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**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
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
THE PALIBURG ACQUISITION OF PALIBURG
AND
THE PALIBURG CAPITAL REORGANISATION**

Financial adviser to Paliburg Holdings Limited



Ernst & Young Corporate Finance Limited

Independent financial adviser to the Independent Board Committee



A letter from the Board is set out on pages 10 to 43 of this circular. A letter from the Independent Board Committee containing its recommendation regarding the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition is set out on page 44 of this circular. A letter from Access Capital, containing its advice to the Independent Board Committee regarding the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition, is set out on pages 45 to 68 of this circular.

A notice dated 26th August, 2002 convening a special general meeting of Paliburg to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:30 a.m. on Wednesday, 18th September, 2002, is set out on pages 193 to 200 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 Paliburg'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

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DEFINITIONS

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

“Access Capital”	Access Capital Limited, an investment adviser and securities 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 and the Paliburg Acquisition
“Adjusted Paliburg Ordinary Share(s)”	adjusted ordinary share(s) of par value HK\$0.01 each in the share capital of Paliburg upon the Paliburg Capital Reorganisation becoming effective
“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
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“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)
“Chest Gain”	Chest Gain Development Limited, a company incorporated in Hong Kong and the owner and developer of the Stanley Project
“Companies Act”	the Companies Act 1981 of Bermuda
“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

DEFINITIONS

“Continuing Several Guarantee”	the several guarantee which Paliburg has agreed to provide, after completion of the Stanley Transfer, in respect of 40% of the bank borrowings of Chest Gain for the Stanley Project pursuant to the Stanley Transfer Agreement
“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 Paliburg
“Effective Date”	the effective date of the Paliburg Capital Reorganisation
“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
“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 Paliburg, 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 Bonds 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
“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
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited

DEFINITIONS

“Independent Board Committee”	an independent committee of the Board comprising Mr. Abraham Shek Lai Him and Dr. Alex Wu Shu Chih, independent non-executive Directors, for the purpose of considering and advising the Independent Shareholders in respect of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition
“Independent Shareholders”	shareholders of Paliburg other than Mr. Lo and his associates in the case of the Stanley Transfer and the Continuing Several Guarantee; or shareholders of Paliburg other than Mr. Lo, Ms. Lo and their respective associates in the case of the Paliburg Acquisition
“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 this 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 Accumulated Losses”	the entire balance in the accumulated losses account of Paliburg as at the Effective Date
“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 Capital Reduction”	the proposed adjustment of nominal value of each issued Paliburg Ordinary Share from HK\$1.00 to HK\$0.01 by the cancellation of paid-up capital of HK\$0.99 in respect of each issued Paliburg Ordinary Share

DEFINITIONS

“Paliburg Capital Reorganisation”	the proposed share capital reorganisation of Paliburg as more fully set out under the section headed “Proposed Paliburg Capital Reorganisation” in the Letter from the Board contained in this circular
“Paliburg Contributed Surplus Account”	the contributed surplus account of Paliburg
“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)
“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 Share Premium Account”	the share premium account of Paliburg as at the Effective Date
“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

DEFINITIONS

“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
“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)
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Second Vendor”	Select Wise Holdings Limited, a company controlled by Ms. Lo
“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 phased release of the SPC Regal Shares
“SGM”	the special general meeting of Paliburg to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong at 11:30 a.m. on Wednesday, 18th September, 2002 to approve the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the Paliburg Capital Reorganisation
“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
“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
“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 such 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

DEFINITIONS

“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 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
“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

DEFINITIONS

“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.



Directors:

Mr. LO Yuk Sui (*Chairman and Managing Director*)

Mr. CHENG Yuk Lun

Mr. Donald FAN Tung

Mrs. Kitty LO LEE Kit Tai

Mr. Jimmy LO Chun To

Mr. Kenneth NG Kwai Kai

Registered office:

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Independent non-executive Directors:

Mr. NG Siu Chan

Hon. Abraham SHEK Lai Him, JP

Dr. Alex WU Shu Chih, CBE, LL D, FBIM FIOP, F Inst D, JP

26th August, 2002

To the shareholders of Paliburg

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
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
THE PALIBURG ACQUISITION OF PALIBURG
AND
THE PALIBURG CAPITAL REORGANISATION**

INTRODUCTION

The transactions

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

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 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.

Detailed 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.

The Board has also proposed the Paliburg Capital Reorganisation which involves, among other things, the reduction of the nominal value of all the issued and unissued Paliburg Ordinary Shares from HK\$1.00 to HK\$0.01 each.

In the Announcement, Regal has also proposed to carry out a capital reorganisation, which involves 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 Paliburg. In addition, the Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee constitute connected transactions for Paliburg 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 Paliburg. Approval of the shareholders of Paliburg is required for the implementation of the Settlement Proposal under the Listing Rules.

Mr. Lo is the controlling shareholder of Paliburg, the chairman of Century City and the chairman of the Board. 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

LETTER FROM THE BOARD

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 Paliburg. Hence, the Paliburg Acquisition constitutes a very substantial acquisition and connected transaction for Paliburg. 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 for approving the Paliburg Acquisition.

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 Paliburg Capital Reorganisation; (ii) to set out the letter from Access Capital, the independent financial adviser, containing its advice to the Independent Board Committee in relation to the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition; (iii) to set out the recommendation of the Independent Board Committee in relation to the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition; 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 and the Paliburg Capital Reorganisation.

THE STANLEY TRANSFER

The Stanley Transfer Agreement

Date: 2nd August, 2002

Vendor: PDBVI, a wholly-owned subsidiary 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 Paliburg, 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 Paliburg 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 approximately HK\$116.3 million respectively based on the closing prices per Regal Ordinary Share of 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 the 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. PHL 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. PHL 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.

LETTER FROM THE BOARD

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 superstructure works of the Stanley Project are under way and its construction progress is on schedule.

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 of the Stanley Project as at 31st May, 2002 by FPD Savills 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.

LETTER FROM THE BOARD

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.

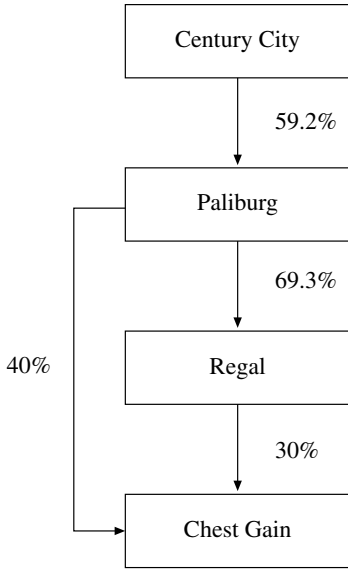
- approval from the shareholders of Regal, other than Mr. Lo, Paliburg and their respective associates, for the Stanley Transfer;
- approvals from the shareholders of Century City and Paliburg, other than Mr. Lo and his associates, for the Stanley Transfer and the Continuing Several Guarantee;
- approval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

LETTER FROM THE BOARD

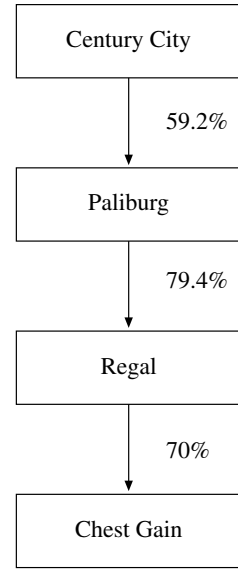
Shareholding structures of Regal and Chest Gain

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



Reasons for the Stanley Transfer

After completion of the Stanley Transfer, Paliburg 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 will 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 details of and reasons for the Settlement Proposal.

LETTER FROM THE BOARD

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. Therefore, 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 Paliburg. In addition, the Stock Exchange is of the view that the Stanley Transfer and the Continuing Several Guarantee constitute connected transactions for Paliburg 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 Agreement 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).

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

LETTER FROM THE BOARD

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 dated 26th April, 2002 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 proceedings or enforcement action in connection 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.

LETTER FROM THE BOARD

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 Paliburg, its subsidiaries, any of the directors, chief executive and substantial shareholders of Paliburg and its subsidiaries, and 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 Paliburg, its subsidiaries and 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 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

LETTER FROM THE BOARD

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.

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 Century City have been leasing spaces, and will have the right to continue leasing 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.

LETTER FROM THE BOARD

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 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. Paliburg has undertaken to the Stock Exchange that it will notify the Stock Exchange of any acquisition of the Series B Bonds by any connected person of Paliburg when it becomes aware of such acquisition.

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 the 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 Share Agreement. The

LETTER FROM THE BOARD

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 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 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 within 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.

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 wishes 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

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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 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 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 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.

LETTER FROM THE BOARD

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.

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);

LETTER FROM THE BOARD

2. an act or omission taken or omitted to be taken at the specific instruction of, or to meet the requirements of, one or more 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, Paliburg 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”, 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 of Regal that should be carried out (if at all).

Shareholders of Paliburg 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.

LETTER FROM THE BOARD

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).

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. Paliburg estimates that accounting profits of approximately HK\$3 billion will be recorded by Paliburg 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. The Directors believe that the financial position of the Paliburg Group will be improved through the implementation of the Settlement Proposal.

Existing Bondholders' approvals

It is expected that an information memorandum, bondholders' circulars and notices convening the meetings of the Existing Bondholders' will be despatched to the Existing Bondholders on or before 9th September, 2002. The Existing Bondholders' meetings considering 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 that in principle they are in favour of the Settlement Proposal.

LETTER FROM THE BOARD

Listing Rules requirements

The Settlement Proposal constitutes a major transaction for Paliburg. Approval of the shareholders of Paliburg is 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 Paliburg are required to abstain from voting at the SGM in respect of the Settlement Proposal.

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 to the shareholding structure of Regal before completion of the Stanley Transfer and before the 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 <i>million</i>	%	Number of Regal Ordinary Shares <i>million</i>	%	Number of Regal Ordinary Shares <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	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

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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.

Regal is a listed major subsidiary of Paliburg. 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 PHL 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 (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 Agreement, 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

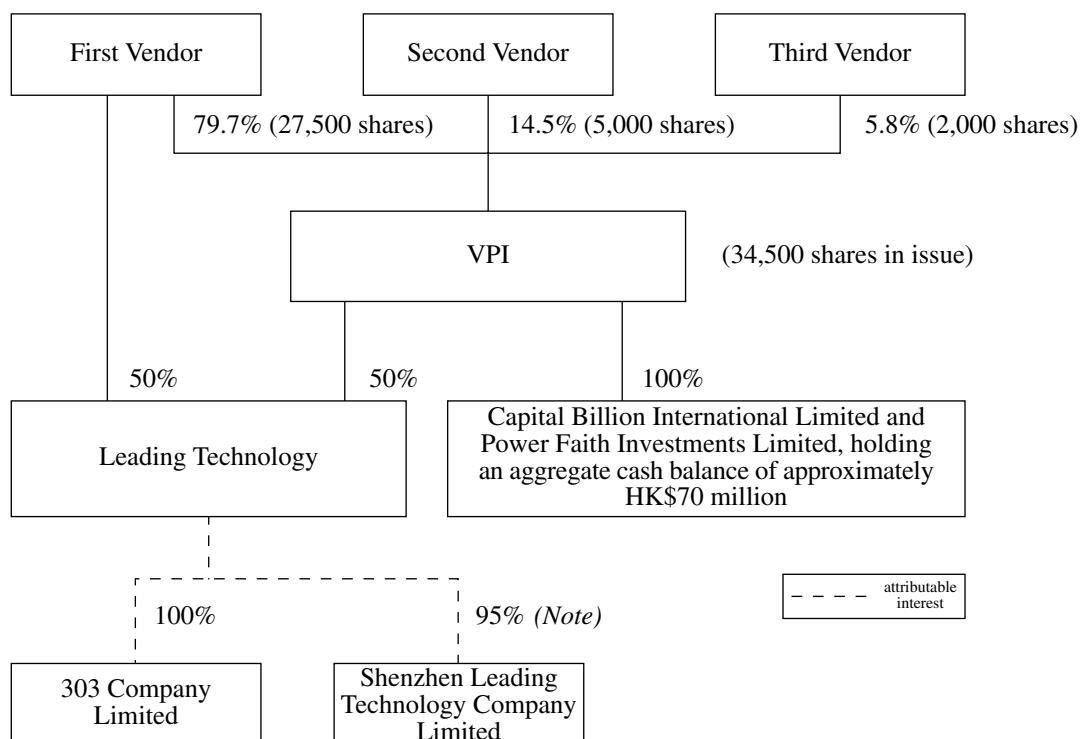
Paliburg has agreed to acquire all the shares of VPI in issue at the completion date of the Paliburg Acquisition Agreement, including such shares in issue as at the Latest Practicable Date and all the new shares of VPI that may be issued under the VPI Placing. After completion of the Paliburg Acquisition, 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

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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.

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 of the directors, chief executive, substantial shareholders of Paliburg, 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.

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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. Please refer to Appendix V to this circular for the accountants' report on VPI.

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.

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

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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

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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 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 will 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 special resolution 2 set out in the notice of the SGM which forms part of this circular for details of the rights and restrictions attaching to the Paliburg Convertible Preference Shares.

Each Paliburg Convertible Preference Share can be converted into one Paliburg Ordinary Share (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)).

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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;
- 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 (such valuation report has been delivered and set out in Appendix IV to this circular);
- the Paliburg Capital Reorganisation becoming effective;
- 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.

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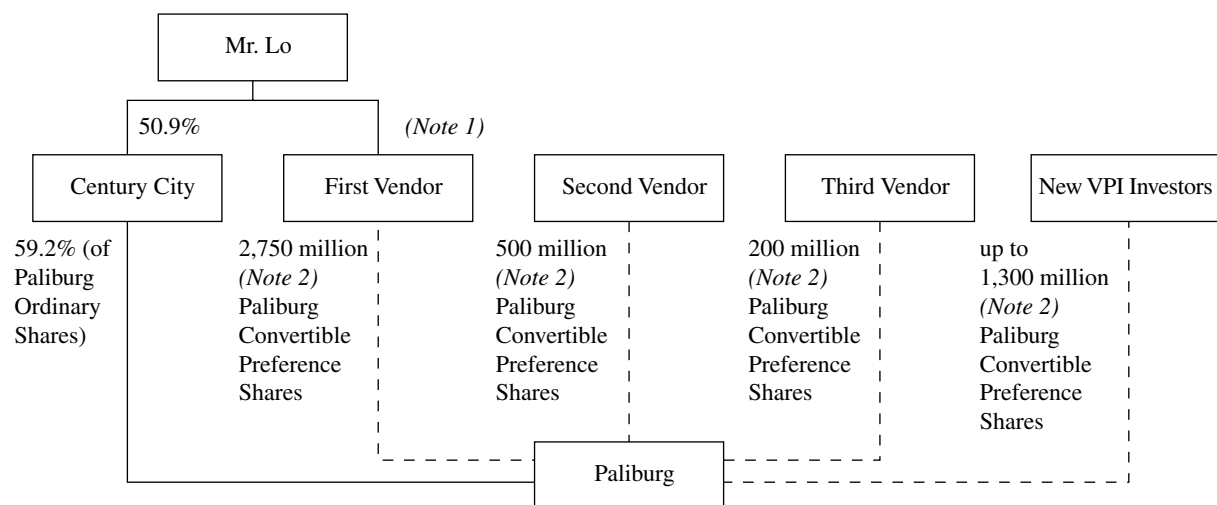
Shareholding structure of Paliburg

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 (for details, please refer to the section headed “The Share Swap” below)):

	As at the Latest Practicable Date		After full conversion of the Paliburg Convertible Preference Shares			
	Number of Paliburg Ordinary Shares <i>million</i>		Based on 3,450 million Paliburg Convertible Preference Shares		Based on 4,750 million Paliburg Convertible Preference Shares	
			Number of Paliburg Ordinary Shares <i>million</i>		Number of Paliburg Ordinary Shares <i>million</i>	
	<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	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	<u>941.1</u>	<u>40.6</u>	<u>941.1</u>	<u>16.3</u>	<u>941.1</u>	<u>13.3</u>
Total	<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>

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The following chart illustrates the shareholding structure of Paliburg immediately upon completion of the Paliburg Acquisition Agreement based on the shareholding structure of Paliburg as at the Latest Practicable Date (assuming no Paliburg Convertible Preference Shares have been converted and without taking into consideration the effect of the Share Swap):



Notes:

1. 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.
2. Paliburg understands that Century City entered into an agreement with, inter alios, the Vendors, pursuant to which the Century City Group can effectively acquire 3,450 million Paliburg Convertible Preference Shares from the First Vendor, the Second Vendor and the Third Vendor and up to 300 million Paliburg Convertible Preference Shares from certain New VPI Investors. Please refer to the section headed “The Share Swap” below for details.

Reasons for the Paliburg Acquisition

Paliburg, through its subsidiaries, is principally engaged in, among other things, property development and investment, property management, construction and construction-related businesses.

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.

Paliburg 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.

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Paliburg 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. Paliburg 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.

Paliburg 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. Paliburg 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. Paliburg also understands that as at the Latest Practicable Date, no listing application has been made to any stock exchange in respect of the LTH Listing. Shareholders of Paliburg 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 Paliburg.

Listing Rules requirements

Mr. Lo is the chairman of the Board. 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 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 Paliburg. The Paliburg Acquisition constitutes a very substantial acquisition and connected transaction 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.

Approval of the Independent Shareholders is required for the completion of 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.

Paliburg has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and 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 has undertaken to the Stock Exchange that it will inform the Stock Exchange from time to time upon Paliburg becoming aware of any acquisition of the Paliburg Convertible Preference Shares by its connected persons (as defined in the Listing Rules) other than the Vendors and the Century City Group.

LETTER FROM THE BOARD

Paliburg has 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 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 Paliburg to fall below the minimum public float required under Rule 8.08 of the Listing Rules as a result of the exercise of 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.

THE SHARE SWAP

Paliburg understands that on 2nd August, 2002, Century City entered into an agreement with, inter alios, the Vendors. Pursuant to the terms of this agreement and upon fulfillment of certain conditions contained herein (which include, among other things, that the Century Group has restructured its debts), the Century City Group can effectively acquire up to 3,750 million Paliburg Convertible Preference Shares from the Vendors and certain New VPI Investors by issue of new shares of Century City (the “Share Swap”).

Century City is the controlling shareholder of Paliburg and beneficially owns approximately 59.2% of the issued ordinary share capital of Paliburg as at the Latest Practicable Date. 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 by the holders other than Century City and its subsidiaries. The Share Swap will give Century City a mechanism to maintain a controlling interest in Paliburg. Depending on the number of Paliburg Convertible Preference Shares which may be effectively acquired by Century City, shareholding interest of Century City in Paliburg may increase up to approximately 83.6% (based on the shareholding structure of Paliburg as at the Latest Practicable Date).

The Share Swap constitutes a major and connected transaction for Century City under the Listing Rules and is subject to, among other things, approval of the shareholders of Century City, other than Mr. Lo, Ms. Lo and their respective associates.

PROPOSED PALIBURG CAPITAL REORGANISATION

The Board has proposed to put forward for approval by the shareholders of Paliburg at the SGM, the Paliburg Capital Reorganisation which comprises the following:

1. the nominal value of each issued Paliburg Ordinary Share as at the Effective Date 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;

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2. the credit created in 1. above will be used to eliminate the Paliburg Accumulated Losses, if any, with any remaining balance being transferred to the Paliburg Contributed Surplus Account;
3. the entire amount standing to the credit of the Paliburg Share Premium Account will be cancelled;
4. the credit created in 3. above will also be transferred to the Paliburg Contributed Surplus Account; and
5. the then existing authorised but unissued share capital of Paliburg will be cancelled and the authorised capital of Paliburg will be subsequently increased to HK\$675 million by the creation of an 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.

Effects of the Paliburg Capital Reorganisation

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.

Upon the Paliburg Capital Reorganisation 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 Paliburg Share Premium Account will be cancelled. The credit arising as a result of the Paliburg Capital Reduction and the cancellation of the entire amount in the Paliburg Share Premium Account will be used to eliminate the Paliburg Accumulated Losses, if any, with any remaining balance being transferred to the Paliburg Contributed Surplus Account.

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\$200,000,000 divided into 20,000,000,000 Adjusted Paliburg Ordinary Shares of HK\$0.01 each and (ii) HK\$475,000,000 divided into 4,750,000,000 Paliburg Convertible Preference Shares of HK\$0.10 each upon the Paliburg Capital Reorganisation becoming effective.

The Directors consider that, other than the expenses relating to the Paliburg Capital Reorganisation, implementation of the Paliburg Capital Reorganisation will not, of itself, affect Paliburg's underlying assets, business operations and financial position or the interests of the shareholders of Paliburg.

