital Value in existing state as at 31st May, 2002
1. Paliburg Plaza No. 68 Yee Wo Street Causeway Bay Hong Kong	HK\$650,000,000
2. Kowloon City Plaza No. 128 Carpenter Road Kowloon City Kowloon	HK\$1,830,000,000
	<hr/>
Total:	<u>HK\$2,480,000,000</u>

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May, 2002
1. Paliburg Plaza No. 68 Yee Wo Street Causeway Bay Hong Kong Section K of Inland Lot No. 1408.	<p>The property comprises a 16-storey Grade A office building (including 2 mechanical floors) and a 7-level shopping and car parking podium (plus 1 level of basement) which are erected on a site having a total registered site area of about 1,727.17 square metres (18,591 square feet), with frontages to Yee Wo Street, Pennington Street and Irving Street.</p> <p>The subject shopping and car parking podium (also known as Phase I) was completed in 1984 and has a gross area of approximately 7,266.04 square metres (78,211 square feet) of retail/restaurant floor space on the Ground to Third Levels whilst the remaining levels accommodate approximately 107 car parking spaces.</p> <p>The subject office building (also known as Phase II) was completed in about 1989 and comprises a gross area of about 12,951.98 square metres (139,414 square feet).</p> <p>The property is held under a Government Lease for a term of 999 years from 25th December, 1884.</p> <p>The annual Ground Rent for the property is HK\$4.34.</p>	<p>As at 1st June, 2002, the property was let to various external tenants and companies affiliated with or subsidiaries of the Group with 1,903.58 square metres (20,490 square feet) remained vacant and yielded a total monthly rental of HK\$3,827,489.70, exclusive of rates, management fee, air-conditioning charges, licence fees and income from car parking spaces. Monthly licence fees for antennae receivable was about HK\$78,500.00. Car parking spaces were let on hourly and monthly basis yielding a total revenue of HK\$4,692,151.90 for the period between June 2001 and May 2002.</p>	HK\$650,000,000

Notes:

1. The registered owner of the property is Treasure Spot Investments Limited which is an indirect wholly-owned subsidiary of Paliburg Holdings Limited.
2. The property is subject to a Modification Letter and a Deed of Restrictive Covenant.
3. The property is subject to a Deed of Covenant, Grant of Right of Way and Easements and Management Agreement and Deed of Confirmation and Ratification.
4. The property is subject to a Debenture and Share Charge with Commercial Plaza Securitisation Limited.
5. The property is subject to a Deed of Charge and Assignment with DB Trustees (Hong Kong) Limited.
6. Units let under intra-group leases are Shop No. G02 on Ground Floor, Shop Nos. 301-304 on Third Floor and various spaces on Ground to Third Floors and Office Units on 18th to 22nd Floors. The total monthly rental income receivable from the four intra-group leases as at 1st June, 2002 was HK\$1,440,328.00.

Property	Description and Tenure	Particulars of Occupancy	Capital Value in Existing State as at 31st May, 2002
2. Kowloon City Plaza No. 128 Carpenter Road Kowloon City Kowloon New Kowloon Inland Lot No. 6056.	<p>The property comprises a 7-storey (plus 3 levels of basement) shopping/entertainment complex built in 1993 on a site of about 5,921 square metres (63,734 square feet).</p> <p>The property has a total lettable floor area of about 26,365.51 square metres (283,796 square feet). The building provides retail/shopping spaces of various sizes from portion of 2nd Basement to portion of 5th Floor, two mini-cinemas, 500 car parking spaces and 36 loading/unloading spaces on the roof portion of 5th Floor, portion of 2nd Basement and the whole of 3rd Basement.</p> <p>The property is held under the Conditions of Sale No. 12078 for a term of up to 30th June, 2047. The annual Ground Rent is HK\$1,000.00 up to 30th June, 1997 and thereafter an amount equal to 3% of the rateable value for the time being of the lot.</p>	<p>As at 1st June, 2002, the property was let to various tenants at various terms with 3,993.81 square metres (42,989 square feet) remained vacant and yielded a total monthly rent of HK\$7,079,791.50, exclusive of rates, management fees, air-conditioning charges, turnover rent, licence fees, income from exhibition and car parking spaces. The majority of the leases contain turnover rent clause. Turnover rent receivable between June 2001 and May 2002 amounted to HK\$193,235.53. Monthly licence fees for antennae receivable amounted to HK\$168,500.00. Exhibition, Movable Sales Booth, Lightbox & Signage income receivable for the period from June 2001 to May 2002 was about HK\$1,721,049.67. Car parking spaces were let on hourly and monthly basis yielding HK\$12,784,462.51 revenue for the period from June 2001 to May 2002.</p>	HK\$1,830,000,000

Notes:

1. The registered owner of the property is Good Focus Holdings Limited which is an indirect wholly-owned subsidiary of Paliburg Holdings Limited.
2. The property is subject to an Occupation Permit and a Letter of Compliance.
3. The property is subject to a Debenture and Share Charge with Commercial Plaza Securitisation Limited.
4. The property is subject to a Deed of Charge and Assignment with DB Trustees (Hong Kong) Limited.

The following is the text of a valuation report, prepared for the purpose of inclusion in this circular, received from Grant Sherman, an independent valuer, in connection with the Business Valuation as at 31st May, 2002.



26th August, 2002

The Directors
Paliburg Holdings Limited
Grand Modern Investments Limited
18th Floor, Paliburg Plaza
68 Yee Wo Street
Causeway Bay
Hong Kong

Dear Sirs/Madams,

In accordance with your instructions, we have made an appraisal of the fair market value of the equity interest in the business enterprise of the combined operation of World Momentum Limited and its subsidiaries, including Century Matrix Limited, Top-Most Technology Limited, 303 Company Limited (all wholly-owned subsidiaries) and Shenzhen Leading Technology Company Limited (a 95% owned subsidiary) (together referred to as “the Group”). The Group is a technology-based security system specialist that designs, develops, integrates and distributes innovative and technologically advanced security systems software and products. The Group also provides value-added technical services that are crucial to the application and integration of these systems.

This letter identifies the business appraised, describes the basis of valuation and assumptions, explains the valuation methodology utilized, and presents our conclusion of value.

Business enterprise value is defined for this appraisal as the total invested capital, excluding debts but including shareholders’ loans, and is equivalent to shareholders’ equity plus shareholders’ loans. The fair market value of the equity interest in the business enterprise of the Group is derived based on the expected future economic benefit to which the owner(s) of the Group will be effectively entitled to after accounting for the effect of a discount for lack of marketability.

