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REVIEW AND OUTLOOK

For the six months ended 30th June, 2004, the Group attained an unaudited consolidated net profit attributable to shareholders of HK\$127.5 million, representing an increase of about 7 times as compared with the HK\$15.8 million recorded in the corresponding period in 2003.

Since the beginning of this year, the Company has undertaken a number of equity placements with a view to strengthening its capital base. Aggregate net equity funds of approximately HK\$106.4 million were raised under those share placements, part of which had been utilised to fund the acquisition of additional interests in Regal Hotels International Holdings Limited.

Following the final release in July 2004 of all the Regal shares remaining to be delivered to the former bondholders of the Company pursuant to the Bonds Settlement, the Company still holds at present approximately 45.0% of the existing issued shares of Regal. In addition, the Company is holding approximately 43.1% of the outstanding warrants of Regal issued by Regal pursuant to its bonus issue of warrants in August 2004 as well as certain outstanding convertible preference shares of Regal. It is the intention of the Company to maintain the holding of an effective controlling shareholding interest in Regal, which presently constitutes the Company's most significant investment asset.

As previously reported, the rezoning of the development site at Ap Lei Chau Inland Lot No.129, in which the Group retains a 30% joint venture interest, has been formally approved. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet together with certain ancillary retail, recreational and car parking facilities. It is anticipated that the basic terms of the lease modification will be issued before the end of this year.

The certificate of compliance for the "Rainbow Lodge" residential development at 9 Ping Shan Lane in Yuen Long was issued in January this year. This development has a total of 16 duplex units with aggregate gross floor area of about 30,800 square feet. The sale programme has progressed satisfactorily and the profits realised from the units sold have been reflected in the results for the period under review.

The Group has retained professional consultants to advise on the formulation of a revised proposal for an overall comprehensive development scheme centering on the various lots owned by the Group in Sharp Island, Sai Kung, which entails resort hotel, water sports, recreational, spa and other related accommodations and facilities. In this regard, due consultations with the relevant government departments are in progress.

The Group continues to hold for rental income all the office floors with total gross floor area of about 60,900 square feet, and certain ground floor shops with total gross floor area of 2,200 square feet, at the commercial building at 211 Johnston Road, Wanchai. As the local market for commercial properties continues to recover, the sale programme previously contemplated has been put in abeyance for the time being.



In the People's Republic of China, negotiations are continuing with the third party purchaser for the possible remedy of its default under the agreement entered into in July 2003 for the sale of the Group's equity interest in the joint venture project at Gong Ren Ti Yu Chang Street East, Chao Yang District in Beijing. With regard to the other joint venture development project at Chao Yang Men Wai Da Jie in Chao Yang District in Beijing, while the Group continues to negotiate with prospective investors for the sale of the Group's interest held at an indicative price substantially above its carrying value (which was stated at HK\$56.9 million as at 30th June, 2004), the joint venture parties involved have been actively negotiating with the relevant local government authorities to secure the vesting of the requisite land title into the joint venture entity.

For the six months ended 30th June, 2004, Regal achieved an unaudited consolidated net profit attributable to shareholders of HK\$285.1 million, while for the corresponding period in 2003, a net loss of HK\$69.1 million was recorded.

Aided by the phased relaxation of the Individual Visit Scheme in China, the tourist industry in Hong Kong continued to recover rapidly. During the first six months of 2004, the total number of incoming visitors has surpassed 10 million, boosting an increase of over 68% as compared with the same period in 2003, although it should be noted that the comparative figure in 2003 had been distorted by the SARS effect. Visitors from the Mainland continued to account for more than 50% of the total visitor arrivals, but those from other major markets were gradually restoring to the pre-SARS levels. Benefiting from the influx of visitors, the average room occupancy and the average achieved hotel room rate for the hotels in Hong Kong during the period have rebounded by about 54.5% and 16.4%, respectively, comparing with the six months to June in 2003.

For the five Regal Hotels in Hong Kong, the combined average room occupancy attained in the period under review has similarly posted a strong increase of about 67.7% over the corresponding period last year, while the combined average room rate has at the same time improved by about 11.1%. During the past few years, management of Regal has spent strenuous efforts to put into position a lean and compact operating structure, geared to contain costs and to improve efficiency, and those efforts have been crucial to the significant enhancement now achieved in the operating profit margin of Regal's hotel businesses.

Despite recent concerns over the possible increase in the future supply of hotel rooms in Hong Kong, Regal believes that as what has transpired in the past, some of the announced hotel projects may not ultimately materialise due to the substantial cost involved and the long term nature of the investment. However, a gradual increase in the supply of hotel rooms driven up by market demands should be beneficial to the healthy development of the local hotel industry in the long run, particularly that the additional promotional campaigns by the new hotel players might in themselves help to attract more incoming tourists.

To reinforce its established brand name and to prepare for new market challenges, Regal is actively reviewing plans to refurbish or upgrade, in stages, its hotel properties in Hong Kong. In the meantime, Regal is also assessing various proposals for the more effective use of the underutilised space within its hotel properties as well as the feasibility of adding new extensions to certain of the hotels by utilising the developable area presently available. If circumstances are appropriate, Regal may consider acquiring or developing new hotel properties in Hong Kong, given Regal's intention to maintain its position as one of the largest hotel owners and operators in Hong Kong.



In order to provide additional flexibility for forward business planning, Regal is actively considering a long-term refinancing proposal for the Regal group's existing bank loans.

As announced on 8th June, 2004, Regal terminated the agreement for the sale of the Regal Oriental Hotel on 3rd June, 2004 and the agreed termination fee of HK\$39.0 million has been settled in July 2004 through the issue by Regal to the purchaser of 195.0 million new ordinary shares of Regal. As at the balance sheet date in 2003, the Regal Oriental Hotel was stated at a carrying value that was approximately equivalent to the net amount realisable by Regal under the terms of the original sale and purchase agreement. On account of the cancellation of the agreement, the payment of the termination fee of HK\$39.0 million and a write-back of impairment in the value of this hotel property in the sum of about HK\$165.8 million, determined by reference to its independent professional valuation of HK\$450.0 million as at the last balance sheet date on an open market, existing use basis, have been incorporated in the results for the half year period under review.

After a period of market consolidation over the past few months, the market activity for the luxury residential properties is anticipated soon to regain its momentum. In such anticipation, Regal is in the course of relaunching a large scale marketing and sale programme for the Regalia Bay in Stanley. The sale and purchase contracts of most of the houses previously sold have now been duly completed and the project loan outstanding on the development has thereby been largely repaid. A minor portion of the profit expected from this joint development was recognised in the interim results based on the houses sold during the first six months of 2004. There are presently 50 houses remaining unsold, many of which are of larger accommodation size and at more desirable locations within the development. Further significant profits and cash inflow are expected to be contributed to Regal upon the gradual sale of the remaining houses.

The Kaifeng brewery operation in Henan in China has achieved steady progress in the period under review. The overall operating results of the brewery are now close to breakeven and the brewery's management is hopeful that the brewery operations will be able to attain profitability in the near future. The Kaifeng brewery is presently 90% owned by Regal and steps are being taken to convert the brewery into an entity wholly owned by Regal. In the meanwhile, with a view to expanding its operational foothold, a new brewery with an initial production capacity of 50,000 tons per annum is being set up at a nearby location in Henan, which will be 90% owned by the Kaifeng brewery.