LETTER FROM THE BOARD

Conditions of the Paliburg Capital Reorganisation

The Paliburg Capital Reorganisation is subject to, among other things, the following conditions:

- the passing of the special resolution by the shareholders of Paliburg to approve the Paliburg Capital Reorganisation;
- the Stock Exchange granting the listing of, and permission to deal in, the Adjusted Paliburg Ordinary Shares;
- implementation of the Settlement Proposal; and
- the publication of a notice in relation to the Paliburg Capital Reorganisation in Bermuda in accordance with the Companies Act.

Paliburg will issue a further announcement in respect of the Paliburg Capital Reorganisation when it has determined when the Effective Date shall be.

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 that they will vote in favour of the relevant resolution in relation to the Paliburg Capital Reorganisation at the SGM.

Reasons for the Paliburg Capital Reorganisation

The Paliburg Ordinary Shares had been traded on the Stock Exchange at prices below the par value since October 1998. As no Paliburg Ordinary Shares can be issued at a price below the par value, the fund raising capability of Paliburg has been restricted by market trading prices. The Directors are of the view that, since the Paliburg Capital Reduction will reduce the par value of the Paliburg Ordinary Shares, this can enhance Paliburg's future fund raising capability. By offsetting its accumulated losses under the Paliburg Capital Reorganisation, Paliburg will be able to declare dividends to its shareholders at an earlier opportunity than by generating future profits to offset its accumulated losses. Therefore, the Paliburg Capital Reorganisation is in the interests of Paliburg and the shareholders of Paliburg as a whole.

Listing application

Paliburg has made an application to the Stock Exchange seeking approval from the Stock Exchange for the listing of, and permission to deal in, the Adjusted Paliburg Ordinary Shares.

Subject to the granting of listing of, and permission to deal in, the Adjusted Paliburg Ordinary Shares on the Stock Exchange, the Adjusted Paliburg Ordinary Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Adjusted Paliburg Ordinary Shares on the Stock Exchange or

LETTER FROM THE BOARD

such other date as determined by Hongkong Clearing. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

CAPITAL REORGANISATION OF REGAL

The proposal

Paliburg understands that the board of directors of Regal has also 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 of Regal 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 credit 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 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
5. the 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

The capital reorganisation of Regal is subject to, among other things, the following conditions:

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

LETTER FROM THE BOARD

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 Regal's special general meeting.

Effects of the capital reorganisation of 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.

Reasons for the capital reorganisation of Regal

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

LETTER FROM THE BOARD

GENERAL

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 approvals 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 will be conditional on, among other things, Bonds Settlement Closing, the Paliburg Capital Reorganisation becoming effective and the independent shareholders' approval of Century City and Paliburg. Implementation of the Settlement Proposal is not conditional on the completion of the Paliburg Acquisition Agreement or the Paliburg Capital Reorganisation becoming effective. **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 Paliburg Capital Reorganisation 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 Paliburg Capital Reorganisation will necessarily be implemented and completed.**

RECOMMENDATIONS

The Directors consider that the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, the Paliburg Acquisition and the Paliburg Capital Reorganisation are in the interest of Paliburg.

Access Capital is appointed as the independent financial adviser to the Independent Board Committee in respect of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition. The Independent Board Committee has considered the respective terms and conditions of the Stanley Transfer Agreement and the Paliburg Acquisition Agreement and the advice given by Access Capital, and is of the opinion that the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition are fair and reasonable as far as the interests of the Independent Shareholders are concerned.

The Directors recommend the shareholders of Paliburg to vote in favour of the resolutions to be proposed at the SGM to approve the Settlement Proposal and the Paliburg Capital Reorganisation. 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 and the Paliburg Acquisition.

THE SGM

Set out on pages 193 to 200 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 11:30 a.m. on Wednesday, 18th September, 2002. The SGM will be held for the purpose of considering, and, if thought fit, approving (i) the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition by the Independent Shareholders; and (ii) the Settlement Proposal and the Paliburg Capital Reorganisation by the shareholders of Paliburg.

LETTER FROM THE BOARD

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 Paliburg'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 meeting or at any adjourned meeting should you so wish.

Paliburg understands that a special general meeting of Century City will be held on 18th September, 2002 with a view to seeking approvals from its shareholders for, among other things, the Stanley Transfer, the Continuing Several Guarantee, the Settlement Proposal, and the Paliburg Acquisition, 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 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 and the Paliburg Acquisition; (ii) the letter from Access Capital containing its advice to the Independent Board Committee in respect of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition; and (iii) the further information set out in the appendices to this circular including the financial information on the PHL Group, property valuations on the Stanley Project, Paliburg Plaza and Kowloon City Plaza, the Business Valuation and the accountants' report on VPI.

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



26th August, 2002

To the Independent Shareholders

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER BETWEEN PALIBURG AND REGAL
AND
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
THE PALIBURG ACQUISITION OF PALIBURG**

We refer to the circular issued by Paliburg 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.

We have been appointed by the Board as the members of the Independent Board Committee to consider the terms and conditions of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition, and to advise you in connection therewith. Access Capital has been appointed as the independent financial adviser to advise us in this regard.

We wish to draw your attention to the “Letter from the Board”, as set out on pages 10 to 43 of the Circular, which sets out, among other things, information relating to and the reasons for the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition, and the letter from Access Capital which contains its advice to us in respect of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition as set out on pages 45 to 68 of the Circular.

We have considered the principal factors taken into account by Access Capital in arriving at its opinion regarding the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition as set out in its letter. We consider that the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition are fair and reasonable as far as the interests of the Independent Shareholders are concerned. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolutions as set out in the notice of the SGM in respect of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition on pages 193 to 200 of the Circular.

Yours faithfully,

The Independent Board Committee

Mr. Abraham SHEK Lai Him

Dr. Alex WU Shu Chih

Independent non-executive Directors

LETTER FROM ACCESS CAPITAL

Set out below is the text of a letter received from Access Capital, the independent financial adviser to the Independent Board Committee, regarding the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition prepared for the purpose of inclusion in this circular.



3rd Floor
8 Queen's Road Central
Hong Kong

26th August, 2002

*The Independent Board Committee of
Paliburg Holdings Limited*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
THE STANLEY TRANSFER
BETWEEN PALIBURG AND REGAL
AND
VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION
THE PALIBURG ACQUISITION OF PALIBURG**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee of Paliburg to consider the terms and conditions of the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition, details of which are contained in the “Letter from the Board” set out on pages 10 to 43 of a circular to the shareholders of Paliburg dated 26th August, 2002 (the “Circular”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

LETTER FROM ACCESS CAPITAL

INDEPENDENT BOARD COMMITTEE

The board of Directors currently comprises Mr. Lo, Mr. Cheng Yuk Lun, Mr. Donald Fan Tung, Mrs. Kitty Lo Lee Kit Tai, Mr. Jimmy Lo Chun To, Mr. Kenneth Ng Kwai Kai, Mr. Ng Siu Chan, Mr. Abraham Shek Lai Him and Dr. Alex Wu Shu Chih.

Mr. Lo, a controlling shareholder of Century City and the chairman of the respective boards of Century City, Paliburg and Regal, is deemed to be a connected person in respect of the Stanley Transfer and the Continuing Several Guarantee. In addition, Mr. Lo is a controlling shareholder of one of the Vendors. Hence, under the Listing Rules, Mr. Lo and his spouse Mrs. Kitty Lo Lee Kit Tai are not considered independent in so far as the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition are concerned. Mr. Jimmy Lo Chun To, the son of Mr. and Mrs. Lo, Mr. Cheng Yuk Lun, Mr. Donald Fan Tung and Mr. Kenneth Ng Kwai Kai are employees of the Century City Group, and are not considered independent in so far as the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition are concerned. As Mr. Ng Siu Chan is an independent non-executive director of both Century City and Paliburg, he has not been appointed as a member of the Independent Board Committee. Accordingly, the Independent Board Committee comprising Mr. Abraham Shek Lai Him and Dr. Alex Wu Shu Chih is established to consider the terms of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition and to advise the Independent Shareholders thereon. We have been appointed to advise the Independent Board Committee as to whether the terms of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and to give our opinion in relation to the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition for the Independent Board Committee to consider and to make its recommendation to the Independent Shareholders.

BASES AND ASSUMPTIONS OF THE ADVICE

In formulating our advice, we have relied to a considerable extent on the statements, information, assumptions, opinions and representations contained in the Circular and the information and representations provided to us by Paliburg and the Directors. We have assumed that all such statements, information, assumptions, opinions and representations contained or referred to in the Circular or otherwise provided by Paliburg and the Directors and for which they are solely responsible were true and accurate in all material respects at the time they were made and given and continue to be true and accurate in all material respects as at the date of the Circular. We have also assumed that all statements of belief, opinion and intention of the Directors as set out in the “Letter from the Board” on pages 10 to 43 of the Circular and in this letter have been reasonably made after due and careful enquiry. We have sought and obtained confirmation from Paliburg that no material facts have been omitted from the information provided and referred to in the Circular. We have also assumed that the opinion made by Grant Sherman in its report on the Business Valuation has been prepared after due and careful consideration.

LETTER FROM ACCESS CAPITAL

As the Stanley Transfer and the Paliburg Acquisition form part of the overall restructuring scheme of Century City and its subsidiaries, we have also, where relevant, considered the implications of the various elements of the overall scheme as set out in the Announcement.

We consider that we have reviewed all currently available information and documents which are available under the present circumstances to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis of our opinion. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of Paliburg, VPI, Leading Technology or any of their respective subsidiaries or associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

I. **Background of the financial restructuring of the indebtedness of the PHL Group and the current position of Paliburg**

Background of the defaults of financial indebtedness

As with many property companies in Hong Kong, the businesses of the Paliburg Group have been adversely impacted by the financial crisis in Asia which arose in 1997. In particular, the values of the real estate assets and investments owned by companies operating in the real estate sector such as the Paliburg Group, which has substantial investments in residential, commercial and office properties and the Stanley Project acquired in June 1997, have been significantly impaired.

In their efforts to contain the damage caused to their business by deteriorating market conditions, both the Paliburg Group and the Regal Group have initiated a number of asset disposals and refinancing exercises. These exercises resulted, for example, in the sale of Regal's US hotel operation in December 1999 and the asset securitization financing of Paliburg's interest in Paliburg Plaza and Kowloon City Plaza in September 2000.

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 accrued (including default) interest, amounted in aggregate to approximately HK\$3,751.0 million as at 30th June, 2002.

LETTER FROM ACCESS CAPITAL

The Settlement Proposal

As announced on 26th April, 2002, certain major holders of the Convertible Bonds entered into the Standstill Agreement with Paliburg and have indicated their in-principle support of the Settlement Proposal which involves the cancellation of the Existing Bonds (totalling approximately HK\$3,751.0 million as at 30th June, 2002) in return for the Property Transfer and the phased release of the SPC Regal Shares to the Existing Bondholders.

The Stanley Transfer

Under the Stanley Transfer, Paliburg also proposed to transfer its 40% interest in the Stanley Project to Regal in return for new Regal Ordinary Shares in order to facilitate the implementation of the Settlement Proposal. The Stanley Transfer also provides Paliburg with an opportunity to maintain an effective controlling interest in Regal, even after the aforesaid phased release of the SPC Regal Shares to the Existing Bondholders pursuant to the Settlement Proposal.

Expected substantial depletion of Paliburg's assets and business base and their associated revenue in future

The implementation of the Property Transfer would effectively extinguish Paliburg's entire interest in both Paliburg Plaza and Kowloon City Plaza, Paliburg's two principal investment property assets, which in aggregate contributed gross rental revenue of approximately HK\$210.0 million in the year ended 31st December, 2001.

Ongoing discussions with the other financial creditors of Paliburg and Regal

The Board viewed that the settlement arrangements with the Existing Bondholders would facilitate more advanced and substantive debt restructuring/rescheduling discussions with the other secured and unsecured creditors of Paliburg and Regal. Based on the indebtedness statement of the PHL Group as at 30th June, 2002, the PHL Group's indebtedness will be reduced by approximately HK\$4,968.0 million (including approximately HK\$3,751.0 million in relation to the Existing Bonds and approximately HK\$1,217.0 million in relation to the asset securitization loan with respect to the Paliburg Plaza and Kowloon City Plaza) to approximately HK\$5,419.2 million as a result of the completion of the Settlement Proposal. The Board also recognizes that in seeking the support of these creditors and new equity investors in Paliburg and Regal, these parties would need to be satisfied with the future financial and ownership stability of the relevant listed companies as well as their underlying business prospects.

II. Rationale for the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition, the underlying strategic propositions and the potential intended benefits derived from the Stanley Transfer and the Paliburg Acquisition

Rationale for the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition and the underlying strategic propositions

- Overall rationale

The Board has concluded that in order to reduce the effects of any unforeseeable swings and extremes of the real estate market cycles that resulted in a substantial depletion in Paliburg Group's asset value, it is important for the Paliburg Group to broaden its business focus and strategy.

- Rationale for the Stanley Transfer

The Board is of the view that the Stanley Transfer will facilitate the implementation of the Settlement Proposal for settling the Existing Bonds and release Paliburg from the immediate financial stress.

- Rationale for the Paliburg Acquisition

The Paliburg Acquisition will broaden the business base and enhance the financial strength of the Paliburg Group.

At the same time, the Board has considered relevant strategic propositions under the Stanley Transfer and the Paliburg Acquisition, which is summarized as follows:

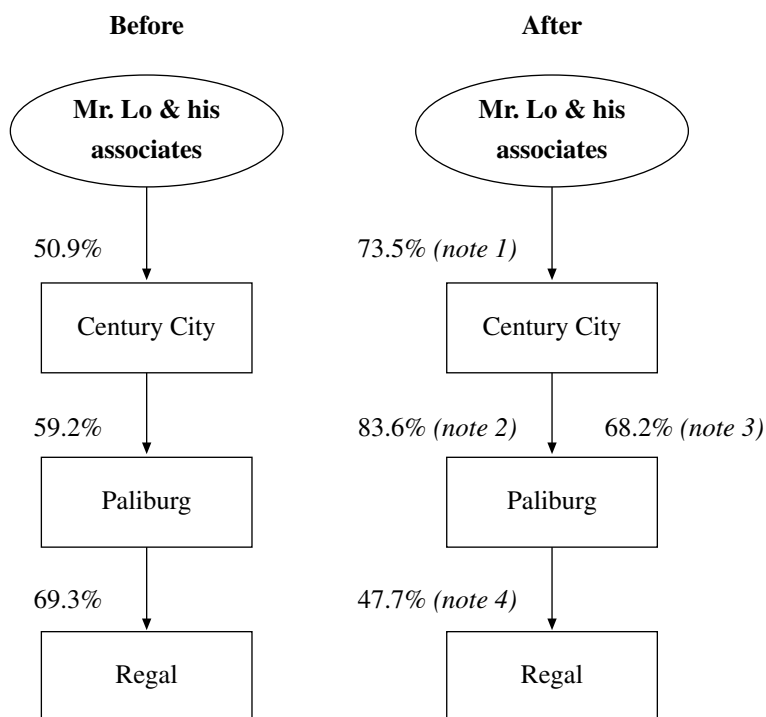
- Under the Stanley Transfer Agreement, Regal will issue and allot 1,958,333,333 new Regal Ordinary Shares to Paliburg as consideration for Paliburg's 40% interest in the Stanley Project. Of the 1,958,333,333 new Regal Ordinary Shares to be allotted to Paliburg upon completion of the Stanley Transfer, approximately 1,896.5 million Regal Ordinary Shares will be applied by Paliburg as Subject Regal Shares to facilitate the phased release of the SPC Regal Shares to the Existing Bondholders pursuant to the Settlement Proposal. Based on the indebtedness statement of the PHL Group as at 30th June, 2002, the PHL Group's indebtedness will be reduced by approximately HK\$4,968.0 million to approximately HK\$5,419.2 million as a result of the completion of the Settlement Proposal. Reduction in the indebtedness of the PHL Group also reduces its future interest cost burden significantly.

LETTER FROM ACCESS CAPITAL

- Both the Paliburg Group and the Leading Technology Group are engaged in similar lines of business, the property-related services business. The Paliburg Acquisition allows the Paliburg Group to integrate technologically advanced services systems and products with its conventional expertise in the property-related business. At the same time, Paliburg believes that the businesses of the Leading Technology Group, in particular, its security and intelligent building businesses, 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 and may help further enhance the property related business of the Paliburg Group. Paliburg believes that investment in the Leading Technology Group will create synergies with its existing property development business, particularly in the fields of architectural and development consultancy, building construction and property management.
- Paliburg also believes 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, there will be at least HK\$70 million cash contained in VPI which will significantly improve the working capital structure of the Paliburg Group. This cash reserve may further increase by the proceeds to be provided under the VPI Placing. VPI Placing is the possible placing of new shares of VPI before completion of the Paliburg Acquisition through the First Vendor.
- The Paliburg Acquisition would allow the establishment of a capital structure framework for the ongoing discussions with the creditors (in addition to the Existing Bondholders) of Paliburg and Regal. The Board considers that financial and ownership stability of the Paliburg Group is an important factor in the restructuring of the indebtedness of the PHL Group, as well as the two bank loans of the Regal Group (of approximately HK\$4,901.6 million as mentioned in the working capital statement in Appendix I to the Circular). The maintenance by Paliburg of a controlling interest in Regal is crucial to Regal. Mr. Lo, the controlling shareholder of Century City, which in turn beneficially holds 59.2% of Paliburg as at the Latest Practicable Date (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. Therefore, implementation of the Stanley Transfer and the Paliburg Acquisition will enable the maintenance of control of Regal by Mr. Lo and can reduce the likelihood of such event of default occurring.

LETTER FROM ACCESS CAPITAL

The following sets out the shareholding structure of Century City, Paliburg and Regal as at the Latest Practicable Date and immediately after the implementation of the transactions contemplated under the Stanley Transfer, the Settlement Proposal, the Paliburg Acquisition and the share swap (as described in the paragraph headed “The Share Swap” in the “Letter from the Board”).



Notes:

1. Upon assumed acquisition of 13,800 million exchangeable preference shares in the share capital of the special purpose vehicle set up by the First Vendor for holding the Paliburg Convertible Preference Shares to be issued to the Vendors and certain New VPI Investors under the Paliburg Acquisition.
2. As in note 1 and assuming issue and full conversion of 3,450 million Paliburg Convertible Preference Shares. Paliburg has 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 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 Paliburg to fall below the minimum public float required under Rule 8.08 of the Listing Rules as a result of the exercise of 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.
3. As in note 1 and assuming issue and full conversion of 4,750 million Paliburg Convertible Preference Shares.
4. Based on the shareholding of Paliburg in Regal as at the Latest Practicable Date and exclude the SPC Regal Shares to be transferred to the holders of the Series B Bonds.

LETTER FROM ACCESS CAPITAL

Potential intended benefits under the Stanley Transfer and the Paliburg Acquisition

In the light of the above stated rationale and the strategic propositions of the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition, the Board has summarized the potential intended benefits as follows:

With respect to the Stanley Transfer

- Substantial decrease in the level of indebtedness of the Paliburg Group through the implementation of the Settlement Proposal facilitated by the issue and allotment of the Consideration Shares to Paliburg pursuant to the Stanley Transfer.

With respect to the Stanley Transfer and the Paliburg Acquisition

- Enable the maintenance by Mr. Lo of an effective controlling interest in Regal and reduce the likelihood of any breach of the loan covenant by Regal even after the phased release of the SPC Regal Shares.
- Although Mr. Lo's effective control in Paliburg would be increased upon completion of the Stanley Transfer and the Paliburg Acquisition, the successful completion of the Paliburg Acquisition would stabilise the PHL Group's financial position and would help in reinstating the stability in the shareholding structure of Paliburg and Regal, and potentially, Century City. These would facilitate the discussions with financial creditors of Century City and Regal.

With respect to the Paliburg Acquisition

- Immediate replenishment of the expected depletion of business assets as a result of the arrangements under the Settlement Proposal.
- Significant improvement of the financial position of the Paliburg Group through the broadening of Paliburg's equity base with the issue of the Paliburg Convertible Preference Shares and acquisition of a pool of cash of a minimum of HK\$70,000,000, with the possibility of increasing to HK\$200,000,000.

With respect to the LTH Option

- VPI will be granted an 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 discount to (i) a price based on the Business Valuation or (ii) a market valuation.

Having considered the rationale and the potential intended benefits of the Stanley Transfer and the Paliburg Acquisition, we concur with the view of the Board that the stated strategic propositions are in the interests of Paliburg and its shareholders as a whole.