The purpose of this appraisal is to express an independent opinion of the fair market value of the equity interest in the business enterprise of the Group as of 31st May, 2002. It is our understanding that this appraisal will be used for sale and purchase and/or equity financing purposes.

INTRODUCTION

The Group designs, develops, manufactures and sells technology-based security system software and products, and provides value-added technical services for application and integration of security and building related systems within the Greater China region. The Group's mission is to provide customers with convenient, comfortable, secured, yet economical living and working environment by adopting high quality and user-friendly security system solutions. The Group includes 303 Company Limited based in Hong Kong and Shenzhen Leading Technology Company Limited based in Shenzhen, China.

The major business lines can be categorized as follows:

I. Offline Security Business

A. *Biometric Security System*

B. *System Security Network and System Integration Consultation Services*

II. Online Security Business

C. *Security Application Software*

D. *Secured Enterprise Solutions*

III. Intelligent Building Business

E. *Intelligent Building System*

IV. Software Customization, Localization, Development and Quality Assurance Services

The competitive advantage of the Group over its competitors in the industry lies in product and service differentiation. By integrating biometric authentication technology, versatile skills and advanced technology know-how, combining with extensive business connections, diversified supply network and comprehensive project management experience, the Group provides a total security solution for personal, household, residential, commercial, industrial and government sectors, that differentiates itself from other competitors who merely focus on resale or distribution of stand-alone security products.

Currently, the Group has a research and development center in Shenzhen, China, with approximately 20 employees, including management, general and technical staffs. According to the business plan ("the Business Plan") provided by the management of the Group ("the Management"), the Group will set up sales and customer services offices in Guangzhou, China in the first quarter of 2003, in Shanghai, China in the second quarter of 2003 and in Beijing, China in the first quarter of

2004. As of the appraisal date, the products that are ready to launch in the markets include only fingerprint security and control system, fingerprint access control system and web human resources fingerprint system. Other offline security products and a majority of other online security products and intelligent building systems will be launched in the second half of 2002 and in 2003.

According to the International Biometrics Group, the industry's leading integration and consultation firm in the U.S., the global biometric market will generate US\$1.1 billion in revenue in 2003, up from US\$340 million in 2000. This implies that the global biometric solution market is potentially large and will further expand in the future. Also, fingerprint technology accounts for 50% of the market share as compared to other biometric methods such as iris, face, voice and palm.

In China, the application of fingerprint technology is still at a beginning stage. The applications of fingerprint identification system are mainly focusing on areas which the incomer's identity must be verified for security control. After the "911" incident in 2001, Chinese government and aviation industry officials have been looking to new methods to improve aviation security. At the same time, enterprises in China increase their use of network communications and Internet transactions, so the safeguarding of sensitive information becomes a vital issue. Many companies turn to fingerprint solutions to identify authorized users through unique, non-transferable and non-duplicative traits. The "easy-to-use" characteristic of electronic fingerprint system also encourages the application by different kinds of companies (especially those have multiple locations) to perform the attendant monitoring function.

BASIS OF VALUATION AND ASSUMPTIONS

We have appraised the business enterprise of the Group on the basis of fair market value. Fair market value is defined as the estimated amount at which the business enterprise might be expected to exchange between a willing buyer and a willing seller, neither being under compulsion, each having reasonable knowledge of all relevant facts, and with the buyer and seller contemplating retention of the business at its present location for continuation of current operations unless the break-up of the business or the sale of its assets would yield greater investment returns.

Our investigation included discussions with the Management in relation to the history, operations and prospects of the business, a review of the historical financial information and the financial projection ("the Projection"), the Business Plan as well as other records and documents, provided to us by the Management. Before arriving at our opinion of value, we have considered the following principal factors:

- the nature of the business of the Group from its inception;
- the financial condition of the Group;
- the global economic outlook in general and the specific economic and competitive elements affecting the Group's business, its industry and its market;

- the natures and the prospects of the general security industry, biometric security industry and intelligent building industry in China;
- the demand for fingerprint identification products and services in China;
- the market-derived investment returns of entities engaged in a similar line of business and returns from other similar types of projects;
- the current stage of fingerprint and security technologies employed by the Group;
- the business risks of the Group and inherent uncertainties involved in the implementation of the Business Plan; and
- the Projection and its underlying assumptions.

Due to the changing environment in which the Group is operating, a number of assumptions have to be established in order to sufficiently support our concluded value of the business enterprise. The major assumptions adopted in this appraisal are:

- there will be no major changes in the existing political, legal, fiscal and economic conditions in China and Hong Kong, in which the Group will carry on its business or to which it exports or from which it imports or sources supplies;
- there will be no major changes in the current taxation law in China and Hong Kong in which the Group operates, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- all contractual agreements with respect to the Group and its operations are legal, valid and will be enforceable in accordance with the legal terms;
- the Group will successfully negotiate and enter into legally binding service contracts with potential clients such as estate and property developers, commercial and industrial companies, local and provincial governments to secure the future revenues of the Group as contemplated under the Projection;
- the Group will subsequently enter into legally binding contractual agreements with strategic partners and/or OEMs with terms and conditions that will enable the Group to implement its Business Plan as contemplated under the Projection;
- the Group will successfully establish the sales and marketing channels in China, through direct sales, distribution agents and/or resellers, and maintain long-term relationship with its business partners;
- the Group will roll out its products and services as well as sales offices in accordance with its projected timetable as prescribed in the Business Plan and the Projection;

- the intellectual property of the Group’s products and services will not be infringed upon in a manner which would materially affect the economic benefits attributable to the Group;
- the technology to be utilized by the Group in implementing its Business Plan will be able to gain market acceptance;
- the Group can keep abreast of the latest technological development of their industries such that the competitiveness and profitability of the Group can be sustained;
- exchange rates and interest rates will not differ materially from those presently prevailing;
- the availability of finance will not be a constraint on the forecast growth of the Group’s operation in accordance with the Business Plan and the Projection;
- the Group will retain and have competent management, key personnel, and technical staffs to support its ongoing operations; and
- industry trends and market conditions for related industries will not deviate significantly from economic forecasts.

We were furnished, for the purpose of this appraisal, with audited and unaudited financial data as well as other records, documents and projections. We have reviewed and examined the financial information and have no reason to doubt the truth and accuracy of the information contained therein. We have also consulted public sources of financial and business information to supplement the information provided by the Management. In arriving at our opinion of value, we have relied, to a considerable extent, on the information provided by, and discussions held, with the Management.