In the joint announcement by the Company dated 8th June, 2004, Regal announced a proposal for the issue of 2% Guaranteed Convertible Bonds due 2007 pursuant to two subscription agreements both dated 3rd June, 2004. Following the approval of the proposal by, among others, the shareholders of the Company at a Special General Meeting held on 19th July, 2004, Firm Bonds in an aggregate principal amount of HK\$200.0 million have been duly subscribed and issued and, pursuant to the terms of the subscription agreements, the subscribers have the right to subscribe for additional Optional Bonds in an aggregate principal amount of HK\$200.0 million. The Bonds will be convertible into new ordinary shares of Regal at an initial conversion price of HK\$0.25 per share, subject to adjustments, at any time from 21st January, 2005 to 14th July, 2007. The net proceeds received from the issue of the Firm Bonds have been applied substantially for the reduction of Regal's bank indebtedness.



In that same joint announcement, Regal also announced a proposal for the bonus issue of warrants to its shareholders on the basis of one warrant with subscription right of HK\$0.25 for every 10 ordinary shares held in Regal. Pursuant to the bonus warrants proposal, warrants carrying aggregate subscription rights of approximately HK\$208.5 million, including the relevant entitlements receivable by the Company, had been duly issued by Regal in early August 2004. The warrants will be exercisable by their holders for subscription of new ordinary shares of Regal at any time from 2nd February, 2005 to 26th July, 2007 at an initial subscription price of HK\$0.25 per share, same as the initial conversion price of the Bonds, and the subscription price is subject to substantially the same adjustments as those applicable to the conversion price of the Bonds. If all the subscription rights of the warrants are fully exercised, Regal will receive additional equity funds of approximately HK\$208.5 million.

With the Individual Visit Scheme extended to the whole of Guangdong province in May and further to nine more cities in other provinces of China in July this year, the influx of visitors from the Mainland is expected to continue. The scheduled opening of the Hong Kong Disneyland and the new International Exhibition Center at the Hong Kong International Airport will pose new and promising business opportunities for the tourist industry in Hong Kong. On account of its strategic location, the Regal Airport Hotel, which has a total room count of about 1,100, should particularly stand to be benefited. Regal will seek to capitalise on its extensive hotel development, investment and operational expertise to pursue appropriate expansion opportunities, while remaining focused to maintaining a high quality standard in its existing hotel businesses.

As the last few months of the year are traditionally the high season for the local hotel business, the operations of the five Regal Hotels in Hong Kong in the second half year are anticipated to fare even better than what were attained in the period under review. Therefore, barring any unforeseen circumstances, the overall results of Regal for the whole year of 2004 should significantly surpass those recorded for the financial year of 2003.

Having now fully stabilised the overall financial position of the Group, the Company will seek to further expand its capital base with a view to providing additional funds for its business expansion plans. The Group will also seek to capitalise on its vast experience and expertise in the property and related businesses to explore appropriate development and investment opportunities in Hong Kong, as well as in certain selected cities in Mainland China, so as to strengthen and revitalise its asset portfolio.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 16th September, 2004



INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend for the financial year ending 31st December, 2004 (2003 - nil).

According to the terms of the convertible preference shares of the Company, the holders of the convertible preference shares shall not be entitled to any right of participation in the profits of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments constitute primarily its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of these hotels during the period under review, their future prospects as well as the commentary on the local hotel industry, changes in general market conditions and their potential impact on the operating performance of these hotels, together with the progress and prospects of the Regalia Bay development are contained in the section headed "Review and Outlook" above. A detailed review of the other business operations and outlook of the Group is also contained in the section headed "Review and Outlook" above.

Cash Flow and Capital Structure

Net cash inflow from operating activities during the period under review amounted to HK\$135.9 million (2003 - HK\$57.8 million). Net interest payment for the period amounted to HK\$51.1 million (2003 - HK\$53.7 million).

In January 2004, 180.0 million new ordinary shares of HK\$0.01 each were issued by the Company to Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of Century City International Holdings Limited, at HK\$0.128 per ordinary share following a placement by Almighty of 180.0 million issued ordinary shares in the Company at HK\$0.128 per ordinary share.

In May 2004, 200.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.21 per ordinary share following a placement by Almighty of 200.0 million issued ordinary shares of the Company at HK\$0.21 per ordinary share.

Net cash inflows to the Company from the above new share issues amounted to an aggregate sum of approximately HK\$63.5 million and were used for general working capital purposes.

In March 2004, 750.0 million new ordinary shares were issued by the Company to Almighty upon the exercise by Almighty of the conversion rights attaching to 750.0 million convertible preference shares of HK\$0.10 each of the Company held by it to convert such preference shares into new ordinary shares of the Company, on the basis of one new ordinary share for one preference share so converted.

Subsequent to the period under review, in July 2004, 300.0 million new ordinary shares were issued by the Company to Almighty upon its further exercise of the conversion rights attaching to 300.0 million convertible preference shares held by it. Following the above conversions of the convertible preference shares, the number of convertible preference shares currently in issue is 940.0 million shares.

In July 2004, 300.0 million new ordinary shares were issued by the Company to Almighty at HK\$0.146 per ordinary share following a placement by Almighty of 300.0 million issued ordinary shares of the Company at HK\$0.146 per ordinary share. Net cash inflow to the Company from the above new share issue amounted to an aggregate sum of approximately HK\$42.9 million and was used for general working capital and investment purposes.

Borrowings

As at 30th June, 2004, the Group's gross borrowings net of cash and bank balances amounted to HK\$4,407.4 million, as compared to HK\$4,459.7 million as at 31st December, 2003. Gearing ratio based on total assets of HK\$10,044.0 million (31st December, 2003 - HK\$9,825.6 million) was 43.9% (31st December, 2003 - 45.4%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 15 and 16, respectively, to the condensed consolidated financial statements. As disclosed in note 15, most of the Group's assets have been pledged to secure general banking facilities granted to the Group and the jointly controlled entity, which is 70% owned by the RHIHL Group (comprising Regal Hotels International Holdings Limited ("RHIHL"), which was treated as a subsidiary company of the Company during the six months ended 30th June, 2004, and its subsidiary companies), engaged in the Regalia Bay luxury residential development at Wong Ma Kok Road in Stanley, Hong Kong. The Group does not consider such security arrangements to be unusual, having regard to the circumstances affecting the Group in prior years. As at 30th June, 2004, the Group has contingent liabilities under certain corporate guarantees in the amount of HK\$720.8 million (31st December, 2003 - HK\$2,255.4 million) provided in respect of the outstanding bank loan under certain banking facilities granted to the jointly controlled entity. These banking facilities were granted to the jointly controlled entity solely for the purpose to finance the Regalia Bay development.

Information in relation to the maturity profile of the Group's borrowings as of 30th June, 2004 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2003. As previously disclosed in the audited consolidated financial statements for the year ended 31st December, 2003, the RHIHL Group concluded a loan rescheduling agreement (the "Rescheduling Agreement") with its bank lenders on 30th September, 2003 relating to the RHIHL Group's two bank loans with an aggregate amount of HK\$4,428.0 million as at 31st December, 2003 and accordingly, the maturity profile of the bank loans is stated in accordance with the terms contained in the Rescheduling Agreement.

In order to provide additional flexibility for forward business planning, the RHIHL Group is actively considering a long term refinancing proposal for its existing bank loans.



