

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

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

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

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

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2002 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 124.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

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

Cash Flow and Capital Structure

During the year under review, net cash inflow from operating activities totalled HK\$203.3 million (2001 – HK\$135.2 million, as restated). Net interest payment for the year amounted to HK\$203.7 million (2001 – HK\$253.3 million).

In March 2002, 90 million new ordinary shares of HK\$0.10 each were issued by the Company to Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of Paliburg Holdings Limited ("PHL"), at HK\$0.14 per ordinary share following a placement by Taylor of 150 million issued ordinary shares of HK\$0.10 each in the Company at HK\$0.14 per ordinary share.

Subsequently, in December 2002, 155 million new ordinary shares of HK\$0.01 each (reduced par value following the capital reorganisation of the Company effected on 16th October, 2002), were issued by the Company to each of Taylor and Guo Yui Investments Limited ("Guo Yui"), also a wholly-owned subsidiary company of PHL, totalling 310 million new ordinary shares of HK\$0.01 each, at HK\$0.065 per ordinary share following a placement, by Taylor of 155 million issued ordinary shares HK\$0.01 each in the Company at HK\$0.065 per ordinary share.

Net cash inflows to the Company from the above new share issues amounted to an aggregate sum of approximately HK\$32.1 million and were used for general working capital purposes. Further details relating to such new share issues are set out in the section headed "Issue of New Shares under the 20% General Mandate" below.

In October 2002, the Group raised a principal amount of HK\$50 million through the issue of 5% guaranteed convertible



bonds due 2004. Details of the bonds are set out in note 28 to the financial statements. The amount raised was applied to repay the Group's bank borrowings.

As at 31st December, 2002, the Group's gross borrowings net of cash and bank balances amounted to HK\$4,993.0 million (2001 – HK\$5,055.2 million). The Group's gearing ratio based on the total assets of HK\$8,529.9 million (2001 – HK\$9,943.1 million) was about 59% (2001 – 51%). The increase in the Group's gearing ratio was primarily the result of a downward adjustment in the valuation of the hotel properties as at the balance sheet date.

Details of the Group's pledge of assets and contingent liabilities are shown in notes 41 and 42, respectively, to the financial statements. Details of the maturity profile of the Group's borrowings are set out in note 27 to the financial statements.

During the year, the Group completed the acquisition of an additional 40% interest in the Stanley development project, details of which were set out in the circular to shareholders dated 26th August, 2002 and are set out in note 19 to the financial statements. At present, there are no immediate plans for material investments or capital assets other than the proposed disposal of some of the Group's non-core hotel properties with a view to reduce the overall debt levels.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations, and currency and interest rate exposures are hedged where circumstances are considered appropriate.

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

Remuneration Policy

The Group employs approximately 1,700 staff in Hong Kong, 300 staff in Canada and 800 staff in The People's Republic of China.

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

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

DIVIDENDS

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

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

No dividend was paid to preference shareholders for the year ended 31st December, 2002. Information relating to cumulative unpaid dividend in arrears as of 31st December, 2002 is set out in note 16 to the financial statements.



DIRECTORS

The Directors of the Company are:

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

On 21st February, 2002, Mr. William Henry Woo resigned as an Independent Non-Executive Director, and Messrs. Tommy Lam Chi Chung and Thomas Ng Wai Hung were appointed as an Executive Director and an Independent Non-Executive Director respectively.

On 28th June, 2002, Mr. Donald Fan Tung, Mr. Kai Ole Ringenson and Ms. Belinda Yeung Bik Yiu were appointed as Executive Directors.

In accordance with Bye-laws 100 and 109(A) of the Company's Bye-laws, Mr. Daniel Bong Shu Yin, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Mr. Kai Ole Ringenson and Ms. Belinda Yeung Bik Yiu retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

DIRECTORS' INTERESTS IN CONTRACTS

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

None of the Directors had any service contract with the Company or any of its subsidiary companies during the year.