VALUATION METHODOLOGY

The fair market value of the Group was developed through the application of the income approach technique known as the discounted cash flow method. The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the business enterprise than an amount equal to the present worth of anticipated future benefits (income) from the same or equivalent business enterprise with similar risks.

The income approach explicitly recognizes that the current value of an investment is premised upon the expected receipt of future economic benefits such as cost savings, periodic income, or sale proceeds. We have applied the discounted cash flow method in appraising the economic benefits of the Group. In practice, the discounted cash flow approach consists of estimating future annual cash flows and individually discounting them to present value.

A discount rate represents the total expected rate of return that an investor would demand on the purchase price of an ownership interest in an asset given the level of risk inherent in that ownership interest. When developing a discount rate to apply to the cash flow streams attributable to the Group, the discount rate is the cost of equity.

The cost of equity was developed through the application of the Capital Asset Pricing Model (“CAPM”). The CAPM states that an investor requires excess returns to compensate for any risk that is correlated to the risk in the return from the stock market as a whole but requires no excess return for other risks. Risks that are correlated to the risk in the return from the stock market as a whole are referred to as systematic and measured by a parameter called beta, whereas other risks are referred to as nonsystematic. The discount rate for the Group is the sum of the risk-free rate return, equity risk premium, country risk premium, company size risk premium, interest rate differentials and specific risk premium reflecting the start-up risk, technological risk, legal and regulatory risk inherent in the Group’s intended operations.

Small Capitalization Risk Premium

Small capitalization risk premium is the excess return that an investor would demand in order to compensate for the additional risk over that of the entire stock market when investing in a small capitalization company. This premium reflects the fact that cost of capital increases with decreasing size of the company.

A number of studies were conducted in the U.S., which conclude that the risk premium associated with a small company is over and above the amount that would be warranted just as a result of the company’s systematic risk derived from the CAPM model.

Discount for Lack of Marketability

The concept of marketability deals with the liquidity of an ownership interest, that is, how quickly and easily it can be converted to cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in a closely held corporation. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company.

A number of studies were conducted in the U.S. in an attempt to determine average levels of discounts for lack of marketability. These studies all fall into one of two basic categories, depending on the type of market transaction data on which they are based:

- Restricted (“letter”) stock studies.
- Studies of transactions in closely held stocks prior to initial public offerings (IPOs).

OTHER CONSIDERATIONS

Readers of this report should note that the valuation of the Group is based on many assumptions that could not be easily assessed due to the limited operating history of the Group. The major assumptions include the estimated number of customer orders/transactions, the average dollar amount per order/transaction, the estimated gross and operating profit margins, and the estimated cost data, which form the basis of the projected cash flows. The success of the Group will largely hinge on the following important factors:

- the ability of the Group to gain market penetration into the technology-based security and intelligent building markets in the Greater China region;
- the acceptance of the Group's fingerprint products and related services by its customers;
- the ability of the Management to recognize wider usage of biometric security technology and the benefit it brings about;
- the capability of the Management and technical staffs to develop the core fingerprint technology and other biometric solutions; and
- the ability of the Group and its business partners, i.e. distributors and resellers, to transform the current infant stage of biometric technology development into more practical commercial application.

The risks associated with the business relate to the successful establishment and implementation of the Business Plan. Uncertainties result from limited operating history, technology and implementation risks, qualities of services to be delivered, increasing competition and other risks that may not currently be contemplated. This valuation is based on the premise that the Group will operate in accordance with its projected timetable as prescribed in the Business Plan and the Projection.

CONCLUSION OF VALUE

Based upon the investigation and analysis outlined above and on the appraisal method employed, it is our opinion that as of May 31, 2002, the fair market value of the equity interest in the business enterprise of the Group is reasonably stated by the amount of HONG KONG DOLLARS SIX HUNDRED AND SIXTY-SEVEN MILLION (HKD667,000,000) ONLY.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We have not investigated the title to or any liabilities against the property appraised.

We hereby certify that we have neither present nor prospective interests in the Group or the value reported.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Keith C.C. Yan, ASA
Managing Director

Note: Mr. Keith C.C. Yan is an Accredited Senior Appraiser (Business Valuation) and he has been conducting business valuation in the Greater China region for various purposes since 1988.

Set out below is a summary of the rights and restrictions attaching to the Paliburg Convertible Preference Shares.

1 Income

The holders of the Paliburg Convertible Preference Shares shall not be entitled to any right of participation in the profits of Paliburg.

2 Capital

On a return of capital on winding-up or (other than on conversion, redemption or purchase of shares) otherwise, the holders of the Paliburg Convertible Preference Shares shall be entitled in priority to any payment to the holders of any other class of shares to the repayment of a sum equal to the nominal capital paid up or credited as paid up on the Paliburg Convertible Preference Shares held by them respectively but shall not be entitled to any further right of participation in the assets of Paliburg.

3 Voting and general meetings

Subject to the bye-laws of Paliburg in respect of the variation, abrogation and modification of their rights as holders of the Paliburg Convertible Preference Shares, the holders of the Paliburg Convertible Preference Shares shall not have the right to receive notice of, attend, speak or vote at a general meeting of Paliburg.

4 Conversion

4.1 Subject as hereinafter provided, each holder of Paliburg Convertible Preference Shares shall be entitled at the times and in the manner set out herein to convert all or (subject as provided below) any of his Paliburg Convertible Preference Shares (in a block of 2,000 Paliburg Convertible Preference Shares or in multiples thereof) into fully-paid Paliburg Ordinary Shares on the basis of one Paliburg Ordinary Share for one Paliburg Convertible Preference Share so converted (such rate being herein called the “Conversion Rate”).

4.2 For the purposes of the following provisions of this Appendix:

4.2.1 the “Conversion Date” shall be, in relation to any Paliburg Convertible Preference Share, the date on which that Paliburg Convertible Preference Share is converted pursuant to paragraph 4.1 above;

4.2.2 the “Conversion End Date” shall be the date falling three years after the date on which the Paliburg Convertible Preference Shares were issued; and

4.2.3 the “Conversion Period” shall be the period of from the date of issue of the Paliburg Convertible Preference Shares ending on the Conversion End Date.

- 4.3 The right to convert shall be exercisable during the Conversion Period as to Paliburg Convertible Preference Shares in certificated form, by completing the notice of conversion endorsed on the share certificate relating to the Paliburg Convertible Preference Shares to be converted and/or a notice in such other form as may from time to time be prescribed by the directors of Paliburg (the “Paliburg Directors”) and delivering the same to the registrars for the time being of Paliburg at any time during the Conversion Period together with such other evidence (if any) as the Paliburg Directors may reasonably require to prove the title of the person exercising such right to convert, such notice or instruction being hereinafter called a “Conversion Notice”. A Conversion Notice once given may not be revoked or withdrawn.
- 4.4 Any Paliburg Convertible Preference Share which remains outstanding on the expiry of the Conversion Period shall be mandatorily converted in accordance with paragraph 4.1 above.