Material Disposals of Subsidiary Companies

As previously disclosed in the 2003 Annual Report of the Company, as contemplated under the financial restructuring proposal leading to the Rescheduling Agreement, on 29th August, 2003, the RHIHL Group entered into a sale and purchase agreement (the "SP Agreement") for the disposal of its 100% interest in a subsidiary company which indirectly owns the Regal Oriental Hotel. Subsequently, on 30th March, 2004, the parties to the SP Agreement entered into a supplemental agreement to the SP Agreement to extend the completion date of the SP Agreement to 30th June, 2004 and to reinstate the termination option (in a revised form) to the RHIHL Group to terminate the SP Agreement (the "ROH Option"). The arrangement under the supplemental agreement was intended to facilitate the RHIHL Group's formulation of alternative business plans, whereby the relevant debt reduction milestones required under the Rescheduling Agreement could be met without the disposal of its hotel properties.

On 3rd June, 2004, the RHIHL Group exercised the ROH Option and served the termination notice on the relevant purchaser to terminate the SP Agreement. The termination became effective on 24th June, 2004 and the RHIHL Group had returned the HK\$30.0 million deposit and all interest earned thereon to the purchaser in accordance with the terms of the SP Agreement. A termination fee of HK\$39.0 million was paid to the purchaser pursuant to the terms of the SP Agreement, which was satisfied by the issue of 195.0 million new ordinary shares of RHIHL to the purchaser at an issue price of HK\$0.2 each, as agreed between the parties to the SP Agreement, on 12th July, 2004.

Details of the SP Agreement, the supplemental agreement and the termination of the SP Agreement were disclosed in the announcements of the Company dated 4th September, 2003, 31st March, 2004 and 8th June, 2004, respectively.

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

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date.

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



Remuneration Policy

The Group employs approximately 1,800 staff in Hong Kong and 800 staff in Mainland China. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

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

The Company and RHIHL each maintains an Executive Share Option Scheme under which share options had been granted to selected eligible executives.



HALF YEAR RESULTS

Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	Notes	HK\$'million	HK\$'million
TURNOVER	2	570.2	395.9
Cost of sales		(352.0)	(323.0)
Gross profit		218.2	72.9
Other revenue	4	3.2	4.3
Administrative expenses		(34.5)	(42.8)
Other operating expenses	5	(71.4)	(40.9)
Loss on disposal of overseas subsidiary companies		–	(9.7)
Write-back of impairment of properties		–	39.6
Write-back of impairment of a hotel property		165.8	–
PROFIT FROM OPERATING ACTIVITIES	2	281.3	23.4
Finance costs	6	(47.4)	(94.1)
Share of profits less losses of:			
Jointly controlled entity		59.3	(0.1)
Associates		(7.1)	(1.7)
PROFIT/(LOSS) BEFORE TAX		286.1	(72.5)
Tax	7	(2.8)	48.9
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		283.3	(23.6)
Minority interests		(155.8)	39.4
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		127.5	15.8
Earnings/(Loss) per ordinary share (HK\$):	8		
Basic		0.028	0.006
Diluted		0.021	(0.006)

Condensed Consolidated Balance Sheet

		30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Fixed assets		7,338.9	7,185.5
Goodwill		254.5	260.5
Negative goodwill		(49.7)	(4.1)
Properties under development		7.2	7.2
Property held for future development		26.7	26.7
Interest in a jointly controlled entity		1,391.4	1,298.6
Interests in associates		237.8	245.3
Long term investments	10	121.9	114.1
Loans and other long term receivable		106.0	109.1
Deferred tax assets		10.8	10.4
Deferred expenditure		33.6	38.7
		9,479.1	9,292.0
CURRENT ASSETS			
Short term investments		4.7	4.0
Properties held for sale		203.4	215.1
Hotel and other inventories		22.7	23.0
Debtors, deposits and prepayments	11	133.7	127.8
Pledged time deposits		5.1	25.9
Time deposits		167.6	110.9
Cash and bank balances		27.7	26.9
		564.9	533.6
CURRENT LIABILITIES			
Creditors and accruals	12	284.9	320.9
Tax payable		19.1	16.0
Interest bearing bank and other borrowings		1,151.2	1,076.7
Deposits received		99.5	81.6
		1,554.7	1,495.2
NET CURRENT LIABILITIES		(989.8)	(961.6)
TOTAL ASSETS LESS CURRENT LIABILITIES		8,489.3	8,330.4

**Condensed Consolidated Balance Sheet (Cont'd)**

		30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	Note	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES		8,489.3	8,330.4
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings		(3,456.6)	(3,546.7)
Advances from minority shareholders of subsidiary companies		(42.4)	(42.4)
Deferred tax liabilities		(65.7)	(64.4)
Other payable		(28.7)	(28.7)
		(3,593.4)	(3,682.2)
Minority interests	13	(2,415.8)	(2,362.5)
		2,480.1	2,285.7
CAPITAL AND RESERVES			
Issued capital		174.6	238.3
Reserves		2,305.5	2,047.4
		2,480.1	2,285.7

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2004

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2004	238.3	146.5	887.2	689.6	(16.1)	1.5	338.7	2,285.7
Conversion of convertible preference shares (Note)	(67.5)	67.5	-	-	-	-	-	-
Issue of new shares	3.8	59.9	-	-	-	-	-	63.7
Movement in fair value of long term investments	-	-	-	-	3.5	-	-	3.5
Release on disposal	-	-	-	-	(0.3)	-	-	(0.3)
Net profit for the period	-	-	-	-	-	-	127.5	127.5
At 30th June, 2004	174.6	273.9	887.2	689.6	(12.9)	1.5	466.2	2,480.1

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2003	368.2	-	1,073.2	689.6	(15.1)	(5.0)	(48.9)	2,062.0
Conversion of convertible preference shares	(131.4)	131.4	-	-	-	-	-	-
Movement in fair value of long term investments	-	-	-	-	3.3	-	-	3.3
Release on deemed disposal of the Group's interest in the listed subsidiary company	-	-	(17.3)	-	-	-	-	(17.3)
Release on disposal of overseas subsidiary companies	-	-	(33.8)	-	-	-	-	(33.8)
Exchange realignments	-	-	-	-	-	7.4	-	7.4
Net profit for the period	-	-	-	-	-	-	15.8	15.8
At 30th June, 2003	236.8	131.4	1,022.1	689.6	(11.8)	2.4	(33.1)	2,037.4

Note: During the period, there were 750.0 million convertible preference shares of the Company of HK\$0.10 each converted into 750.0 million new ordinary shares of the Company of HK\$0.01 each.

**Condensed Consolidated Cash Flow Statement**

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	135.9	57.8
Net cash inflow/(outflow) from investing activities	(143.9)	15.7
Net cash inflow/(outflow) from financing activities	65.3	(126.7)
Net increase/(decrease) in cash and cash equivalents	57.3	(53.2)
Cash and cash equivalents at beginning of period	137.7	119.9
Effect of foreign exchange rate changes, net	–	1.1
Cash and cash equivalents at end of period	195.0	67.8
Analysis of balances of cash and cash equivalents		
Cash and bank balances	27.7	56.6
Non-pledged time deposits with original maturity of less than three months when acquired	167.6	12.6
	195.3	69.2
Bank overdrafts	(0.3)	(1.4)
	195.0	67.8

Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

These unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31st December, 2003.

2. Segment Information

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 the 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, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related segment is engaged in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and other software development and distribution (the property management segment, which was previously separately disclosed as a business segment, was combined with the construction and building related segment in the current period in order to better reflect the performance of similar businesses within the Group);
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (d) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (e) the others segment mainly comprises the Group's securities trading, laundry services, bakery operations and other investments.