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

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



DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2002, the interests of the Directors in the share capital of the Company and its associated corporations as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance (which was repealed and replaced by Part XV of the Securities and Futures Ordinance on 1st April, 2003) ("SDIO") were as follows:

(A) Interests in Shares

	Name of Director	Class of Shares Held	Number of Shares Held			Total	
			Personal Interests	Family Interests	Corporate Interests		
1. The Company	Mr. Lo Yuk Sui	Ordinary	220,000	-	4,717,070,277 (Notes a & c)	4,717,290,277	
		Preference	-	-	3,440 (Note a)	3,440	
	Mr. Daniel Bong Shu Yin	Ordinary	1,440,000	-	-	1,440,000	
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	2,370,000	-	-	2,370,000	
	Name of Associated Corporation						
2.	Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	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
		Ms. Belinda Yeung Bik Yiu	Ordinary	2,000	-	-	2,000
3. PHL	Mr. Lo Yuk Sui	Ordinary	222,765	-	1,373,024,977 (Notes a & b)	1,373,247,742	
		Preference	-	-	3,450,000,000 (Notes a & h(i))	3,450,000,000	
	Mr. Daniel Bong Shu Yin	Ordinary	1,025,390	-	-	1,025,390	
	Mr. Donald Fan Tung	Ordinary	2,718	-	-	2,718	
	Mrs. Kitty Lo Lee Kit Tai	Ordinary	100,000	-	-	100,000	
	Mr. Jimmy Lo Chun To	Ordinary	284,000	-	-	284,000	



	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
				Personal Interests	Family Interests	Corporate Interests	
4.	8D International (BVI) Limited ("8D-BVI")	Mr. Lo Yuk Sui	Ordinary	-	-	1,000 (Note d)	1,000
5.	8D Matrix Limited ("8D Matrix")	Mr. Lo Yuk Sui	Ordinary	-	-	2,000,000 (Note e)	2,000,000
6.	8D International Limited ("8D")	Mr. Lo Yuk Sui	Ordinary	-	-	10,000 (Note f)	10,000
7.	Almighty International Limited ("Almighty")	Mr. Lo Yuk Sui	Preference	-	-	11,800,000,000 (Note h)	11,800,000,000
8.	Argosy Capital Corporation	Mr. Lo Yuk Sui	Ordinary	-	-	1,130,349 (Note a)	1,130,349
9.	Century Win Investment Limited	Mr. Lo Yuk Sui	Ordinary	-	-	9,000 (Note a)	9,000
10.	Cheerjoy Development Limited ("Cheerjoy")	Mr. Lo Yuk Sui	Ordinary	-	-	(Note g)	(Note g)
11.	Chest Gain Development Limited	Mr. Lo Yuk Sui	Ordinary	-	-	7,000 (Note a)	7,000
12.	Chinatrend (Holdings) Limited	Mr. Lo Yuk Sui	Ordinary	-	-	7,500 (Note a)	7,500
13.	Chinatrend (Nankai) Limited	Mr. Lo Yuk Sui	Ordinary	-	-	85 (Note a)	85
14.	Hanoi President Hotel Company Limited	Mr. Lo Yuk Sui	Ordinary	-	-	75 (Note a)	75



	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total
				Personal Interests	Family Interests	Corporate Interests	
15.	Rapid Growth Holdings Limited	Mr. Lo Yuk Sui	Ordinary	-	-	25,000 (Note a)	25,000
16.	Talent Faith Investments Ltd.	Mr. Lo Yuk Sui	Ordinary	-	-	50 (Note a)	50
17.	Villawood Developments Limited	Mr. Lo Yuk Sui	Ordinary	-	-	65 (Note a)	65
18.	Wealth Link Investments Limited	Mr. Lo Yuk Sui	Ordinary	-	-	1 (Note a)	1

Notes:

- (a) The shares were held through companies controlled by CCIHL, of which Mr. Lo Yuk Sui 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 company of CCIHL from a wholly-owned subsidiary company 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 CCIHL 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 1,706,500,000 shares (the "Exchange Property") were charged by a wholly-owned subsidiary company of PHL in favour of a trustee for the holders of the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the PHL group which closed on 31st October, 2002 (the "Closing Date") to form the initial exchange property in respect of the Series B Bonds. The Exchange Property is to be released to the holders of the Series B Bonds in four quarterly tranches (with the first tranche comprising 284,125,000 shares and the other three tranches each comprising 474,125,000 shares) on each dates falling 12, 15, 18 and 21 months after the Closing Date, subject to certain early release provisions.
- (d) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (e) 800,000 shares were held through companies controlled by CCIHL and 1,200,000 shares were held through companies controlled by Mr. Lo Yuk Sui (including 8D-BVI).
- (f) 8D is a wholly-owned subsidiary company of 8D Matrix.
- (g) A wholly-owned subsidiary company of PHL holds 30% attributable shareholding interest in Cheerjoy through Point Perfect Investments Limited ("Point Perfect") which is a 30% owned associate of such subsidiary company. Point Perfect holds all the issued shares of Cheerjoy, i.e. 2 shares.