5 Adjustment to the Conversion Rate

- 5.1 If after the date of the Paliburg Acquisition Agreement Paliburg shall:
- (i) make a free distribution of Paliburg Ordinary Shares;
 - (ii) make a bonus issue of Paliburg Ordinary Shares;
 - (iii) divide the outstanding Paliburg Ordinary Shares;
 - (iv) consolidate the outstanding Paliburg Ordinary Shares into a smaller number of ordinary shares of Paliburg; and/or
 - (v) re-classify any of the Paliburg Ordinary Shares into other securities of the Paliburg
- (each an “Adjustment Event”),
- then the Conversion Rate (as the case may be) shall be appropriately adjusted so that the holders of any Paliburg Convertible Preference Share, the Conversion Date in respect of which occurs after the coming into effect of the adjustment described in this sub-paragraph 5.1, shall be entitled to receive the number of Paliburg Ordinary Shares which he would have held or have been entitled to receive after the happening of any of the events described above had such right to convert been exercised immediately prior to the happening of such event.

- 5.2 An adjustment made pursuant to sub-paragraph 5.1 above shall become effective immediately on the relevant event(s) referred to above becoming effective or, if a record date is fixed therefor, immediately after such record date.
- 5.3 Subject to sub-paragraph 6.1.6., if Paliburg enters into any transaction (other than an Adjustment Event) including issuance by Paliburg of any securities or rights to acquire securities, which securities are convertible or exchangeable into the Paliburg Ordinary Shares, on terms which are dilutive of the rights attaching to the Paliburg Convertible Preference Shares (“Dilutive Event”), then a corresponding adjustment shall be made to the Conversion Rate.
- 5.4 For the avoidance of doubt, a capital reduction of the Paliburg Ordinary Shares and the cancellation and transfer of the amount standing to the credit of the share premium account, capital redemption reserve account and/or contributed surplus account of Paliburg to set off the accumulated losses of Paliburg shall not be regarded as an Adjustment Event.

6 Other provisions

- 6.1 So long as any Paliburg Convertible Preference Shares remain capable of being converted into the Paliburg Ordinary Shares, then, save with such consent or sanction on the part of the holders holding not less than 50% of the then outstanding Paliburg Convertible Preference Shares as is required for a variation of the rights attached to such shares:
- 6.1.1 No shares of Paliburg shall be allotted pursuant to a capitalisation of profits or reserves except pursuant to an Adjustment Event or Dilutive Event.
- 6.1.2 No equity share capital (other than the Paliburg Convertible Preference Shares) shall be in issue which is not in all respects uniform with the Paliburg Ordinary Shares in issue on the date of the passing of the resolution to create the Paliburg Convertible Preference Shares save for equity share capital which has attached thereto rights as to dividend, capital and voting which in no respect are more favourable than those attached to the Paliburg Ordinary Shares in issue at the date of the passing of such resolution.
- 6.1.3 Except pursuant to an Adjustment Event or Dilutive Event or the Paliburg Capital Reorganisation, no resolution shall be passed whereby the rights attaching to the Paliburg Ordinary Shares shall be modified, varied or abrogated as a result of which no Paliburg Ordinary Shares may lawfully be issued in full satisfaction of the conversion right under any Paliburg Convertible Preference Share.
- 6.1.4 Paliburg shall procure that at all times up to the expiry of the Conversion Period there shall be sufficient authorised but unissued ordinary share capital available for the purposes of satisfying the requirements of any Conversion Notice which might be delivered pursuant to paragraph 4 above.

- 6.1.5 Paliburg shall not make any offer or invitation to the holders of the Paliburg Ordinary Shares nor allot any shares in pursuance of a capitalisation issue or make any capital distribution in any case during the Conversion Period except pursuant to an Adjustment Event (or, an event, which but for paragraph 5.4, would have been an Adjustment Event) or Dilutive Event or the Paliburg Capital Reorganisation.
- 6.1.6 Paliburg shall not do any act or thing resulting in an adjustment to the Conversion Rate if in consequence such rate would involve the issue of the Paliburg Ordinary Shares at a discount to the par value of the Paliburg Ordinary Shares if such is not permitted by applicable law.
- 6.2 Notwithstanding anything in this Appendix, Paliburg may, subject to compliance with its bye-laws but without any further consent or sanction on the part of holders of the Paliburg Convertible Preference Shares and without the requirement for any adjustment to the Conversion Price, purchase the Paliburg Ordinary Shares.

1. Responsibility statement

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Century City. The Directors 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 of the Directors in the equity or debt securities of Century City and its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Century City and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 or Part I of the Schedule of the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:

(i) *Interests in shares*

	Name of Director	Class of shares held	Number of shares held			Total
			Personal interests	Family interests	Corporate interests	
1. Century City	Mr. Lo	Ordinary	543,344,843	—	1,395,994,246	1,939,339,089
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,510,000	—	—	2,510,000
	Mr. Jimmy Lo Chun To	Ordinary	1,659,800	—	—	1,659,800
	Mr. Ng Siu Chan	Ordinary	—	15,453,000	—	15,453,000
2. Paliburg	Mr. Lo	Ordinary	222,765	—	1,373,024,977 (Notes a & b)	1,373,247,742
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	100,000	—	—	100,000
	Mr. Jimmy Lo Chun To	Ordinary	284,000	—	—	284,000
	Mr. Ng Siu Chan	Ordinary	—	536,500	—	536,500

Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total
			Personal interests	Family interests	Corporate interests	
3. Regal	Mr. Lo	Ordinary	220,000	—	2,793,736,944	2,793,956,944
		Preference	—	—	3,440	3,440
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,370,000	—	—	2,370,000
4. 8D International (BVI) Limited (“8D-BVI”)	Mr. Lo	Ordinary	—	—	1,000	1,000
5. 8D Matrix Limited (“8D Matrix”)	Mr. Lo	Ordinary	—	—	2,000,000	2,000,000
6. 8D International Limited (“8D”)	Mr. Lo	Ordinary	—	—	10,000	10,000
7. Argosy Capital Corporation	Mr. Lo	Ordinary	—	—	1,130,349	1,130,349
8. Century Win Investment Limited	Mr. Lo	Ordinary	—	—	9,000	9,000
9. Cheerjoy Development Limited (“Cheerjoy”)	Mr. Lo	Ordinary	—	—	(Note g)	(Note g)
10. Chest Gain	Mr. Lo	Ordinary	—	—	7,000	7,000
11. Chinatrend (Holdings) Limited	Mr. Lo	Ordinary	—	—	7,500	7,500

Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total
			Personal interests	Family interests	Corporate interests	
12. Chinatrend (Nankai) Limited	Mr. Lo	Ordinary	—	—	85 <i>(Note a)</i>	85
13. Hanoi President Hotel Company Limited	Mr. Lo	Ordinary	—	—	75 <i>(Note a)</i>	75
14. Rapid Growth Holdings Limited	Mr. Lo	Ordinary	—	—	25,000 <i>(Note a)</i>	25,000
15. Talent Faith Investments Ltd.	Mr. Lo	Ordinary	—	—	50 <i>(Note a)</i>	50
16. Villawood Developments Limited	Mr. Lo	Ordinary	—	—	65 <i>(Note a)</i>	65
17. Wealth Link Investments Limited	Mr. Lo	Ordinary	—	—	1 <i>(Note a)</i>	1

Notes:

- (a) The shares were held through companies controlled by Century City, of which Mr. Lo is the Chairman and controlling shareholder.
- (b) Including the retained balance, i.e. 6,444,444 shares, (the “Retained Shares”) of the consideration shares agreed to be sold at HK\$4.50 per share for the acquisition of the remaining 51% shareholding interest in The New China Hong Kong Financial Services Limited (now known as Century City Financial Services Limited) by a wholly-owned subsidiary of Century City from a wholly-owned subsidiary of The New China Hong Kong Group Limited (the “NCHK Company”) pursuant to the conditional agreement dated 7th September, 1998 in respect of the said acquisition, which was completed on 17th September, 1998 (the “Completion Date”). The Retained Shares are retained by the Century City Group until the first anniversary of the Completion Date in connection with the indemnity given by the NCHK Company under the said agreement.
- (c) A total of 494,707,200 shares were charged by a wholly-owned subsidiary of Paliburg in favour of a trustee, covering the exchange rights of the holders of the Exchangeable Bonds. The Exchangeable Bonds are exchangeable into those existing Regal Ordinary Shares during the period from 6th April, 1996 to 23rd April, 2001 (which period was extended by 90 days from 23rd January, 2001) at an adjusted effective exchange price of HK\$2.0144 per share (cum entitlements as provided in the relevant trust deed).

- (d) 400 shares were held through companies controlled by Century City and 600 shares were held through a company controlled by Mr. Lo.
- (e) 800,000 shares were held through companies controlled by Century City and 1,200,000 shares were held through companies controlled by Mr. Lo (including 8D-BVI).
- (f) 8D is a wholly-owned subsidiary of 8D Matrix.
- (g) A wholly-owned subsidiary of Paliburg holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited (“Point Perfect”) which is a 30% owned associate of such subsidiary. Point Perfect holds all the issued shares of Cheerjoy, i.e. 2 shares.

(ii) *Interests in share options granted by Paliburg*

Terms of option	Grantee	No. of ordinary shares under the share options	
		Options outstanding	
		(I) Vested	(II) Unvested
Date of grant: 22/2/1994	Mr. Lo	(I) 3,650,000	(II) 912,500 (<i>Note 1(b)</i>)
Exercise price per share: HK\$10.40			
Vesting period: (<i>Note 1</i>)			
Exercise period: (<i>Note 1</i>)	Mr. Kenneth Ng Kwai Kai	(I) 800,000	(II) 200,000 (<i>Note 1(b)</i>)

Note:

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)

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had any interest in the securities of Century City or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Century City and the Stock Exchange pursuant to section 28 of that Ordinance (including interests which they are taken or deemed to have under section 31 or Part I of the Schedule to that Ordinance) or which are required, pursuant to section 29 of that Ordinance, to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, to be notified to Century City and the Stock Exchange.

- (b) As at the Latest Practicable Date, the following persons (not being a Director or chief executive of Century City), so far as are known to any Director, were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of Century City:

Name of shareholder	Number of shares held	Approximate percentage of the issued ordinary shares in Century City as at the Latest Practicable Date
Shui To Co., Limited (<i>Note</i>)	440,269,831	11.54
YSL International Holdings Limited (<i>Note</i>)	931,998,340	24.42

Note: These companies are controlled by Mr. Lo and their said shareholdings were included in the corporate interests of Mr. Lo in Century City as disclosed under the paragraph headed “Interests in shares” of the section entitled “Disclosure of interests” in this appendix.

Save as disclosed herein, there is no person known to the Directors who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of Century City or had any options in respect of such capital.

- (c) As at the Latest Practicable Date, none of the Directors has a service contract with any member of the CCIHL Group 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, neither Altus Capital, the independent financial adviser to the Independent Board Committee, nor FPD Savills, the independent property valuer of the Stanley Project, nor Grant Sherman, the independent valuer of certain subsidiaries of Leading Technology, nor Vigers, the independent property valuer of Paliburg Plaza and Kowloon City Plaza, is interested either beneficially or non-beneficially in the securities of any member of the CCIHL Group and has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the CCIHL Group.

- (e) The Century City Group is leasing space in Regal Hongkong Hotel from the Regal Group as staff quarters at a rental of approximately HK\$0.17 million per month. The Regal Group is also currently leasing various commercial spaces in Paliburg Plaza from the Paliburg Group at aggregate rentals of approximately HK\$0.64 million per month. Mr. Lo is deemed to be interested in Regal Hongkong Hotel and Paliburg Plaza by virtue of his indirect interests, through Century City, in Paliburg and Regal respectively.

Save as disclosed above, none of the Directors nor Altus Capital nor FPDSavills nor Grant Sherman nor Vigers is interested, directly or indirectly, in any assets which have been, since 31st December, 2001, being the date to which the latest published audited financial statements of Century City were made up, acquired or disposed of by or leased to any member of the CCIHL Group or are proposed to be acquired or disposed of by or leased to any member of the CCIHL Group.

- (f) Save as disclosed herein, none of the Directors is materially interested in any contract or arrangement entered into by any member of the CCIHL Group subsisting at the date of this circular which is significant in relation to the business of the CCIHL Group.

