

INDEPENDENT AUDITORS' REVIEW REPORT

**To The Board of Directors
Century City International Holdings Limited**

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 9 to 27.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Fundamental uncertainty

- Provisions against investments in two investee companies

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 11 to the interim financial report concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies") during 2000, which is included in long term investments under non-current assets of Paliburg Holdings Limited ("PHL"), a principal listed subsidiary company of the Group, and its subsidiary companies (the "PHL Group"). The carrying value of the PHL Group's investments in the Investee Companies amounted to HK\$118.9 million (31st December, 2001 - HK\$118.9 million) as at 30th June, 2002. As further described in note 11 to the interim financial report, the directors of PHL are still not possible to determine at this stage with reasonable certainty the ultimate outcome of the negotiations for the reversion of the land site to the Investee Companies and hence any further provision required to be made against the PHL Group's investments in the Investee Companies. Details of the circumstances relating to this fundamental uncertainty are described in note 11 to the interim financial report.



Fundamental uncertainty - Provision against a receivable

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 13 to the interim financial report concerning the outcome in respect of a receivable of approximately HK\$400.1 million as at 30th June, 2002 included in debtors, deposits and prepayments under current assets of Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary company of PHL, and its subsidiary companies (the "RHIHL Group"). The receivable comprised (i) deferred consideration of US\$45.0 million (approximately HK\$351.0 million) which arose in connection with the RHIHL Group's disposal of its hotel interests in the United States of America in December 1999 (the "Disposal"); and (ii) interest aggregating HK\$49.1 million accrued thereon (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 13 to the interim financial report, the Purchaser alleged 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, exceeded the deferred consideration and also demanded for security from the RHIHL Group for future potential claims, and hence has withheld payment to the RHIHL Group of the Consideration Receivable. To date, most of the major claims notified by the Purchaser have either been dismissed, resolved or settled for relatively insignificant amounts. However, the directors of RHIHL are currently unable to determine with reasonable certainty the time ultimately required for the recovery of the Consideration Receivable and any legal or settlement costs that may be involved. Accordingly, the directors of RHIHL are currently unable to determine whether a provision, if any, is required against the Consideration Receivable. Details of the circumstances relating to this fundamental uncertainty are described in note 13 to the interim financial report.

Fundamental uncertainties relating to the going concern basis

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 2 to the interim financial report which explain the circumstances giving rise to the fundamental uncertainties relating to:

- i. the outcome of the proposed restructuring of the existing outstanding indebtedness of the Group to replace the Group's existing informal standstill agreement;
- ii. the outcome of completion of the proposed settlement with the bondholders of two outstanding bonds of the PHL Group;
- iii. the outcome of finalisation of the proposed bilateral facility arrangement with a financial creditor of the PHL Group to replace its existing informal standstill arrangement;
- iv. the satisfactory servicing of the milestone payments by the RHIHL Group specified in the standstill agreement dated 4th September, 2002 during the standstill period in relation to two loans aggregating HK\$4,901.6 million as at 30th June, 2002;
- v. the successful recovery of the RHIHL Group's Consideration Receivable;

- vi. the outcome of the proposed fund-raising arrangements of the RHIHL Group through equity issues; and
- vii. the successful implementation of asset disposal programme of the RHIHL Group.

The interim financial report has been prepared on a going concern basis, the validity of which depends upon the successful outcome of implementation of the measures noted above. The interim financial report does not include any adjustments that would result from the failure of implementation of such measures. Details of the circumstances relating to these fundamental uncertainties are described in note 2 to the interim financial report.

Because of the significance of the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis, we are unable to reach a review conclusion.

Inability to reach a review conclusion

On account of the foregoing fundamental uncertainties relating to the appropriateness of the going concern basis, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 30th June, 2002.

Ernst & Young

Certified Public Accountants

Hong Kong
23rd September, 2002