- (h) (i) Pursuant to the Agreement dated 2nd August, 2002 (as supplemented by a Supplemental Agreement dated 31st October, 2002) (the "Share Swap Agreement") entered into between Grand Modern Investments Limited ("Grand Modern"), Select Wise Holdings Limited and Splendid All Holdings Limited ("Splendid All") (collectively, the "VPI Vendors"), Almighty, which became a wholly-owned subsidiary company of CCIHL on 31st December, 2002 pursuant to the Share Swap Agreement, and CCIHL, the VPI Vendors sold to Almighty 3,450,000,000 non-voting convertible preference shares of HK\$0.10 each of PHL ("PHL Preference Shares"). The consideration for acquiring the 3,450,000,000 PHL Preference Shares was satisfied by the allotment and issue of an aggregate amount of 13,800,000,000 exchangeable preference shares of HK\$0.10 each of Almighty ("Almighty EP Shares") to the VPI Vendors, in the proportion of four Almighty EP Shares for each PHL Preference Share, on 31st December, 2002.
- (ii) Out of the 13,800,000,000 Almighty EP Shares, 11,000,000,000 Almighty EP Shares were allotted and issued to Grand Modern, a company controlled by Mr. Lo Yuk Sui, and were attached with rights to exchange for 2,750,000,000 PHL Preference Shares (or 2,750,000,000 new ordinary shares of HK\$0.01 each of PHL ("PHL Ordinary Shares") so converted from the 2,750,000,000 PHL Preference Shares), on the basis of one PHL Preference Share (or one PHL Ordinary Share) for every four Almighty EP Shares, subject to certain conditions and restrictions.
- (iii) Out of the 13,800,000,000 Almighty EP Shares, 800,000,000 Almighty EP Shares were allotted and issued to Splendid All and were attached with rights to exchange for 200,000,000 PHL Preference Shares (or 200,000,000 new PHL Ordinary Shares so converted from the 200,000,000 PHL Preference Shares), on the basis of one PHL Preference Share (or one PHL Ordinary Share) for every four Almighty EP Shares, subject to certain conditions and restrictions. Mr. Lo Yuk Sui holds the entire issued share capital of Splendid All as a trustee and may have discretion over the exercise of the voting right attaching to the entire issued share capital of Splendid All.
- (i) (i) On 23rd January, 2003, Splendid All exercised the exchange rights attached to 400,000,000 Almighty EP Shares held by it, which were as a result exchanged into 100,000,000 PHL Preference Shares on the basis of one PHL Preference Share for every four Almighty EP Shares so exchanged.
- (ii) On 24th January, 2003, Splendid All exercised the conversion rights attached to 100,000,000 PHL Preference Shares held by it for conversion into 100,000,000 new PHL Ordinary Shares on the basis of one new PHL Ordinary Share for one PHL Preference Share so converted. As a result, 100,000,000 new PHL Ordinary Shares were allotted and issued to Splendid All on 24th January, 2003.

(B) Interests in Share Options Granted by the Company

Details of Directors' interests in share options granted by the Company are set out in note 29 to the financial statements.

Save as disclosed in note 29 to the financial statements, during the year no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debenture of the Company and its subsidiary companies, and no option granted to such persons has been cancelled and lapsed:

- (i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;



- (ii) any participant with options granted in excess of the individual limit;
- (iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;
- (iv) any supplier of goods or services; and
- (v) any other participants.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2002, the interests of those persons (other than the Directors) in the issued share capital of the Company as recorded in the register kept under Section 16 of SDIO were as follows:

Name of Shareholder	Number of Ordinary Shares Held
CCIHL (Notes i and iii)	4,717,070,277
Century City BVI Holdings Limited (Notes ii and iii)	4,717,070,277
Century City Holdings Limited (Notes ii and iii)	4,717,070,277
PHL (Notes ii and iii)	4,717,070,277
Paliburg Development BVI Holdings Limited (Notes ii and iii)	4,717,070,277
Paliburg International Holdings Limited (Notes ii and iii)	2,235,392,820
Paliburg BVI Holdings Limited (Notes ii and iii)	2,235,392,820
Taylor Investments Ltd. (Note ii)	1,402,111,870
Smart Emerald Limited ("Smart Emerald") (Notes ii and iii)	1,706,500,000
Tower Bright Limited ("Tower Bright") (Notes ii and iii)	1,706,500,000

Notes:

- (i) These shares were shown in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under Interests in Shares of Directors' Interests in Share Capital.
- (ii) These companies are subsidiary companies of CCIHL and their interests in the shares of the Company are included in the interests held by CCIHL.
- (iii) 1,706,500,000 shares were charged by Tower Bright in favour of a trustee for the holders of the Series B Bonds as disclosed under Interests in Shares of Directors' Interests in Share Capital.

Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of all the above-named companies. Mr. Tommy Lam Chi Chung is a director of CCIHL, Smart Emerald and Tower Bright and Mrs. Kitty Lo Lee Kit Tai and Mr. Jimmy Lo Chun To are directors of CCIHL and PHL.



ISSUE OF NEW SHARES UNDER THE 20% GENERAL MANDATE

- (1) Pursuant to a subscription agreement dated 21st February, 2002 made between the Company and Taylor Investments Ltd. ("Taylor"), a wholly-owned subsidiary company of PHL, Taylor subscribed for 90 million new ordinary shares (the "90M Subscription Shares") of HK\$0.10 each in the share capital of the Company (the "Shares") in cash at a subscription price of HK\$0.14 per Share (the "90M Subscription"). The subscription price of HK\$0.14 per Share represented (i) a discount of approximately 9.09% to the closing price of HK\$0.154 per Share as quoted on the Stock Exchange on 21st February, 2002, being the last trading day of the Shares immediately prior to the suspension of trading of the Shares on 22nd February, 2002; and (ii) a discount of approximately 6.91% to the average closing price of HK\$0.1504 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 21st February, 2002.

The 90M Subscription was subject to, inter alia, the placing of 150 million existing Shares held by Taylor through Uni-Alpha Securities Limited ("Uni-Alpha") as placing agent, to independent investors, which was completed on 27th February, 2002. On 7th March, 2002, the 90M Subscription Shares were issued to Taylor. The 90M Subscription Shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 12th June, 2001 and rank pari passu in all respects with the then existing issued Shares.

The 90M Subscription was intended to raise working capital for the Company while broadening the shareholder and capital base of the Company. The net proceeds of approximately HK\$12.3 million from the 90M Subscription were used for general working capital purposes.

Details of the placing of 150 million existing Shares and the 90M Subscription were disclosed in an announcement dated 22nd February, 2002 made by the Company.

- (2) Pursuant to a subscription agreement dated 26th November, 2002 made between the Company, Taylor and Guo Yui Investments Limited ("Guo Yui"), also a wholly-owned subsidiary company of PHL, each of Taylor and Guo Yui subscribed for 155 million new ordinary shares, i.e. an aggregate number of 310 million new ordinary shares (the "310M Subscription Shares") of HK\$0.01 each (reduced par value following the Capital Reorganisation of the Company effected on 16th October, 2002) in the share capital of the Company (the "Adjusted Shares") in cash at a subscription price of HK\$0.065 per Adjusted Share (the "310M Subscription"). The subscription price of HK\$0.065 per Adjusted Share represented (i) a discount of approximately 8.45% to the closing price of HK\$0.071 per Adjusted Share quoted on the Stock Exchange on 26th November, 2002, being the last trading day of the Adjusted Shares immediately prior to the suspension of trading of the Adjusted Shares on 27th November, 2002 and (ii) a discount of approximately 8.19% to the average



closing price of HK\$0.0708 per Adjusted Share as quoted on the Stock Exchange for the last 10 trading days up to and including 26th November, 2002.

The 310M Subscription was subject to, inter alia, (i) the placing of a total number of 93 million existing Adjusted Shares held by Taylor through Uni-Alpha as placing agent to independent investors; and (ii) the placing of a total number of 62 million existing Adjusted Shares held by Taylor through Ever-Long Securities Co. Ltd., as placing agent, to independent investors. Such placings of existing Adjusted Shares, effected on 28th November, 2002, were completed on 2nd December, 2002. On 9th December, 2002, the 310M Subscription Shares were issued under the general mandate granted to the Directors at the annual

general meeting of the Company held on 12th June, 2002 and rank pari passu in all respects with the then existing issued Adjusted Shares.

The 310M Subscription was intended to raise working capital for the Company while broadening the shareholder base and the capital base of the Company. The net proceeds of approximately HK\$19.8 million so raised were used for general working capital purposes.

Details of the placing of 310 million existing Adjusted Shares and the 310M Subscription were disclosed in an announcement dated 27th November, 2002 made by the Company.

Details of movements in the share capital of the Company during the year are set out in note 29 of the financial statements.