3. Material contracts

- (a) A share exchange agreement dated 18th February, 2002 entered into between, inter alia, Century City and Prism Communications International Limited (“Prism”) for the allotment and issue of 250,000,000 new shares of Century City at HK\$0.10 each to a nominee of Prism in satisfaction of the consideration for the subscription by Expert Link Technology Limited, a wholly-owned subsidiary of Century City, for 10,000,000 ordinary shares of HK\$0.01 each in Prism. Century City was also granted a conditional option by Prism to subscribe for up to a further 30,000,000 ordinary shares in Prism, exercisable in full or in up to three instalments, at an exercise price of 25 new shares of Century City per Prism share, subject to certain adjustments.
- (b) A placing and underwriting agreement dated 21st February, 2002 entered into between Taylor Investments Ltd. (“Taylor”), a substantial shareholder of Regal and a wholly-owned subsidiary of Paliburg, and Uni-Alpha Securities Limited, a placing agent, for the placement of 150,000,000 issued ordinary shares of Regal to independent investors at HK\$0.14 per ordinary share.
- (c) A subscription agreement dated 21st February, 2002 entered into between Regal and Taylor for the subscription by Taylor of 90,000,000 new ordinary shares of Regal at HK\$0.14 per ordinary share.
- (d) The Standstill Agreement, please refer to the section headed “The Settlement Proposal” of the Letter from the Board contained in this circular for details.

- (e) The tender offer accepted on 3rd May, 2002 (the “Accepted Offer”) by Real Charm Investment Limited (“Real Charm”), an indirect wholly-owned subsidiary of Paliburg, to sell to the tenderer (the “Tenderer”) Real Charm’s entire interest in the property known as Redhill Plaza, located at 3 Red Hill Road, Tai Tam, Hong Kong (the “Redhill Property”) for a consideration of HK\$169,900,000 and the Memorandum of Agreement for the Sale and Purchase entered into by Real Charm and the Tenderer on 3rd May, 2002 setting out details of such sale of the Redhill Property. A Nomination dated 3rd June, 2002 issued by the Tenderer to Real Charm requesting Real Charm to execute the assignment of the Redhill Property in favour of the purchaser as nominated by the Tenderer on completion of the sale and the subsequent assignment of the Redhill Property.
- (f) The Stanley Transfer Agreement (please refer to the section headed “The Stanley Transfer” of the Letter from the Board contained in this circular for details).
- (g) The Paliburg Acquisition Agreement (please refer to the section headed “The Paliburg Acquisition” of the Letter from the Board contained in this circular for details).
- (h) The Share Swap Agreement (please refer to the section headed “The Share Swap” of the Letter from the Board contained in this circular for details).

Save for disclosed above, no member of the CCIHL Group has entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material, within the two years preceding the date of this circular.

4. Qualification of experts

The following are the qualifications of the experts who have given an opinion or advice which is contained in this circular:

Name	Qualification
Altus Capital	Registered Investment Adviser and Securities Dealer
FPDSavills	Registered Professional Surveyor
Grant Sherman	Valuer, Chartered Surveyor
Vigers	Property valuer

5. Consents of experts

Each of Altus Capital, FPDSavills, Grant Sherman and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of and references to its name and letter in the form and context in which they respectively appear.

6. Litigation

- (a) Pursuant to an escrow agreement (the “Escrow Agreement”) dated 30th October, 1994 entered into between the then shareholders of The New China Hong Kong Highway Limited (“NCHKH”), approximately 12.6% of the shares in NCHKH (the “Escrow Shares”) then held and registered in the name of The NCHK Highway (Chengdu Mianyang) Limited (“NCHKCM”) were deposited with an escrow agent to be held under the terms of the Escrow Agreement as a means of ensuring, inter alia, the timely completion of the Chengdu Mianyang Expressway, an expressway owned by a sino-foreign co-operative joint venture in which NCHKH has a 60% joint venture interest. In January 1999, Century City disposed of its entire interest in Evercheer Holdings Limited (“Evercheer”) to Crux Assets Limited (“Crux”), a wholly-owned subsidiary of Shenyin Wanguo (H.K.) Limited (“Shenyin”). Evercheer wholly owned NCHKCM, which in turn held 34.44% equity interest in NCHKH at the relevant time. As part of the terms of the disposal, Century City entered into a deed of indemnity dated 30th December, 1998 (the “Deed of Indemnity”) under which it agreed to indemnify Crux and Evercheer for any diminution in value of the share(s) of Evercheer or NCHKCM in the event that the Escrow Shares were distributed to the shareholders of NCHKH. As a result of 65.56% of the Escrow Shares (“Distributed Escrow Shares”) having been distributed among the shareholders of NCHKH other than NCHKCM in or about July 1999, Crux claimed against Century City an amount equivalent to about HK\$93,500,000 plus interest under the Deed of Indemnity. In May 2000, a settlement agreement was entered into between Century City and Crux in settlement of Crux’s claim under the Deed of Indemnity. Based on legal advice obtained, Century City believes that there are strong grounds to contest the aforesaid distribution of the Distributed Escrow Shares as being wrongful and in breach of the Escrow Agreement. Century City intends to take legal action against the relevant parties for the recovery of the Distributed Escrow Shares (in specie or value) in due course.
- (b) Pursuant to the terms of the securities purchase agreement dated 18th November, 1999 (the “SP Agreement”) entered into between the Regal Group and the purchaser (the “Purchaser”) in connection with the disposal by the Regal Group of its hotel interests in the United States of America (the “Disposal”), a deferred consideration of US\$45.0 million (approximately HK\$351.0 million) (the “Deferred Consideration”) and interest accrued thereon at 7% per annum (collectively, the “Consideration Receivable”) was due to be paid by the Purchaser on the second anniversary of the completion date of the Disposal, i.e. on 17th December, 2001.

The SP Agreement contained certain indemnifications given by the Regal Group which cover, inter alia, liabilities arising from third party claims relating to events/conditions which existed prior to the completion of the Disposal (the “Pre-closing Liabilities”). The Regal Group has been notified by the Purchaser of certain indemnity claims, allegedly related to Pre-closing Liabilities for third party legal claims, indemnifiable by the Regal Group under the SP Agreement. The Purchaser also alleged that the aggregate amount of

these potential claims exceeds the Deferred Consideration and has withheld payment of the Consideration Receivable to the Regal Group. The Regal Group has retained an independent law firm to review the litigation cases in respect of the third party claims and the related indemnity claims made by the Purchaser. Based on the advice obtained from the independent law firm, the Regal Group is strongly refuting the basis of the indemnity claims made by the Purchaser. While certain major underlying legal claims are being resolved or settled for amounts considerably less than the amounts originally claimed by the plaintiffs in the litigation cases, the Regal Group is currently consulting with its legal advisers to initiate appropriate recovery action against the Purchaser.