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

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 table presents revenue and profit/(loss) information for the Group's business segments.

GROUP

	Property development and investment			Construction and building related businesses			Hotel ownership and management			Brewery operations			Others			Eliminations			Consolidated		
	Six months ended 30th June, 2004			Six months ended 30th June, 2004			Six months ended 30th June, 2004			Six months ended 30th June, 2004			Six months ended 30th June, 2004			Six months ended 30th June, 2004			Six months ended 30th June, 2004		
	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m
Segment revenue:																					
Sales to external customers	32.6	6.0		55.5	47.3		454.3	323.0		26.1	17.6		1.7	2.0		-	-		570.2	395.9	
Intersegment sales	0.5	0.5		21.2	9.8		1.2	0.1		-	-		4.9	4.1		(27.8)	(14.5)		-	-	
Total	33.1	6.5		76.7	57.1		455.5	323.1		26.1	17.6		6.6	6.1		(27.8)	(14.5)		570.2	395.9	
Segment results	12.6	39.2		(0.9)	16.1		289.2	8.0		(0.1)	(3.9)		(1.5)	1.3		-	-		299.3	60.7	
Interest income and unallocated non-operating and corporate gains																			1.7	2.9	
Unallocated non-operating and corporate expenses																			(19.7)	(40.2)	
Profit from operating activities																			281.3	23.4	
Finance costs																			(47.4)	(94.1)	
Share of profits less losses of:																					
Jointly controlled entity	59.3	(0.1)		-	-		-	-		-	-		-	-		-	-		59.3	(0.1)	
Associates	-	-		-	-		(0.2)	(0.5)		-	-		(6.9)	(1.2)		-	-		(7.1)	(1.7)	
Profit/(Loss) before tax																			286.1	(72.5)	
Tax																			(2.8)	48.9	
Profit/(Loss) before minority interests																			283.3	(23.6)	
Minority interests																			(155.8)	39.4	
Net profit from ordinary activities attributable to shareholders																			127.5	15.8	

(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

GROUP

	Hong Kong		Mainland China		Canada		Eliminations		Consolidated	
	Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	HK\$'m		HK\$'m		HK\$'m		HK\$'m		HK\$'m	
Segment revenue:										
Sales to external customers	543.9	346.0	26.3	17.7	-	32.2	-	-	570.2	395.9





(c) An analysis of profit on sale of investments or properties of the Group is as follows:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Profit on disposal of listed investments	0.1	—
Profit on sale of properties	8.9	—
	<u> </u>	<u> </u>

3. Discontinued Operation

As previously reported, on 3rd September, 2002, Regal Hotels International Holdings Limited ("RHIHL"), the listed subsidiary company of the Company, and its subsidiary companies (the "RHIHL Group") entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the RHIHL Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$9.7 million was accounted for in the prior period's consolidated profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.8 million) have no recourse against the RHIHL Group.

The turnover, expenses and results attributable to the discontinued operation for the period from 1st January, 2003 to 25th June, 2003 (date of completion of disposal of the Canadian hotel operation) were as follows:

	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million
TURNOVER	32.2
Cost of sales	(37.3)
	<u> </u>
Gross loss	(5.1)
Administrative expenses	(1.9)
Other operating expenses	(1.1)
	<u> </u>
LOSS FROM OPERATING ACTIVITIES	(8.1)
Finance costs	(4.2)
	<u> </u>
NET LOSS FROM ORDINARY ACTIVITIES	
ATTRIBUTABLE TO SHAREHOLDERS	(12.3)
	<u> </u>

The net cash flows attributable to the discontinued operation were as follows:

Operating	0.1
Investing	(0.3)
Financing	(5.4)
	<u> </u>
Net cash outflows	(5.6)
	<u> </u>

4. Other Revenue

Other revenue includes the following major item:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Interest income	<u>1.6</u>	<u>3.4</u>

5. Other Operating Expenses

Other operating expenses include the following major items:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	20.2	21.5
Amortisation of goodwill	6.3	7.2
Loss on deemed disposal of the Group's interest in the listed subsidiary company	–	4.6
Termination fee in respect of cancellation of the disposal of a hotel property	<u>39.0</u>	<u>–</u>

6. Finance Costs

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans and overdrafts, convertible bonds, promissory notes and other loans wholly repayable within five years	42.2	91.0
Interest capitalised in respect of property development projects and construction contracts	<u>–</u>	<u>(0.4)</u>
	42.2	90.6
Amortisation of deferred expenditure	5.1	3.5
Other loan costs	<u>0.1</u>	<u>–</u>
Total finance costs	<u>47.4</u>	<u>94.1</u>

**7. Tax**

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
The Group:		
Provision for tax in respect of profits for the period:		
Hong Kong	1.8	1.4
Overseas	0.1	0.1
Deferred tax expenses/(income)	0.9	(50.4)
	<hr/>	<hr/>
Tax charge/(credit) for the period	2.8	(48.9)
	<hr/>	<hr/>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2003 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Tax on the profits of subsidiary companies operating overseas is 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 associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period (2003 - Nil).

Deferred tax expenses/(income) have been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

8. Earnings/(Loss) Per Ordinary Share**(a) Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share is based on the net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$127.5 million (2003 - HK\$15.8 million) and on the weighted average of 4,568.5 million (2003 - 2,792.8 million) ordinary shares of the Company in issue during the period.

(b) Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2004 is based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$127.2 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 6,129.9 million ordinary shares of the Company that would have been in issue during the period assuming (i) all outstanding convertible preference shares and optional convertible bonds of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the period; and (ii) all the 1,990.0 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the beginning of the period. The exercise prices of share options of the Company and RHIHL outstanding during the period are higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted loss per ordinary share for the period ended 30th June, 2003 was based on the adjusted net loss from ordinary activities attributable to ordinary shareholders for the prior period of HK\$33.4 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 5,768.5 million ordinary shares of the Company that would have been in issue during the prior period assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the prior period; and (ii) all the 3,450.0 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the beginning of the prior period. The exercise of share options of the Company and RHIHL were anti-dilutive.

9. Dividend

The Directors have resolved not to declare the payment of any interim dividend for the financial year ending 31st December, 2004 (2003 - Nil).

According to the terms of the convertible preference shares of the Company, the holders of the convertible preference shares shall not be entitled to any right of participation in the profits of the Company.

10. Long Term Investments

Included in the long term investments is an amount of HK\$56.9 million (31st December, 2003 - HK\$56.9 million) which represents the Group's unlisted investments comprising a 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") established in Beijing, the People's Republic of China (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 previous 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.

As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The Group and the other 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. During 2002, an impairment loss of HK\$62.0 million (further to an impairment loss of HK\$180.0 million made in 2001) was made against the investments by reference to an independent valuation of the hotel portion of the land site. The valuation was conducted on the assumption that the Group has enforceable title to the land site.

In December 2003, approval on the overall development plan on the subject land site was obtained from the relevant government authorities. However, in the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies.

In the meantime, the Group continues to negotiate with prospective investors for the possible disposal of its investments in the Investee Companies at an indicative price which is substantially higher than its written down carrying value. Having regard to the circumstances developed to date, the Directors consider that no further provision is required to be made against the Group's investments in the Investee Companies.

