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REVIEW OF OPERATIONS

For the six months ended 30th June, 2005, the Group attained an unaudited consolidated net profit attributable to shareholders of HK\$144.1 million, representing an increase of about 281.2% as compared with the HK\$37.8 million (as restated) recorded for the corresponding period in 2004.

In the preparation of the Group's interim financial statements for the six months ended 30th June, 2005 herein presented, the Company has adopted a number of new or revised Hong Kong Accounting Standards, which are generally applicable for accounting periods beginning from 1st January, 2005, and relevant comparative figures for 2004 have correspondingly been restated. The impact on the Group's interim financial statements under review arising from the adoption of these new or revised accounting standards are set out in the Notes to Condensed Consolidated Financial Statements contained in this Interim Report.

In the corresponding period in 2004, Regal Hotels International Holdings Limited ("Regal") was accounted for as a subsidiary of the Company as the Group then held over 50% of the ordinary shares of Regal. As explained in the 2004 Annual Report despatched to shareholders in April 2005, Regal ceased to be a subsidiary of the Company on 31st July, 2004 and has since been equity accounted for as an associate of the Group.

Prior to 1st January, 2005, it was the policy of Regal, in accordance with the relevant accounting standards previously applicable, to state the value of its owned and operated hotel properties at their open market valuations appraised annually and not depreciated. Upon the adoption by Regal of the new accounting standards, Regal's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation and amortisation on the hotel land and buildings. However, adjustments have been made retrospectively to the interests of the Group held in Regal to reflect the fair value of Regal's hotel properties in 1993 when the Group initially acquired Regal as a subsidiary.

In order to present a fair view of the net asset value of the Group and for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on a proforma basis that Regal were to continue to state its five hotel properties in Hong Kong at their open market valuations as at 31st December, 2004 and not depreciated, is presented in the section headed "Management Discussion and Analysis" on pages 7 to 10 in this Interim Report.

The basic terms and the land premium amount for the lease modification of the development site at Ap Lei Chau Inland Lot No. 129 have been agreed and finalised with the government. The Group retains a 30% interest in this joint venture development and under the terms of the joint venture, any funding required for the development project will be procured by the other joint venture partners. The proposed development entails primarily residential accommodation having gross floor area of about 900,000 square feet together with ancillary retail, recreational and car parking facilities. Site formation works are scheduled to commence shortly.



The Group holds 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 about 2,200 square feet, at the commercial building at 211 Johnston Road, Wanchai. About 90% of the units is leased to date, with increasing rentals achieved on new leases or tenancy renewals.

The Group is retaining a majority of the 16 duplex units in the "Rainbow Lodge" residential development at 9 Ping Shan Lane, Yuen Long, New Territories. In view of the positive outlook of the residential property market, the retained units will be released for sale on a gradual basis.

On 8th July, 2005, the Group entered into a Sale and Purchase Agreement with the Regal group for the sale of a 50% equity interest in Hang Fok Properties Limited at a consideration of HK\$145 million. Hang Fok holds a 23% shareholding interest each in two investee companies which are principally engaged in the development of a property project in the Central Business District (CBD) of Beijing, PRC, comprising office, residential, hotel, commercial and carparking accommodations with a total permissible gross floor area of about 4,630,000 square feet. Completion of the agreement has taken place on 8th July, 2005, with the consideration settled by way of a promissory note, and Hang Fok has hence become a 50%-owned associate of the Group. Details of the transaction are contained in the Discloseable Transaction Circular to shareholders dated 25th July, 2005.

For the six months ended 30th June, 2005, Regal achieved an unaudited consolidated net profit attributable to ordinary shareholders of HK\$302.3 million, after netting off aggregate depreciation and amortisation of HK\$64.9 million (2004 – HK\$69.1 million, as restated), which represented an increase of about 176.1% as compared with the net profit of HK\$109.5 million (as restated) for the corresponding period in 2004.

The tourist business in Hong Kong in the first half of 2005 continued to fare well, with total visitor arrivals growing by about 9.6% over the first half of 2004. However, the number of visitors from Mainland China in the second quarter of 2005 was below earlier expectations, apparently due to the postponing of some of their trips to Hong Kong pending the opening of the Hong Kong Disneyland in this September. Overall for the first six months of 2005, visitors from Mainland China have only increased by a modest 3.8% though, on the other hand, notable growth was recorded in the visitor arrivals from most long-haul markets. Based on the information published by the Hong Kong Tourism Board, the average room occupancy for the hotels in Hong Kong during the period was 83%, which was about 2.4% lower than the comparative period in 2004, while the average achieved room rate has increased by 18.2% over the same period. The published figures are reflective of the general disposition of most of the hotel operators in Hong Kong to place increasing focus on the improvement of room rates, having now stabilised a satisfactory room occupancy level. As a matter of fact, the prevailing average room rate achieved by the hotels in Hong Kong as a whole is still significantly below its previous peak level and lags behind those achieved in other comparable major international cities.





During the period under review, the combined average room occupancy for the five Regal Hotels in Hong Kong was up by about 3.6% as compared with the same period in 2004, while the combined average achieved room rate increased by about 14.4%. Total hotel profits (including rental income) of these five hotels for the period amounted to HK\$230.6 million, which represented an increase of about 19.5% over the corresponding figure in 2004. Gross operating profit margin for the period is about 45% and with the relatively fixed nature of the operating cost structure, any rise in room rates is expected to have a magnified impact on the hotels' overall profitability.

The various renovation, upgrading and extension programmes planned by Regal for its hotels in Hong Kong are all progressing as scheduled. Regal will continue to commit appropriate capital expenditures on its hotels in Hong Kong to enhance and upgrade their image and facilities, with a view to further boosting their overall revenues.

Regal announced in March 2005 that it has entered into a Memorandum of Agreement with the Venetian Group from Las Vegas, USA, pursuant to which Regal plans to develop a hotel development project within the Cotai Resort Area in Macau. The Memorandum of Agreement is subject to the parties finalising and agreeing on the terms of the relevant definitive agreements. By reason of certain material changes in the circumstances affecting some fundamental issues that had remained unresolved, the terms of the definitive agreements could not be agreed and finalised, and hence the Memorandum of Agreement ceased to have effect on 6th September, 2005. Regal, having invested significant amount of time, efforts and resources, remains committed to the proposed hotel development project. With a view to securing its rights in the development site and in furtherance of the proposed development project, Regal has applied directly to the Macau Government for the land grant of the land parcel in the Cotai Resort Area previously intended to be selected for the proposed development project, and if the application is approved, Regal can and is well positioned to proceed with the proposed development project as soon as practicable.