III. Consideration of the Stanley Transfer

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

The consideration of the Stanley Transfer of HK\$470.0 million 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%.

Shareholders of Paliburg should note that under the terms of the Stanley Transfer Agreement, Paliburg has agreed to provide the Continuing Several Guarantee after completion of the Stanley Transfer which amounted to approximately HK\$1,004 million as at 31st December, 2001. In addition, no counter indemnity will be provided by Regal in favour of Paliburg in respect of the Continuing Several Guarantee provided by Paliburg. However, Paliburg's obligation under the Continuing Several Guarantee will be limited to the security provided by Paliburg which currently comprises approximately 1,384.2 million Regal Ordinary Shares. 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 the first priority sharing of not less than 75% over such security.

Although 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. However, the Directors, having reviewed the transacted 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. Taking into account the transacted prices of similar developed property projects within the vicinity of Stanley, the independent property valuation of the Stanley Project and the Continuing Several Guarantee which is limited to the 1,384.2 million Regal Ordinary Shares provided as security, we concur with the view of the Directors that the risk relating to continue providing the Continuing Several Guarantee to be manageable. The Directors are also of the view that with the successful completion of the Stanley Transfer, the

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Settlement Proposal and the Paliburg Acquisition, the Paliburg Group and the Regal Group will be better positioned to negotiate with their creditors to restructure their respective outstanding indebtedness, which in turn will result in greater stability for the businesses of the Paliburg Group and the Regal Group, including the development of the Stanley Project. Given that the amount of the risk exposure of the Paliburg Group is limited to the aforesaid 1,384.2 million Regal Ordinary Shares, the Directors have accepted that the provision of the several guarantee to be effectively a condition of the Stanley Transfer and is in the interests of Paliburg and its shareholders as a whole. Based on the aforesaid explanation, we concur with the view of the Directors and consider that the provision of the Continuing Several Guarantee is in the interests of Paliburg and its shareholders as a whole.

Taking into account the ultimate objective of the Stanley Transfer is to facilitate the implementation of the Settlement Proposal, the potential intended benefits derived from the Stanley Transfer and the Paliburg Acquisition (as described in paragraph II above), the intended enhancement to the net tangible assets of the PHL Group (as described in paragraph VI below) and the other possible financial effects on the Paliburg Group upon completion of the Stanley Transfer and the Paliburg Acquisition, namely working capital, gearing position, shareholding dilution and accounting gain or loss as a result of the transactions (as described in paragraph VI below), the Directors are of the view that the intended benefits arising from the successful implementation of the Stanley Transfer and the Paliburg Acquisition out-weigh the commercial concession by Paliburg (due to the 10% discount to the net value of Paliburg's 40% interest in the Stanley Project prepared by FPDSavills and the provision of the Continuing Several Guarantee). In particular, shareholders of Paliburg should note that immediately upon completion of the Stanley Transfer and the Settlement Proposal, the proforma adjusted unaudited consolidated net tangible asset value will be approximately HK\$1.17 per Paliburg Ordinary Share, representing an increase of approximately 27.2% when compared with the audited consolidated net tangible asset value as at 31st December, 2001 of approximately HK\$0.92 per Paliburg Ordinary Share. In view of the above reasons, we concur with the Directors' opinion and are of the view that the consideration for the Stanley Transfer is commercially justifiable and is in the interests of Paliburg and its shareholders as a whole.

Issue price of the Consideration Shares

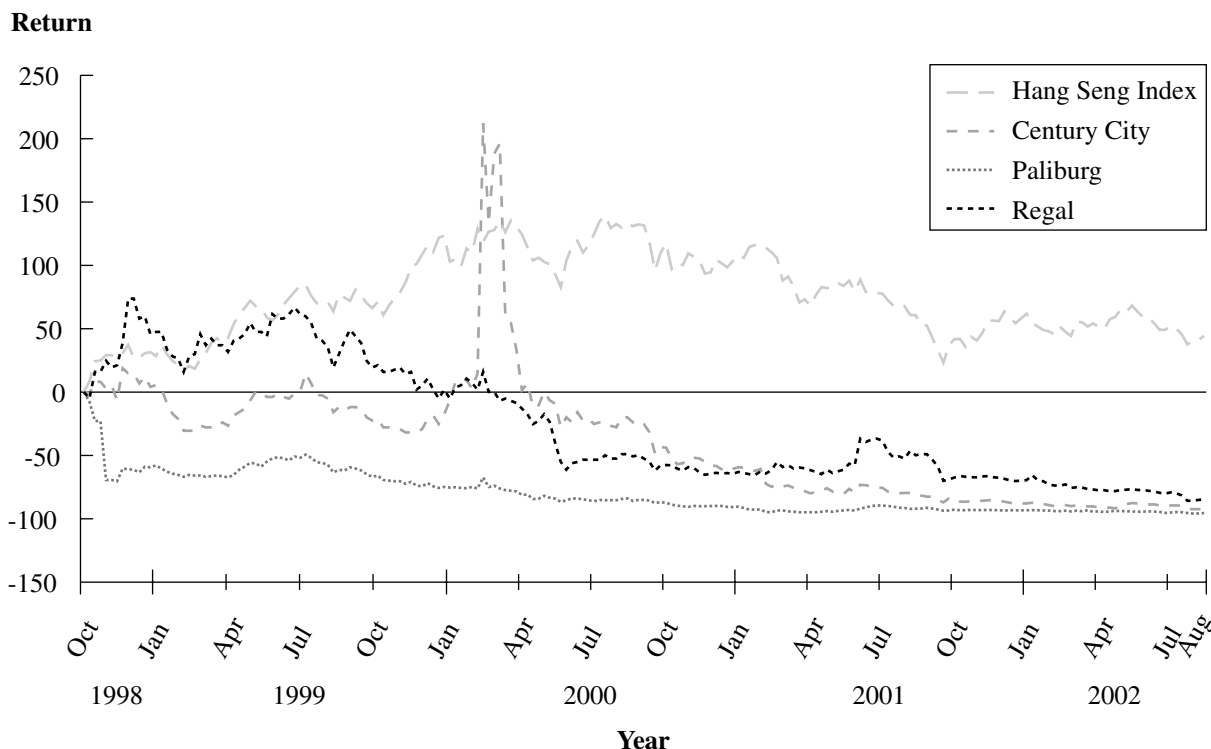
Under the Stanley Transfer Agreement, the consideration for the Stanley Transfer of HK\$470.0 million is to be satisfied by the issue and allotment of 1,958,333,333 new Regal Ordinary Shares by Regal to PDBVI (or such other person(s) as PDBVI may direct). The issue price of the Consideration Shares of HK\$0.24 per Regal Ordinary Share was determined after arm's length negotiation and represents:

- a premium of 196.3% over the closing price of HK\$0.081 per Regal Ordinary Share as quoted on the Stock Exchange on 2nd August, 2002 (the date on which the Stanley Transfer Agreement was entered into);

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- a premium of 174.3% over the average closing price of HK\$0.0875 per Regal Ordinary Share as quoted on the Stock Exchange for the last 10 trading days up to and including 2nd August, 2002;
- a premium of 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; and
- a discount of approximately 78.6% to Regal's net tangible asset value per Regal Ordinary Share of approximately HK\$1.12 as at 31st December, 2001.

Shareholders of Paliburg should note that the share prices of Century City, Paliburg and Regal have been facing extreme pressure since the first announcement by Century City and Paliburg of their liquidity problems in October 1998. The following diagram illustrates the share prices performance of Century City, Paliburg and Regal compared with the Hang Seng Index between October 1998 to August 2002.



For the period from 1st October, 1998 to the Latest Practicable Date, the highest, the lowest and the average closing prices of the Regal Ordinary Shares were HK\$1.11 (30th November, 1998), HK\$0.078 (31st July, 2002) and HK\$0.42 respectively.

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Set out below is the market ratings (i.e. market capitalization as at the Latest Practicable Date, Price/EBITDA ratio and Price to book value ratio) of 8 listed companies that are principally engaged in hotel operation and management business:

Name	Market price per share as at the Latest Practicable Date <i>HK\$</i>	Market Capitalisation as at the Latest Practicable Date <i>HK\$ (million)</i>	Price / EBITDA	Price/ BV
Asia Standard Hotel Group Limited	0.15	757.8	16.05	0.36
Associated International Hotels Limited	4.10	1,476.0	8.81	0.38
Grand Hotel Holdings Limited	0.88	662.9	7.05	0.38
Harbour Centre Development Limited	4.90	1,543.5	N.A.	0.32
The Hongkong and Shanghai Hotels Limited	3.20	3,739.3	5.43	0.31
Miramar Hotel and Investment Company Limited	5.60	3,232.5	6.46	0.44
Shangri-La Asia Limited	5.00	10,992.1	8.10	0.49
Sino Hotels Holdings Limited	1.30	1,068.1	24.14	0.38
High			24.14	0.49
Low			5.43	0.31
Average			10.86	0.38
Regal	0.084	330.4	N.A.	0.07
	0.24		N.A.	0.21
	<i>(Note)</i>			

Note: Based on the issue price of the Consideration Shares at HK\$0.24 each.

With reference to the aforesaid table, shareholders of Paliburg should note that it is an undisputable fact that 7 out of the 8 listed companies performed significantly better than Regal. In addition, the sample group are trading at a smaller discount to their underlying book value compare to Regal's market ratings. The price per Regal Ordinary Share as at the Latest Practicable Date and the issue price per Consideration Share of HK\$0.084 and HK\$0.24 represent a P/BV of 0.07 time to 0.21 time respectively. However, due to the magnitude of the aggregate indebtedness of the Century City Group, the Paliburg Group and the Regal Group as at 31st December, 2001 (i.e. in the region of over HK\$11 billion) and the aforesaid liquidity problems of Century City and its subsidiaries that may have exerted pressure on the share prices of Century City, Paliburg and Regal, we are of the view that the share price performance of Regal with other listed companies in Hong Kong which are also principally engaged in hotel operation and management business should not be viewed as the only determining factor for the fairness and reasonableness of the issue price of the Consideration Shares under the Stanley Transfer.

We wish to stress that the Stanley Transfer is part of the scheme to stabilise and enhance the financial position of the Paliburg Group and to assist the Regal Group in its on-going debt restructuring discussions with the creditors. We are, therefore, of the view that the recent share price performance of the Regal Ordinary Shares should not be construed as the only determining factor for the fairness and reasonableness of the issue price of the Consideration Shares under the Stanley Transfer.

The issue price of HK\$0.24 per Consideration Share represents a substantial premium to the closing price per Regal Ordinary Share as described above. However, such price per Consideration Share also represents a substantial discount to the audited consolidated net tangible asset value per Regal Ordinary Share as at 31st December, 2001. In the absence of any alternatives immediately available to facilitate the debt restructuring exercise of the Paliburg Group and the Regal Group, we believe that the potential benefit arising from the completion of the Stanley Transfer and the Settlement Proposal and the enhanced proforma consolidated tangible asset position of Paliburg as described in Appendix I to the Circular, out-weighs the premium payable by Paliburg to Regal compared to the market price of the Regal Ordinary Shares. Hence, on balance, we believe that the price payable for the Consideration Shares under the Stanley Transfer is fair and reasonable and is in the interests of Paliburg and its shareholders as a whole.

IV. Consideration of the Paliburg Acquisition

Purchase price of VPI and the LTH Option

- Purchase price of VPI

Under the Paliburg Acquisition Agreement, 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 already 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.

Details about the VPI Group (including the Leading Technology Group) are also stated in the “Letter from the Board” set out in the Circular. As set out in Appendix V of the Circular, the audited consolidated net asset values of the VPI Group and the Leading Technology Group as at 30th June, 2002 were approximately HK\$403.5 million and approximately HK\$137.1 million. The audited consolidated net profit of the VPI Group was HK\$12,642 for the period from its date of incorporation on 16th April, 2002 to 30th June, 2002. The audited proforma consolidated net profit 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.

- The Business Valuation

The Directors confirm that the purchase price of the Paliburg Acquisition has been determined after arm’s length negotiations and having taking into account the independent

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Business Valuation of certain principal operating subsidiaries of the Leading Technology Group (including World Momentum Limited, Century Matrix Limited, Top-Most Technology Limited, 303 Company Limited (all wholly-owned subsidiaries) and Shenzhen Leading Technology Company Limited (a 95% owned subsidiary)) as at 31st May, 2002. The report on the Business Valuation is set out in Appendix IV to the Circular.

Shareholders' attention is drawn to the fact that the Leading Technology Group has limited operating history. It commenced business in 1998 and soft launched its security system related product in late 2001. Hence, Grant Sherman has stated under section headed "Other consideration" in the Business Valuation report that the success of the Leading Technology Group depends largely on its ability to overcome certain business risk factors, namely (i) gaining market penetration in the Greater China region, (ii) widening acceptance of the biometric/security products by its customers and its distributors, (iii) retaining and recruiting skilled staff to manage the business as well as to develop new/improved biometric/security products, (iv) implementing the business plan as scheduled and (v) competing vigorously with the existing and potential industry participants. Since its soft launch in late 2001, the Leading Technology Group has marketed its products to potential customers according to the scheduled business plan. We have discussed with the Directors, the management of the Leading Technology Group and Grant Sherman, and noted that the current situation closely resembled the earlier/developing stage of those publicly-traded biometric or security system companies in the United States. Based on the aforesaid reason and taking into account the current operating and economic environment in Hong Kong and China as well as the growing acceptance of biometric/security solutions in Hong Kong and China, we believe the demand for the biometric/security system products of the Leading Technology Group in Hong Kong and China will grow in the near future.

We have discussed with Grant Sherman, the independent valuer, the basis of the Business Valuation and the underlying assumptions, including the actual and expected sales turnover, expense structure and discount factors taken into account for private limited companies, and the valuation methodology applied by them in respect of the valuation for the subject companies and concur with Grant Sherman that the basis and assumptions, and the methodology used are in line with general market practice. We wish to draw the Independent Shareholders' attention to the fact that the Business Valuation is based on many assumptions that could not be easily assessed due to the limited operating history of the Leading Technology Group, and it would take time for the businesses of the Leading Technology Group to fully develop their future potential profitability. However, taking into account (i) the business plan prepared by the management of the Leading Technology Group, (ii) the discussions with the Directors, the management of the Leading Technology Group and Grant Sherman with regard to the assumptions of the business plan, (iii) the discussions with the management of the Leading Technology Group concerning the business, operations, assets, revenue and cost estimates, present financial condition and funding plan, operating environment, the inherent uncertainties involved in the implementation of the business plan and where relevant, competition from existing and potential industry participants, prospects and strategy for the business of the Leading Technology Group, (iv) certain commentaries and conclusions from third parties such as articles from press publications and research reports on publicly-traded biometric or

security system companies in the United States indicating that the global biometric solution market is potentially large and will further expand in the future, (v) the general economic situation in Hong Kong and the PRC, (vi) the discussions with Grant Sherman in relation to the growing acceptance of biometric/security solutions in Hong Kong and China indicating that Hong Kong and China are progressing beyond the infancy stage, principally focusing on security control (such as entrance identification), to a higher level such as performing attendance monitoring, human resources allocation or planning and safeguarding the flow of sensitive information by means of Internet; and (vii) the risk associated with companies of limited operating history, we have no reason to doubt the bases and assumptions, and the valuation methodology applied by Grant Sherman in preparing the Business Valuation.

In addition, based on the aforesaid discussions with the Directors, the management of the Leading Technology Group and Grant Sherman with regard to the assumptions of the business plan, the business environment and outlook, the financial condition and funding plan of the Leading Technology Group which we have carried out and the various information, including the current financial data and the business plan of the Leading Technology Group and the findings by Grant Sherman, which we have considered, we believed we have adequate information to form a reasonable basis for us to opine on the terms of the Paliburg Acquisition.

The Business Valuation ascribes a value of HK\$667 million to 100% interest in the Leading Technology Group as at 31st May, 2002. Accordingly, the attributable 50% interest of the Leading Technology Group under the Paliburg Acquisition represents a valuation of HK\$333.5 million. Under the Paliburg Acquisition Agreement, the purchase price attributable to the 50% interest in the Leading Technology Group is effectively HK\$275 million which represents a discount of approximately 17.5% to the attributable value under the Business Valuation.

- Exercise price of the LTH Option

Under the LTH Option, Paliburg stands to enjoy further upside in the business prospects of the Leading Technology Group, at a price based on a substantial discount to the present Business Valuation or to the market valuation in the event of the LTH IPO.

Taking into account the rationale of the Paliburg Acquisition, the potential intended benefits of the Paliburg Acquisition, the benefit of the LTH Option, the Business Valuation and the analysis of the purchase price as described above, we are of the view that both the purchase price of VPI and the exercise price(s) of the LTH Option are fair and reasonable so far as the Independent Shareholders are concerned.

Terms of the Paliburg Convertible Preference Shares

Paliburg will issue the Paliburg Convertible Preference Shares at an issue price of HK\$0.10 each to the VPI Shareholders (or their respective nominees) to satisfy the consideration. Upon completion of the Paliburg Acquisition, Paliburg will issue 2,750

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

The purpose of issuing up to 1,300 million Paliburg Convertible Preference Shares to the First Vendor (or on behalf of the New VPI Investors) is to further improve the cash position of the Paliburg Group and expand its shareholders' base. The New VPI Investors may or may not be independent third parties. However, Paliburg has undertaken to the Stock Exchange that it will inform the Stock Exchange from time to time upon Paliburg becoming aware of any acquisition of the Paliburg Convertible Preference Shares by its connected persons (as defined in the Listing Rules) other than the Vendors and the Century City Group. According to the terms of the Paliburg Convertible Preference Shares, holders of such shares shall not be entitled to any right of participation in the profits of Paliburg.

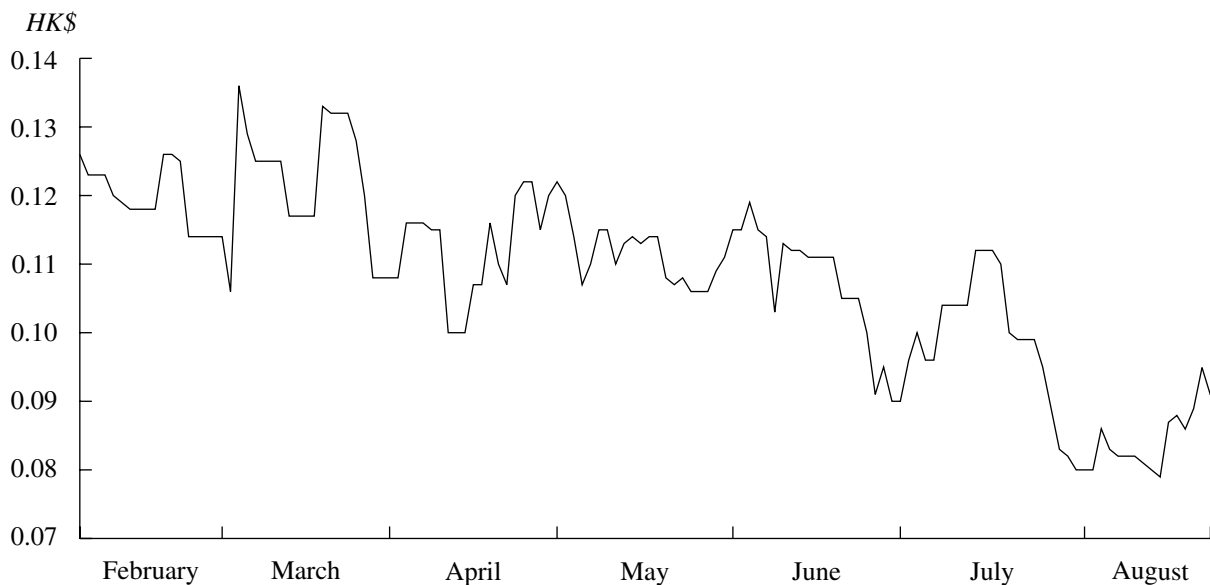
Each Paliburg Convertible Preference Share is convertible into one new Paliburg Ordinary Share (subject to adjustment) within a period of 3 years after completion of the Paliburg Acquisition, and any outstanding Paliburg Convertible Preference Shares at the end of the period will be converted into new Paliburg Ordinary Shares on a mandatory basis. The dilution effects to the shareholders of Paliburg as a result of the exercise of the conversion rights under the Paliburg Convertible Preference Shares are set out under the sub-section headed "Shareholding dilution" in the section headed "Possible financial effects on the Paliburg Group upon completion of the Stanley Transfer and the Paliburg Acquisition" below. Further details of the terms of the Paliburg Convertible Preference Shares are set out in the "Letter from the Board" of the Circular.