**11. Debtors, Deposits and Prepayments**

Included in the balance is an amount of HK\$68.0 million (31st December, 2003 - HK\$47.5 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	61.9	44.0
Between 4 to 6 months	2.8	3.0
Between 7 to 12 months	4.3	3.2
Over 1 year	10.0	9.7
	<hr/>	<hr/>
	79.0	59.9
Provisions	(11.0)	(12.4)
	<hr/>	<hr/>
	68.0	47.5
	<hr/>	<hr/>

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.

12. Creditors and Accruals

Included in the balance is an amount of HK\$55.2 million (31st December, 2003 - HK\$59.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	43.4	47.6
Between 4 to 6 months	5.3	6.0
Between 7 to 12 months	2.5	0.7
Over 1 year	4.0	5.6
	<hr/>	<hr/>
	55.2	59.9
	<hr/>	<hr/>

13. Minority Interests

Included in the minority interests is an amount of HK\$39.0 million (31st December, 2003 - Nil) which represents the value of new ordinary shares to be issued by RHIHL as explained below.

Following the termination of the sale and purchase agreement, as supplemented, in respect of the disposal of a hotel property of the RHIHL Group (the "SP Agreement"), which took effect on 24th June, 2004, RHIHL was committed to issue certain new ordinary shares in settlement of the termination fee in the amount of HK\$39.0 million payable to the purchaser under the terms of the SP Agreement. In this connection, subsequent to the balance sheet date, on 12th July, 2004, 195.0 million new ordinary shares of HK\$0.01 each were issued by RHIHL at an issue price of HK\$0.20 per share.

14. Related Party Transactions

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Advertising and promotion fees (including cost reimbursements) paid to an associate of Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	3.5	3.0
Management costs allocated from CCIHL	6.7	7.8
Gross construction fee income from a jointly controlled entity	42.6	—

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2003.

At the balance sheet date, the Group also had guarantees given in respect of banking facilities granted to a jointly controlled entity as detailed in note 16(a).

15. Pledge of Assets

At 30th June, 2004, certain of the Group's time deposits, properties held for sale, listed investments, interests in associates, fixed assets including properties and equipment, inventories and receivables with a total carrying value of HK\$7,816.5 million (31st December, 2003 - HK\$7,732.4 million) and the shares held in certain subsidiary companies, including certain ordinary shares held in the listed subsidiary company, and a jointly controlled entity, were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

16. Contingent Liabilities

- At 30th June, 2004, a corporate guarantee in the amount of HK\$2,359.0 million (31st December, 2003 - HK\$2,359.0 million) had been given by the Group in respect of banking facilities granted to a jointly controlled entity. The amount outstanding on these facilities attributable to the Group at the end of the period amounted to HK\$720.8 million (31st December, 2003 - HK\$2,255.4 million).
- The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$10.4 million as at 30th June, 2004 (31st December, 2003 - HK\$12.8 million). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group and are eligible for long service payments under the Employment Ordinance, if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

**17. Operating Lease Arrangements****(a) As lessor**

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 10 months to 3 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 30th June, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Within one year	18.2	15.8
In the second to fifth years, inclusive	12.3	12.7
	30.5	28.5

(b) As lessee

The Group leases certain office and shop units under operating lease arrangements. Leases for properties are negotiated for terms of 6 months, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions.

At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	2.4	3.9
In the second to fifth years, inclusive	8.8	10.1
After the fifth year	1.4	2.5
	12.6	16.5

18. Commitments

In addition to the operating lease commitments detailed in note 17(b) above, the Group had the following outstanding capital commitments:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	16.6	3.4
Authorised, but not contracted for	47.1	86.9
	<u>63.7</u>	<u>90.3</u>

19. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions:

- (i) At the special general meeting of the Company held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of the Company with respect to the issue by Cheerview Limited (the "Issuer"), a wholly-owned subsidiary company of RHIHL, of 2% Guaranteed Convertible Bonds due 2007, guaranteed by, and convertible into ordinary shares of, RHIHL (the "2% Convertible Bonds") up to an aggregate principal amount of HK\$400.0 million (comprising firm bonds in an aggregate principal amount of HK\$200.0 million (the "Firm Bonds") and optional bonds of up to an aggregate principal amount of HK\$200.0 million (the "Optional Bonds") to the relevant third party purchasers pursuant to the two subscription agreements both dated 3rd June, 2004 (the "Subscription Agreements") relating to the issue of the 2% Convertible Bonds.

On 21st July, 2004, two of the purchasers subscribed for, and to whom the Issuer issued, the Firm Bonds. The cash proceeds arising therefrom were used by the RHIHL Group substantially for repayment of its bank indebtedness. The Firm Bonds will be convertible into a total of 800.0 million new ordinary shares of RHIHL, at the initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

Dr. Francis Choi Chee Ming, who was subsequently appointed as a non-executive director and the vice-chairman of RHIHL on 18th August, 2004, holds a 100% equity interest in the purchaser under one of the Subscription Agreements which subscribed for HK\$100.0 million of the Firm Bonds and has the right to subscribe for Optional Bonds up to principal amount of HK\$100.0 million.



- (ii) At the special general meeting of RHIHL held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of RHIHL with respect to a bonus issue of warrants ("Warrants") of RHIHL to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK\$0.25 for every ten ordinary shares of RHIHL held by its shareholders on the register of members of RHIHL on 19th July, 2004.

On 2nd August, 2004, Warrants carrying aggregate subscription rights of approximately HK\$208.5 million were issued to the shareholders of RHIHL. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of RHIHL at the initial subscription price of HK\$0.25 per ordinary share (subject to adjustments), at any time from the date falling 6 months after the date of issue to the date falling 7 days prior to the third anniversary of the date of issue.

- (iii) At the balance sheet date, the Company had a 53.7% voting interest and a 44.9% economic interest in RHIHL. Pursuant to certain settlement proposal described in a circular to the shareholders dated 26th August, 2002 and completed in October 2002 (the "Bonds Settlement"), 1,896.5 million ordinary shares of RHIHL (the "Relevant RHIHL Shares") were transferred to a special purpose vehicle company (the "SPV") wholly owned by the Company, which were subject to a phased release to the bondholders. The rights to dividends relating to these shares were with the bondholders. The Relevant RHIHL Shares were to be held by the SPV for a period of 12 months, subject to certain early release provisions, after the completion of the Bonds Settlement (i.e. from 1st November, 2002 to 31st October, 2003) following which they would be released, subject to certain conditions, at the option of the bondholders in phases. Up to the balance sheet date, a total of 1,179.9 million Relevant RHIHL Shares have been released to the bondholders while the remaining 716.6 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 8.8% of the total issued ordinary shares of RHIHL, continued to be held by the SPV at the balance sheet date.

By 31st July, 2004, the remaining Relevant RHIHL Shares have been fully released in accordance with the terms under the Bonds Settlement. Accordingly, the Company's voting interest in RHIHL fell below 50% and thereafter RHIHL ceased to be a subsidiary company and became an associate of the Company. Based on the issued share capital of RHIHL as at the date of approval of these condensed consolidated financial statements, the Company had an economic and voting interest in RHIHL of 45.0%, after taking into account the additional interests acquired subsequent to the balance sheet date.

- (iv) Subsequent to the balance sheet date, on 16th July, 2004, a total of 300.0 million new ordinary shares of HK\$0.01 each were issued to Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of CCIHL, at HK\$0.146 per share at a total consideration of HK\$43.8 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 12th July, 2004.