According to the land grant application and the development proposal submitted to the Macau Government, Regal plans to develop a mega scale hotel complex on the subject land with a site area of approximately 618,000 square feet and a total expected permissible gross floor area of approximately 3.4 million square feet. The proposed development project, which is planned to be developed in two phases, will comprise three four-star to super-five-star hotels with a total of 3,950 guestrooms and suites, together with food and beverage outlets and related hotel facilities, a performance theatre, a convention plaza, a 3-D IMAX theatre, shopping and entertainment areas as well as a hotel training school. The proposed development project will also house a casino which is presently planned to be leased to and operated by an authorised gaming operator in Macau. Under the current plan and subject to approval for the land grant from the Macau Government, and all necessary permissions being obtained, construction work for the first phase of the proposed development project is anticipated to commence later this year or early next year, with completion expected by early 2008.

Due to the rising interest rates, there has been some consolidation of the property market in Hong Kong. As far as the high-end residential sector is concerned, transaction volume has generally declined, but transacted prices have stayed firm. In view of the scarcity of supply and the high replacement cost of land, outlook of the luxury residential property market continues to be positive. For the six months ended 30th June, 2005, the Regalia Bay in Stanley, which is 70% owned by the Regal group, contributed to the Regal group a profit of HK\$140.6 million, inclusive of write back of provision. The remaining unsold houses in Regalia Bay, which are mostly of larger sizes and/or on better locations, are planned to be released for sale in stages in keeping with the anticipated rising demand and corresponding price appreciation.

OUTLOOK

Businesses at the five Regal Hotels in Hong Kong for July and August remained steady, but with the opening of the Hong Kong Disneyland in September and the holding in Hong Kong of international high profile events such as the World Trade Organisation ministerial conference in December, overall operating results for the second half of 2005 should be substantially better than that attained in the first six months, particularly that the second half year comprises the traditional high season of the year.

Many additional facilities are planned by the Hong Kong Airport Authority within the Airport complex, such as the AsiaWorld-Expo, the SkyPlaza and a golf course. The AsiaWorld-Expo, which is scheduled to open in December 2005, is a world-class exhibition and event venue with over 750,000 square feet of rentable space. The Regal Airport Hotel will be well benefited as being the only hotel located in the Airport complex and is already receiving hotel room bookings at attractive rates from exhibition and event organisers at the AsiaWorld-Expo spreading over a substantial period of 2006.

With the large capacity and the diverse network of its hotels in Hong Kong, the Regal group is well positioned to capture the anticipated surge in visitors coming to visit the Hong Kong Disneyland. In this regard, special hotel transportation has been arranged to link all the five Regal Hotels with the Hong Kong International Airport and the Disneyland, and many more larger bedrooms have been fitted with three to four beds catering to families and to suit the requirements of different hotel customers. Moreover, the Regal group has been working closely in collaboration with a number of travel agencies and airlines that are actively marketing the Disneyland related packages and using the Regal Hotels in Hong Kong. As can be expected, market response so far is very positive, bringing in new additional businesses to the Regal group's hotels.

Overall, Regal is confident of the continuing prospects of the local hotel industry and is committed to maintaining its position as a leading hotel owner and operator in Hong Kong.



The Group's controlling interest in Regal is yielding encouraging growth prospects. The Group's financial position is now very healthy and the gearing ratio is maintained at a very low level. To complement its strategic investment holding in Regal, the Group is actively seeking appropriate development and investment opportunities in the property sector which will continue to be a core business of the Group. With the anticipated improvement in the overall performance of the Group, the Directors are hopeful that the Company will soon resume payment of dividends to shareholders.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 15th September, 2005



INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2005 (2004 - Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments principally constitute its shareholding interest in Regal, the listed associate of the Company. The significant investments of Regal comprise 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 Regal and its operations during the period under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance of Regal as well as the progress and prospects on the Regalia Bay development are contained in the sections above headed "Review of Operations" and "Outlook". In the corresponding period in 2004, Regal was accounted for as a subsidiary of the Company as the Group then held over 50% of the ordinary shares of Regal. Regal ceased to be a subsidiary of the Company on 31st July, 2004 and has since been equity accounted for as an associate of the Group.

A detailed review of the other business operations and outlook of the Group is also contained in the sections headed "Review of Operations" and "Outlook" above.

Cash Flow and Capital Structure

Net cash outflow from operating activities during the period under review amounted to HK\$12.2 million (2004 - inflow of HK\$135.9 million). Net interest payment for the period amounted to HK\$25.8 million (2004 - HK\$51.1 million).

During the period under review, there was no change in the capital structure of the Company.

Assets Value

Prior to 1st January, 2005, it was the policy of Regal, in accordance with the relevant accounting standards previously applicable, to state the value of its owned and operated hotel properties at their open market valuations for existing use appraised annually and not depreciated. Upon the adoption by Regal of the new accounting standards, Regal's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation and amortisation on the hotel land and buildings. However, adjustments have been made retrospectively to the interests of the Group held in Regal to reflect the fair value of Regal's hotel properties in 1993 when the Group initially acquired Regal as a subsidiary.



In order to fully reflect the underlying economic values of Regal's hotel properties in Hong Kong, the Group considers it appropriate also to present to shareholders, as set out below, supplementary information on the Group's statement of net assets on a proforma basis that Regal were to continue to state its five hotel properties in Hong Kong at their open market valuations as at 31st December, 2004 and not depreciated.

Statement of Proforma Net Assets

	30th June, 2005 (Unaudited)	31st December, 2004 (Unaudited)
	HK\$'million	HK\$'million
NON-CURRENT ASSETS		
Interests in associates	2,241.2	2,061.6
Add: Attributable revaluation surplus relating to hotel properties of Regal*	1,240.6	1,221.2
	3,481.8	3,282.8
Other non-current assets	362.2	329.4
	3,844.0	3,612.2
CURRENT ASSETS	506.1	461.6
CURRENT LIABILITIES	(163.1)	(281.0)
NET CURRENT ASSETS	343.0	180.6
TOTAL ASSETS LESS CURRENT LIABILITIES	4,187.0	3,792.8
NON-CURRENT LIABILITIES	(183.6)	(34.4)
MINORITY INTERESTS	(0.1)	(0.2)
PROFORMA NET ASSETS	4,003.3	3,758.2
Proforma net assets per ordinary share	HK\$0.56	HK\$0.52

* Based on open market valuations as at 31st December, 2004 less fair value adjustment already taken into account by the Group in its interests in associates



Borrowings

As at 30th June, 2005, the Group's gross borrowings net of cash and bank balances amounted to HK\$45.0 million (31st December, 2004 - HK\$10.3 million). Gearing ratio based on total assets of HK\$3,109.5 million (31st December, 2004 - HK\$2,852.6 million, as restated) was 1.4% (31st December, 2004 - 0.4%, as restated). However, based on the proforma total assets of HK\$4,350.1 million as at 30th June, 2005 (31st December, 2004 - HK\$4,073.8 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 1.0% (31st December, 2004 - 0.3%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 14 and 15, respectively, to the condensed consolidated financial statements.

During the period under review, the Group refinanced one of its outstanding bank borrowings with a long term bank loan. Save as aforesaid, information in relation to the maturity profile of the borrowings of the Group as of 30th June, 2005 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2004.