CONNECTED TRANSACTIONS

FINANCIAL ASSISTANCE TO A JOINTLY CONTROLLED ENTITY

In June 1997, Chest Gain Development Limited ("Chest Gain") was established to bid for the site located at Rural Building Lot No. 1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Stanley Site") at the public auction held on 3rd June, 1997. Before the completion of the Stanley Transfer, which involved the transfer of the 40% shareholding interest in Chest Gain held by PHL to the Company with details as set out in notes 19 and 40 to the financial statements, on 31st October, 2002, the Company held 30% shareholding interests in Chest Gain, whilst PHL, the immediate listed holding company of the Company, and China Overseas Land & Investment

Limited ("China Overseas"), an independent third party, held 40% and 30% shareholding interests therein, respectively. Chest Gain was the successful bidder for the Stanley Site at a consideration of HK\$5,500 million (the "Consideration"). Listed below is information relating to the shareholders' loans to Chest Gain and guarantee from shareholders on external borrowings of Chest Gain, which constituted connected transactions for the Company under the Listing Rules, pursuant to Rule 14.25(2)(b)(ii) of the Listing Rules before the completion of the Stanley Transfer:



- (1) Shareholders' loans in the aggregate amount of HK\$4,058.0 million were provided for the working capital of Chest Gain, and for the payment of the Consideration and construction costs for the development of the Stanley Site not financed or refinanced by external borrowings. Such loans were all provided according to the proportion of the respective shareholding interests held by the shareholders in Chest Gain and upon normal commercial terms. The loans are unsecured and have no fixed term of repayment, and related interest had been accrued at prime rate up to 31st December, 1998.

- (2) On 28th October, 1997, the Company, PHL and China Overseas granted a guarantee on a several basis in accordance with their respective shareholdings in Chest Gain as security for the bank loan facilities of HK\$3,300 million made available to Chest Gain for the purposes of refinancing and/or financing part of the Consideration and the construction costs for the development of the Stanley Site.

As part of the terms under the Stanley Transfer, PHL agreed to continue to provide the above guarantee after the Stanley Transfer, with its obligation under such guarantee to be limited to the security provided by PHL which comprises approximately 1,384.2 million ordinary shares in the Company (of which the bank creditors of the Stanley project are the major beneficiaries). In respect of the additional 40% interest acquired by the Company, the

Company provided an additional several guarantee in respect of the 40% of the bank borrowings of Chest Gain which will only be called upon after the said continuing guarantee from PHL has been pursued.

Information relating to this jointly controlled entity and the guarantee is also contained in notes 19 and 40 respectively, to the financial statements.

With Nice Tex Investments Limited, which directly owns the 40% shareholding interest in Chest Gain, becoming a wholly owned subsidiary of the Company on completion of the Stanley Transfer, the above transactions would no longer constitute connected transactions for the Company under Rule 14.25(2)(b)(ii).

ON-GOING TRANSACTIONS AND MAIN HOTEL CONTRACT

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

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



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

Development Consultancy Services

- (1) During year 1997, Bauhinia Hotels Limited ("Bauhinia"), a wholly-owned subsidiary company of the Company, formally appointed Paliburg Development Consultants Limited ("PD Consultants"), a wholly-owned subsidiary company of PHL, as the development consultant for co-ordinating and supervising the construction of the multi-storey carpark and walkway development adjacent to the new Regal Airport Hotel (the "Carpark and Walkway Development") at a consultancy fee of 5% of the total construction cost (excluding professional fees) of this development. Based on the contracted construction cost of the development, the consultancy fee was estimated to be approximately HK\$9.4 million. The fee was payable in stages according to the progress of the development. The term of this appointment was until completion of the development, including the making good of defects therein, if any. The development was completed in June 1998. The total consultancy fee paid till 2001 amounted to HK\$9.9 million. During the year, no further consultancy fee was paid.
- (2) During year 1997, Bauhinia formally appointed PD Consultants as the development consultant for architectural design, and co-ordinating and supervising the construction of the development of the new Regal Airport Hotel (the "Hotel Development") at a consultancy fee of 5% of the total construction cost (excluding professional fees) of this development. Based on the contracted construction cost of the development, the consultancy fee will amount to approximately HK\$86.3 million. The fee is payable in stages according to the progress of the development. The term of this appointment is until completion of the development including the making good of defects therein, if any. The consultancy fee paid till 2001 amounted to HK\$98.2 million. During the year, no further consultancy fee was paid.
- (3) During year 2000, Cityability Limited, Gala Hotels Limited, Ricobem Limited and Regal Riverside Hotel Limited, wholly-owned subsidiary companies of the Company, appointed PD Consultant as the development consultant for providing architectural design and project co-ordination and supervision services for certain renovation works of their respective hotels (the "Renovation Works"), namely Regal Hongkong Hotel, Regal Kaitak Hotel, Regal Kowloon Hotel and Regal Riverside Hotel, at consultancy fees ranging from 8% to 12.5% of the total construction cost (excluding professional fees) of the works. The scale of the consultancy fees is based on the scope of services provided and the quantum of