20. Share Options

Share Options Granted by the Company

The Company operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by the Company's shareholders on 23rd November, 1993 and subsequently approved by the independent shareholders of Paliburg International Holdings Limited ("PIHL"), formerly the immediate listed holding company of the Company, on 15th December, 1993. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the period, details of movements in share options granted by the Company pursuant to the PHL Share Option Scheme are as follows:

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2004	Lapsed during the period	At 30th June, 2004		
22nd February, 1994	Directors					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	4,562,500	(4,562,500)	–	Notes 3 & 4	10.40
	Mr. Donald Fan Tung (Note 2)					
	Vested:	1,875,000	(1,875,000)	–	Notes 3 & 4	10.40
	Mr. Kenneth Ng Kwai Kai					
	Vested:	1,000,000	(1,000,000)	–	Notes 3 & 4	10.40
	Other Employees					
	Employees, in aggregate					
	Vested:	1,500,000	(1,500,000)	–	Notes 3 & 4	10.40
		8,937,500	(8,937,500)	–		



Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2004	Lapsed during the period	At 30th June, 2004		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	Directors Mr. Donald Fan Tung (Note 2) Vested:	3,125,000	(3,125,000)	–	Notes 4 & 5	3.5392
22nd February, 1997	Other Employees Employees, in aggregate Vested: Unvested:	1,500,000 1,000,000	– –	1,750,000 750,000	Note 3 Note 3	6.672
		2,500,000	–	2,500,000		
	Total:	14,562,500	(12,062,500)	2,500,000		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and the Company 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, the Company granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of the Company under the PHL Share Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.

3. 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)

4. Lapsed after expiry of the relevant exercise period on 22nd February, 2004.

5. 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)

6. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted.

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 period end date, would have, with the present capital structure of the Company, resulted in the issue of 1.7 million additional ordinary shares and share premium of HK\$11.7 million (before issue expenses).



Share Options Granted by Regal Hotels International Holdings Limited

RHIHL operates an executive share option scheme (the "RHIHL Share Option Scheme"). The RHIHL Share Option Scheme was approved by RHIHL's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the period, details of movements in the share option granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option**			Vesting period*/ Exercise period of share option	Exercise price of share option** HK\$
		At 1st January, 2004	Movement during the period	At 30th June, 2004		
22nd February, 1997	Other Employees					
	Employees, in aggregate					
	Vested:	648,000	–	756,000	Note 1	2.1083
	Unvested:	432,000	–	324,000	Note 1	
	Total:	1,080,000	–	1,080,000		

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.

Notes:

- Vesting/Exercise Periods of Option:

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)

- In the absence of a readily available market value, the directors of RHIHL are unable to arrive at an accurate assessment of the value of the option granted.

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 period end date, would have, with the present capital structure of RHIHL, resulted in the issue of 0.8 million additional ordinary shares and share premium of HK\$1.6 million (before issue expenses).

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

	Name of Director	Class of Shares held	Number of Shares Held				Total (Approximate percentage of the Issued Shares as at 30th June, 2004)
			Personal Interests	Family Interests	Corporate Interests	Other Interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary (i) issued	442,765	–	3,276,817,477 (Notes a(iii))	200,000,000 (Note b)	3,477,260,242
		(ii) unissued	–	–	1,240,000,000 (Notes a(iv) & c)	–	1,240,000,000
						Total (i) & (ii): 4,717,260,242 (93.25%)	
		Preference (issued)	–	–	1,240,000,000 (Notes a(iv) & c)	–	1,240,000,000 (100%)
	Mr. Donald Fan Tung	Ordinary (issued)	2,718	–	–	–	2,718 (0.00005%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	–	–	–	100,000 (0.002%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	–	–	–	284,000 (0.006%)
	Mr. Ng Siu Chan	Ordinary (issued)	–	536,500	–	–	536,500 (0.011%)



			Number of Shares Held					Total (Approximate percentage of the Issued Shares as at 30th June, 2004)
Name of Associated Corporation	Name of Director	Class of Shares held	Personal Interests	Family Interests	Corporate Interests	Other Interests		
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	543,344,843	-	2,185,994,246 (Note a(ii))	-	2,729,339,089	
		(ii) unissued	-	-	10,210,000,000 (Note a(iii))	-	10,210,000,000	
	Total (i) & (ii): 12,939,339,089 (239.76%)							
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	-	-	-	2,510,000 (0.047%)	
3. Regal Hotels International Holdings Limited ("RHIHL")	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	-	-	-	1,659,800 (0.031%)	
	Mr. Ng Siu Chan	Ordinary (issued)	-	15,453,000	-	-	15,453,000 (0.286%)	
	Mr. Lo Yuk Sui	Ordinary (issued)	220,000	-	4,370,380,259 (Notes a(v) & d)	-	4,370,600,259 (53.66%)	
		Preference (issued)	-	-	3,440 (Note a(v))	-	3,440 (20.54%)	
4. 8D International (BVI) Limited ("8D-BVI")	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,370,000	-	-	-	2,370,000 (0.032%)	
	Mr. Lo Yuk Sui	Ordinary (issued)	-	-	1,000 (Note e)	-	1,000 (100%)	
5. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	-	-	50,000 (Note f)	-	50,000 (25%)	

Notes:

- (a) (i) The shares were held through companies wholly owned by Mr. Lo Yuk Sui and a company, namely Master City Limited, 99.9% owned by Mr. Lo Yuk Sui.
- (ii) The interests in these shares of CCIHL were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a)	Name of corporation	Controlled by	% of control
	Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
	Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
	8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
	Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
	8D International (BVI) Limited	Manyways Technology Limited	60.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Secure Way Technology Limited	66.67
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

- (iii) The shares were held through companies wholly owned by CCIHL, in which Mr. Lo Yuk Sui holds 50.57% shareholding interests.
- (iv) The interests in these shares were held through corporations controlled by Mr. Lo Yuk Sui as detailed below:

(a)	Name of corporation	Controlled by	% of control
	Century City International Holdings Limited	Mr. Lo Yuk Sui	50.57
	Century City BVI Holdings Limited	Century City International Holdings Limited	100.00
	8D International (BVI) Limited	Century City BVI Holdings Limited	40.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo Yuk Sui	100.00
	Secure Way Technology Limited	Mr. Lo Yuk Sui	92.50
	8D International (BVI) Limited	Manyways Technology Limited	60.00
	Task Master Technology Limited	8D International (BVI) Limited	100.00
	Net Community Limited	Secure Way Technology Limited	66.67
	Net Community Limited	Task Master Technology Limited	33.33
	Century Digital Holdings Limited	Net Community Limited	100.00
	Grand Modern Investments Limited	Century Digital Holdings Limited	100.00

- (v) The shares were held through companies wholly owned by the Company, in which CCIHL held 64.78% shareholding interests as at 30th June, 2004.