Material Acquisitions or Disposals of Subsidiary Companies or Associates

During the period under review, there were no material acquisitions or disposals of subsidiary companies or associates of the Company.

Subsequent to the period end, on 8th July, 2005, the Group completed the disposal of a 50% equity interest in Hang Fok Properties Limited, a then wholly owned subsidiary of the Company. Details of such transaction are disclosed in the section above headed "Review of Operations" and notes 10 and 18 to the condensed consolidated financial statements.

Save as otherwise disclosed in the section above headed "Review of Operations", 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 all denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest primarily 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, together with the Regal group, employ approximately 1,750 staff in Hong Kong. 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 a mandatory provident fund scheme as well as medical and life insurance.

With a view to providing long term incentives, the Company adopted in June 2005 a new share option scheme named as "The Paliburg Holdings Limited Share Option Scheme", under which share options have been granted to selected eligible persons. Subsequent to the period under review, all of the outstanding share options granted under the Executive Share Option Scheme of the Company adopted in 1993 and terminated in 2003 have been surrendered and cancelled.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited and restated)
	Notes	HK\$'million	HK\$'million
TURNOVER	3	30.1	570.2
Cost of sales		(15.6)	(352.0)
Gross profit		14.5	218.2
Other revenue	4	15.5	3.2
Administrative expenses		(13.0)	(34.5)
Other operating expenses, net	5	(0.3)	(44.9)
Write-back of impairment of a hotel property		–	30.0
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION		16.7	172.0
Depreciation and amortisation		(0.1)	(100.2)
OPERATING PROFIT		16.6	71.8
Finance costs	6	(7.5)	(51.2)
Share of profits less losses of:			
Jointly controlled entity		–	59.3
Associates		135.6	(7.1)
PROFIT BEFORE TAX		144.7	72.8
Tax	7	(0.6)	10.5
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND MINORITY INTERESTS		144.1	83.3
ATTRIBUTABLE TO:			
Equity holders of the parent		144.1	37.8
Minority interests		–	45.5
		144.1	83.3
EARNINGS PER ORDINARY SHARE:	8		
Basic		HK2.00 cents	HK0.83 cent
Diluted		HK1.74 cents	HK0.62 cent



Condensed Consolidated Balance Sheet

		30th June, 2005 (Unaudited)	31st December, 2004 (Restated)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Fixed assets		1.5	1.5
Investment properties		0.3	0.9
Goodwill		58.0	58.0
Property under development		7.2	7.2
Property held for future development		26.7	26.7
Interests in associates		2,241.2	2,061.6
Available-for-sale investments	10	232.3	203.5
Financial assets at fair value through profit or loss		11.3	–
Loans and other long term receivable		24.9	31.6
		2,603.4	2,391.0
CURRENT ASSETS			
Financial assets at fair value through profit or loss		6.1	5.1
Properties held for sale		250.6	250.6
Inventories		6.7	3.3
Debtors, deposits and prepayments	11	42.5	26.3
Time deposits		110.3	81.8
Cash and bank balances		10.9	15.5
		427.1	382.6
Non-current asset classified as held for sale		79.0	79.0
		506.1	461.6
CURRENT LIABILITIES			
Creditors and accruals	12	90.5	118.6
Tax payable		5.9	5.3
Interest bearing bank and other borrowings		17.0	107.6
Deposits received		49.7	49.5
		163.1	281.0
NET CURRENT ASSETS		343.0	180.6
TOTAL ASSETS LESS CURRENT LIABILITIES		2,946.4	2,571.6



Condensed Consolidated Balance Sheet (Cont'd)

	30th June, 2005 (Unaudited)	31st December, 2004 (Restated)
	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES	2,946.4	2,571.6
NON-CURRENT LIABILITIES		
Interest bearing bank and other borrowings	(149.2)	–
Advance from the minority shareholder of a subsidiary company	(34.4)	(34.4)
	<u>(183.6)</u>	<u>(34.4)</u>
	<u>2,762.8</u>	<u>2,537.2</u>
CAPITAL AND RESERVES		
Equity attributable to equity holders of the parent		
Issued capital	72.1	72.1
Reserves	2,690.6	2,464.9
	<u>2,762.7</u>	<u>2,537.0</u>
Minority interests	0.1	0.2
	<u>2,762.8</u>	<u>2,537.2</u>



Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2005

	Share capital (Unaudited)	Share premium account (Unaudited)	Equity components of convertible bonds and convertible preference shares of an associate (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Assets revaluation surplus/ Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2005										
As previously reported	72.1	522.1	–	887.2	689.6	794.3	1.5	855.5	0.2	3,822.5
Prior period adjustments (Note 2(a))	–	–	15.0	(466.7)	–	27.7	–	(861.3)	–	(1,285.3)
As restated, before opening adjustments	72.1	522.1	15.0	420.5	689.6	822.0	1.5	(5.8)	0.2	2,537.2
Opening adjustments (Note 2(a))	–	–	–	(420.5)	–	(4.3)	–	468.9	–	44.1
As restated, after opening adjustments	72.1	522.1	15.0	–	689.6	817.7	1.5	463.1	0.2	2,581.3
Movement in fair value of financial assets	–	–	–	–	–	37.2	–	–	–	37.2
Employee share option scheme	–	–	–	0.2	–	–	–	–	–	0.2
Net profit for the period	–	–	–	–	–	–	–	144.1	–	144.1
Exchange realignments	–	–	–	–	–	–	0.1	–	(0.1)	–
At 30th June, 2005	72.1	522.1	15.0	0.2	689.6	854.9	1.6	607.2	0.1	2,762.8

	Share capital (Unaudited)	Share premium account (Unaudited)	Equity component of convertible preference shares of the listed subsidiary company (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Assets revaluation surplus/ Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2004										
As previously reported	238.3	146.5	–	887.2	689.6	(16.1)	1.5	338.7	2,362.5	4,648.2
Prior period adjustments (Note 2(b))	–	–	5.2	(466.7)	–	706.7	–	(326.3)	(74.1)	(155.2)
As restated	238.3	146.5	5.2	420.5	689.6	690.6	1.5	12.4	2,288.4	4,493.0
Conversion of convertible preference shares	(67.5)	67.5	–	–	–	–	–	–	–	–
Issue of new shares	3.8	59.9	–	–	–	–	–	–	–	63.7
Ordinary shares to be issued by the listed subsidiary company	–	–	–	–	–	–	–	–	39.0	39.0
Movement in fair value of financial assets	–	–	–	–	–	3.5	–	–	4.2	7.7
Acquisition of additional interest in the listed subsidiary company	–	–	–	–	–	–	–	–	(141.1)	(141.1)
Acquisition of additional interest in a subsidiary company	–	–	–	–	–	–	–	–	0.2	0.2
Contribution from minority shareholders	–	–	–	–	–	–	–	–	0.2	0.2
Release on disposal	–	–	–	–	–	(0.3)	–	–	–	(0.3)
Net profit for the period	–	–	–	–	–	–	–	37.8	45.5	83.3
Transfer to retained profits	–	–	–	–	–	(11.0)	–	11.0	–	–
At 30th June, 2004	174.6	273.9	5.2	420.5	689.6	682.8	1.5	61.2	2,236.4	4,545.7



Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow/(outflow) from operating activities	(12.2)	135.9
Net cash inflow/(outflow) from investing activities	5.7	(143.9)
Net cash inflow from financing activities	30.5	65.3
Net increase in cash and cash equivalents	24.0	57.3
Cash and cash equivalents at beginning of period	97.2	137.7
Cash and cash equivalents at end of period	121.2	195.0
Analysis of balances of cash and cash equivalents		
Cash and bank balances	10.9	27.7
Non-pledged time deposits with original maturity of less than three months when acquired	110.3	167.6
	121.2	195.3
Bank overdrafts	–	(0.3)
	121.2	195.0





Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and its listed associate, Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (the "RHIHL Group"), and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 2	The Appropriate Policies for Hotel Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 18, 19, 21, 23, 24, 28, 31, 33, 37, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and RHIHL, and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs by the Group and RHIHL is summarised as follows:

- (a) HKAS 16 Property, Plant and Equipment
- HKAS 17 Leases
- HK-Int 2 The Appropriate Policies for Hotel Properties

In prior periods, the hotel properties of the RHIHL Group were stated at their open market values for existing use on the basis of annual professional valuations. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant.

Upon the adoption of HKAS 16 and HK-Int 2, the RHIHL Group's leasehold interest in the hotel buildings is now stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the RHIHL Group's leasehold interest in hotel land and buildings is separated into leasehold land and leasehold buildings. The RHIHL Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the RHIHL Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in note 2 below. The comparative amounts in the condensed consolidated balance sheet for the year ended 31st December, 2004 have been restated.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior periods, the Group classified its investments in listed and unlisted equity securities which were held for non-trading purposes as long term investments and were stated at fair values.

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

Upon the adoption of HKASs 32 and 39, and in accordance with the transitional provisions of HKAS 39, these securities are classified as either available-for-sale investments or financial assets at fair value through profit or loss. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any other categories of financial assets. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised in the investment revaluation reserve as in the prior period. Financial assets at fair value through profit or loss are those investments acquired principally for the purpose of trading or so designated at inception. Any gain or loss arising from a change in the fair value of the financial assets is recognised in the profit and loss account.

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions and reference to the current market value of another instrument which is substantially the same.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for those financial assets, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The effects of the above changes are summarised in note 2 below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.



(ii) Convertible bonds

In prior periods, the RHIHL Group's convertible bonds were stated at amortised cost. Upon the adoption of HKASs 32 and 39, convertible bonds issued are split into liability and equity components.

On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The effects of the above changes are summarised in note 2 below. In accordance with HKAS 32, comparative amounts have been restated.

(iii) Convertible preference shares

In prior periods, the RHIHL Group's convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the RHIHL Group's accumulated losses in a capital reorganisation in 2002. Upon the adoption of HKASs 32 and 39, the whole principal amount of the convertible preference shares is restated and split into liability and equity components.

On the issue of the convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible preference share; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Transaction costs are apportioned between the liability and equity components of the convertible preference shares based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

The effects of the above changes are summarised in note 2 below. In accordance with HKAS 32, comparative amounts have been restated.

(c) HKAS 40 – Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit and loss account in the year of the retirement or disposal.



The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 below.

(d) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the profit and loss account for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Any dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The effects of adopting HKFRS 2 on the share options granted by the Company and RHIHL to employees (including directors) during the current period are summarised in note 2 below. There were no share options granted to any employees or directors in any prior period after 7th November, 2002.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the profit and loss account until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.





Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiary companies and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated profit and loss account.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1st January, 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and
HKAS 27 – Consolidated and Separate Financial Statements

In prior periods, the Group's interest in an investee company was classified under interests in associates despite its equity interest in the company was increased from 50% to 100% in 2003, since it has entered into an agreement subsequently in that year to dispose of the entire equity interest in the company and accordingly the control over the company is considered temporary depending on the outcome of the agreement.

The agreement for the disposal has not yet been completed and upon the adoption of HKAS 27 and HKFRS 5, the Group's interest in the company amounting to HK\$79.0 million is reclassified from interests in associates to non-current asset classified as held for sale, which is now presented as a separate item under current assets. In accordance with the transitional provision of HKFRS 5, the comparative amount has been restated.

2. Summary of the Impact of Changes in Accounting Policies

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments and opening adjustments are summarised as follows:

(a) Effect on opening balance of total equity at 1st January, 2005

Effect of new policies (increase/(decrease))	Notes	Equity components of convertible bonds and convertible preference shares of an associate (Unaudited) HK\$'million	Capital reserve (Unaudited) HK\$'million	Assets revaluation surplus/ Revaluation reserves (Unaudited) HK\$'million	Retained profits (Unaudited) HK\$'million	Total (Unaudited) HK\$'million
Prior period adjustments:						
HKASs 16 and 17						
Hotel properties	1(a)	–	(466.7)	27.7	(779.6)	(1,218.6)
HKASs 32 and 39						
Convertible bonds	1(b)(ii)	9.8	–	–	(1.4)	8.4
Convertible preference shares	1(b)(iii)	5.2	–	–	(80.3)	(75.1)
Net increase/(decrease) in total equity before opening adjustments		15.0	(466.7)	27.7	(861.3)	(1,285.3)
Opening adjustments:						
HKAS 39						
Cumulative gain in fair value of financial assets	1(b)(i)	–	–	(4.0)	4.0	–
HKAS 40						
Surplus on revaluation of investment properties	1(c)	–	–	(0.3)	0.3	–
HKFRS 3						
Derecognition of negative goodwill	1(e)	–	(420.5)	–	464.6	44.1
Total effect at 1st January, 2005		15.0	(887.2)	23.4	(392.4)	(1,241.2)



(b) Effect on opening balance of total equity at 1st January, 2004

Effect of new policies (increase/(decrease))	Notes	Equity component of convertible preference shares of the listed subsidiary company (Unaudited) HK\$'million	Capital reserve (Unaudited) HK\$'million	Assets revaluation surplus/ Revaluation reserves (Unaudited) HK\$'million	Retained profits (Unaudited) HK\$'million	Minority interests (Unaudited) HK\$'million	Total (Unaudited) HK\$'million
Prior period adjustments:							
HKASs 16 and 17							
Hotel properties	1(a)	–	(466.7)	706.7	(256.6)	20.8	4.2
HKFRS 32 and 39							
Convertible preference shares	1(b)(iii)	5.2	–	–	(69.7)	(94.9)	(159.4)
Total effect at 1st January, 2004		5.2	(466.7)	706.7	(326.3)	(74.1)	(155.2)



The following tables summarise the impact on profit after tax, income or expenses recognised directly in equity and capital transactions with equity holders for the six-month periods ended 30th June, 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKASs 39, 40 and HKFRS 3, the amounts shown for the six months period ended 30th June, 2004 may not be comparable to the amounts shown for the current interim period.