The issue price of the Paliburg Convertible Preference Shares of HK\$0.10 each represents:

- a premium of approximately 25.0% over the closing market price of HK\$0.08 per Paliburg Ordinary Share on the Stock Exchange on 2nd August, 2002, the date on which the Paliburg Acquisition Agreement was entered into;
- a premium of approximately 12.9% over the average closing market price of approximately HK\$0.0886 per Paliburg Ordinary Share on the Stock Exchange for the 10 trading days up to and including 2nd August, 2002;
- a premium of approximately 9.9% over the closing market price of HK\$0.0910 per Paliburg Ordinary Share on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 16.55% over the average closing market price of approximately HK\$0.0858 per Paliburg Ordinary Share on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date.

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Set out below is the share price performance of Paliburg from 2nd February, 2002 (being six months preceding 2nd August, 2002, the date of the Announcement) to the Latest Practicable Date:



2002

Based on the chart above, the share price of Paliburg has generally shown a declining trend in the last six months and reached its lowest point of HK\$0.079 as recently as in August 2002. We have discussed this trend with the Directors. They believe whilst there may be other factors contributing to the decline, they regard that the financial uncertainty associated with the default of the Existing Bonds and the investors' concern on the outcome of the debt restructuring of the PHL Group are major factors affecting the share price performance of Paliburg. The Directors also believe that given current uncertainties being faced by the PHL Group, it would be impracticable for Paliburg to obtain firm underwriting commitment for a meaningful new equity issue, either by way of a placement or a rights issue even after the implementation of the Paliburg Capital Reorganisation.

The Directors also pointed out that under the arrangements described above, the Vendors and the New VPI Investors are subscribing for the Paliburg Convertible Preference Shares through investing in VPI. In other words, these investors are making their investment commitments only on the basis that the Paliburg Acquisition will be completed. The Directors are of the view that in the absence of the Paliburg Acquisition, Paliburg would not be able to secure these investment commitments.

It should also be noted that the investment commitments of the Vendors have been secured, but the underlying securities will not be completed for some time, pending Paliburg obtaining the requisite approvals envisaged under the conditions precedents of the Paliburg Acquisition as described in the Circular. The Directors consider that given the lack of ability for these investors to trade on the underlying securities under their commitments in the interim period, which could last for a period of a few months, and the premium of the issue price to the recent closing market prices of Paliburg shares as described above, the issue price of the Paliburg Convertible Preference Shares is reasonable.

Having considered the recent share price performance of Paliburg, the closing market prices as referred to above, the stated arrangements of the Vendors and the New VPI Investors to make their investment commitments through VPI, and the lack of marketability of the underlying shares under their respective investment commitments pending the completion of the Paliburg Acquisition, we concur with the view of the Directors that the terms of the Paliburg Convertible Preference Shares and the Paliburg Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

V. **Importance of financial and ownership stability for the PHL Group**

Audit qualifications

Independent Shareholders' attention is also drawn to the audit qualifications in respect of the consolidated financial statements of Paliburg for the year ended 31st December, 2001. The auditors of Paliburg have expressed concern on the fundamental uncertainties relating to the appropriateness of the going concern basis with respect to the preparation of the subject financial statements. The circumstances giving rise to the fundamental uncertainties relating to Paliburg are, inter alia, the following:

- the outcome of the proposed settlement with the holders of the Existing Bonds;
- the outcome of finalization of the proposed bilateral facilities arrangement with the financial creditors of the Paliburg Group to replace the existing informal standstill arrangement;
- the outcome of the proposed restructuring of the Regal Loans; and
- the outcome of the fund raising arrangements of the Regal Group through equity issues.

The auditors of Paliburg consider that in view of the fundamental uncertainties relating to the appropriateness of the going concern basis with respect to the PHL Group, they were unable to form a true and fair opinion on the financial statements of Paliburg. Note 3 to the financial statements of the 2001 annual report of Paliburg also stated that if the going concern basis were not to be appropriate, adjustments would have to be made to restate the values of the PHL Group'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.

Possible consequences of failure to restructure the remaining financial indebtedness of the PHL Group

In view of the above, the Directors consider that financial stability of both Paliburg and Regal is the key factor to support the validity of the going concern basis in relation to the carrying value of the underlying assets of these companies. In the event that the relevant indebtedness of Paliburg or Regal could not be successfully restructured, and that the

relevant creditors were to resort to taking precipitating courses of actions to dispose of the assets of the relevant company in the recovery of their debts, it would be possible that the achievable recoverable value from the disposal of such assets would be substantially lower than the carrying value in their respective audited financial statements which were compiled on a going concern basis.

In the context of the Paliburg Acquisition, aside from the potential intended benefits associated with the future prospect of the businesses of the Leading Technology Group, the significant cash injection involved and the consequential improvement in the capital base and the financial position of Paliburg, the Paliburg Acquisition would overall stabilise the PHL Group's financial position and would help in reinstating the stability in the shareholding structure of Paliburg and Regal, and potentially in Century City. These are positive factors, in the opinion of the Directors, facilitating the discussions with financial creditors of Century City and Regal.

In summary, the Directors consider that the Paliburg Acquisition forms an integral part of the overall restructuring proposal of Century City and its subsidiaries. The steps under the Settlement Proposal and the Stanley Transfer seek to avert the immediate risk of possible liquidation as a result of the default of the Existing Bonds and the Paliburg Acquisition will further serve to reinstate the financial strength and business prospects of the Paliburg Group. Although the implementation of the Paliburg Acquisition does not itself guarantee the outcome of the ongoing discussion with the creditors of the Regal Group in respect of the restructuring of its underlying indebtedness, it will certainly be a positive action assisting in the attainment of that objective because of the improving financial position of Paliburg, the controlling shareholder of Regal.

VI. Possible financial effects on the Paliburg Group upon completion of the Stanley Transfer and the Paliburg Acquisition

As stated in the Announcement, the share swap (in conjunction with the implementation of the Paliburg Acquisition Agreement) provides a mechanism for Century City to maintain a controlling interest in Paliburg with the ultimate objective of eventually restructuring the outstanding debts of Century City and its subsidiaries. The Directors consider that the satisfactory restructuring of the indebtedness of each of Century City, Paliburg and Regal would provide these companies with a measure of financial and ownership stability at their respective levels, thereby providing these companies a stable platform for the future development of their respective businesses which would be in the interest of the shareholders of Paliburg. In addition, the Directors also recognize that in the absence of the Paliburg Acquisition, the business base and activities of the Paliburg Group would be substantially curtailed as a result of the Settlement Proposal, which would have to be executed in order to avert the possible liquidation of the

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Paliburg Group. Accordingly, any analysis of the possible financial effects of the Paliburg Acquisition should take into account the intended purpose of the share swap in providing the ultimate ownership stability of the Paliburg Group. With this in mind, the following summarizes the effect of the implementation of the Stanley Transfer and the Paliburg Acquisition:

— *Net assets*

Shareholders' attention is drawn to the "Proforma statement of unaudited adjusted consolidated net tangible assets of the PHL Group" contained in Appendix I to the Circular. Based on the abovementioned analysis, the net tangible asset value ("NTAV") per Paliburg Ordinary Share would be increased from approximately HK\$0.92 (based on the audited accounts as at 31st December, 2001) to approximately HK\$1.17 (incorporating the effects of the Stanley Transfer and the Settlement Proposal), and would respectively reduce to approximately HK\$0.48 (based on the minimum issue of 3,450 million Paliburg Convertible Preference Shares) or approximately HK\$0.41 (based on the maximum issue of 4,750 million Paliburg Convertible Preference Shares) immediately following the completion of the Paliburg Acquisition.

Shareholders should be cautioned that the analysis of NTAV positions set out above is based on the assumption that the PHL Group's business is operating as a going concern. As mentioned earlier in this letter, the auditors of Paliburg have expressly disclaimed any opinion on the validity of this going concern assumption. Similarly, the stated NTAV position of Paliburg immediately following the completion of the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition assume that the PHL Group has successfully restructured all its respective indebtedness, which the Directors consider to be the key factor in underpinning the stated NTAV figures. If Paliburg is required to honour its obligation under the Continuing Several Guarantee, it may lose up to a maximum of 1,384.2 million Regal Ordinary Shares, representing approximately 34.4% of the issued ordinary share capital of Regal as at the Latest Practicable Date or 23.1% of the issued ordinary share capital of Regal as enlarged by the issue of the Consideration Shares. Shareholders of Paliburg should note that if there is no Stanley Transfer, Paliburg is still required to provide a guarantee with respect to its 40% interest in Nice Tex (but without the aforesaid limited exposure).

The Directors have also stated that the aforementioned proforma NTAV of Paliburg following the completion of the Stanley Transfer, the Settlement Proposal and of the Paliburg Acquisition comprises predominately Paliburg's attributable interest in the NTAV of Regal. If Regal failed to restructure its debts satisfactorily and if it were to be put under a liquidation or firesale condition, the value of its assets (and thus Paliburg's attributable interest therein) may deteriorate substantially. Accordingly, the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition would serve to enhance the overall value of the assets of the PHL Group and help in its debt restructuring discussion with its creditors and if such discussion will lead to a satisfactory outcome, will preserve the

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ongoing business value of its assets. In addition, the successful completion of the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition may help to support the going concern basis in relation to the carrying value of the underlying assets of the Paliburg Group.

The improvement in the overall proforma net tangible asset position of the PHL Group by approximately HK\$649.9 million (include acquisition of a pool of cash of HK\$70 million) to HK\$779.9 million (include acquisition of a pool of cash of HK\$200 million) from its audited consolidated NTAV position as at 31st December, 2001 of approximately HK\$2,133.7 million to approximately HK\$2,783.6 million to HK\$2,913.6 million, represents a significant benefit to Paliburg and its shareholders as a whole, in terms of recapitalizing the Paliburg Group for its future operations. Taking into account the current financial difficulties faced by the PHL Group, we are of the view that the dilution in the NTAV per share of Paliburg as described is acceptable.

— *Working capital*

Irrespective of whether there is a Stanley Transfer (including the Continuing Several Guarantee), Paliburg is providing a guarantee with respect to its 40% interest in Nice Tex. The shifting of Paliburg's existing 40% several guarantee to the Continuing Several Guarantee under the Stanley Transfer only served to limit its maximum potential exposure. Hence, there will be no material adverse effect on the working capital should Paliburg be required to honour the guarantee.

Upon the completion of the Paliburg Acquisition, the Paliburg Group will acquire a pool of cash of HK\$70 million and with the possibility to increase to HK\$200 million. This pool of cash will be available for deployment by Paliburg for its general working capital purposes.

— *Gearing position*

Under the Settlement Proposal, the PHL Group's indebtedness will be reduced by approximately HK\$4,968.0 million (including approximately HK\$3,751.0 million in relation to the Existing Bonds and approximately HK\$1,217.0 million in relation to the asset securitization loan associated with the Property Transfer) to approximately HK\$5,419.2 million.

The Paliburg Acquisition will involve a significant expansion of Paliburg's capital base and will have a substantial amount of cash reserve as described above. The business of VPI is debt free and the Directors do not expect that it will incur substantial borrowings to finance the underlying businesses or require substantial funding from Paliburg.

On the above basis, the debt/equity position of the PHL Group would improve from approximately 5.2 times as at 30th June, 2002 to approximately 1.9 times immediately upon completion of the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition.

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Taking into account the increase in the proforma net tangible asset value position of the PHL Group from approximately HK\$2,133.7 million to no less than HK\$2,783.6 million, the improvement in the working capital position of the Paliburg Group and the enhancement in the debt/equity position of the PHL Group (as described above), we believe these improvements are crucial in restoring the Paliburg Group's financial health.

— *Shareholding dilution*

As shown in the analysis of shareholding structure under the section headed "Shareholding structure of Paliburg" contained in the "Letter from the Board" of the Circular, the shareholding percentage of the Independent Shareholders will be diluted from its existing level of approximately 40.6% to a range of approximately 13.3% and 16.3% immediately upon conversion of all the issued Paliburg Convertible Preference Shares.

As Paliburg is currently in a difficult financial position and in the absence of a satisfactory settlement with the creditors of the Paliburg Group, it will become increasingly difficult for the PHL Group to continue to operate as a going concern without injection of new funds. Accordingly, the only viable alternative for Paliburg to improve its position would be through an equity issue. In view of the uncertainties surrounding the future of the PHL Group and the expected depletion of the asset and revenue base following the closing of the Settlement Proposal, the Directors consider that securing an underwriting commitment from independent underwriters for a meaningful equity issue would be difficult, and even if possible, would only be effected at a significant discount to the market price of the Paliburg Ordinary Shares.

The Paliburg Acquisition seeks to address these concerns by introducing a business setup that helps to broaden the scope and enhance the competitive edge of the Paliburg Group's existing businesses and is backed by substantial cash contributions from the VPI Shareholders. For reasons mentioned earlier in this letter, the Directors also believe that the implementation of the Paliburg Acquisition would be beneficial for the Paliburg Group's efforts to reach agreement with its creditors to restructure its remaining outstanding indebtedness. Ultimately, this would serve to preserve the value of Paliburg shareholders' investment in Paliburg and would improve the prospects of the PHL Group as a going concern entity.

Having regard to the above and bearing in mind the effective subscription price of the underlying Paliburg Ordinary Shares to be issued as a result of the exercise of the conversion rights attaching to the Paliburg Convertible Preference Shares represent a premium to the market price(s) as discussed earlier in this letter, we are of the view that the scale of dilution for shareholders of Paliburg is, despite being very significant, commercially acceptable.

LETTER FROM ACCESS CAPITAL

— *Accounting gain or loss*

As stated in the “Letter from the Board”, there will be no accounting gain or loss recorded by Paliburg as a result of the Stanley Transfer; whilst there will be an accounting profit of approximately HK\$3 billion recorded by Paliburg as a result of the implementation of the Settlement Proposal. As a result of the implementation of the Settlement Proposal, it is expected to improve the underlying results of the PHL Group due to the significantly reduced interest expenses. However, the resultant effect on earnings of the PHL Group upon the implementation of the above transactions will depend on the operating performance of the PHL Group in the future.

RECOMMENDATION

Having considered the factors set out in this letter and taken into account the current financial predicament of the Paliburg Group, we concur with the view of the Directors that the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition will serve to enhance the financial position of the PHL Group as a whole and will assist in its debt restructuring discussions with its creditors.

Having also considered the rationale for, (i) the underlying strategic propositions and the potential intended benefits of the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition; (ii) the independent property valuation for the Stanley Project; (iii) the Business Valuation; (iv) the terms of the Stanley Transfer and the Continuing Several Guarantee; and (v) the terms of the LTH Option as mentioned above, we support the Directors’ view that the implementation of the Stanley Transfer (including the Continuing Several Guarantee) and the Paliburg Acquisition (including taking the benefit of the LTH Option under the Paliburg Acquisition Agreement) would be in the interests of Paliburg, and is consistent with Paliburg’s objectives of broadening its business base and restoring its long-term financial stability.

In terms of the possible financial effects of the Stanley Transfer, the Continuing Several Guarantee and the Paliburg Acquisition, we have factored in the overriding caveat that the stated effects are based on the assumption that Paliburg continues to operate as a going concern. In this respect, we concur with the view of the Directors that the implementation of the Stanley Transfer and the Paliburg Acquisition would stabilise and strengthen the financial position of the Paliburg Group as a whole, having regard to the expected acquisition of a substantial amount of cash and the expected broadening of the equity base of Paliburg. The implementation of the Paliburg Acquisition is expected to result in a significant dilution of the shareholding of the Independent Shareholders and the reduction in the net asset backing per share. However, we consider that such dilution is acceptable having considered the difficulties of Paliburg in obtaining a firm underwriting commitment for any meaningful new equity issue in view of its current circumstances, and even if obtained, may entail a similar, or possibly higher, degree of dilution as a consequence of the terms of such firm underwriting commitment.

LETTER FROM ACCESS CAPITAL

In summary, we consider that the terms of the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition to be fair and reasonable to the Independent Shareholders as far as they are concerned and that their implementation to be in the interests of Paliburg as a whole. Accordingly, we have recommended the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions proposed at the Special General Meeting convened to consider the Stanley Transfer and the Continuing Several Guarantee, and the Paliburg Acquisition.

Yours faithfully,
For and on behalf of
Access Capital Limited
Jeanny Leung
Managing Director

1. CONSOLIDATED PROFIT AND LOSS ACCOUNT

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 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>	1999 <i>HK\$'million</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>

2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following information is extracted from the annual report of Paliburg for the year ended 31st December, 2001. Reference to page numbers are to page numbers of such annual report and capitalised terms used herein are defined as in such annual report.

Report of the auditors



To the members

Paliburg Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 68 to 147 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. The carrying value of the Group's investments in the Investee Companies amounted to HK\$118.9 million (2000 - HK\$298.9 million) as at 31st December, 2001 which is included in long term investments

under non-current assets. As further explained in note 20 to the financial statements, 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 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 25 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 the Group, 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 25 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 completion of the proposed settlement with the bondholders of two outstanding bonds of the Group;
- ii. the outcome of finalisation of the proposed bilateral facilities arrangement with the financial creditors of the Group to replace its existing informal standstill arrangement;
- iii. 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;
- iv. the successful recovery of the RHIHL Group's Consideration Receivable;

- v. the outcome of the proposed fund-raising arrangement of the RHIHL Group through equity issues; and
- vi. the continued successful implementation of assets disposal programmes of the 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

Consolidated Profit and Loss Accounts*For the year ended 31st December, 2001*

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> <i>(Restated)</i>
TURNOVER	6	1,951.8	1,855.5
Cost of sales		<u>(1,603.8)</u>	<u>(1,400.5)</u>
Gross profit		348.0	455.0
Other revenue	6	156.5	87.0
Gain on disposal of an overseas associate		—	65.8
Administrative expenses		(150.9)	(154.5)
Other operating expenses	7	(206.7)	(91.9)
Provisions for write-downs and impairments, net	7	(533.2)	(219.9)
Write back of provision for guarantee given		—	29.9
Loss on disposal of overseas subsidiary companies		<u>—</u>	<u>(13.8)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	8	(386.3)	157.6
Finance costs	9	(738.5)	(827.8)
Share of profits less losses of:			
Jointly controlled entity		(90.9)	(142.3)
Associates		<u>(5.9)</u>	<u>2.5</u>
LOSS BEFORE TAX		(1,221.6)	(810.0)
Tax	12	<u>3.8</u>	<u>(18.9)</u>
LOSS BEFORE MINORITY INTERESTS		(1,217.8)	(828.9)
Minority interests		<u>146.8</u>	<u>98.7</u>
NET LOSS FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	13	<u>(1,071.0)</u>	<u>(730.2)</u>
Loss per share (HK\$):	14		
Basic		<u>(0.46)</u>	<u>(0.31)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

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>
Surplus/(Deficit) on revaluation of hotel properties	39	(889.3)	109.0
Deficit on revaluation of investment properties	39	(590.1)	(203.9)
Deficit on revaluation of long term equity investments	39	(22.6)	(44.3)
Exchange differences on translation of the financial statements of foreign entities	40	(1.8)	(2.9)
Gain on deemed disposal of the Group's interest in the listed subsidiary company		<u>—</u>	<u>5.7</u>
Net losses not recognised in the profit and loss account		(1,503.8)	(136.4)
Net loss from ordinary activities attributable to shareholders:			
Current year/prior year (as previously reported)		(1,071.0)	(641.3)
Effect of retrospective change in accounting policy	43	<u>—</u>	<u>(88.9)</u>
		<u>(1,071.0)</u>	<u>(730.2)</u>
Total recognised gains and losses		(2,574.8)	(866.6)
Share of goodwill of an associate eliminated directly against reserve	38	<u>—</u>	<u>(9.5)</u>
		<u>(2,574.8)</u>	<u>(876.1)</u>
In addition to the gains and losses detailed above, a loss arose since 31st December, 2000 as a result of prior year adjustment arising from the change in accounting policy summarised in note 2 to the financial statements, as follows:			
For the year ended 31st December, 2001, as reported above			
		(2,574.8)	
Recognised loss arising from prior year adjustment, relating to year ended 31st December, 2000			
		<u>(88.9)</u>	
Total recognised gains and losses arising since the last financial statements			
		<u>(2,663.7)</u>	