- (b) As at 30th June, 2004, Mr. Lo Yuk Sui was the trustee for Select Wise Trust, of which Select Wise Holdings Limited, a substantial shareholder of CCIHL and the Company, was the beneficiary.
- (c) 1,240,000,000 convertible preference shares of the Company ("Paliburg Preference Shares") are convertible into 1,240,000,000 ordinary shares of the Company on the basis of one Paliburg Preference Share for one ordinary share.
- (d) Included the balance of 716,576,649 shares charged by a wholly-owned subsidiary of the Company (the "SPV") in favour of a trustee for the holders of, and forming the exchange property (the "Exchange Property") in respect of, the Series B Bonds issued as part of the restructuring and settlement proposal in respect of the then existing bonds of the Group on 31st October, 2002 (the "Settlement Closing Date"). The Exchange Property was to be released to the holders of the Series B Bonds (the "Series B Bondholders") in four quarterly tranches on each dates falling 12, 15, 18 and 21 months after the Settlement Closing Date, subject to certain early release provisions. A total balance of 242,451,649 shares under the first three tranches (the "Released Tranches") remained within the Exchange Property which were deliverable to the Series B Bondholders at any time upon request. The Exchange Property, including any remaining balance of shares under the Released Tranches and the fourth tranche comprising 474,125,000 shares, were released and ceased to be held by the SPV on 31st July, 2004.
- (e) 400 shares were held through companies controlled by CCIHL and 600 shares were held through a company controlled by Mr. Lo Yuk Sui.
- (f) The shares were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.

Save as disclosed herein, as at 30th June, 2004, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed in note 20 to the condensed consolidated financial statements, during the period, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the share option scheme (as referred to in note 20 to the condensed consolidated financial statements) and no option granted to such persons under the share option scheme has been cancelled and lapsed:

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2004, the following substantial shareholders (as defined in the Listing Rules) (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares as at 30th June, 2004
CCIHL (Notes i, ii and iii)	3,276,817,477	1,240,000,000	4,516,817,477	89.29
Century City BVI Holdings Limited ("CCBVI") (Notes ii and iii)	3,276,817,477	1,240,000,000	4,516,817,477	89.29
Almighty International Limited ("Almighty") (Notes ii and iii)	1,910,000,000	1,240,000,000	3,150,000,000	62.27
Century City Holdings Limited ("CCH") (Notes ii and iii)	767,458,989	—	767,458,989	15.17
Manyways Technology Limited ("Manyways") (Notes iii and iv)	—	2,552,500,000	2,552,500,000	50.46
8D International (BVI) Limited ("8D BVI") (Notes iii, iv and v)	—	2,552,500,000	2,552,500,000	50.46
Task Master Technology Limited ("Task Master") (Notes iii, iv and vi)	—	2,552,500,000	2,552,500,000	50.46
Secure Way Technology Limited ("Secure Way") (Notes iii and iv)	—	2,552,500,000	2,552,500,000	50.46
Net Community Limited ("Net Community") (Notes iii, iv and vii)	—	2,552,500,000	2,552,500,000	50.46
Century Digital Holdings Limited ("Century Digital") (Notes iii, iv and viii)	—	2,552,500,000	2,552,500,000	50.46
Grand Modern Investments Limited ("Grand Modern") (Notes iii, iv and ix)	—	2,552,500,000	2,552,500,000	50.46



Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares as at 30th June, 2004
Miss Lo Po Man (Note x)	303,546,000	202,500,000	506,046,000	10.00
Wealth Master International Limited ("Wealth Master") (Notes x and xi)	303,546,000	202,500,000	506,046,000	10.00
Select Wise Holdings Limited ("Select Wise") (Notes x and xii)	303,546,000	202,500,000	506,046,000	10.00

Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 50.57% shareholding interests in CCIHL and the interests in these shares held by CCIHL through its wholly owned subsidiaries were included in the corporate interests of Mr. Lo Yuk Sui in the shares as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) These companies are wholly owned by CCIHL and their interests in the shares were included in the interests held by CCIHL.
- (iii) These companies are controlled by Mr. Lo Yuk Sui and their interests in these shares were included in the corporate interests of Mr. Lo Yuk Sui in the shares as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (iv) The interests in these underlying shares were directly held by Grand Modern.
- (v) 8D BVI is 60% owned by Manyways.
- (vi) Task Master is wholly owned by 8D BVI.
- (vii) Net Community is 33.33% owned by Task Master and 66.67% owned by Secure Way.
- (viii) Century Digital is wholly owned by Net Community.
- (ix) Grand Modern is wholly owned by Century Digital.
- (x) The interests in 103,546,000 issued shares and 202,500,000 unissued shares are directly held by Select Wise and 200,000,000 issued shares are directly held by Select Wise Trust, of which Select Wise is the beneficiary.
- (xi) As at 30th June, 2004, Wealth Master was wholly owned by Miss Lo Po Man.
- (xii) Select Wise is wholly owned by Wealth Master.

Save as disclosed herein, there is no person who, as at 30th June, 2004, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO.

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

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

Advances to an Entity (Rule 13.13 of Chapter 13)

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by RHIHL and 30% by China Overseas Land & Investment Limited, which is independent of, and not connected with the Company and RHIHL, the respective directors, chief executive and substantial shareholders of the Company and RHIHL and any of their respective subsidiary companies or any of their respective associates (as defined in the Listing Rules), by the RHIHL Group as at 30th June, 2004 are set out below:

Advances

	Group (HK\$'million)
(A) Principal Amount of Advances	2,763.8
(B) Interest Receivable	379.2
(C) Several Guarantees for amount of Bank Loans Outstanding	720.8
Total: (A)+(B)+(C)	3,863.8

The above advances to Chest Gain in an aggregate sum of HK\$3,143.0 million (before a provision of HK\$1,407.6 million) included an amount of HK\$1,701.1 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from the PHL Group (comprising the Company and its subsidiaries (excluding RHIHL and its subsidiaries)) in 2002 as detailed in the audited consolidated financial statements for the year ended 31st December, 2002. Such contributions of funds to Chest Gain are required to be provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, and related interest had been accrued at prime rate up to 31st December, 1998. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of the "Regalia Bay" luxury residential project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Regalia Bay Development"). The site for the Regalia Bay Development was acquired by Chest Gain at the government land auction held on 3rd June, 1997. The above guarantee was provided by RHIHL on a several basis in proportion to its 70% shareholding interests in Chest Gain and was given in respect of the total bank loan facilities of HK\$3,370.0 million made available to Chest Gain for the purposes of refinancing part of the consideration for the acquisition of the land site and financing the construction costs required for the Regalia Bay Development. In addition, the Company continued to provide a limited guarantee in respect of those bank loan facilities to Chest Gain attributable to the 40% interest in Chest Gain sold to the RHIHL Group in 2002.



The sale programme for the Regalia Bay Development first commenced in September 2003 and the entire development was completed in March 2004. Net proceeds received from the sale of the houses at the Regalia Bay Development have been continuously applied towards repayment of the amounts drawn down and outstanding under the bank loan facilities. As any amounts repaid under the bank loan facilities cannot be redrawn, the amount of the above guarantee provided by the Group was calculated by reference to the loan amounts outstanding under the bank loan facilities as at 30th June, 2004.

Calculated on the basis shown above, the aggregate of advances and other financial assistance as at 30th June, 2004 provided by the Group to Chest Gain in the sum of HK\$3,863.8 million (based on the amount of bank loans outstanding) represented 38.5% of the consolidated total assets of the Company of HK\$10,044.0 million (the "Paliburg TA"), by reference to its latest unaudited condensed consolidated financial statements for the six months ended 30th June, 2004.