(c) Effect on profit after tax for the six months ended 30th June, 2005 and 2004

Effect of new policies (increase/(decrease))	Notes	For the six months ended 30th June,					
		2005			2004		
		Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)	Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
		HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
Effect on profit after tax:							
HKAS 16							
Depreciation on hotel buildings net of related deferred tax	1(a)	(13.2)	-	(13.2)	(22.1)	(27.2)	(49.3)
Write-back of impairment of a hotel property	1(a)	-	-	-	(60.9)	(74.9)	(135.8)
HKAS 17							
Amortisation of prepaid land lease payments	1(a)	(5.0)	-	(5.0)	(5.0)	(6.1)	(11.1)
HKAS 39							
Gain in fair value of financial assets at fair value through profit or loss	1(b)(i)	30.2	-	30.2	-	-	-
Finance costs on convertible bonds	1(b)(ii)	(1.6)	-	(1.6)	-	-	-
Finance costs on convertible preference shares	1(b)(iii)	(1.7)	-	(1.7)	(1.7)	(2.1)	(3.8)
HKFRS 2							
Employee share option scheme	1(d)	(0.2)	-	(0.2)	-	-	-
HKFRS 3							
Discontinuation of amortisation of goodwill/recognition of negative goodwill	1(e)	0.4	-	0.4	-	-	-
Total effect for the period		8.9	-	8.9*	(89.7)	(110.3)	(200.0)
Effect on earnings per share:							
Basic		HK0.12 cent			HK(1.96) cents		
Diluted		HK0.12 cent			HK(1.46) cents		

* An amount of HK\$5.8 million was included in the share of profits less losses of associates.



- (d) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30th June, 2005 and 2004

Effect of new policies (increase/(decrease))	Note	For the six months ended 30th June,					
		2005			2004		
		Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)	Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
		HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
HKFRS 2 Employee share option scheme	1(d)	0.2	-	0.2	-	-	-
Total effect for the period		0.2	-	0.2	-	-	-

3. 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:

- 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;
- the construction and building related businesses 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 products and other software development and distribution;
- the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services; and
- the others segment mainly comprises investment and securities trading businesses, brewery operations, laundry services and bakery operations.

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		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2005	2004	Six months ended 30th June, 2005	2004	Six months ended 30th June, 2005	2004	Six months ended 30th June, 2005	2004	Six months ended 30th June, 2005	2004	Six months ended 30th June, 2005	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
Segment revenue:												
Sales to external customers	4.9	32.6	25.2	55.5	-	454.3	-	27.8	-	-	30.1	570.2
Intersegment sales	-	0.5	2.1	21.2	-	1.2	-	4.9	(2.1)	(27.8)	-	-
Total	4.9	33.1	27.3	76.7	-	455.5	-	32.7	(2.1)	(27.8)	30.1	570.2
Segment results	(0.5)	12.6	12.1	5.5	-	170.7	5.1	1.0	-	-	16.7	189.8
Interest income and unallocated non-operating and corporate gains											10.5	1.7
Unallocated non-operating and corporate expenses											(10.5)	(19.5)
Operating profit before depreciation and amortisation											16.7	172.0
Depreciation and amortisation											(0.1)	(100.2)
Operating profit											16.6	71.8
Finance costs											(7.5)	(51.2)
Share of profits less losses of:												
Jointly controlled entity	-	59.3	-	-	-	-	-	-	-	-	-	59.3
Associates	-	-	-	-	135.7	(0.2)	(0.1)	(6.9)	-	-	135.6	(7.1)
Profit before tax											144.7	72.8
Tax											(0.6)	10.5
Profit for the period before allocation between equity holders of the parent and minority interests											144.1	83.3
Attributable to:												
Equity holders of the parent											144.1	37.8
Minority interests											-	45.5
											144.1	83.3

(b) Geographical segments

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

GROUP

	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2005	2004 (Unaudited) HK\$'m	Six months ended 30th June, 2005	2004 (Unaudited) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited) HK\$'m
Segment revenue:								
Sales to external customers	30.0	543.9	0.1	26.3	-	-	30.1	570.2

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

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Profit on disposal of listed investments	–	0.1
Profit/(Loss) on sale of properties	(0.2)	8.9

4. Other Revenue

Other revenue includes the following major items:

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Interest income	1.8	1.6
Dividend income	9.9	0.3
Gain in fair value of financial assets	3.8	–

5. Other Operating Expenses, net

Other operating expenses, net, include the following major item:

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Termination fee in respect of cancellation of the disposal of a hotel property	–	39.0



6. Finance Costs

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited and restated)
	HK\$'million	HK\$'million
Interest on bank loans and overdrafts, convertible bonds, convertible preference shares, promissory notes and other loans wholly repayable within five years	6.7	46.0
Amortisation of deferred expenditure	–	5.1
Other loan costs	0.8	0.1
	<hr/>	<hr/>
Total finance costs	7.5	51.2
	<hr/> <hr/>	<hr/> <hr/>

7. Tax

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited and restated)
	HK\$'million	HK\$'million
Provision for tax in respect of profits for the period:		
Hong Kong	0.6	1.8
Overseas	–	0.1
Deferred tax income	–	(12.4)
	<hr/>	<hr/>
Tax charge/(credit) for the period	0.6	(10.5)
	<hr/> <hr/>	<hr/> <hr/>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2004 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Taxes on the profits of subsidiary companies operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax is required for the jointly controlled entity in the prior period as no assessable profits were earned by the jointly controlled entity during that period.

Deferred tax 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.

Share of tax credit attributable to the associates amounting to HK\$6.6 million (2004 - Nil) is included in "Share of profits less losses of associates" on the face of the Condensed Consolidated Profit and Loss Account.



8. Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to equity holders of the parent for the period of HK\$144.1 million (2004 - HK\$37.8 million, as restated) and on the weighted average of 7,208.5 million (2004 - 4,568.5 million) ordinary shares of the Company in issue during the period.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2005 is based on the adjusted profit attributable to equity holders of the parent for the period of HK\$125.1 million and on the weighted average of 7,208.5 million ordinary shares of the Company in issue during the period, assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the period. The conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the period. In addition, 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 earnings per ordinary share for the period ended 30th June, 2004 was based on the adjusted profit attributable to equity holders of the parent for the prior period of HK\$37.7 million (as restated) and on the adjusted weighted average of 6,129.9 million ordinary shares of the Company that would have been in issue during the prior period assuming (i) all outstanding optional convertible bonds of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of that 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 that period. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that period. In addition, the exercise prices of share options of the Company and RHIHL outstanding during that period were higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

9. Dividend

The Directors have resolved not to declare the payment of an interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2005 (2004 - Nil).



10. Available-for-sale Investments

Included in the available-for-sale investments is an amount of HK\$56.9 million (31st December, 2004 - HK\$56.9 million) which represents the Group's investments comprising a 23% interest in each of 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 available-for-sale 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 Investee Companies has enforceable title to the land site.