- construction works involved. Based on the contracted construction cost of the works, the consultancy fee will amount to approximately HK\$3.8 million. The fee is payable upon the completion of the works or in stages according to the progress of the works. The terms of these appointments are until completion of the works, including the making good of defects therein, if any. The renovation works were substantially completed during 2001 and an amount of HK\$3.8 million was paid to PD Consultants as consultancy fee for the renovation works. During the year, no further consultancy fee was paid.
- (4) During year 2001, Bauhinia appointed PD Consultants as the development consultant for co-ordinating and supervising the design and construction of the enclosure to the pedestrian footbridge which connects the passenger terminal building to the multi-storey carpark adjacent to the new Regal Airport Hotel (the "Footbridge Development") at a consultancy fee of 10% of the total construction cost of approximately HK\$13.0 million (excluding professional fees) of the works. The term of this appointment is until completion of the development including the making good of defects therein, if any. The total consultancy fee amounted to HK\$1.3 million which was paid in lump sum during year 2001. During the year, no further consultancy fee was paid.
- (5) During the year under review, Bauhinia appointed PD Consultants as the consultant for co-ordinating and supervising the litigation and arbitration proceedings with certain sub-contractors in connection with the construction works of the Regal Airport Hotel (the "Disputes Consultancy"). The total fees included a basic fee plus a success fee calculated at 15% on the actual savings, subject to a cap, upon settlement of the related claims. During the year, a total fee of HK\$2.8 million was paid.

Construction Works

- (1) On 3rd March, 1997, Bauhinia issued a letter of intent to Chatwin Engineering Limited ("Chatwin"), then an 80% owned subsidiary company of PHL, which letter was accepted by Chatwin on 5th March, 1997, in respect of the appointment of Chatwin as the contractor for the superstructure main contract works of the Carpark and Walkway Development at the updated contract sum of HK\$184.8 million. The contract sum was payable in stages in accordance with work progress. The development was completed in June 1998. The total payments paid till 2002 amounted to HK\$184.8 million of which HK\$9.6 million was paid during the year.
- (2) On 3rd April, 1997, Bauhinia issued a letter of intent to Chatwin, which letter was accepted by Chatwin on 10th April, 1997, in relation to the



appointment of Chatwin as the contractor for the foundation works for the Hotel Development (the "Hotel Foundation Construction") at the contract sum of HK\$82.4 million. The contract sum was payable in stages in accordance with the progress of the Hotel Foundation Construction. The construction work was completed in February 1998. The total progress payments paid till 2001 amounted to HK\$84.8 million. During the year, no further payment was paid and the contract was completed.

- (3) During year 2001, Chatwin was appointed as the contractor for the construction works for the Footbridge Development (the "Footbridge Construction") at the contract sum of HK\$8.0 million. The contract sum was payable in stages in accordance with the progress of the Footbridge Construction. The total progress payment paid till 2001 amounted to HK\$2.4 million. The relevant progress payment paid in 2002 amounted to HK\$5.4 million.

Leasing of Spaces

During the year, the Group leased various commercial spaces in Paliburg Plaza and Kowloon City Plaza from Treasure Spot Investments Limited ("Treasure Spot") and Good Focus Holdings Limited, both previously wholly-owned subsidiary companies of PHL before the closing of the bonds settlement of the PHL Group on 31st October, 2002 (the "Leases"). There were five Leases, which constituted Future Connected Transactions during the year, encompassing office spaces having a total gross floor area of approximately 4,400 sq. ft. and commercial spaces having a total lettable area of approximately 20,600 sq. ft. and the terms of which ranged from 6 months to eighteen years, apart from a maximum of 6 carparking spaces at

Paliburg Plaza licensed on a monthly basis. The spaces were used for a number of different purposes which were within the ordinary course of businesses of the respective subsidiaries of the Company leasing or licensing such spaces. Rentals paid under the Leases in 2002 amounted to about HK\$7.3 million.

Following Treasure Spot and Good Focus ceasing to be wholly-owned subsidiaries of PHL and becoming independent third parties of PHL on 31st October, 2002, the Leases would no longer constitute connected transactions for the Company under the Listing Rules.