Consolidated Balance Sheet*As at 31st December, 2001*

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
NON-CURRENT ASSETS			
Fixed assets	15	11,496.1	13,725.4
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	255.3	245.9
Long term investments	20	161.1	449.6
Loans and other long term receivable	21	303.3	351.1
Deferred expenditure		46.9	73.4
Deposit for acquisition of interest in a hotel property		<u>5.6</u>	<u>2.5</u>
		<u>13,382.0</u>	<u>16,006.2</u>
CURRENT ASSETS			
Short term loans receivable	22	0.9	0.9
Short term investments	20	—	9.7
Properties under development	16	117.0	156.0
Properties held for sale	23	209.2	279.6
Hotel and other inventories	24	29.4	41.2
Debtors, deposits and prepayments	25, 27	645.5	713.9
Pledged time deposits		3.8	122.1
Time deposits		154.5	380.3
Cash and bank balances		<u>47.0</u>	<u>48.3</u>
		<u>1,207.3</u>	<u>1,752.0</u>
CURRENT LIABILITIES			
Creditors and accruals	26, 27	736.6	652.5
Tax payable		39.0	63.9
Interest bearing bank and other borrowings	28	1,245.5	937.4
Exchangeable bonds	29	1,004.9	1,090.3
Convertible bonds	30	1,620.8	1,638.0
Provision for premium on redemption of exchangeable bonds and convertible bonds	31	815.6	779.2
Deposits received		65.4	70.0
Provisions	32	<u>—</u>	<u>109.0</u>
		<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>

	<i>Notes</i>	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	28	(5,536.5)	(5,957.8)
Advances from minority shareholders of subsidiary companies	33	<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	34	2,318.5	2,318.5
Reserves	35	<u>(137.9)</u>	<u>2,356.7</u>
		<u>2,180.6</u>	<u>4,675.2</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	45(a)	<u>361.7</u>	<u>267.8</u>
Returns on investments and servicing of finance			
Interest received		20.8	45.6
Dividends received from listed and unlisted investments		3.1	2.1
Interest paid		<u>(417.4)</u>	<u>(663.5)</u>
Net cash outflow from returns on investments and servicing of finance		<u>(393.5)</u>	<u>(615.8)</u>
Taxation			
Hong Kong profits tax paid		(21.5)	(16.8)
Overseas taxes paid		<u>(0.5)</u>	<u>(10.5)</u>
Taxes paid		<u>(22.0)</u>	<u>(27.3)</u>
Investing activities			
Proceeds on disposal of other fixed assets		0.8	1.4
Proceeds on disposal of long term investments		75.3	3.5
Disposal of subsidiary companies	45(c)	—	70.8
Proceeds received from disposal of subsidiary companies/partnerships in prior year		—	183.2
Disposal of an associate		—	104.5
Decrease in loans receivable		13.3	33.4
Additions to hotel property under development		—	(52.1)
Purchases of fixed assets		(85.7)	(22.9)
Deposit for acquisition of interest in a hotel property		(3.1)	(2.5)
Investments in associates		—	(3.6)
Advance to associates		(9.8)	(20.0)
Advance to a jointly controlled entity		(58.9)	(149.2)
Decrease in pledged time deposits		<u>122.1</u>	<u>41.7</u>
Net cash inflow from investing activities		<u>54.0</u>	<u>188.2</u>
Net cash inflow/(outflow) before financing		<u>0.2</u>	<u>(187.1)</u>

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Net cash inflow/(outflow) before financing		0.2	(187.1)
Financing			
Draw down of new loans	45(b)	67.5	1,447.1
Repayments of bank loans and other loans	45(b)	(290.2)	(1,448.3)
Payment of deferred expenditure		(1.5)	(35.8)
Net repayment to minority shareholders of subsidiary companies	45(b)	<u>—</u>	<u>(0.8)</u>
Net cash outflow from financing		<u>(224.2)</u>	<u>(37.8)</u>
Decrease in cash and cash equivalents		(224.0)	(224.9)
Cash and cash equivalents at beginning of year		424.9	649.5
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>200.7</u></u>	<u><u>424.9</u></u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		47.0	48.3
Non-pledged time deposits with original maturity of less than three months when acquired		154.5	380.3
Time deposits with original maturity of less than three months when acquired, pledged as security for general banking facilities		<u>3.8</u>	<u>—</u>
		205.3	428.6
Bank overdrafts		<u>(4.6)</u>	<u>(3.7)</u>
		<u><u>200.7</u></u>	<u><u>424.9</u></u>

Balance Sheet*As at 31st December, 2001*

	<i>Notes</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
NON-CURRENT ASSETS			
Interests in subsidiary companies	41	2,180.5	2,574.1
CURRENT ASSETS			
Deposits and prepayments		0.6	0.9
Cash and bank balances		<u>1.1</u>	<u>1.1</u>
		<u>1.7</u>	<u>2.0</u>
CURRENT LIABILITIES			
Creditors and accruals		1.6	1.8
Provisions	32	<u>—</u>	<u>109.0</u>
		<u>1.6</u>	<u>110.8</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>0.1</u>	<u>(108.8)</u>
		<u><u>2,180.6</u></u>	<u><u>2,465.3</u></u>
CAPITAL AND RESERVES			
Issued capital	34	2,318.5	2,318.5
Reserves	35	<u>(137.9)</u>	<u>146.8</u>
		<u><u>2,180.6</u></u>	<u><u>2,465.3</u></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, and other investments (including investment and trading in marketable securities).

In the opinion of the Directors, the ultimate holding company is Century City International Holdings Limited, which is incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited.

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 49 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 32 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 38 to the financial statements. The required new additional disclosures are included in note 38 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\$1,071.0 million for the year ended 31st December, 2001 (2000 - HK\$730.2 million, as restated). As at the balance sheet date, the Group had consolidated accumulated losses of HK\$3,654.3 million (2000 - HK\$2,590.8 million, as restated) and consolidated net current liabilities of HK\$4,320.5 million (2000 - HK\$3,588.3 million).

Since October 1998, the Group has encountered liquidity problems and has conducted discussions with its financial creditors for the purpose of implementing a standstill arrangement in order to permit the Group to suspend the repayment of its outstanding indebtedness (the "Standstill Arrangement"). An informal Standstill Arrangement has been in operation since the formal Standstill Arrangement last expired on 30th September, 1999.

Since the completion of the refinancing programme in September 2000 which involved a mortgage-backed securitisation for the Group's two principal properties, namely, Paliburg Plaza and Kowloon City Plaza (the "Securitisation Properties"), the 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 expect that the Bilateral Facilities Arrangement with the remaining financial creditors will be finalised in the near future.

At the balance sheet date, the Group had US\$140 million 3½% Exchangeable Guaranteed Bonds which matured on 6th February, 2001 (the “Exchangeable Bonds”) (note 29) and US\$210 million Zero Coupon Guaranteed Convertible Bonds due on 12th March, 2002 (the “Convertible Bonds”) (note 30) (collectively, the “Bonds”). The principal, interest and accrued redemption premium in respect of the 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 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 Group appointed financial and legal advisers in relation to a proposed restructuring/settlement of the Bonds and continuous meetings and discussions have since been held with the holders of the Bonds (the “Bondholders”).

On 16th November, 2001, the Company, together with Century City International Holdings Limited, its listed holding company, and Regal Hotels International Holdings Limited (“RHIHL”), a principal listed subsidiary company of the Company, jointly announced that the principal terms of a settlement proposal of the 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 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 the Company, representing 36.4% of the then issued share capital of RHIHL; and (iii) the issue of 463,669,490 new shares of the Company, representing approximately 16.7% of the enlarged issued share capital of the Company. The transfer and issue of the shares in RHIHL and the Company 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 Company’s shareholders.

The Group continued to implement an orderly asset disposal programme. In June 2001, the 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 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 28).

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, RHIHL 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 25 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 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 (r) 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) **Long term investments**

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

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

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

(q) 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.

(r) 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%

(s) 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.

(t) 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.

(u) 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.

(v) 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.

(w) 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 (u) above;
- (vi) hotel and other service income, in the period in which such services are rendered;

- (vii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;
- (viii) dividend income, when the shareholders' right to receive payment has been established; and
- (ix) proceeds from sale of short term and long term investments in listed shares, on the transaction dates when the relevant contract notes are exchanged.

(x) **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.

(y) **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.

(z) **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.

(aa) **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.

(ab) **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 become 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 their payroll costs to the central pension scheme.

(ac) **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.

(ad) **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.

(ae) **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, 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 related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm	2001 HK\$ 'm	2000 HK\$ 'm
Segment revenue:																
Sales to external customers	314.4	254.5	22.5	21.5	558.0	433.4	1,001.5	1,075.7	19.9	29.0	35.5	41.4	—	—	1,951.8	1,855.5
Inter-segment sales	54.9	54.6	1.6	2.2	22.6	35.9	0.9	1.1	—	—	16.0	11.2	(96.0)	(105.0)	—	—
Total	369.3	309.1	24.1	23.7	580.6	469.3	1,002.4	1,076.8	19.9	29.0	51.5	52.6	(96.0)	(105.0)	1,951.8	1,855.5
Segment results	(76.2)	59.6	17.5	17.8	3.1	15.0	(50.4)	197.6	(69.0)	(80.2)	(19.7)	(19.0)	(37.0)	(32.1)	(231.7)	158.7
Interest income and unallocated non-operating and corporate gains															138.0	182.1
Unallocated non-operating and corporate expenses															(292.6)	(183.2)
Profit/(Loss) from operating activities															(386.3)	157.6
Finance costs															(738.5)	(827.8)
Share of profits less losses of:																
Jointly controlled entity	(90.9)	(142.3)	—	—	—	—	—	—	—	—	—	—	—	—	(90.9)	(142.3)
Associates	—	—	—	—	—	—	—	3.9	—	—	(5.9)	(1.4)	—	—	(5.9)	2.5
Loss before tax															(1,221.6)	(810.0)
Tax															3.8	(18.9)
Loss before minority interests															(1,217.8)	(828.9)
Minority interests															146.8	98.7
Net loss from ordinary activities attributable to shareholders															(1,071.0)	(730.2)

	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 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	70.8	103.8	(60.6)	(146.9)	12,337.2	14,942.0
Interests in associates	215.8	209.8	—	—	—	—	—	—	—	—	39.5	36.1	—	—	255.3	245.9
Interest in jointly controlled entity	1,036.9	1,073.5	—	—	—	—	—	—	—	—	—	—	—	—	1,036.9	1,073.5
Cash and unallocated assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	959.9	1,496.8
Total assets	—	—	—	—	—	—	—	—	—	—	—	—	—	—	14,589.3	17,758.2
Segment liabilities	(102.3)	(130.2)	(0.5)	(0.5)	(244.8)	(325.1)	(157.2)	(241.9)	(19.3)	(21.5)	(12.2)	(18.5)	60.6	146.9	(475.7)	(590.8)
Bank and other borrowings and unallocated liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(10,627.2)	(10,743.7)
Total liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(11,102.9)	(11,334.5)
Other segment information:																
Depreciation	12.7	14.0	—	—	0.5	0.5	37.5	33.8	5.3	5.3	2.5	2.7	—	—	—	—
Impairment losses recognised in the profit and loss account	180.0	—	—	—	—	—	—	—	50.8	71.7	—	—	—	—	—	—
Capital expenditure	2.0	55.4	—	—	0.5	0.2	33.1	98.8	0.5	1.7	1.0	—	—	—	—	—
Other non-cash expenses	65.1	108.8	—	—	—	—	187.7	3.1	—	—	3.8	—	—	—	—	—

(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		USA		Canada		PRC		Eliminations		Consolidated	
	2001 HK\$'m	2000 HK\$'m	2001 HK\$'m	2000 HK\$'m	2001 HK\$'m	2000 HK\$'m	2001 HK\$'m	2000 HK\$'m	2001 HK\$'m	2000 HK\$'m	2001 HK\$'m	2000 HK\$'m
Segment revenue:												
Sales to external customers	1,834.4	1,698.1	—	—	95.6	127.3	21.8	30.1	—	—	1,951.8	1,855.5
Segment results	79.8	246.5	(40.8)	(1.6)	(2.5)	12.9	(268.2)	(99.1)	—	—	(231.7)	158.7
Other segment information:												
Segment assets	11,750.6	14,007.7	117.0	156.0	205.2	239.5	264.4	538.8	—	—	12,337.2	14,942.0
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, after elimination of all significant intra-group transactions.

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i> <i>(Restated)</i>
Revenue from the following activities has been included in turnover:		
Rental income:		
Investment properties	190.4	208.3
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	46.5	54.9
Proceeds from the sale of short term investments	<u>8.9</u>	<u>15.5</u>
Turnover	<u><u>1,951.8</u></u>	<u><u>1,855.5</u></u>
Other revenue includes the following items:		
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of exchangeable bonds	70.8	—
Gain on repurchase and cancellation of convertible bonds	<u>13.4</u>	<u>—</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.

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

Other operating expenses include the following items:

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Loss on disposal of long term listed investments (after a transfer from the revaluation reserve of a deficit of HK\$139.1 million)	141.4	—
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	<u>—</u>	<u>24.2</u>

Provisions for write-downs and impairments, net, represent the following items:

	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> (Restated)
	Write-down in values of properties	(61.9)
Impairment of fixed assets	(50.8)	—
Impairment of long term investments	(180.0)	—
Write back of provision against advances and interest receivable	—	9.6
Write back of provision for loss on deposit paid	—	10.0
Provisions against other loans, promissory notes and interest receivable	(56.8)	(13.1)
Impairment of goodwill previously eliminated against capital reserve (note 38)	—	(120.4)
Deficit on revaluation of hotel properties	<u>(183.7)</u>	<u>—</u>
	<u>(533.2)</u>	<u>(219.9)</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#	497.6	503.6
Staff retirement scheme contributions	23.2	18.7
Less: Unvested contributions forfeited	<u>(3.7)</u>	<u>(7.8)</u>
Net retirement scheme contributions	<u>19.5</u>	<u>10.9</u>
	517.1	514.5
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>469.1</u>	<u>463.8</u>
Auditors' remuneration	4.7	5.1

* 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.

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Depreciation	60.0	58.2
Less: Depreciation capitalised in respect of property development projects and construction contracts	<u>(1.5)</u>	<u>(1.7)</u>
	<u>58.5</u>	<u>56.5</u>
Loss on disposal of fixed assets	3.3	3.3
Unrealised loss on revaluation of short term investments	—	5.7
Minimum lease payments under operating leases:		
Land and buildings	—	0.8
Other equipment	1.0	1.1
and after crediting:		
Gross rental income	231.6	236.2
Less: Outgoings	<u>(62.6)</u>	<u>(57.5)</u>
Net rental income	<u>169.0</u>	<u>178.7</u>
Interest income from:		
Associates	9.9	11.8
Bank balances	12.9	33.6
Other loans and receivables	<u>32.4</u>	<u>35.4</u>
	<u>55.2</u>	<u>80.8</u>
Gain on disposal of listed investments (after a transfer from the revaluation reserve of a deficit of HK\$0.9 million)	—	2.7
Dividend income from:		
Listed investments	1.8	0.8
Unlisted investments	<u>1.3</u>	<u>1.3</u>

9. FINANCE COSTS

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Interest in respect of:		
Bank loans and overdrafts	337.2	506.2
Other loans, exchangeable bonds and convertible bonds, wholly repayable within five years	<u>315.2</u>	<u>103.2</u>
	652.4	609.4
Premium provided on exchangeable bonds and convertible bonds	<u>60.6</u>	<u>213.1</u>
	713.0	822.5
Interest capitalised in respect of property development projects and construction contracts	<u>(2.5)</u>	<u>(34.8)</u>
	710.5	787.7
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>738.5</u></u>	<u><u>827.8</u></u>

10. DIRECTORS' REMUNERATION

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

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Fees	1.4	1.4
Salaries and other allowances	10.6	10.3
Performance related/discretionary bonuses	—	0.7
Staff retirement scheme contributions	<u>0.7</u>	<u>0.2</u>
	<u><u>12.7</u></u>	<u><u>12.6</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	5	5
1,000,001 - 1,500,000	2	2
2,000,001 - 2,500,000	1	1
6,000,001 - 6,500,000	<u>1</u>	<u>1</u>

The above Directors' remuneration includes the remuneration received by certain Directors of the Company from RHIHL, the listed subsidiary company of the Company, in connection with the management of its affairs during the 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 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 Company and the listed subsidiary company are set out under the heading "Directors' Interests in and Movements in Share Options granted by the Company" in the Report of the Directors.

11. SENIOR EXECUTIVES' EMOLUMENTS

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

	GROUP	
	2001 HK\$'million	2000 HK\$'million
Salaries and other allowances	3.1	3.1
Staff retirement scheme contributions	<u>0.2</u>	<u>0.1</u>
	<u>3.3</u>	<u>3.2</u>

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

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

During the year, no share options were granted to the two non-director, highest paid employees in respect of their services to the Group. Further details of the share option schemes of the Company and the listed subsidiary company are included in the disclosures set out under the heading “Directors’ Interests in and Movements in Share Options granted by the Company” 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	0.1	—
Overseas	<u>0.1</u>	<u>—</u>
	<u>0.2</u>	<u>—</u>
Tax charge/(credit) for the year	<u><u>(3.8)</u></u>	<u><u>18.9</u></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\$284.7 million (2000 - net profit of HK\$3.0 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\$1,071.0 million (2000 - HK\$730.2 million, as restated) and on the weighted average of 2,318.5 million (2000 - 2,318.5 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 the exercise of share options and the conversion of bonds convertible into shares of the Company are anti-dilutive for these years.

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

* The impairment loss for construction in progress and certain equipment 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 <i>HK\$'million</i>	2000 <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 49(a) to the financial statements.

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 the 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 at end of year	<u>26.7</u>	<u>26.7</u>

As 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 the Company and RHIHL, respectively, which was in turn 72.8% (2000 - 73.8%) owned by the Group as at 31st December, 2001.

The summarised state of affairs and the 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 assets/(liabilities)	0.7	(10.8)
Loans to associates	245.3	226.7
Amounts due from associates	<u>9.7</u>	<u>30.4</u>
	255.7	246.3
Less: Provision for impairment	<u>(0.4)</u>	<u>(0.4)</u>
	<u>255.3</u>	<u>245.9</u>
At the balance sheet date:		
Share of post-acquisition undistributed reserves	<u>(307.9)</u>	<u>(305.4)</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 assets/(liabilities) and post-acquisition undistributed reserves represent the shares attributable to the Group before the Group's minority interests therein.

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	50.00	Investment holding
Beijing Hengfu Plaza Development Co., Ltd.*	Corporate	The People's Republic of China	Equity joint venture interest	22.75	22.75	Property development and investment
Cheerjoy Development Limited*	Corporate	Hong Kong	Ordinary shares	30.00	30.00	Property development
Weifang Futuan Building Materials Co., Ltd.	Corporate	The People's Republic of China	Equity joint venture interest	25.00 ⁽¹⁾	25.00 ⁽¹⁾	Cement production
8D International (BVI) Limited ("8D-BVI")	Corporate	British Virgin Islands	Ordinary shares	30.00 ⁽²⁾	30.00 ⁽²⁾	Investment holding
8D Matrix Limited ("8D Matrix")	Corporate	British Virgin Islands	Ordinary shares	36.00 ⁽²⁾	30.00 ⁽²⁾	Investment holding
8D International Limited ("8D International")	Corporate	Hong Kong	Ordinary shares	36.00 ⁽²⁾	30.00 ⁽²⁾	Promotions, communication and information technology

* Not audited by Ernst & Young.

- (1) The percentage of equity interest represents equity interest attributable to a 75% owned subsidiary company of the Group.
- (2) The percentages of equity interests represent those attributable to RHIHL, including, in the cases of 8D Matrix and 8D International, a 6% attributable interest held by RHIHL through 8D-BVI.

All associates were 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 for 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 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Long term investments		
Listed equity investments, at market value:		
Hong Kong	34.1	142.4
Elsewhere	<u>7.8</u>	<u>8.0</u>
	<u>41.9</u>	<u>150.4</u>
Unlisted equity investments, at fair value:		
Carrying value	384.7	384.7
Provision for impairment	<u>(265.5)</u>	<u>(85.5)</u>
	<u>119.2</u>	<u>299.2</u>
	<u>161.1</u>	<u>449.6</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 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 Group's holding of 23% interests in the Investee Companies, the Directors confirm that the Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a contractual arrangement made with the independent third parties to exchange the Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the Directors consider it appropriate to account for the investments therein as long term investments.

In November 2000, the land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing on 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 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, 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 Group's investments in the Investee Companies.

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Short term investments		
Listed equity investments in Hong Kong, at market value	<u>—</u>	<u>9.7</u>

The prior year short term investments with market values amounting to 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 <i>HK\$'million</i>	2000 <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>96.8</u>
		<u>303.3</u>	<u>351.1</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 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 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 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 a loan of RMB20.0 million (HK\$18.8 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 loan was secured on the investment in the project, bore interest at Hong Kong prime rate per annum and had no fixed terms of repayment.

22. 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).

23. 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 sales 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 49(a) to the financial statements.

24. 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).

25. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK\$160.5 million (2000 - HK\$185.6 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Outstanding balances with ages:		
Within 3 months	112.6	135.9
Between 4 to 6 months	7.2	4.9
Between 7 to 12 months	5.3	9.4
Over 1 year	<u>46.9</u>	<u>47.4</u>
	172.0	197.6
Provisions	<u>(11.5)</u>	<u>(12.0)</u>
	<u>160.5</u>	<u>185.6</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 30 to 90 days, are recognised and carried at their original invoiced amount less provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

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.

26. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK\$110.5 million (2000 - HK\$103.9 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	83.9	74.0
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>110.5</u>	<u>103.9</u>

27. CONSTRUCTION CONTRACTS

	GROUP	
	2001 <i>HK\$'million</i>	2000 <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).

At 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).

28. INTEREST BEARING BANK AND OTHER BORROWINGS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Bank loans and overdrafts:		
Secured	5,510.9	5,579.3
Unsecured	27.3	43.6
Other loans wholly repayable within five years:		
Secured	<u>1,243.8</u>	<u>1,272.3</u>
	<u>6,782.0</u>	<u>6,895.2</u>
Portion of borrowings due within one year included under current liabilities:		
Bank loans and overdrafts	(1,188.7)	(874.6)
Other loans	<u>(56.8)</u>	<u>(62.8)</u>
	<u>(1,245.5)</u>	<u>(937.4)</u>
Long term borrowings	<u><u>5,536.5</u></u>	<u><u>5,957.8</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	1,245.5	937.4
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	<u>299.5</u>	<u>392.0</u>
	<u><u>6,782.0</u></u>	<u><u>6,895.2</u></u>

The other loans carried fixed interest rates ranging from 8.78% to 12% (2000 - 8.78% to 12%) 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.

29. EXCHANGEABLE BONDS

In February 1996, the 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 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 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 Group’s 72.8% interest therein as at that date, reduce the Group’s shareholding in RHIHL to 60.2%.

30. CONVERTIBLE BONDS

On 12th March, 1997, the Group issued US\$210 million of zero coupon guaranteed convertible bonds (the “Convertible Bonds”) which would otherwise 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 the Company 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 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 the Company. 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 the Company as at 31st December, 2001, result in the issue of approximately 191.7 million additional shares in the Company.

As more fully explained in note 3 to the financial statements, as a result of the maturity default of the Exchangeable Bonds (note 29), 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.

31. 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 of Convertible Bonds	<u>(5.9)</u>	<u>—</u>
Balance at end of year	<u><u>815.6</u></u>	<u><u>779.2</u></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 29 and 30 to the financial statements, respectively.

32. PROVISIONS

	GROUP AND COMPANY	
	Guarantee on bank loan granted to an associate	
	<i>HK\$'million</i>	
Balance at beginning of year		109.0
Additional provision		9.8
Reclassification as a bank loan (notes 45(b) and 46(g))		<u>(118.8)</u>
Balance at end of year		<u><u>—</u></u>

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

33. 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.

34. SHARE CAPITAL

Shares

	COMPANY	
	Number of shares of HK\$1.00 each 'million	HK\$'million
Authorised:		
Balance at beginning and at end of year	<u>6,000.0</u>	<u>6,000.0</u>
Issued and fully paid:		
Balance at beginning and at end of year	<u>2,318.5</u>	<u>2,318.5</u>

Share options

The Company operates an executive share option scheme (the "Executive Share Option Scheme"), further details of which are set out under the heading "Directors' Interests in and Movements in Share Options granted by the Company" in the Report of the Directors.

The movements during the year in share options granted pursuant to the Executive Share Option Scheme adopted by the Company on 23rd November, 1993 and subsequently approved by the independent shareholders of PIHL on 15th December, 1993 were as follows:

	Number of shares under options					Total 'million
	Granted on 15th September, 1995				Granted on 22nd February, 1997 'million	
	Granted on 22nd February, 1994 'million	with Original Grant Date ⁽¹⁾		Granted on 22nd February, 1994 'million		Total 'million
	of 22nd February, 1992 'million	of 22nd February, 1993 'million	of 22nd February, 1994 'million	of 22nd February, 1997 'million		
Balance at beginning of year	11.2	40.7	1.8	3.1	5.7	62.5
Lapsed during the year	<u>(0.5)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(2.5)</u>	<u>(3.0)</u>
Balance at end of year	<u>10.7</u>	<u>40.7</u>	<u>1.8</u>	<u>3.1</u>	<u>3.2</u>	<u>59.5</u>
Exercise price per share (HK\$):	<u>10.4000</u>	<u>0.6656</u>	<u>1.1571</u>	<u>3.5392</u>	<u>6.6720</u>	

Outstanding rights vested with option holders as at the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the year end date

<u>8.6</u>	<u>—</u>	<u>1.6</u>	<u>2.5</u>	<u>1.6</u>
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The options are exercisable in stages commencing two years from their respective dates of grant or Original Grant Dates, as applicable.

The exercise in full of the outstanding rights, which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors (inclusive of those exercised since the year end date) would have, with the capital structure of the Company as at 31st December, 2001, resulted in the issue of 14.3 million additional shares and cash proceeds to the Company of approximately HK\$110.8 million before the related issue expenses.

35. RESERVES

	<i>Notes</i>	GROUP		COMPANY	
		2001	2000	2001	2000
		<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>
			<i>(Restated)</i>		
Share premium	36	68.3	68.3	68.3	68.3
Capital redemption reserve	37	52.4	52.4	52.4	52.4
Capital reserve	38	1,663.9	1,688.3	—	—
Revaluation reserves	39	1,740.1	3,145.1	—	—
Exchange equalisation reserve	40	(8.3)	(6.6)	—	—
Contributed surplus	42	—	—	281.1	281.1
Accumulated losses	43	(3,654.3)	(2,590.8)	(539.7)	(255.0)
		<u>(137.9)</u>	<u>2,356.7</u>	<u>(137.9)</u>	<u>146.8</u>

36. SHARE PREMIUM

	COMPANY	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>68.3</u>	<u>68.3</u>

37. CAPITAL REDEMPTION RESERVE

	GROUP AND COMPANY	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Balance at beginning and at end of year	<u>52.4</u>	<u>52.4</u>

38. CAPITAL RESERVE

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Balance at beginning of year:		
As previously reported	1,599.4	1,613.0
Prior year adjustment (note 43)*	<u>88.9</u>	<u>—</u>
As restated	1,688.3	1,613.0
Impairment of goodwill eliminated against capital reserve (note 43)*	—	88.9
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	(24.4)	—
Release as a result of the deemed disposal of the Group's interest in the listed subsidiary company	—	(4.1)
Share of goodwill of an associate eliminated directly against reserves	<u>—</u>	<u>(9.5)</u>
Balance at end of year	<u><u>1,663.9</u></u>	<u><u>1,688.3</u></u>

* 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\$88.9 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 a prior year adjustment, the effect of which is to increase both the accumulated losses and the capital reserve as at 1st January, 2001 by HK\$88.9 million, (net of minority interests of HK\$31.5 million) (notes 7 and 43). There is no attributable tax effect in respect of the prior year adjustment.

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	9.4	88.9	(1,697.7)
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	<u>(0.1)</u>	<u>—</u>	<u>24.5</u>
At 31st December, 2001	<u>9.3</u>	<u>88.9</u>	<u>(1,673.2)</u>
Accumulated impairment:			
At beginning of year			
As previously reported	—	—	—
Prior year adjustment and as restated	<u>—</u>	<u>(88.9)</u>	<u>—</u>
At 31st December, 2001	<u>—</u>	<u>(88.9)</u>	<u>—</u>
Net amount:			
At 31st December, 2001	<u>9.3</u>	<u>—</u>	<u>(1,673.2)</u>
At 31st December, 2000	<u>9.4</u>	<u>—</u>	<u>(1,697.7)</u>

39. REVALUATION RESERVES

	GROUP					
	Associates*	Investment properties	Hotel properties	Leasehold properties	Long term investments	Total
	HK\$*million	HK\$*million	HK\$*million	HK\$*million	HK\$*million	HK\$*million
At 1st January, 2000	19.7	2,172.9	792.2	395.6	(67.3)	3,313.1
Movement in fair value	—	—	—	—	(44.3)	(44.3)
Reclassification of leasehold properties as investment properties	—	27.1	—	(27.1)	—	—
Release on deemed disposal of the Group's interest in the listed subsidiary company	(0.1)	—	(1.6)	—	0.2	(1.5)
Release on disposal	(19.6)	—	—	—	0.7	(18.9)
Transfer to retained profits (note 44)	—	—	—	(8.4)	—	(8.4)
Surplus/(Deficit) on revaluation	—	(203.9)	109.0	—	—	(94.9)
At 31st December, 2000 and at 1st January, 2001	—	1,996.1	899.6	360.1	(110.7)	3,145.1
Movement in fair value	—	—	—	—	(22.6)	(22.6)
Reclassification of leasehold properties as investment properties	—	86.9	—	(86.9)	—	—
Reclassification of investment properties as properties held for sale	—	12.2	—	—	—	12.2
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	—	—	(10.3)	—	1.4	(8.9)
Release on disposal	—	—	—	—	101.2	101.2
Transfer to retained profits (note 44)	—	—	—	(7.5)	—	(7.5)
Deficit on revaluation	—	(590.1)	(1,073.0)	—	—	(1,663.1)
Deficit on revaluation transferred to profit and loss account	—	—	183.7	—	—	183.7
At 31st December, 2001	—	1,505.1	—	265.7	(30.7)	1,740.1

* 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.

40. EXCHANGE EQUALISATION RESERVE

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Balance at beginning of year	(6.6)	2.1
Release on disposal of ordinary shares in the listed subsidiary company upon the exchange of Exchangeable Bonds	0.1	—
Release on disposal of overseas subsidiary companies	—	(2.3)
Release on disposal of an overseas associate	—	(3.5)
Exchange adjustment on translation of the financial statements of overseas subsidiary companies	<u>(1.8)</u>	<u>(2.9)</u>
Balance at end of year	<u><u>(8.3)</u></u>	<u><u>(6.6)</u></u>

41. INTERESTS IN SUBSIDIARY COMPANIES

	COMPANY	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Unlisted shares, at cost	154.4	154.4
Amounts due from subsidiary companies	<u>2,298.3</u>	<u>2,419.7</u>
	2,452.7	2,574.1
Provision for impairment	<u>(272.2)</u>	<u>—</u>
	<u><u>2,180.5</u></u>	<u><u>2,574.1</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	
Bajan Company Limited	Hong Kong	HK\$2	100	100	Securities trading
Cathay City BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Cathay City Investments Limited	Hong Kong	HK\$89,626,000	100	100	Investment holding
Cathay City Development, Inc.	U.S.A.	US\$6,000,000	100	100	Property development and investment

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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	100	100	Property and project management
Chatwin Engineering Limited	Hong Kong	HK\$2,800,000	80	80	Building construction
Cheer Faith Limited	Hong Kong	HK\$2	100	100	Financing
Chinatrend (Holdings) Limited	Hong Kong	HK\$10,000	75	75	Investment holding
Chinatrend (Weifang Cement Plant) Limited	Hong Kong	HK\$2	75	75	Investment holding
Cosmos Best Development Limited	Hong Kong	HK\$2	100	100	Management services
Cosmos Gain Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Everlane Investment Limited	Hong Kong	HK\$2	100	100	Property development and investment
Farich Investment Limited	Hong Kong	HK\$2	100	100	Investment holding
Fine Cosmos Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Finso Limited	Hong Kong	HK\$2	100	100	Investment holding
Gain World Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Glaser Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Glory Legend Development Limited	Hong Kong	HK\$2	100	100	Financing
Good Focus Holdings Limited	British Virgin Islands	US\$1	100	100	Property investment
Granco Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
H.P. Nominees Limited	Hong Kong	HK\$2	100	100	Investment holding and nominee services
Landstar Investment Limited	Hong Kong	HK\$2	100	100	Financing

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Lead Fortune Development Limited	Hong Kong	HK\$2	100	100	Property development and investment
Linkprofit Limited	Hong Kong	HK\$2	100	100	Investment holding
Paliburg BVI Holdings Limited	British Virgin Islands	HK\$10	100	100	Investment holding
Paliburg Building Services Limited	Hong Kong	HK\$2	100	100	Mechanical and electrical engineering services
Paliburg Company Limited	Hong Kong	HK\$1,000	100	100	Investment holding
Paliburg Development BVI Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Paliburg Development Consultants Limited	Hong Kong	HK\$100,000	100	100	Development consultants
Paliburg Development Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg Estate Agents Limited	Hong Kong	HK\$20	100	100	Estate agent
Paliburg Estate Management Limited	Hong Kong	HK\$20	100	100	Estate management
Paliburg Finance (C.B. 2002) Limited	British Virgin Islands	US\$1	100	100	Financing
Paliburg Finance Limited	Hong Kong	HK\$2	100	100	Financing
Paliburg International Finance Limited	British Virgin Islands	US\$1	100	100	Financing
Paliburg International Holdings Limited	Bermuda	HK\$100,000	100	100	Investment holding
Paliburg Investments Limited	Hong Kong	HK\$526,506,860	100	100	Investment holding
Polarfine Inc	British Virgin Islands	HK\$3,000,000	80	80	Investment holding
Rank Cheer Investment Limited	Hong Kong	HK\$2	100	100	Financing
Real Charm Investment Limited	Hong Kong	HK\$2	100	100	Property investment

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Rich Pearl Limited	Hong Kong	HK\$10,000	100	100	Financing
Sanefix Development Limited	Hong Kong	HK\$2	100	100	Property investment
Shenyang Paliburg Plaza Limited*	The People's Republic of China	US\$9,820,000	100	100	Property development and investment
Sonnix Limited	Hong Kong	HK\$2	100	100	Property development and investment
Taylor Investments Ltd.	British Virgin Islands	US\$1	100	100	Investment holding
Transcar Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Treasure Spot Investments Limited	British Virgin Islands	US\$1	100	100	Property investment
Vertex Investments Limited	Hong Kong	HK\$2	100	100	Securities investment
Weifang Yuanzhong Real Estate Development Co., Ltd.#	The People's Republic of China	US\$8,130,000	52.5	52.5	Property development and investment
Yield Star Limited	British Virgin Islands	US\$1	100	100	Investment holding
Regal Hotels International Holdings Limited	Bermuda	Ordinary - HK\$393,877,250 Preference - US\$167,480	72.8 20.5	73.8 20.5	Investment holding
Bauhinia Hotels Limited	Hong Kong	HK\$2	72.8	73.8	Hotel ownership
Camomile Investments Limited	Hong Kong	HK\$2	72.8	73.8	Property investment
Century Win Investment Limited	Hong Kong	HK\$10,000	65.5	66.4	Restaurant operations
Charter Capital Development Limited	Hong Kong	HK\$2	72.8	73.8	Property investment
Cityability Limited	Hong Kong	HK\$10,000	72.8	73.8	Hotel ownership
Come On Investment Company Limited	Hong Kong	HK\$10,000	72.8	73.8	Securities investment and trading

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Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Fortune Nice Investment Limited	Hong Kong	HK\$2	72.8	73.8	Financing
Gala Hotels Limited	Hong Kong	HK\$2	72.8	73.8	Hotel ownership
HK168 Limited	Republic of Liberia	US\$1	72.8	73.8	Securities investment
Kaifeng Yatai Brewery Co., Ltd.*	The People's Republic of China	RMB35,923,300	65.5	66.4	Production and distribution of beer
Kaifeng Yatai Brewery Second Co., Ltd.*	The People's Republic of China	RMB30,576,700	65.5	66.4	Production and distribution of beer
Key Winner Investment Limited	Hong Kong	HK\$2	72.8	73.8	Financing
Kingford View Investments Limited	British Virgin Islands	US\$1	72.8	73.8	Securities investment
Regal Century Investment Limited	Hong Kong	HK\$2	72.8	73.8	Investment holding and management services
Regal Constellation Hotel Limited	Canada	CAN\$1	72.8	73.8	Hotel ownership
Regal Hotels Company Limited	Hong Kong	HK\$2	72.8	73.8	Financing
Regal Hotels (Holdings) Limited	Hong Kong	HK\$1,151,598,638	72.8	73.8	Investment holding
Regal Hotels International Limited	Hong Kong	HK\$100,000	72.8	73.8	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US\$1	72.8	73.8	Hotel management
Regal International Limited	British Virgin Islands	US\$20	72.8	73.8	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK\$10.1	72.8	73.8	Investment holding
Regal Laundry Services Limited	Hong Kong	HK\$2	72.8	73.8	Laundry operations
Regal Pacific (Holdings) Limited	Canada	CAN\$2,005,200	72.8	73.8	Investment holding

Name	Place of incorporation/ registration	Issued share capital/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			2001	2000	
Regal Quality Foods Limited	Hong Kong	HK\$2	72.8	—	Bakery and retail operations
Regal Riverside Hotel Limited	Hong Kong	HK\$2	72.8	73.8	Hotel ownership
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	72.8	73.8	Trademark holding
Ricobem Limited	Hong Kong	HK\$2	72.8	73.8	Hotel ownership
Stareast Travel Limited	Hong Kong	HK\$1,500,000	72.8	73.8	Travel services
Tenshine Limited	Hong Kong	HK\$2	72.8	73.8	Restaurant operations
Winner Team Investment Limited	Hong Kong	HK\$2	72.8	73.8	Securities investment
World Way Management Limited	Hong Kong	HK\$2	72.8	73.8	Management services

* 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 Paliburg Development 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 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 for 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.

42. CONTRIBUTED SURPLUS

The contributed surplus arose in 1993 as a result of a Group reorganisation in preparation for a separate listing of the Company's shares. The original balance 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 subsidiary companies at the date of acquisition.