In August 2004, the relevant government authorities granted to one of the Investee Companies a Beijing Grant Contract of State-owned Land Use Right (the "Grant Contract") for the granting of the land use rights of the subject land site, subject to the payment of the requisite land premium. As no consensus could be reached among the joint venture parties involved, the due date for its payment under the terms of the Grant Contract has expired and the land premium remained unpaid. The Group has been in active negotiations with the other joint venture parties and with potential investors to explore various feasible alternatives in addressing the situation and with a view to optimising the value of the Group's interest in the Investee Companies.

In the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations. However, 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.

Subsequent to the balance sheet date, on 8th July, 2005, a wholly owned subsidiary company of the Company (the "Vendor") and a wholly owned subsidiary company of RHIHL (the "Purchaser") entered into and completed a sale and purchase agreement (the "SP Agreement") for the disposal of a 50% equity interest in Hang Fok Properties Limited, which was then a wholly owned subsidiary company of the Company and directly holds a 23% shareholding interest in each of the Investee Companies, at a consideration of HK\$145 million which was satisfied by the issue of a promissory note with a principal amount of HK\$145 million bearing interest at 3% per annum.

Notwithstanding the completion of the SP Agreement, the Purchaser has been given a right exercisable at its discretion to rescind or terminate the SP Agreement in the event that the Vendor fails to secure the land use right of the subject development on the agreed terms within six months of the date of signing the SP Agreement (i.e. 8th January, 2006), or such later date as may be mutually agreed.



11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$3.8 million (31st December, 2004 - HK\$9.0 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	3.8	6.2
Between 4 to 6 months	–	2.0
Between 7 to 12 months	–	0.7
Over 1 year	–	0.1
	<u>3.8</u>	<u>9.0</u>

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\$1.4 million (31st December, 2004 - HK\$1.3 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	<u>1.4</u>	<u>1.3</u>



13. Related Party Transactions

(a) Transactions with related parties

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

	Notes	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (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	(i)	–	3.5
Management costs allocated from CCIHL	(i)	3.3	6.7
Gross construction fee income from:			
– a jointly controlled entity	(i)	–	42.6
– the listed associate and its jointly controlled entity	(ii)	14.9	–
Gross income in respect of security systems and products and other software from the listed associate	(iii)	2.5	–

Notes:

- (i) The nature and terms of these related party transactions were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2004.
- (ii) During the period, construction fees were received from the listed associate and its jointly controlled entity in respect of hotel property renovation and property development projects, respectively, pursuant to contracts negotiated on an arm's length basis and/or awarded through competitive tendering process.
- (iii) During the period, fees were received from the listed associate for the purchases and maintenance services of security systems and products and other software installed in its hotel properties.

At 30th June, 2004, the Group (then including the RHIHL Group) also had guarantees given in respect of the attributable share of the outstanding bank loan of a jointly controlled entity in the amount of HK\$720.8 million.



(b) Outstanding balances with related parties

	30th June, 2005 (Unaudited)	31st December, 2004
	HK\$'million	HK\$'million
Due from a jointly controlled entity	—	6.3
Due from the listed associate and its jointly controlled entity	4.6	—
Due to the listed associate	<u>1.5</u>	<u>1.1</u>

(c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	2.1	6.2
Share-based payments	<u>0.1</u>	<u>—</u>
Total compensation paid to key management personnel	<u>2.2</u>	<u>6.2</u>

14. Pledge of Assets

At 30th June, 2005, certain of the Group's properties held for sale and available-for-sale investments with a total carrying value of HK\$284.7 million (31st December, 2004 - HK\$339.4 million) and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

15. Contingent Liabilities

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\$0.3 million as at 30th June, 2005 (31st December, 2004 - HK\$0.7 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. No provision has 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.



16. Operating Lease Arrangements

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 7.5 months to 2 years and 3 months. 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, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Within one year	4.9	4.0
In the second to fifth years, inclusive	1.6	1.1
	<u>6.5</u>	<u>5.1</u>

(b) As lessee

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

17. Commitments

At the balance sheet date, the Group had no outstanding capital commitments.

18. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group did not have significant transactions except for the transaction detailed in note 10 above.



19. Share Options

(a) Executive Share Option Scheme

During the period, the Company operated an executive share option scheme (the "Executive Share Option Scheme"). The Executive 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 granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of movements in share options granted by the Company pursuant to the Executive Share Option Scheme during the period were as follows:

Date of grant of share options	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, 2005	Movement during the period	At 30th June, 2005		
22nd February, 1997	Employees					
	Employees, in aggregate					
	Vested:	1,750,000	–	2,000,000	Note	6.672
	Unvested:	750,000	–	500,000	Note	
	Total:	2,500,000	–	2,500,000		

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

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



Note:

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)

The outstanding share options for 2,500,000 ordinary shares granted under the Executive Share Option Scheme, which was terminated in 2003, were subsequently surrendered and cancelled in August 2005.

(b) The Paliburg Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as "The Paliburg Holdings Limited Share Option Scheme" (the "New Share Option Scheme") and the conditional grant to Mr. Lo Yuk Sui ("Mr. Lo"), the chairman of the Company, of share options for 180,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 180,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were approved by the shareholders and the independent shareholders of the Company, respectively. The New Share Option Scheme and the conditional grant of options were approved by the shareholders and the independent shareholders of Century City International Holdings Limited at its special general meeting also held on 16th June, 2005, respectively. The closing price of the ordinary shares traded on The Stock Exchange of Hong Kong Limited immediately before the date on which such options were conditionally offered to Mr. Lo, i.e. 12th May, 2005, was HK\$0.209 per ordinary share. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Subsequently, both the New Share Option Scheme and the conditional grant of options became effective on 21st July, 2005. The options granted to Mr. Lo will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

<u>Exercise Period</u>	<u>Number of ordinary shares of the Company under vested options</u>
12th May, 2007 to 11th May, 2011	72,000,000
12th May, 2008 to 11th May, 2011	36,000,000
12th May, 2009 to 11th May, 2011	36,000,000
12th May, 2010 to 11th May, 2011	36,000,000

On 25th July, 2005, share options for an aggregate number of 100,000,000 ordinary shares, entitling the holders thereof to subscribe for a total of 100,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were offered to be granted to other selected eligible persons under the New Share Option Scheme. Such further grants of options have been duly accepted and became effective by end of July 2005.



DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2005, 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 (the "Model Code") 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, 2005)
			Personal Interests	Family Interests	Corporate Interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary (i) issued	442,765	–	4,250,774,001 (Note b)	4,251,216,766
		(ii) unissued	180,000,000 (Note b(iii))	–	–	180,000,000
	Total (i) & (ii): 4,431,216,766 (61.47%)					
	Mr. Donald Fan Tung	Ordinary (issued)	2,718	–	–	2,718 (0.00004%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	–	–	100,000 (0.0014%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	284,000	–	–	284,000 (0.0039%)
	Mr. Ng Siu Chan	Ordinary (issued)	–	536,500	–	536,500 (0.0074%)



Name of Associated Corporation	Name of Director	Class of Shares held	Number of Shares Held			Total (Approximate percentage of the Issued Shares as at 30th June, 2005)
			Personal Interests	Family Interests	Corporate Interests	
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	543,344,843	–	9,845,994,246 (Note a(i))	10,389,339,089
		(ii) unissued	350,000,000 (Note a(iii))	–	2,110,000,000 (Note a(ii))	2,460,000,000
					Total (i) & (ii):	12,849,339,089 (89.81%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	2,510,000	–	–	2,510,000 (0.018%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	1,659,800	–	–	1,659,800 (0.012%)
3. Regal Hotels International Holdings Limited ("RHIHL")	Mr. Ng Siu Chan	Ordinary (issued)	–	15,453,000	–	15,453,000 (0.108%)
	Mr. Lo Yuk Sui	Ordinary (i) issued	220,000	–	3,784,379,610 (Note c(i))	3,784,599,610
		(ii) unissued	200,022,000 (Notes c(iii) & (v))	–	369,805,453 (Notes c(ii) to (iv))	569,827,453
					Total (i) & (ii):	4,354,427,063 (51.81%)
		Preference (issued)	–	–	3,440 (Notes c(iv))	3,440 (20.54%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (i) issued	2,370,000	–	–	2,370,000
		(ii) unissued	237,000 (Note d)	–	–	237,000
					Total (i) & (ii):	2,607,000 (0.031%)
4. 8D International (BVI) Limited	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 interests in 1,205,994,246 issued ordinary shares of CCIHL were held through companies wholly owned by Mr. Lo Yuk Sui ("Mr. Lo") and a company, namely Master City Limited, 99.96% owned by Mr. Lo.

The interests in 8,640,000,000 issued ordinary shares of CCIHL were held through corporations controlled by Mr. Lo as detailed below:

(a)	Name of corporation	Controlled by	% of control
	CCIHL	Mr. Lo	72.62
	Century City BVI Holdings Limited	CCIHL	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 ("Grand Modern")	Century Digital Holdings Limited	100.00

(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo	100.00
	Secure Way Technology Limited	Mr. Lo	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	Century Digital Holdings Limited	100.00

- (ii) The interests in 2,110,000,000 unissued ordinary shares of CCIHL related to the rights to put attached to the 2,110,000,000 Series A exchangeable preference shares ("Almighty Series A Shares") of Almighty International Limited ("Almighty"), a wholly owned subsidiary of CCIHL, held by Grand Modern. Grand Modern may exercise such rights to put during the period from 31st December, 2002 to 15th December, 2009 (as extended), requiring CCIHL to acquire the 2,110,000,000 Almighty Series A Shares at the consideration of the issuance by CCIHL to Grand Modern of 2,110,000,000 new ordinary shares of CCIHL on the basis of one new ordinary share for one Almighty Series A Share.

The interests in 2,110,000,000 unissued ordinary shares of CCIHL were held through corporations controlled by Mr. Lo as detailed below:

(a)	Name of corporation	Controlled by	% of control
	CCIHL	Mr. Lo	72.62
	Century City BVI Holdings Limited	CCIHL	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	Century Digital Holdings Limited	100.00



(b)	Name of corporation	Controlled by	% of control
	Manyways Technology Limited	Mr. Lo	100.00
	Secure Way Technology Limited	Mr. Lo	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	Century Digital Holdings Limited	100.00

- (iii) The interests in 350,000,000 unissued ordinary shares of CCIHL were held through the interests in the options conditionally granted to Mr. Lo, entitling Mr. Lo to subscribe for a total of 350,000,000 new ordinary shares of CCIHL at an exercise price of HK\$0.12 per ordinary share (subject to adjustments), under The Century City International Holdings Limited Share Option Scheme adopted by the shareholders of CCIHL on 16th June, 2005. The conditional grant of such options became unconditional on 21st July, 2005. The options will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

Exercise Period	Number of ordinary shares of CCIHL under vested options
12th May, 2007 to 11th May, 2011	140,000,000
12th May, 2008 to 11th May, 2011	70,000,000
12th May, 2009 to 11th May, 2011	70,000,000
12th May, 2010 to 11th May, 2011	70,000,000

- (b) (i) The interests in 3,944,018,001 issued ordinary shares of the Company were held through companies (including Almighty) wholly owned by CCIHL, in which Mr. Lo held 72.62% shareholding interests.

The interests in 306,756,000 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00

The interests in 200,000,000 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

Name of corporation	Controlled by	% of control
Wealth Master International Limited	Mr. Lo	90.00
Select Wise Holdings Limited	Wealth Master International Limited	100.00
Splendid All Holdings Limited	Select Wise Holdings Limited	100.00



- (ii) Under the debt restructuring in respect of CCIHL and its subsidiary companies (then excluding the Company and RHIHL and their respective subsidiary companies) (the "CCIHL Group") with the financial creditors of the CCIHL Group (the "Creditors"), which was completed on 15th December, 2004, (the "Restructuring"), part of the indebtedness had been refinanced into the secured bilateral loans with an aggregate principal amount of HK\$13.78 million (the "HK\$13.78 million Secured Bilateral Loans") granted by certain Creditors for a term of two years. The HK\$13.78 million Secured Bilateral Loans were secured by, among others, a total of 137,800,000 issued ordinary shares of the Company (the "137.8 million Charged PHL Shares") held by the CCIHL Group. Under the terms of the HK\$13.78 million Secured Bilateral Loans, the relevant Creditors granting such loans have the right to opt to receive the 137.8 million Charged PHL Shares at a price of HK\$0.10 each for the settlement of the relative amount of the HK\$13.78 million Secured Bilateral Loans proposed to be prepaid by the CCIHL Group in lieu of cash repayment. Such Creditors also have a similar right of electing to receive the 137.8 million Charged PHL Shares upon final repayment at maturity of the HK\$13.78 million Secured Bilateral Loans.

On completion of the Restructuring, a wholly owned subsidiary company of CCIHL issued exchangeable notes with an aggregate principal amount of approximately HK\$13.78 million (the "Exchangeable Notes") at their principal value to certain Creditors. The Exchangeable Notes, which are for a term of two years and non-interest bearing, are exchangeable into a total of 55,120,000 issued ordinary shares of the Company held by the CCIHL Group at a price of HK\$0.25 per ordinary share, subject to adjustment. The holders of the Exchangeable Notes do not have any right to demand for cash repayment of the Exchangeable Notes. Except in the occurrence of an event of default as defined in the terms of the Exchangeable Notes, the Exchangeable Notes are only exchangeable into ordinary shares of the Company upon maturity on a mandatory basis. However, prior to maturity, the CCIHL Group have the right to repay any of the Exchangeable Notes at their principal amount.