- (c) Bauhinia Hotels Limited (“Bauhinia”), a wholly-owned subsidiary of Regal and the owner of the Regal Airport Hotel at Chek Lap Kok held under the Agreement for Sub-Lease with the Airport Authority, is in dispute with the Airport Authority relating to the design and construction of the Regal Airport Hotel. Bauhinia claims compensation for loss and damage caused by misrepresentations made by the Airport Authority and/or failure of the Airport Authority to properly carry out their duties owed to Bauhinia.

The parties have agreed to a moratorium period to allow the parties an opportunity to consider and discuss their differences with the view to amicably settling the same. In the event that the settlement discussions cannot be satisfactorily concluded, Bauhinia may proceed arbitration proceedings with the Airport Authority.

Save as disclosed above, neither Century City nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim known to the Directors to be pending or threatened by any member of the CCIHL Group which in the opinion of the Directors would be or is likely to be of material importance.

7. General

- (a) The head office and principal place of business of Century City is located at 18th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong. The registered office of Century City is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The branch share registrar of Century City in Hong Kong is Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.
- (c) The secretary of Century City is Ms. Eliza Lam Sau Fun, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

8. Documents available for inspection

Copies of the following documents will be available for inspection at the office of the solicitors of Century City, 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 18th September, 2002:

- (a) the memorandum of association and bye-laws of Century City;
- (b) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (c) the circular of Century City dated 20th June, 2002 with respect to the disposal of the property known as Redhill Plaza, located at 3 Red Hill Road, Tai Tam, Hong Kong by the Paliburg Group;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 49 of this circular;
- (e) the letter from Altus Capital, the text of which is set out on pages 50 to 78 of this circular;
- (f) the 2000 and 2001 annual reports of Century City containing, among other things, the audited accounts of the Century City Group for the two respective financial years ended 31st December, 2000 and 31st December, 2001;
- (g) the letter and valuation certificate from FPDSavills, the text of which is set out in appendix II to this circular;
- (h) the letter, summary of valuations and valuation certificates from Vigers, the text of which is set out in appendix III to this circular;
- (i) the letter from Grant Sherman regarding the Business Valuation, the text of which is set out in appendix IV to this circular; and
- (j) the written consents of Altus Capital, FPDSavills, Grant Sherman and Vigers referred to in the section headed “Consents of experts” in this appendix.

NOTICE OF THE SGM



NOTICE IS HEREBY GIVEN that a special general meeting of Century City International Holdings Limited (the “Company”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 18th September, 2002 at 12:00 noon (or so soon thereafter as the special general meeting of Paliburg Holdings Limited convened for the same place and day shall have been concluded or concluded after any adjournment thereof) 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:

- (1) the Stanley Transfer and the Continuing Several Guarantee (both as defined and described in the circular to the shareholders of the Company dated 26th August, 2002 (the “Circular”)) and the Stanley Transfer Agreement (as defined and described in the Circular, a copy of which has been produced to this meeting and signed by the Chairman of this meeting for the purpose of identification as “Exhibit A”) be approved, ratified and/or confirmed; and
- (2) any two directors of the Company be authorised to execute all such documents and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Stanley Transfer and the Continuing Several Guarantee or the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Stanley Transfer Agreement.”

ORDINARY RESOLUTION NO. 2

“THAT:

- (1) the Settlement Proposal (as defined and described in the Circular) be approved, ratified and/or confirmed; and
- (2) any two directors of the Company be authorised to execute all such documents and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Settlement Proposal or the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Settlement Proposal and all documents incidental thereto.”

NOTICE OF THE SGM

ORDINARY RESOLUTION NO. 3

“THAT:

- (1) the Paliburg Acquisition (as defined and described in the Circular) and the Paliburg Acquisition Agreement (as defined and described in the Circular, a copy of which has been produced to this meeting and signed by the Chairman of this meeting for the purpose of identification as “Exhibit B”) be approved, ratified and/or confirmed; and
- (2) any two directors of the Company be authorised to execute all such documents and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Paliburg Acquisition or the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Paliburg Acquisition Agreement.”

ORDINARY RESOLUTION NO. 4

“THAT:

- (1) the Share Swap (as defined and described in the Circular) and the Share Swap Agreement (as defined and described in the Circular, a copy of which has been produced to this meeting and signed by the Chairman of this meeting for the purpose of identification as “Exhibit C”) be approved, ratified and/or confirmed;
- (2) any two directors of the Company be authorised to execute all such documents and to do all such acts, matters and things as they may in their discretion consider necessary or desirable on behalf of the Company for the purpose of or in connection with the Share Swap or the implementation or the exercise or enforcement of any of the rights and performance of obligations under the Share Swap Agreement; and
- (3) subject to the exercise of the Rights to Put and/or the Rights to Call (both as defined and described in the Circular), with effect from 9:30 a.m. on the next business day (not being a Saturday) immediately following the date on which the Rights to Put and/or the Rights to Call (as the case may be) is exercised from time to time:-
 - (3.1) up to additional 15,000,000,000 (subject to adjustment pursuant to the Rights to Put or the Rights to Call, as the case may be) ordinary shares of HK\$0.10 each in the Company be issued (the “Issue”);
 - (3.2) any two directors of the Company be and are hereby authorised generally to do all such acts, matters and things as they may consider necessary or appropriate to effect and implement the Issue.”

ORDINARY RESOLUTION NO. 5

“THAT:

- (1) resolution 4(B) as set out in the notice of the annual general meeting of the Company dated 19th April, 2002 (as approved by the shareholders of the Company in the Company’s annual general meeting held on 12th June, 2002) be refreshed by paragraph (2) below;

NOTICE OF THE SGM

- (2) the exercise by the directors of the Company during the Relevant Period (as defined in paragraph (3) below) of all the powers of the Company to issue, allot and dispose of additional shares of the Company (including making and granting offers, agreements and options which would or might require shares to be issued, allotted or disposed of, whether during or after the end of the Relevant Period) be and is hereby generally and unconditionally approved, provided that, otherwise than pursuant to a rights issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong), the additional shares issued, allotted or disposed of (including shares agreed conditionally or unconditionally to be issued, allotted or disposed of, whether pursuant to an option or otherwise) shall not in aggregate exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the said approval shall be limited accordingly; and
- (3) for the purpose of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting is required by the Bye-laws of the Company or The Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and
 - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meeting.”