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

43. ACCUMULATED LOSSES

	GROUP		COMPANY	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i>
Balance at beginning of year:				
As previously reported	(2,501.9)	(1,874.7)	(255.0)	(258.0)
Prior year adjustment (note 38)	<u>(88.9)</u>	<u>—</u>	<u>—</u>	<u>—</u>
As restated	<u>(2,590.8)</u>	<u>(1,874.7)</u>	<u>(255.0)</u>	<u>(258.0)</u>
Net loss for the year:				
As previously reported	(1,071.0)	(641.3)	(284.7)	3.0
Prior year adjustment (note 38)	<u>—</u>	<u>(88.9)</u>	<u>—</u>	<u>—</u>
As restated	<u>(1,071.0)</u>	<u>(730.2)</u>	<u>(284.7)</u>	<u>3.0</u>
Gain on deemed disposal of the Group's interest in the listed subsidiary company	—	5.7	—	—
Appropriation:				
Transfer from other reserves (Note 44)	<u>7.5</u>	<u>8.4</u>	<u>—</u>	<u>—</u>
Balance at end of year, as restated	<u><u>(3,654.3)</u></u>	<u><u>(2,590.8)</u></u>	<u><u>(539.7)</u></u>	<u><u>(255.0)</u></u>

	GROUP	
	2001 <i>HK\$'million</i>	2000 <i>HK\$'million</i> (Restated)
Accumulated losses at end of year accumulated in:		
The Company and subsidiary companies	(1,547.5)	(567.0)
Associates	(324.1)	(321.4)
Jointly controlled entity	<u>(1,782.7)</u>	<u>(1,702.4)</u>
	<u><u>(3,654.3)</u></u>	<u><u>(2,590.8)</u></u>

44. TRANSFER FROM OTHER RESERVES

	GROUP	
	2001 <i>HK\$'million</i>	2000 <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 39 and 43)	<u>7.5</u>	<u>8.4</u>

45. 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	(386.3)	157.6
Profit on disposal of ordinary shares in the listed subsidiary company arising from exchange of Exchangeable Bonds	(70.8)	—
Loss on disposal of overseas subsidiary companies	—	13.8
Profit on disposal of an overseas associate	—	(65.8)
Provision for deposit paid	—	4.7
Provisions against other loans, promissory notes and interest receivable	56.8	13.1
Write-down in values of properties	61.9	106.0
Tax indemnity in respect of the disposal of overseas subsidiary companies/partnerships in prior year	—	24.2
Write back of provision for guarantee given	—	(29.9)
Write back of provision against advances and interest receivable	—	(9.6)
Write back of provision for loss on deposit paid	—	(10.0)
Interest income	(55.2)	(80.8)
Dividend income from listed and unlisted investments	(3.1)	(2.1)
Depreciation	58.5	56.5
Impairment of goodwill	—	120.4
Impairment of long term investments	180.0	—
Impairment of fixed assets	50.8	—
Provisions for doubtful debts	11.0	5.9
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	141.4	(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/(Increase) in debtors, deposits and prepayments	40.1	(2.6)
Decrease/(Increase) in short term investments	9.7	(4.3)
Decrease/(Increase) in hotel and other inventories	15.5	(0.3)
Decrease in creditors and accruals	(40.5)	(128.2)
Decrease in deposits received	(4.6)	(0.4)
Exchange difference	(0.2)	11.6
Deficit on revaluation of hotel properties	183.7	—
Gain on repurchase and cancellation of Convertible Bonds	(13.4)	—
Net cash inflow from operating activities	<u>361.7</u>	<u>267.8</u>

(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 (Restated)</i>
Balance at 1st January, 2000	2,386.8	9,744.8	1,814.0
Net cash outflow from financing	—	(1.2)	(0.8)
Share of loss for the year	—	—	(98.7)
Share of revaluation surplus	—	—	15.3
Share of exchange difference on consolidation	—	—	(0.2)
Share of capital reserve on consolidation	—	—	28.1
Arising from deemed disposal of interest in the listed subsidiary company	—	—	(0.1)
Disposal of subsidiary companies	—	(98.9)	—
Disposal of an overseas associate	—	—	(9.1)
Interest expenses capitalised	—	2.6	—
Effect of foreign exchange rate changes	—	8.9	—
Balance at 31st December, 2000	<u>2,386.8</u>	<u>9,656.2</u>	<u>1,748.5</u>
Balance at 1st January, 2001	2,386.8	9,656.2	1,748.5
Net cash outflow from financing	—	(222.7)	—
Share of loss for the year	—	—	(146.8)
Share of revaluation deficit	—	—	(383.2)
Share of exchange difference on consolidation	—	—	(0.7)
Reclassification from creditors and accruals	—	—	20.0
Exchange of Exchangeable Bonds for ordinary shares in the listed subsidiary company	—	(85.4)	68.0
Repurchase and cancellation of Convertible Bonds	—	(17.2)	—
Reclassification of a provision for guarantee as a bank loan (note 32)	—	118.8	—
Interest expenses capitalised	—	2.2	—
Effect of foreign exchange rate changes	—	(10.2)	—
Balance at 31st December, 2001	<u>2,386.8</u>	<u>9,441.7</u>	<u>1,305.8</u>

(c) Disposal of subsidiary companies

	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Net assets disposed of:		
Fixed assets	—	0.3
Properties under development	—	596.8
Debtors, deposits and prepayments	—	0.3
Cash and bank balances	—	0.5
Creditors and accruals	—	(21.9)
Advances from minority shareholders	—	(98.9)
	<u>—</u>	<u>—</u>
	—	477.1
Exchange equalisation reserve realised on disposal	—	(2.3)
Loss on disposal	—	(13.8)
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>461.0</u>
Satisfied by:		
Cash	—	71.3
Debtors	—	8.2
Reclassification to long term investments	—	298.9
Reclassification to interests in associates	—	82.6
	<u>—</u>	<u>—</u>
	<u>—</u>	<u>461.0</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	—	(0.5)
Cash consideration	—	71.3
	<u>—</u>	<u>—</u>
Net inflow of cash and cash equivalents in respect of disposal of subsidiary companies	<u>—</u>	<u>70.8</u>

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.

46. 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>
Operating lease rentals in respect of land and buildings received from a wholly-owned subsidiary company of Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	(a)	15.8	17.9
Advertising, promotion and information technology service fees (including cost reimbursements) paid to an associate of CCIHL	(b)	20.6	29.5
Management costs allocated from CCIHL	(c)	57.3	56.5
Gross construction fee income from a jointly controlled entity	(d)	2.4	—
Interest on loans to associates	(e)	9.9	11.8
Guarantees given in respect of a banking facility granted to a jointly controlled entity	(f)	2,310.0	2,310.0
Guarantee given in respect of a banking facility granted to an associate	(g)	—	109.0
Guarantee given in respect of a banking facility granted to a non wholly-owned subsidiary company	(h)	—	160.0

Notes:

- (a) The rental income related to the provision of head office accommodation to CCIHL. The rental was determined by reference to market rental for offices of similar quality in the same district obtained from independent sources. There was no outstanding rental as at 31st December, 2001.
- (b) The advertising and promotion fees comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed. During the year, information technology services were also provided, the fees for which were charged on project basis.
- (c) The management costs included rentals and other overheads allocated from CCIHL either on the basis of actual usage or on a proportionate basis by reference to individual consolidated turnover and asset values of the Group and CCIHL for each financial year.
- (d) 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 25 to the financial statements.
- (e) 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.
- (f) The corporate guarantees were given by the Company and RHIHL in respect of a banking facility granted to Chest Gain.

- (g) The prior year corporate guarantee was given by the Company in respect of a banking facility granted to Rapid Growth Holdings Limited, the 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.
- (h) The corporate guarantee was given by the Company in respect of a banking facility granted to Chatwin Engineering Limited (“Chatwin”), a 80% owned subsidiary company of the Group. The obligation under the guarantee was released in the current year upon the repayment of the bank loan by Chatwin.

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 46(a), (b), (c) and (h) above also constituted connected transactions as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) to the Company. Relevant disclosure and other requirements in accordance with the Listing Rules with respect to such transactions have been made or met, which related details are disclosed in the Directors’ Report of the Company for the financial year ended 31st December, 2001 accompanying the financial statements.

The related party transactions set out in notes 46(d) to (g) above did not constitute connected transactions as defined in the Listing Rules to the Company.

47. 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 a listed subsidiary company 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 Group.

48. CONTINGENT LIABILITIES

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

	GROUP		COMPANY	
	2001 HK\$'million	2000 HK\$'million	2001 HK\$'million	2000 HK\$'million
(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	1,004.4	1,004.4
- subsidiary companies	—	—	3,088.6	3,269.4
	<u>1,757.7</u>	<u>1,757.7</u>	<u>4,093.0</u>	<u>4,273.8</u>

- (b) As detailed in note 25 to the financial statements, on 18th November, 1999, RHIHL Group entered into a securities purchase agreement (the “SP Agreement”) with an independent party (the “Purchaser”) with respect to the disposal by 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 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 25 to the financial statements.

49. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (notes 15 and 23) 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	127.7	139.6
In the second to fifth years, inclusive	119.5	133.5
After five years	—	5.2
	<u>247.2</u>	<u>278.3</u>

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

50. COMMITMENTS

In addition to the operating lease commitments detailed in 49(b) above, the Group had the following commitments at the balance sheet date:

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Capital commitments in respect of acquisition of interest 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.

51. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

	GROUP	
	2001	2000
	<i>HK\$'million</i>	<i>HK\$'million</i>
Notional amount of options	<u>—</u>	<u>15.2</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.

52. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the financial statements, 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 the Company, 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 placees on 27th February, 2002. The net proceeds from the above placement were used for general working capital purposes.

53. 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, a prior year adjustment has been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

54. APPROVAL OF THE FINANCIAL STATEMENTS

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

3. INDEBTEDNESS

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 PHL Group together with VPI and its subsidiaries (the “Enlarged Group”) had outstanding borrowings (including overdue normal contractual interest payable but excluding default interest payable on the borrowings of the Enlarged Group) of approximately HK\$10,387,230,000 comprising:

- (1) secured bank loans of approximately HK\$5,393,418,000;
- (2) secured other loans of approximately HK\$1,242,848,000; and
- (3) 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 Enlarged Group had contingent liabilities in respect of guarantees for a bank loan made available to a jointly controlled entity, together with related overdue normal contractual interest payable, of approximately HK\$1,953,037,000.

As at the close of business on 30th June, 2002, neither VPI nor any of its subsidiaries has any indebtedness.

Save as disclosed above and apart from intra-group liabilities, the Enlarged 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 Enlarged 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 Enlarged Group since 30th June, 2002.

4. WORKING CAPITAL

Since October 1998, the Paliburg Group has encountered liquidity problems and conducted discussions with its financial creditors for the purpose of implementing standstill arrangements in order to permit the Paliburg Group to suspend the repayment of their outstanding indebtedness (the “Standstill Arrangements”). An informal Standstill Arrangement has been in operation since the formal Standstill Arrangement last expired on 30th September, 1999. However, the Paliburg Group has now substantially finalised the bilateral facilities arrangements with its relevant financial creditors to replace its informal Standstill Arrangement.

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 from the Board which form 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 Paliburg and Century City.

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 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 Enlarged Group as a whole has sufficient working capital for its present requirements.

5. MATERIAL ADVERSE CHANGE

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

6. 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

	Scenario 1 HK\$'million	Scenario 2 HK\$'million
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>2,783.6</u>	<u>2,913.6</u>
	HK\$	HK\$
Audited consolidated net tangible assets per Paliburg Ordinary Share as at 31st December, 2001 based on 2,318,497,452 shares then in issue	<u>0.920</u>	<u>0.920</u>
Proforma adjusted consolidated net tangible assets per Paliburg Ordinary Share:		
as at the Latest Practicable Date based on 2,318,497,452 shares then in issue	<u>0.848</u>	<u>0.848</u>
immediately after the Stanley Transfer based on 2,318,497,452 shares then in issue	<u>0.982</u>	<u>0.982</u>
immediately after the Settlement Proposal based on 2,318,497,452 shares then in issue	<u>1.170</u>	<u>1.170</u>
after the Paliburg Acquisition and conversion of the Paliburg Convertible Preference Shares in full based on 5,768,497,452 shares (Scenario 1) and based on 7,068,497,452 shares (Scenario 2) then in issue	<u>0.483</u>	<u>0.412</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.

7. PROFORMA STATEMENT OF UNAUDITED ADJUSTED COMBINED ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is a summary of the proforma statement of unaudited adjusted combined assets and liabilities of the Enlarged Group, assuming that the Stanley Transfer, the Settlement Proposal and the Paliburg Acquisition had been implemented on 30th June, 2002, based on the audited consolidated net assets of the PHL Group as at 31st December, 2001 extracted from the annual report of Paliburg for the financial year ended 31st December, 2001 as set out above and the audited consolidated net assets of the VPI Group as at 30th June, 2002 as set out in Appendix V to this circular.

	Adjustments from 31st December, 2001 to the Latest Practicable Date (Note 1)	Adjustments for the Stanley Transfer	Adjustments for the Settlement Proposal	Adjustment for the acquisition of the VPI Group (Note 2)	The Enlarged Group		
The PHL Group	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>	<i>HK\$'million</i>		
Non-current assets	13,382.0	(205.0)	(374.1)	(2,681.8)	333.5	(58.5)	10,396.1
Current assets	1,207.3	39.4	—	(123.4)	70.0	—	1,193.3
Current liabilities	<u>(5,527.8)</u>	<u>152.5</u>	<u>—</u>	<u>3,736.6</u>	<u>—</u>	<u>—</u>	<u>(1,638.7)</u>
Net current liabilities	(4,320.5)	191.9	—	3,613.2	70.0	—	(445.4)
Total assets less current liabilities	9,061.5	(13.1)	(374.1)	931.4	403.5	(58.5)	9,950.7
Non-current liabilities	(5,575.1)	—	—	1,187.0	—	—	(4,388.1)
Minority interests	<u>(1,305.8)</u>	<u>(154.9)</u>	<u>349.0</u>	<u>(1,557.5)</u>	<u>—</u>	<u>—</u>	<u>(2,669.2)</u>
Net assets	<u><u>2,180.6</u></u>	<u><u>(168.0)</u></u>	<u><u>(25.1)</u></u>	<u><u>560.9</u></u>	<u><u>403.5</u></u>	<u><u>(58.5)</u></u>	<u><u>2,893.4</u></u>
Add: Possible increase in cash balance pursuant to the VPI Placing (Note 3)					<u>130.0</u>		<u>130.0</u>
Adjusted net assets					<u><u>533.5</u></u>		<u><u>3,023.4</u></u>

Notes:

- Adjustments for (i) decrease in the shareholding interest of the Paliburg Group in Regal from 72.75% as at 31st December, 2001 to approximately 69.34% as at the Latest Practicable Date; (ii) decrease in liabilities upon decrease in shareholding interest in Regal; (iii) disposal of Redhill Plaza.
- The amount represents negative goodwill arising on the acquisition of the VPI Group.
- Assuming issue of 13,000 new shares of VPI at HK\$10,000 each in cash.

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
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68 Yee Wo Street
Causeway Bay
Hong Kong

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23/F Two Exchange Square
Central, Hong Kong

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FPDSavills International

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

Notes: 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.).	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:	HK\$5,282,000,000 <i>(refer Note 6)</i>
Rural Building Lot No. 1138	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). 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.	Phase I - 2nd Quarter 2003 Phase II - 4th Quarter 2003	

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 followings:
- 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)		Slope Area (sq.m.)
				Common Area (sq.m.)	(A+B)	
Phase I	84	24,148.434	24,477.587	13,401.866	48,626.021	32,231.149
Phase II	55	15,695.121	15,577.509	2,228.807	31,272.630	11,998.172
Total	139	39,843.555	40,055.096	15,630.673	79,898.651	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>	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.	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 and 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.

**GRANT SHERMAN APPRAISAL LIMITED**

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.



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

26th August, 2002

The Directors
Paliburg Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Venture Perfect Investments Limited (“VPI”) and its subsidiary companies (hereinafter collectively referred to as the “VPI Group”) prepared on the basis set out in Section 1 below, for inclusion in the circular of Paliburg Holdings Limited dated 26th August, 2002.

VPI was incorporated with limited liability in the British Virgin Islands on 16th April, 2002. VPI has not carried on any business since the date of its incorporation save for the acquisition on 29th June, 2002 of (i) a 50% equity interest in Leading Technology Holdings Limited (“Leading Technology”) (the “Acquired Associate”); and (ii) the entire issued share capital of Capital Billion International Limited and Power Faith Investments Limited (collectively, the “Acquired Subsidiaries”) as set out in Section 1 below.

As at the date of this report, no audited financial statements have been prepared for VPI since the date of its incorporation. We have, however, performed our own independent review of all relevant transactions of VPI since the date of its incorporation.

No separate audited financial statements have been prepared for Leading Technology, Capital Billion International Limited and Power Faith Investments Limited. However, for the purpose of this report, we have acted as auditors and examined the management accounts of these companies for the period from the dates of their incorporation/registration to 30th June, 2002 in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the Hong Kong Society of Accountants.

As described in the foregoing, VPI acquired the Acquired Associate and the Acquired Subsidiaries on 29th June, 2002. In the opinion of the directors of VPI, the effect of the results, movements in equity and cash flows of the Acquired Subsidiaries and the effect of the results of the Acquired Associate, from the date of acquisition by VPI on 29th June, 2002 to 30th June, 2002, on the VPI Group’s consolidated financial statements is not material. Accordingly, the directors of VPI consider it appropriate, for the purpose of consolidation of the Acquired Subsidiaries and equity accounting for the Acquired Associate, to deem the date of acquisition as 30th June, 2002. The balance sheets of the Acquired Subsidiaries as at 30th June, 2002 have been consolidated and the net assets of the Acquired Associate have been equity accounted for in the VPI Group’s financial statements at that date.

The supplementary information on the audited proforma combined results of Leading Technology and its subsidiary companies (the “Leading Technology Group”) for the period from 12th January, 2001 (date of incorporation of Leading Technology) to 30th June, 2002 (the “Period”) and the audited consolidated state of affairs as at 30th June, 2002 (the “Supplementary Information”) is set out in Section 4(a) of this report. Prior to the acquisition of the 50% equity interest in Leading Technology by VPI, certain subsidiary companies held by Leading Technology (the “Excluded Subsidiaries”) were disposed of by Leading Technology on 2nd January, 2002 (the “Disposal”). For the purpose of preparing the Supplementary Information, the results of the Disposal and the results of the Excluded Subsidiaries have been excluded from the Leading Technology Group’s audited proforma combined results for the Period.

The summaries of the consolidated results, statement of movements in equity and cash flows of the VPI Group for the period from 16th April, 2002 (date of incorporation of VPI) to 30th June, 2002 (the “Relevant Period”) and of the consolidated balance sheet of the VPI Group as at 30th June, 2002 (collectively, the “Summaries”) set out in this report have been prepared based on the audited management accounts of the VPI Group and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the VPI Group for the Relevant Period and of the consolidated balance sheet of the VPI Group as at 30th June, 2002.

1. BASIS OF PRESENTATION

The Summaries, which are based on the audited management accounts of the VPI Group, include the consolidated results, statement of movements in equity and cash flows for the Relevant Period and the consolidated balance sheet of the VPI Group as at 30th June, 2002. All significant intra-group balances have been eliminated on consolidation.

At the date of this report, VPI had direct interests in the following subsidiary companies, all of which are private companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name	Place and date of incorporation and operations	Nominal value of issued and paid-up capital	Percentage of equity interest attributable to VPI	Principal activities
Capital Billion International Limited	British Virgin Islands/Hong Kong 28th February, 2002	US\$10,000	100	Holding of cash deposits or cash equivalent investments
Power Faith Investments Limited	British Virgin Islands/Hong Kong 16th May, 2002	US\$100	100	Holding of cash deposits or cash equivalent investments

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the VPI Group in arriving at the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are set out below.

Subsidiary companies

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

Associates

An associate is a company, not being a subsidiary company, in which the VPI 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 VPI 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. In preparing the financial statements of the VPI Group for the Relevant Period, in the opinion of the directors of VPI, the effect of the results of the Acquired Associate, from the date of acquisition by VPI on 29th June, 2002 to 30th June, 2002, on the VPI Group's consolidated financial statements is not material. Accordingly, the directors of VPI consider it appropriate, for the purpose of equity accounting for the Acquired Associate, to deem the date of acquisition as 30th June, 2002.

The VPI Group's interests in associates are stated in the consolidated balance sheet at the VPI Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the VPI Group's interests in associates.

A summary of the financial information of the associates is separately disclosed in Section 4(a) below.

Goodwill/Negative goodwill

Goodwill arising on the acquisition of subsidiary companies and associates represents the excess of the cost of the acquisition over the VPI Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition. Negative goodwill arising on the acquisition of subsidiary companies and associates represents the excess of the VPI 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 of 20 years. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

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

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

On disposal of subsidiary companies or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised or negative goodwill which has not been recognised in the consolidated profit and loss account, and any relevant reserves as appropriate.

The carrying amount of goodwill 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.

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.

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.

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.

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.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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.

3. CONSOLIDATED RESULTS

The following is a summary of the consolidated results of the VPI Group for the Relevant Period prepared on the basis set out in Section 1 above:

	<i>Notes</i>	Period from 16th April, 2002 (date of incorporation of VPI) to 30th June, 2002 HK\$
Turnover		—
Other revenue	(a)	18,102
Administrative expenses		<u>(5,460)</u>
Net profit from ordinary activities attributable to shareholders	(b)	<u>12,642</u>

Notes:

(a) Other revenue

Other revenue represents negative goodwill recognised of HK\$18,102.

(b) Net profit from ordinary activities attributable to shareholders

Auditors' remuneration for the Relevant Period was borne by the immediate holding company of the VPI Group.

No director received any fees or emoluments in respect of their services rendered to the VPI Group during the Relevant Period.

(c) Tax

No provision for Hong Kong profits tax has been made as the VPI Group had no estimated assessable profits arising in Hong Kong for the Relevant Period.

No provision for deferred tax has been made by the VPI Group as there are no timing differences.

(d) Dividend

No dividend has been paid or declared by VPI since the date of its incorporation. No dividend has been paid or declared by any subsidiary companies of VPI during the Relevant Period.

(e) Earnings per share

Earnings per share is not presented as the directors of VPI consider that such information is not meaningful for the purpose of this report.

(f) Related party transactions

In addition to the transactions set out elsewhere in this report, the VPI Group had the following material related party transactions during the Relevant Period:

- (i) VPI acquired a 50% equity interest in the Acquired Associate from its immediate holding company for a consideration of HK\$333,500,000. The consideration was determined by reference to a business valuation performed by an external valuer on the principal subsidiary companies held by the Acquired Associate.
- (ii) VPI acquired the entire equity interests in the Acquired Subsidiaries from its two other shareholders for an aggregate consideration of HK\$70,000,000. The consideration was determined based on the then net book values of the Acquired Subsidiaries.

4. CONSOLIDATED BALANCE SHEET

The following is the consolidated balance sheet of the VPI Group as at 30th June, 2002 which is prepared on the basis set out in Section 1 above.