On completion of the Restructuring, Mr. Lo provided a personal guarantee in favour of one of the Creditors (the "Relevant Creditor") in respect of the secured bilateral loan of HK\$12.38 million (the "HK\$12.38 million Secured Bilateral Loan") granted by the Relevant Creditor to the CCIHL Group under the Restructuring and in return the Relevant Creditor granted to Mr. Lo the right to purchase or procure the purchase of the HK\$12.38 million Secured Bilateral Loan at any time within two years from completion of the Restructuring. Under the terms of the HK\$12.38 million Secured Bilateral Loan, the Relevant Creditor has the right to opt to receive the 123,800,000 issued ordinary shares of the Company (the "123.8 million Charged PHL Shares"), which form part of the security for the HK\$12.38 million Secured Bilateral Loan, at a price of HK\$0.10 each for the settlement of the relative amount of the HK\$12.38 million Secured Bilateral Loan proposed to be prepaid by the CCIHL Group in lieu of cash repayment. The Relevant Creditor also has a similar right of electing to receive the 123.8 million Charged PHL Shares upon final repayment at maturity of the HK\$12.38 million Secured Bilateral Loans. If Mr. Lo exercises his right to acquire the HK\$12.38 million Secured Bilateral Loan, he will be entitled to have the rights to acquire the 123.8 million Charged PHL Shares. If Mr. Lo exercises his right to acquire the HK\$12.38 million Secured Bilateral Loan or is required to perform under his guarantee, 50% of the Exchangeable Notes issued to the Relevant Creditor under the Restructuring, which amounted to HK\$6.19 million and carrying the right to exchange into 24,760,000 ordinary shares of the Company at a price of HK\$0.25 per ordinary share, subject to adjustment, will be transferred to Mr. Lo.



- (iii) The interests in 180,000,000 unissued ordinary shares of the Company were held through the interests in the options conditionally granted to Mr. Lo, entitling Mr. Lo to subscribe for a total of 180,000,000 new ordinary shares of the Company at an exercise price of HK\$0.22 per share (subject to adjustments), under The Paliburg Holdings Limited Share Option Scheme adopted by the shareholders of the Company on 16th June, 2005. The conditional grant of such options became unconditional on 21st July, 2005. The options will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

Exercise Period	Number of ordinary shares of the Company under vested options
12th May, 2007 to 11th May, 2011	72,000,000
12th May, 2008 to 11th May, 2011	36,000,000
12th May, 2009 to 11th May, 2011	36,000,000
12th May, 2010 to 11th May, 2011	36,000,000

- (c) (i) The issued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 54.71% shareholding interests.
- (ii) The interests in 369,805,453 unissued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 54.71% shareholding interests.
- (iii) The interests in 22,000 and 354,197,026 unissued ordinary shares of RHIHL related to the interests in the warrants of RHIHL (the "2007 Warrants") carrying subscription rights in an aggregate amount of HK\$88,554,756.50, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 354,219,026 new ordinary shares of RHIHL at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustment).
- (iv) The interests in 15,608,427 unissued ordinary shares of RHIHL related to the interests in 3,440 convertible cumulative preference shares of RHIHL carrying rights to convert into 15,608,427 new ordinary shares of RHIHL, based on the conversion price of HK\$1.7037 per ordinary share and on a reference amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00, during the period from 5th December, 1993 to 5th December, 2008.
- (v) The interests in 200,000,000 unissued ordinary shares of RHIHL were held through the interests in the options conditionally granted to Mr. Lo, entitling Mr. Lo to subscribe for a total of 200,000,000 new ordinary shares of RHIHL at an exercise price of HK\$0.75 per ordinary share (subject to adjustments), under The Regal Hotels International Holdings Limited Share Option Scheme adopted by the shareholders of RHIHL on 16th June, 2005. The conditional grant of such options became unconditional on 21st July, 2005. The options will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

Exercise Period	Number of ordinary shares of RHIHL under vested options
12th May, 2007 to 11th May, 2011	80,000,000
12th May, 2008 to 11th May, 2011	40,000,000
12th May, 2009 to 11th May, 2011	40,000,000
12th May, 2010 to 11th May, 2011	40,000,000



- (d) The derivative interests in these unissued ordinary shares of RHIHL related to the interests in the 2007 Warrants carrying subscription rights in an aggregate amount of HK\$59,250.00, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 237,000 new ordinary shares of RHIHL at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustment).
- (e) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 72.62% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.
- (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, 2005, 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 in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed in note 19 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 Executive Share Option Scheme and the New Share Option Scheme (both as referred to in note 19 to the condensed consolidated financial statements) and no option granted to such persons under the Executive Share Option Scheme and the New 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 Executive Share Option Scheme and the New 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 Executive Share Option Scheme and the New Share Option Scheme.



SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2005, 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	Approximate percentage of issued ordinary shares as at 30th June, 2005
CCIHL (Notes i and ii)	3,944,018,001	54.71
Century City BVI Holdings Limited (Note ii)	3,944,018,001	54.71
Almighty International Limited (Note ii)	1,909,853,045	26.49
Cleerview Investments Limited (Note ii)	1,185,026,955	16.44

Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 72.62% shareholding interests in CCIHL and the interests in these shares held by CCIHL through its wholly owned subsidiary companies were included in the corporate interests of Mr. Lo Yuk Sui in the ordinary shares of the Company 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 ordinary shares of the Company were included in the interests held by CCIHL.

Save as disclosed herein, there is no person who, as at 30th June, 2005, 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.



CORPORATE GOVERNANCE

Code of Corporate Governance Practices

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules during the six months ended 30th June, 2005, except that the roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals and the Non-Executive Directors and the Independent Non-Executive Directors of the Company were not appointed for specific terms. However, the Non-Executive Directors and the Independent Non-Executive Directors were appointed to their offices for such terms and subject to retirement in accordance with the provisions of the Bye-laws of the Company. At the annual general meeting of the Company held on 16th June, 2005, all those Directors who had been in office for three years or more retired and were re-elected at that meeting.

In compliance with the requirement in the CG Code in respect of the establishment of an audit committee, the Company has formed an Audit Committee. The Audit Committee currently comprises Mr. Wong Chi Keung (Chairman of the Committee), Mr. Ng Siu Chan and Hon Abraham Shek Lai Him, JP, 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 and discussed with the Company's management the accounting principles and practices adopted by the Group, auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2005.

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 terms no less exacting than the required standard set out in 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, 2005.

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, 2005.





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 11 to 36.

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 HKAS 34 "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 resumption in 2000 of a land site beneficially and collectively held by two investee companies (the "Investee Companies") in the People's Republic of China. The carrying value of the Group's investments in the Investee Companies amounted to HK\$56.9 million (31st December, 2004 - HK\$56.9 million) as at 30th June, 2005 which is included in available-for-sale investments under non-current assets. As further explained in note 10 to the interim financial report, the Directors are not able to determine with reasonable certainty the ultimate outcome of the negotiations relating to the granting of land use rights by the relevant government authorities pertaining to the land site. Should the Investee Companies fail to secure the title to the land site, 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, 2005.

Ernst & Young

Certified Public Accountants

Hong Kong

15th September, 2005