By Order of the Board
Eliza Lam Sau Fun
Company Secretary

Hong Kong, 26th August, 2002

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

NOTICE OF THE SGM

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 of 4th Floor, Hutchison House, 10 Harcourt Road, Central, 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 at the meeting if members so desire.



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

NOTICE OF THE ADJOURNED SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the special general meeting of Century City International Holdings Limited (the “Company”) held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong (the “Regal Hongkong Hotel”) on Wednesday, 18th September, 2002 has been adjourned and will be reconvened at the Regal Hongkong Hotel on Wednesday, 2nd October, 2002 at 12:00 noon for the purpose of considering and, if thought fit, passing Ordinary Resolution No.3 and Ordinary Resolution No.4 (as referred to in the notice dated 26th August, 2002 of the special general meeting of the Company held on 18th September, 2002 enclosed in the circular to shareholders of the Company dated 26th August, 2002), which will be proposed as ordinary resolutions of the Company.

By Order of the Board
Eliza Lam Sau Fun
Company Secretary

Hong Kong, 23rd September, 2002

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 adjourned meeting 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 adjourned 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, (“Authorisations”) must be deposited at the office of the Company’s branch share registrar in Hong Kong, Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting at the adjourned meeting if members so desire. For the avoidance of doubt, forms of proxy and Authorisations validly deposited for the special general meeting of the Company held on 18th September, 2002 shall remain valid for the adjourned meeting.



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

NOTICE OF THE FURTHER ADJOURNED SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the adjourned special general meeting of Century City International Holdings Limited (the “Company”) held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong (the “Regal Hongkong Hotel”) on Wednesday, 2nd October, 2002 has been further adjourned and will be reconvened at the Regal Hongkong Hotel on Wednesday, 16th October, 2002 at 12:00 noon for the purpose of considering and, if thought fit, passing Ordinary Resolution No.3 and Ordinary Resolution No.4 (as referred to in the notice dated 26th August, 2002 of the special general meeting of the Company held on 18th September, 2002 enclosed in the circular to shareholders of the Company dated 26th August, 2002), which will be proposed as ordinary resolutions of the Company.

By Order of the Board
Eliza Lam Sau Fun
Company Secretary

Hong Kong, 7th October, 2002

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 further adjourned meeting 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 further adjourned 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, (“Authorisations”) must be deposited at the office of the Company’s branch share registrar in Hong Kong, Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the further adjourned meeting. Completion and return of the form of proxy will not preclude members from attending and voting at the further adjourned meeting if members so desire. For the avoidance of doubt, forms of proxy and Authorisations validly deposited for the special general meeting and the adjourned special general meeting of the Company held on 18th September, 2002 and 2nd October, 2002 respectively shall remain valid for the further adjourned meeting unless revoked or replaced by the relevant shareholder in the manner as hereinabove provided.



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

**FORM OF PROXY FOR THE SPECIAL GENERAL MEETING
TO BE HELD ON 18TH SEPTEMBER, 2002**

No. of ordinary shares to which this Proxy relates <i>(Note 1)</i>	
--	--

I/We, *(Note 2)* _____
of _____
shareholder(s) of **CENTURY CITY INTERNATIONAL HOLDINGS LIMITED** (the "Company") hereby appoint *(Note 3)* the Chairman of the Meeting or _____
of _____
as my/our proxy to attend and act for me/us at the Special General Meeting of the Company to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong, on Wednesday, 18th September, 2002, at 12:00 noon (or so soon thereafter as the special general meeting of Paliburg Holdings Limited convened for the same place and day shall have been concluded or concluded after any adjournment thereof) at any adjournment thereof for the purpose of considering and, if thought fit, passing the Ordinary Resolutions as set out in the Notice convening the Meeting and at the Meeting and at any adjournment thereof to vote for me/us and in my/our name(s) in respect of the Resolutions as hereunder indicated and, if no such indication is given, as my/our voting proxy thinks fit.

ORDINARY RESOLUTIONS		For <i>(Note 4)</i>	Against <i>(Note 4)</i>
1.	To approve, ratify and/or confirm the Stanley Transfer, the Continuing Guarantee and the Stanley Transfer Agreement as set out in Ordinary Resolution No. 1 contained in the Notice convening the Special General Meeting.		
2.	To approve, ratify and/or confirm the Settlement Proposal as set out in Ordinary Resolution No. 2 contained in the Notice convening the Special General Meeting.		
3.	To approve, ratify and/or confirm the Paliburg Acquisition and the Paliburg Acquisition Agreement as set out in Ordinary Resolution No. 3 contained in the Notice convening the Special General Meeting.		
4.	To approve, ratify and/or confirm the Share Swap and the Issue as set out in Ordinary Resolution No. 4 contained in the Notice convening the Special General Meeting.		
5.	To refresh Resolution 4(B) (as set out in the notice of the annual general meeting of the Company dated 19th April, 2002 and approved at such annual general meeting held on 12th June, 2002) as set out in Ordinary Resolution No. 5 contained in the Notice convening the Special General Meeting.		

Dated this _____ day of _____ 2002

Signature(s) *(Note 5)*: _____

Notes:

- Please insert the number of ordinary shares registered in your name(s) to which this proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all the ordinary shares in the capital of the Company registered in your name(s).
- Please insert your full name(s) and address(es) in BLOCK CAPITALS.
- If any proxy other than the Chairman of the Meeting is preferred, delete the words "the Chairman of the Meeting or" and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE DULY INITIALLED BY THE PERSON WHO SIGNS IT.
- IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE TICK IN THE BOX BELOW THE BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE TICK IN THE BOX BELOW THE BOX MARKED "AGAINST". If you do not indicate how you wish your proxy to vote, your proxy will be entitled to cast your vote at his discretion or abstain. Your proxy will also be entitled to vote or abstain at his discretion on any resolutions properly put to the Meeting other than those referred to in the Notice convening the Meeting.
- This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, must be executed either under its common seal or under the hand of an officer, attorney or other person duly authorised to sign the same.
- Where there are joint holders of a share, any one of such persons may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders is present at the Meeting personally or by proxy, then one of the holders so present whose name stands first on the Register of Members in respect of such share shall alone be entitled to vote in respect thereof.
- To be valid, this form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy of that power of authority or other attorney, must be deposited at the office of the Company's branch share registrar in Hong Kong, Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, not less than 48 hours before the time appointed for the Meeting or any adjournment thereof.
- Completion and return of the form of proxy will not preclude you from attending and voting at the Meeting if you so wish. In the event that you attend the Meeting after having lodged this form of proxy as indicated above, this form of proxy will be deemed to have been revoked.