	<i>Notes</i>	<i>HK\$</i>
NON-CURRENT ASSETS		
Interests in associates	(a)	333,500,000
CURRENT ASSETS		
Bank balances		2,000
Fixed bank deposits		<u>70,024,062</u>
		70,026,062
CURRENT LIABILITIES		
Accruals		<u>(13,412)</u>
NET CURRENT ASSETS		
		<u>70,012,650</u>
		<u><u>403,512,650</u></u>
CAPITAL AND RESERVES		
Issued capital	(b)	269,100
Share premium	(c)	403,230,908
Retained profits		<u>12,642</u>
		<u><u>403,512,650</u></u>

Notes:

(a) Interests in associates

	<i>HK\$</i>
Share of net assets	1,037,823
Goodwill on acquisition	<u>332,462,177</u>
	<u><u>333,500,000</u></u>

Particulars of the principal associates as at 30th June, 2002 are disclosed as follows:

Name	Business structure	Place and date of incorporation/ registration and operations	Percentage of equity interest attributable to the VPI Group	Principal activities
Leading Technology Holdings Limited	Corporate	British Virgin Islands/ 12th January, 2001	50	Investment holding
303 Company Limited	Corporate	Hong Kong/ 10th August, 1998	50	Design, development, integration and distribution of security, building related and enterprise systems, software and products
Shenzhen Leading Technology Company Limited	Corporate	People's Republic of China/ 16th February, 2001	48	Design, development, integration and distribution of security, building related and enterprise systems, software and products
Mira Technology Limited	Corporate	Hong Kong/ 29th November, 2000	26	Provision of software development and maintenance services

A summary of the financial information of the Leading Technology Group, based on its audited proforma combined management accounts for the period from 12th January, 2001 (date of incorporation of Leading Technology) to 30th June, 2002 prepared on the basis set out on page 169 above and in accordance with accounting principles generally accepted in Hong Kong, is as follows:

Income and losses

	Period from 12th January, 2001 (date of incorporation of Leading Technology) to 30th June, 2002
	<i>HK\$</i>
Turnover	<u>511,325</u>
Net profit from ordinary activities attributable to shareholders	<u>13,499,460</u>

Had the results of the Disposal and the results of the Excluded Subsidiaries been included for the Period, the net profit from ordinary activities attributable to shareholders would have been increased by approximately HK\$4,879,000.

State of affairs

	30th June, 2002
	<i>HK\$</i>
Non-current assets	136,837,763
Current assets	1,003,938
Current liabilities	<u>(392,676)</u>
	137,449,025
Minority interests	<u>(372,028)</u>
	<u>137,076,997</u>

The share of post-acquisition loss of the Leading Technology Group from the date of acquisition by VPI on 29th June, 2002 to 30th June, 2002 attributable to the VPI Group, which is not reflected in the consolidated results of the VPI Group for the Relevant Period, amounted to HK\$4,190.

(b) Share capital*Authorised:*

50,000	ordinary shares of US\$1 each	<u>US\$50,000</u>
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Issued and fully paid:

34,500	ordinary shares of US\$1 each	<u>HK\$269,100</u>
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On incorporation, VPI's authorised share capital was US\$50,000 divided into 50,000 ordinary shares of US\$1 each, one ordinary share was issued at par for cash as subscriber's share.

On 29th June, 2002, an additional 34,499 ordinary shares were issued at premium as consideration for the acquisition of the Acquired Associate and the Acquired Subsidiaries by VPI.

(c) **Share premium**

Share premium arose from the issuance and allotment of 34,499 ordinary shares for the acquisition of the Acquired Associate and the Acquired Subsidiaries.

5. CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY

The movements in the consolidated shareholders' equity of the VPI Group for the Relevant Period, prepared on the basis set out in Section 1 above, are as follows:

	Period from 16th April, 2002 (date of incorporation of VPI) to 30th June, 2002 HK\$
Net profit attributable to shareholders	12,642
Issue of share capital (including share premium)	<u>403,500,008</u>
At end of period	<u><u>403,512,650</u></u>

6. CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement of the VPI Group for the Relevant Period, prepared on the basis set out in Section 1 above, is as follows:

	<i>Note</i>	<i>HK\$</i>	<i>HK\$</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit attributable to shareholders		12,642	
Adjustment for:			
Negative goodwill recognised as income		<u>(18,102)</u>	
Operating loss before working capital changes		(5,460)	
Increase in accruals		<u>5,452</u>	
Net cash outflow from operating activities			(8)
CASH FLOWS FROM INVESTING ACTIVITY			
Acquisition of subsidiary companies	(a)	<u>70,026,062</u>	
Cash inflow from investing activity			70,026,062
CASH FLOWS FROM FINANCING ACTIVITY			
Proceeds from issuance of share capital		<u>8</u>	
Cash inflow from financing activity			<u>8</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS AND BALANCE AT END OF PERIOD			<u><u>70,026,062</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances			2,000
Time deposits with original maturity of less than three months when acquired			<u>70,024,062</u>
			<u><u>70,026,062</u></u>

Note:

(a) Acquisition of subsidiary companies

	<i>HK\$</i>
Net assets acquired:	
Bank balances	2,000
Fixed bank deposits	70,024,062
Accruals	<u>(7,960)</u>
	70,018,102
Negative goodwill on acquisition	<u>(18,102)</u>
	<u>70,000,000</u>
Satisfied by:	
Issue of shares at premium	<u>70,000,000</u>

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

	<i>HK\$</i>
Bank balances acquired	2,000
Fixed bank deposits acquired	<u>70,024,062</u>
Inflow of cash and cash equivalents in respect of the acquisition of subsidiary companies	<u>70,026,062</u>

7. SEGMENT INFORMATION

During the Relevant Period, the VPI Group has not yet commenced business. Accordingly, no business or geographical segment information is presented.

8. CONTINGENT LIABILITIES

As at 30th June, 2002, the VPI Group had no material contingent liabilities.

9. COMMITMENTS

As at 30th June, 2002, the VPI Group had no material outstanding commitments.

10. SUBSEQUENT EVENTS

There is no significant events in respect of the VPI Group subsequent to 30th June, 2002.

11. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the VPI Group in respect of any period subsequent to 30th June, 2002.

Yours faithfully
Ernst & Young
Certified Public Accountants

1. Responsibility statement

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to Paliburg. The Directors 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 Paliburg and its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Paliburg 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. Paliburg	Mr. Lo	Ordinary	222,765	—	1,373,024,977	1,373,247,742
	<i>(Notes a & b)</i>					
	Mr. Cheng Yuk Lun	Ordinary	2,325,000	—	—	2,325,000
	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
	Mr. Ng Siu Chan	Ordinary	—	536,500	—	536,500
2. 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

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
	Mr. Cheng Yuk Lun	Ordinary	600,000	—	—	600,000
	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
12. Chinatrend (Nankai) Limited	Mr. Lo	Ordinary	—	—	85	85

Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total
			Personal interests	Family interests	Corporate interests	
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	
			(I) Vested	(II) Unvested
(A)	Date of grant: 22/2/1994 Exercise price per share: HK\$10.40 Vesting period: (Note 1) Exercise period: (Note 1)	Mr. Lo	(I) 3,650,000	(II) 912,500 (Note 1(b))
		Mr. Cheng Yuk Lun	(I) 1,000,000	(II) 250,000 (Note 1(b))
		Mr. Donald Fan Tung	(I) 1,500,000	(II) 375,000 (Note 1(b))
		Mr. Kenneth Ng Kwai Kai	(I) 800,000	(II) 200,000 (Note 1(b))
(B)	Date of grant: 15/9/1995 (Original grant date (Note 2)): (22/2/1993) Exercise price per share: HK\$1.1571 Vesting period: (Note 3) Exercise period: (Note 3)	Mr. Donald Fan Tung	(I) 1,582,030	(II) 175,782 (Note 3(c))
(C)	Date of grant: 15/9/1995 (Original grant date (Note 2)): (22/2/1994) Exercise price per share: HK\$3.5392 Vesting period: (Note 4) Exercise period: (Note 4)	Mr. Donald Fan Tung	(I) 2,500,000	(II) 625,000 (Note 4(b))

Notes:

1. Vesting/Exercise periods of options:

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

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

3. Vesting/Exercise periods of options:

	On completion of continuous service of	Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a)	Exercisable at any time	PHL Options were granted as vested options under the PHL Option Scheme for those PIHL Options already vested under the PIHL Option Scheme (see Note 2)	Exercisable until 10 years after original grant date
(b)	3 years after original grant date	1/8 x 100%	1/8 x 100% upon vesting (exercisable until 10 years after original grant date)
(c)	4 years to 9 years after original grant date	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage vested each subsequent year) (commencing from 4 years after original grant date)	Cumulative 2/8 x 100% to 7/8 x 100% (with 1/8 x 100% additional percentage exercisable each subsequent year) (commencing from 4 years after original date) upon vesting (exercisable until 10 years after original grant date))
(d)	9½ years after original grant date	100%	100% (exercisable until 10 years after original grant date)

4. Vesting/Exercise periods of options:

	On completion of continuous service of	Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a)	2 years after original grant date	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after original grant date)
(b)	3 years to 9 years after original grant date	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year) (commencing from 3 years after original grant date)	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year) (commencing from 3 years after original grant date) upon vesting (exercisable until 10 years after original grant date))
(c)	9½ years after original grant date	100%	100% (exercisable until 10 years after original grant date)

(iii) *Interests in share options granted by Regal*

Terms of option	Grantee	No. of ordinary shares under the share options	
		(I) Vested	(II) Unvested
Date of grant: 5/8/1993	Mr. Donald	(I)	1,080,000
Exercise price per share: HK\$1.1083	Fan Tung	(II)	120,000 (<i>Note 1(b)</i>)
Vesting period: (<i>Note 1</i>)			
Exercise period: (<i>Note 1</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 Paliburg or its associated corporations (within the meaning of the SDI Ordinance) which are required to be notified to Paliburg 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 Paliburg and the Stock Exchange.

- (b) As at the Latest Practicable Date, the following persons (not being a Director or chief executive of Paliburg), so far as are known to any Director, were 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 meeting of Paliburg:

Name of shareholder	Number of shares held	Approximate percentage of the issued ordinary shares in Paliburg as at the Latest Practicable Date
Century City (<i>Notes i & iii</i>)	1,373,024,977	59.22%
Century City BVI Holdings Limited (<i>Notes ii & iii</i>)	1,373,024,977	59.22%
Century City Holdings Limited (<i>Note ii</i>)	769,458,989	33.19%

Notes:

- (i) These shares were shown as the corporate interests of Mr. Lo in Paliburg as disclosed under paragraph headed “Interests in shares” of the section entitled “Disclosure of interests” in this appendix.
- (ii) These companies are subsidiaries of Century City and their interests in the shares of Paliburg are included in the interests held by Century City.
- (iii) Including the retained balance of 6,444,444 shares as disclosed under Note (b) to 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 Paliburg 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 PHL 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 Access Capital, the independent financial adviser to the Independent Board Committee, nor Ernst & Young, the reporting accountants of VPI, nor FPDSavills, 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 PHL 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 PHL Group.
- (e) The Regal Group is 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 Paliburg Plaza by virtue of his indirect interests, through Century City, in Paliburg.

Save as disclosed above, none of the Directors nor Access Capital nor Ernst & Young nor FPD Savills 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 Paliburg were made up, acquired or disposed of by or leased to any member of the PHL Group or are proposed to be acquired or disposed of by or leased to any member of the PHL 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 PHL Group subsisting at the date of this circular which is significant in relation to the business of the PHL Group.

3. Material contracts

- (a) 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.
- (b) 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.
- (c) The Standstill Agreement (please refer to the section headed “The Settlement Proposal” of the Letter from the Board contained in this circular for details).
- (d) 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.
- (e) 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).
- (f) 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).

Save for disclosed above, no member of the PHL 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
Access Capital	Registered Investment Adviser and Securities Dealer
Ernst & Young	Certified Public Accountants
FPDSavills	Registered Professional Surveyor
Grant Sherman	Valuer, Chartered Surveyor
Vigers	Property valuer

5. Consents of experts

Each of Access Capital, Ernst & Young, 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 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.

- (b) 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 Paliburg nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim known to the Directors to be pending or threatened by any member of the PHL 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 Paliburg is located at 18th Floor, Paliburg Plaza, 68 Yee Wo Street, Causeway Bay, Hong Kong. The registered office of Paliburg is located at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda.
- (b) The branch share registrar of Paliburg in Hong Kong is Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.
- (c) The secretary of Paliburg is Ms. Eliza Lam Sau Fun, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.
- (d) The English text of this circular and the form of proxy shall prevail over the Chinese text.

8. Documents available for inspection

Copies of the following documents will be available for inspection at the office of the solicitors of Paliburg, 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 Paliburg;
- (b) the material contracts referred to in the section headed “Material contracts” in this appendix;
- (c) the letter from the Independent Board Committee, the text of which is set out on page 44 of this circular;

- (d) the letter from Access Capital, the text of which is set out on pages 45 to 68 of this circular;
- (e) the 2000 and 2001 annual reports of Paliburg containing, among other things, the audited accounts of the Paliburg Group for the two respective financial years ended 31st December, 2000 and 31st December, 2001;
- (f) the letter and valuation certificate from FPD Savills, the text of which is set out in appendix II to this circular;
- (g) the letter, summary of valuations and valuation certificates from Vigers, the text of which is set out in appendix III to this circular;
- (h) the letter from Grant Sherman regarding the Business Valuation, the text of which is set out in appendix IV to this circular;
- (i) the accountants' report regarding VPI, the text of which is set out in appendix V to this circular; and
- (j) the written consents of Access Capital, Ernst & Young, FPD Savills, Grant Sherman and Vigers referred to in the section headed "Consents of experts" in this appendix.



NOTICE IS HEREBY GIVEN that a special general meeting of Paliburg Holdings Limited (the “Company”) will be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Wednesday, 18th September, 2002 at 11:30 a.m. (or so soon thereafter as the special general meeting of Regal Hotels International 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 and special 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;
- (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.”

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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;
- (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.”

SPECIAL RESOLUTION NO. 1

“THAT:

on the day falling 21 days after the satisfaction of all the prerequisite and necessary conditions required for implementation of the Paliburg Capital Reorganisation (as defined below) (the “Effective Date”):

- (1) the issued share capital of the Company be reduced by cancelling the paid up capital to the extent of HK\$0.99 on each of the ordinary shares of HK\$1.00 in issue on the Effective Date (the “Share Capital Reduction”) so that each issued ordinary share in the capital of the Company shall be treated as one fully-paid up ordinary share of HK\$0.01 each in the capital of the Company (the “Adjusted Paliburg Ordinary Share”) and any liability of the holders of Adjusted Paliburg Ordinary Shares to make any further contribution to the capital of the Company on each such Adjusted Paliburg Ordinary Share shall be treated as satisfied;
- (2) the entire amount standing to the credit of the share premium account of the Company on the Effective Date be cancelled (the “Share Premium Reduction”);
- (3) all of the authorised but unissued share capital of the Company be cancelled (the “Diminution”);
- (4) forthwith upon the Diminution, the authorised share capital of the Company be increased by the creation of 17,681,502,548 new Adjusted Paliburg Ordinary Shares and 4,750,000,000 new non-voting convertible preference shares of HK\$0.10 each in the capital of the Company (the “Paliburg Convertible Preference Shares”) having the rights and restrictions set out in the special resolution no. 2 below and, following the creation of the new Adjusted Paliburg Ordinary Shares and the new Paliburg Convertible Preference Shares, the authorised share capital of the Company be reclassified into Adjusted Paliburg Ordinary Shares and Paliburg Convertible Preference Shares such that, upon completion of the Increase and Reclassification (as herein defined), the authorised share capital of the

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Company shall be HK\$675,000,000 of which HK\$200,000,000 shall be divided into 20,000,000,000 Adjusted Paliburg Ordinary Shares and HK\$475,000,000 shall be divided into 4,750,000,000 Paliburg Convertible Preference Shares (the “Increase and Reclassification”);

- (5) the entire credit amount (the “Credit Amount”) arising from the Share Capital Reduction and the Share Premium Reduction be applied to eliminate an amount equal to the Credit Amount from the accumulated losses account of the Company as at the Effective Date (the “Application of Credit”) and, the balance of such credit, if any, be transferred to the contributed surplus account of the Company; and
- (6) the 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 Share Capital Reduction, the Share Premium Reduction, the Diminution, the Increase and Reclassification and the Application of Credit (collectively, the “Paliburg Capital Reorganisation”).”

SPECIAL RESOLUTION NO. 2

“THAT:

the Paliburg Convertible Preference Shares shall have attached thereto the following rights and restrictions:

(1) **Income**

The holders of the Paliburg Convertible Preference Shares shall not be entitled to any right of participation in the profits of the Company.

(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 the Company.

(3) **Voting and general meetings**

Subject to the bye-laws of the Company 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 the Company.

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(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 the fully-paid ordinary shares of the Company (the “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 terms and conditions:

(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 and delivering the same to the registrars for the time being of the Company at any time during the Conversion Period together with such other evidence (if any) as the 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) Conversion of such Paliburg Convertible Preference Shares as are due to be converted as aforesaid (the “Relevant Shares”) shall be effected in such manner as the Directors shall from time to time determine in accordance with the provisions contain herein or otherwise as may be authorised by law. Without prejudice to the generality of the foregoing and subject to compliance with all applicable laws, including the Statutes (as defined in the bye-laws of the Company), any Paliburg Convertible Preference Shares to be converted as aforesaid may be effected by the redemption or repurchase of such Paliburg Convertible Preference Shares during the Conversion Period and the proceeds arising thereof shall be applied forthwith towards payment in full for the subscription of the relevant number of Paliburg Ordinary Shares.

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(4.5) 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.

(4.6) Allotments of Paliburg Ordinary Shares arising from conversion shall be effected by entry of the relevant member's name into the Register of the Company within 7 business days of the Conversion Date. Within 10 business days after the Conversion Date, the Company shall send to each holder of the Relevant Shares, by post at his own risk to an address in Hong Kong as stipulated by such holder in the Conversion Notice, free of charge, a definitive certificate for the appropriate number of fully-paid Paliburg Ordinary Shares and, if applicable, a new certificate for any unconverted Paliburg Convertible Preference Shares comprised in the certificates surrendered by him. In the meantime transfers shall be certified against the Register of the Company.

(5) **Adjustment to the Conversion Rate**

(5.1) If after the date of the Paliburg Acquisition Agreement the Company 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 the Company; 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 (or, if the Company has fixed a prior record date for the determination of shareholders entitled to receive any such free distribution or bonus issue of Paliburg Ordinary Shares or other securities issued upon any such division, consolidation or re-classification, immediately prior to such record date), but without prejudice to the effect of any other adjustment to the Conversion Rate made with effect from the date of the happening of such event (or such record date) or any time thereafter.

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- (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 the Company enters into any transaction (other than an Adjustment Event) including issuance by the Company 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. In the event that the Company and the First Vendor (as defined in the Circular and one of the parties to the Paliburg Acquisition Agreement) cannot mutually agree the amount of such adjustment, within two business days following the occurrence of the Dilutive Event, the Company and the First Vendor shall jointly agree to appoint Ernst & Young (or, where Ernst & Young are not able or decline to act, a firm of certified public accountants or failing such agreement a firm of certified public accountants to be nominated on the application of either of them by or on behalf of the President for the time being of the Law Society of Hong Kong) (the “Reporting Accountants”) to determine the amount of such adjustment. The Reporting Accountants shall act as experts and not as arbitrators and their determination of the amount of any adjustment shall be final and binding on the Company and the holders of the Paliburg Convertible Preference Shares save in the event of manifest error of the relevant party.
- (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 to set off the accumulated losses of the Company 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 of not less than 50% of the then outstanding Paliburg Convertible Preference Shares:
- (6.1.1) No shares of the Company 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.

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- (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) The Company 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) The Company 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. For the purposes of this sub-paragraph “capital distribution” means any dividend or other distribution of capital profits (whether realised or not) or capital reserves, or profits or reserves arising after the date of the passing in general meeting of the resolution creating the Paliburg Convertible Preference Shares from a distribution of capital profits (whether realised or not) or capital reserves by a subsidiary, except by means of a capitalisation issue not contravening sub-paragraph 6.1.2 above (other than a redemption or purchase of redeemable shares, including the Paliburg Convertible Preference Shares, in accordance with the terms of issue thereof); for the purposes of this sub-paragraph 6.1.5, insofar as the relevant audited accounts do not distinguish between capital and revenue profits or reserves, the Company shall be entitled to rely upon a written estimate by its auditors as to the extent to which any part of any profit or reserve should be regarded as of a capital nature.
- (6.1.6) The Company 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) The Company shall use reasonable endeavours to procure that the listing of, and permission to deal in, all of the Paliburg Ordinary Shares arising on conversion are granted by The Stock Exchange of Hong Kong Limited.

NOTICE OF THE SGM

(6.3) Notwithstanding anything in these terms and conditions, the Company 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, repurchase the Paliburg Ordinary Shares.

(6.4) The Paliburg Convertible Preference Shares shall carry equal rights and rank *pari passu* with each other.”

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

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.