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

Details of the financial assistance provided to and guarantees given for affiliated companies (including Chest Gain) by the Group as at 30th June, 2004 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)		Interest Receivable (HK\$'million)		Guarantee given for Bank Facilities based on the amount of Bank Loans Outstanding (HK\$'million)
Chest Gain	(A)	2,763.8	(B)	379.2	(C) 720.8
Cheerjoy Development Limited	(D)	155.2		–	Nil
Talent Faith Investments Ltd.	(E)	78.6		–	Nil
8D International (BVI) Limited	(F)	28.9		–	Nil
8D Matrix Limited	(G)	0.5		–	Nil
Bright Future (HK) Limited	(H)	5.6		–	Nil
Network Sky Limited	(I)	1.9		–	Nil
Smart Tactic Limited	(J)	0.4		–	Nil
Total:	(A)+(B)+(C)+(D) to (J)				<u>4,134.9</u>

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

Cheerjoy Development Limited ("Cheerjoy") was a wholly-owned subsidiary company of the Company and became a 30% owned associate of the Company during 1999. Cheerjoy owns the development property at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East, Hong Kong. The remaining 70% shareholding interest in Cheerjoy is owned by a third party, which is independent of, and not connected with the Company, the Directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder's loans and, according to the terms of the shareholders' agreement in respect of this joint venture, would not be in proportion to the Company's shareholding interest in Cheerjoy. The advances were provided for the purpose of funding the working capital requirements of Cheerjoy, are unsecured, interest free and have no fixed term of repayment.

Talent Faith Investments Ltd. ("Talent Faith") was previously a 50% owned associate of the Company. Talent Faith owns a 65% interest in a joint venture company which, in turn, owns 70% interest in an equity joint venture in the People's Republic of China involved in property development project in Beijing. The other 50% beneficial interest in Talent Faith was previously held by the purchaser (the "Purchaser") under a sale and purchase agreement for the sale by the Group of a 50% interest in Talent Faith entered into in 2000 (the "Former SP Agreement"). Due to the default by the Purchaser under the Former SP Agreement, the Group has enforced its rights in the prior year to repossess the 50% interest in Talent Faith sold to the Purchaser under the Former SP Agreement. In July 2003, the Group entered into a new sale and purchase agreement with the Purchaser for the sale of the Group's 100% interest in Talent Faith for a gross consideration of HK\$181.9 million (the "New SP Agreement"), with completion stipulated for November 2003. Though the Group has received from the Purchaser certain deposits and part payments, the Purchaser has failed to comply with the stipulated schedule for the full settlement of the consideration payable under the New SP Agreement. While the Group is legally retaining the entire shareholding ownership in Talent Faith, the Group is negotiating with the Purchaser for its remedy of the default. Under these circumstances, despite the holding of a 100% shareholding interest in Talent Faith at the balance sheet date, the Directors consider it appropriate to continue to account for the Group's interest therein as an associate as the Group's control over Talent Faith may be temporary, subject to the outcome of the New SP Agreement. The advances were provided by the PHL Group in the form of shareholder's loans and, in accordance with the terms in the Former SP Agreement, would not be in proportion to the Company's shareholding interest in Talent Faith. The advances were provided for the purpose of funding the working capital requirements of Talent Faith, are unsecured, interest free and have no fixed terms of repayment.

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



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

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

Network Sky Limited ("Network Sky") is a 25% owned associate of the Company, which through its wholly-owned subsidiary company is engaged in the carrying on of a light refreshment operation. The other shareholding interests in Network Sky are owned as to 25% indirectly by RHIHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, a director of the Company and RHIHL (until 18th August, 2004), through her associate (as defined in the Listing Rules) and 25% directly by a third party which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Network Sky were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Network Sky, for the purpose of financing the working capital of Network Sky. The advances are unsecured, interest free and have no fixed term of repayment.

Smart Tactic Limited ("Smart Tactic"), a 30% owned associate of the Company, is engaged in carrying on business in sourcing, trading and distributing biometric security products primarily in the People's Republic of China. The remaining 70% shareholding interest in Smart Tactic is owned by a third party, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Smart Tactic were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Smart Tactic, for the purpose of funding the working capital requirements of Smart Tactic. The advances to Smart Tactic are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 30th June, 2004, the aggregate amount of financial assistance provided to and guarantees given for affiliated companies by the Group in the sum of HK\$4,134.9 million (based on the amount of bank loans outstanding of Chest Gain) represented 41.2% of the Paliburg TA.

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

	Pro-forma combined balance sheet (HK\$'million)	The Group's attributable interest (HK\$'million)
Non-current assets	1,049.9	530.2
Current assets	3,667.4	1,152.6
Current liabilities	(1,428.7)	(495.1)
Non-current liabilities	(7,097.2)	(2,373.6)
	<hr/>	<hr/>
Net liabilities	(3,808.6)	(1,185.9)
	<hr/>	<hr/>

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

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

	Outstanding Balance of Bank Facilities as at 30th June, 2004 (HK\$'million)	Final Maturity of Bank Facilities	Specific Performance Obligations
RHIHL Group	(a) 1,034.2	December 2012	Note (i)
	(b) 3,323.8	December 2006	Note (ii)
	<hr/>		
Total:	4,358.0		
	<hr/>		

Notes:

- (i) Mr. Lo Yuk Sui, the Chairman and the controlling shareholder of CCIHL which holds a 63.21% shareholding interest in the Company (which in turn holds a 45.0% shareholding interest in RHIHL), and/or members of his immediate family or a trust or trusts under which they are beneficially interested (collectively, "Mr. Lo") shall not cease to maintain controlling interest (directly or indirectly) in respect of the shareholding (as defined under the Listing Rules) and management control of RHIHL.
- (ii) Mr. Lo shall not cease to maintain controlling interest (whether directly or indirectly) in RHIHL.



CORPORATE GOVERNANCE

Code of Best Practice

The Directors of the Company are not aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by this interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the independent Non-Executive Directors of the Company were not appointed for specified terms. However, they were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the Bye-laws of the Company.

In compliance with the requirement in the Code of Best Practice of the Listing Rules in respect of the establishment of an audit committee, the Company has formed an Audit Committee. At the date of approval of this interim report, the Audit Committee comprised Dr. Alex Wu Shu Chih (Chairman of the Committee), Mr. Ng Siu Chan and Hon Abraham Shek Lai Him, all of whom are independent Non-Executive Directors of the Company. The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2004.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the "Code for Securities Transactions by Directors of Paliburg Holdings Limited" (the "Paliburg Code"), on no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct governing the securities transactions by the Directors of the Company. Following specific enquiry by the Company, the Directors have confirmed that they have complied with the required standard under the Model Code and the Paliburg Code during the six months ended 30th June, 2004.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiary companies has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2004.

INDEPENDENT AUDITORS' REVIEW REPORT

**To the Board of Directors
Paliburg Holdings Limited**

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 10 to 30.

Respective responsibilities of Directors and auditors

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 Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with SAS 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public 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 - Investments in two investee companies

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 10 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 in 2000 of a land site beneficially and collectively held by two investee companies (the "Investee Companies"). The carrying value of the Group's investments in the Investee Companies amounted to HK\$56.9 million (31st December, 2003 - HK\$56.9 million) as at 30th June, 2004 which is included in long term investments under non-current assets. As further described in note 10 to the interim financial report, the Directors are not able to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies. Should the Investee Companies ultimately fail to secure the title to the land site or the Group's proposed disposal of its investments in the Investee Companies fail to materialise, appropriate adjustment against the carrying value of the Group's investments in the Investee Companies might be required. Details of the circumstances relating to this fundamental uncertainty are described in note 10 to the interim financial report.



Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2004.

Ernst & Young

Certified Public Accountants

Hong Kong

16th September, 2004