Corporate Services Transactions

The present head office accommodation of the CCIHL Group is located at 18th to 22nd Floors of Paliburg Plaza, which, as mentioned above, was before 31st October, 2002, beneficially owned by the PHL Group, and is shared with the CCIHL Group by the PHL Group and the Group. The rental charge of such accommodation is allocated among CCIHL, PHL and the Company, according to the estimates from time to time by the directors of CCIHL, and, as appropriate, with the endorsement of the directors of PHL and the Directors, of fair proportional use, based on actual area occupied. The balance of the areas used in common as well as corporate management overheads are apportioned based on a sharing among the Group, the CCIHL Group and the PHL Group by reference to individual consolidated turnover, profit (as applicable) and asset values of the Company, CCIHL and PHL for each financial year.

The aggregate amount of such rentals and corporate management costs apportioned to the Company for 2002 was approximately HK\$22.6 million, comprising rentals of HK\$3.4 million, the payment obligation of which was assumed by the Company, and corporate management costs of HK\$19.2 million.



Miscellaneous Connected Transactions

- (1) An associate of the CCIHL Group provided advertising and promotion services to the Group on retainers of about HK\$2.1 million for the year 2002 and at a standard fee based on total costs involved, with actual costs and out-of-pocket expenses incurred reimbursed. The associate is owned as to 10% by the CCIHL Group, 30% by the Group (the Group also holds an additional 6% attributable interest through its holding in 8D-BVI) and 60% indirectly by Mr. Lo Yuk Sui through his associates (as defined in the Listing Rules), including 8D-BVI.
 - (2) Spaces in Regal Hongkong Hotel were leased from the Group by the CCIHL Group as staff quarters. Rentals payable under such lease by the CCIHL Group in the year 2002 amounted to about HK\$2.1 million.
- (b) the contract progress payments of HK\$5.4 million payable to Chatwin for 2002 in respect of the superstructure main contract works of the Carpark and Walkway Development and the Footbridge Construction did not exceed 5% of the Consolidated NTA;
 - (c) the aggregate annual rental of HK\$7.3 million payable to the PHL Group in respect of Leasing of Spaces by the Group from the PHL Group for 2002 did not exceed 0.5% of the Consolidated NTA;
 - (d) the aggregate amount of corporate management costs of HK\$19.2 million payable to the CCIHL Group in respect of Corporate Services Transactions for 2002 did not exceed 0.5% of the Consolidated NTA; and
 - (e) the aggregate amount of HK\$4.2 million payable for Miscellaneous Connected Transactions for 2002 did not exceed 0.25% of the Consolidated NTA.

Compliance with the Waiver Conditions

The On-going Transactions were carried out on normal commercial terms and on an arm's length basis. The relevant amounts payable under the On-going Transactions for 2002 were within the respective caps set out in the Waiver, as detailed below:

- (a) the aggregate amount of HK\$2.8 million payable to PD Consultants for services rendered in the Disputes Consultancy in 2002 did not exceed 1.5% of the latest published audited consolidated net tangible assets of the Group as at 31st December, 2001 adjusted to take into account of the results for the six-month period ended 30th June, 2002 (the "Consolidated NTA");

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

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



Main Hotel Contract

By way of a letter of intent dated 30th December, 1997 issued by Bauhinia and accepted by Chatwin, the main contract work for the Hotel Development (the "Main Hotel Contract") was awarded to Chatwin at the contract sum of HK\$1,180 million, conditional upon the approval by independent shareholders of the Company. At the SGM, the award of the Main Hotel Contract and the relevant authority to the Directors in relation to the implementation of the Main Hotel Contract were approved

by independent shareholders of the Company. The contract sum is payable in stages in accordance with the progress of the Main Hotel Contract. The progress payment for 2002 amounted to HK\$7.0 million. The final contract sum is still subject to final account adjustment and the total progress payments up to 31st December, 2002 amounted to HK\$978.2 million.

Information relating to the On-going Transactions and the Main Hotel Contract is also contained in note 40 to the financial statements.

DISCLOSURE PURSUANT TO PRACTICE NOTE 19

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Practice Note 19 ("PN19") of the Listing Rules:

Advances to an Entity (Paragraph 3.2.1 of PN19)

Details of the advances made to Chest Gain by the Company and its subsidiary companies (the "Group") as at 31st December, 2002 are set out below:

Advances	Group (HK\$'million)
(A) Principal Amount of Advances	2,700.9
(B) Interest Receivable	379.2
(C) Several Guarantees for:	
(a) Principal Amount of Bank Facilities	2,310.0
(b) Amount of Bank Facilities Drawdown	1,938.4
Total: (A)+(B)+(C)(a)	5,390.1
(A)+(B)+(C)(b)	5,018.5

The above advances to Chest Gain in an aggregate sum of HK\$3,080.1 million (before a provision of HK\$1,633.3 million (2001 - HK\$700.0 million)) included an amount of HK\$1,701.1 million, before a provision of HK\$933.3 million, which represented the gross amount of the advances attributable to PHL's 40% interest in Chest Gain transferred to the Group pursuant to the Stanley Transfer as detailed in note 19 to the financial statements. Further details of the advances to and the guarantee given for Chest Gain are set out in the sub-section headed "Financial Assistance to a Jointly Controlled Entity" under "Connected Transactions" above.



Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 31st December, 2002 provided by the Group to Chest Gain in the respective sums of (a) HK\$5,390.1 million (based on the total available amount of the bank facilities) and (b) HK\$5,018.5 million (based on the amount of bank facilities drawdown) represented (a) 168.5% and (b) 156.9% of the consolidated net tangible assets of the Company of HK\$3,199.1 million (the "Regal NTA"), by reference to its latest audited financial statements for the year ended 31st December, 2002.

Financial Assistance provided to and Guarantees given for Affiliated Companies (Paragraph 3.3 of PN19)

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the Group as at 31st December, 2002 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Guarantee given for Bank Facilities	
			(i) Principal Amount of Bank Facilities (HK\$'million)	(ii) Amount of Bank Facilities Drawdown (HK\$'million)
Chest Gain	(A) 2,700.9	(B) 379.2	(C)(i) 2,310.0	(C)(ii) 1,938.4
8D International (BVI) Limited	(D) 28.6	-	Nil	Nil
8D Matrix Limited	(E) 0.5	-	Nil	Nil
Bright Future (HK) Limited	(F) 5.6	-	Nil	Nil
			Total: (A)+(B)+(C)(i)+(D)+(E)+(F)	5,424.8
			(A)+(B)+(C)(ii)+(D)+(E)+(F)	5,053.2

Relevant details in respect of the financial assistance provided to and guarantees given for Chest Gain are disclosed above under Paragraph 3.2.1 of PN19 of the Listing Rules.

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



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

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

Calculated on the basis shown above, as at 31st December, 2002, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group in the respective sums of (a) HK\$5,424.8 million (based on the total available amount of the bank facilities to Chest Gain) and (b) HK\$5,053.2 million (based on the drawdown amount of bank facilities to Chest Gain) represented (a) 169.6% and (b) 158.0% of the Regal NTA.

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

	Pro-forma combined balance sheet (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	66.3	23.1
Current assets	4,542.6	3,176.8
Current liabilities	(235.7)	(163.7)
Non-current liabilities	(8,445.5)	(5,870.6)
Net liabilities	<u>(4,072.3)</u>	<u>(2,834.4)</u>



Loan agreements with covenants relating to specific performance obligation of the controlling shareholders (Paragraphs 3.7.1 and 3.7.2 of PN19)

Paragraph 3.7.1 of PN19

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

		Outstanding Balance of Bank Facilities as at 31st December, 2002 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
The Group	(a)	1,060.8	July 2007	Note (i)
	(b)	3,755.8	September 2004	Note (ii)
Total:		<u>4,816.6</u>		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL, which owns a 56.8% shareholding interest in PHL (which in turn owns a 74.9% shareholding interest in the Company), and/or members of his immediate family, or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of shareholding (as defined under the Listing Rules) and management control of the Company.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in the Company.

Breach of the above specific performance obligations will constitute events of default of the bank facilities. As a result, the bank facilities may become immediately due and payable on demand by the relevant lenders according to the respective terms and conditions of the bank facilities.

Paragraph 3.7.2 of PN19

Details of the breach of certain terms and financial covenants of the above loan agreements are set out in note 3 to the financial statements.



CORPORATE GOVERNANCE

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

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee, which currently comprises Mr. Dominic Lai (Chairman of the Committee) and Mr. Thomas Ng Wai Hung, both independent Non-Executive Directors of the Company, and Mr. Daniel Bong Shu Yin, a Non-Executive Director of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

FIXED ASSETS

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

BORROWINGS

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

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in note 29 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 29 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in note 31 to the financial statements.



CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in note 32 to the financial statements.

SPECIAL RESERVE

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

REVALUATION RESERVES

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

EXCHANGE EQUALISATION RESERVE

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

DISTRIBUTABLE RESERVES

As at 31st December, 2002, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK\$2,683.5 million.

In addition, the Company's share premium account, in the amount of HK\$467.1 million, may be distributed in the form of fully paid bonus shares.

SUBSIDIARY COMPANIES

Particulars of the Company's principal subsidiary companies are set out in note 36 to the financial statements.

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

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

CONTRIBUTED SURPLUS

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

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 45 to the financial statements.

AUDITORS

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

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong
17th April, 2003

