



富豪酒店國際控股有限公司

**Regal Hotels**

**International Holdings Limited**

(Incorporated in Bermuda with limited liability)

(Stock Code 股份代號: 78)



**2006** INTERIM REPORT  
中期報告書

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## CORPORATE INFORMATION

### DIRECTORS

Lo Yuk Sui  
(Chairman and Managing Director)  
Francis Choi Chee Ming, JP  
(Vice Chairman)\*  
Donald Fan Tung  
Alice Kan Lai Kuen#  
Jimmy Lo Chun To  
Lo Po Man  
Kenneth Ng Kwai Kai  
Ng Siu Chan#  
Kai Ole Ringenson\*  
Wong Chi Keung#  
Belinda Yeung Bik Yiu

\* *Non-Executive Director*

# *Independent Non-Executive Director*

### AUDIT COMMITTEE

Wong Chi Keung (Chairman)  
Francis Choi Chee Ming, JP  
Alice Kan Lai Kuen  
Ng Siu Chan

### REMUNERATION COMMITTEE

Lo Yuk Sui (Chairman)  
Alice Kan Lai Kuen  
Ng Siu Chan  
Wong Chi Keung

### SECRETARY

Eliza Lam Sau Fun

### AUDITORS

Ernst & Young

### PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre, 11 Bermudiana Road,  
Pembroke, Bermuda

### BRANCH REGISTRAR IN HONG KONG

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor,  
Hopewell Centre,  
183 Queen's Road East,  
Wan Chai,  
Hong Kong

### REGISTERED OFFICE

Rosebank Centre, 11 Bermudiana Road,  
Pembroke, Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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## REVIEW OF OPERATIONS

For the six months ended 30th June, 2006, the Group achieved an unaudited consolidated profit attributable to ordinary shareholders of HK\$310.8 million, as compared with the profit of HK\$302.3 million for the corresponding period in 2005.

The results achieved by the Group for the period under review are considered to be satisfactory, particularly as the profit attained by the core hotel operations of the Group was able to grow by about 25.4% over the same period last year. Due to the increased interest rates prevailing during the current period, the higher income from securities investments as well as the business interruption insurance compensation recorded in the prior comparative period, the growth in the overall profits achieved was affected when compared on year-on-year basis, though this was to certain extent compensated by the increased contribution from the Regalia Bay development.

As explained before, the Group's hotel properties in Hong Kong are now stated in the Condensed Consolidated Financial Statements presented in this Interim Report at cost less accumulated depreciation and amortisation. In order to present a fair view of the net asset value of the Group, supplementary information on the Group's net assets position, compiled on a proforma basis to adjust for the aggregate independent professional market valuations of these hotel properties of HK\$14,500 million as at 31st December, 2005, is also provided in the section headed "Management Discussion and Analysis" on pages 6 to 10 in this Interim Report.

In the first six months of 2006, there were a total of approximately 12.2 million visitor arrivals to Hong Kong, representing an increase of about 11.1% as compared with the same period last year. Benefiting from the Individual Visitor Scheme, visitors from mainland China also increased by about 14% to over 6.7 million, accounting for about 55% of the total visitors to Hong Kong during the period. Based on the information published by the Hong Kong Tourism Board, the average occupancy rate for all the surveyed hotels in Hong Kong during this six month period was about 86%, corresponding to an increase of about 3.6% over that recorded in the first half of 2005, while the average achieved room rate has over the same comparative period gained by about 16.2%.

Partly affected by the works being carried out at some of the hotels on renovation of rooms as well as for the asset enhancement programme as referred to below, the combined average room occupancy for the five Regal Hotels in Hong Kong during the six months under review was about 2.2% marginally below the level attained in the first half of 2005, but the combined average room rate has improved by 15.5%. While the Regal Airport Hotel is continuing to catch up on its room occupancy, the other four Regal Hotels in Hong Kong are operating steadily at a level of about 90%.

Total hotel profits (including management fees and rental income) for the period amounted to HK\$289.1 million, representing an increase of about 25.4% above the corresponding figure attained last year. Over the same comparative period, the gross operating profit margin of the Group's hotel operations in Hong Kong also improved from 45% in 2005 to 50% in the current year.



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Extensive renovation and upgrading works have been carried out progressively at the five Regal Hotels in Hong Kong in recent years to enhance their quality and facilities, and these have enabled them to achieve increasing room rates without affecting market competitiveness. To cater to the growing business from the conventions and exhibitions market, particularly after the opening of the Asia World-Expo convention center at the Hong Kong International Airport in December last year, the Regal Airport Hotel has recently completed the conversion of a portion of the basement floor into an Executive Conference Center comprising 13 new state-of-the-art meeting and conference rooms, as well as the renovation of 21 hotel rooms to be fitted with spa facilities.

The asset enhancement programme planned at four Regal Hotels in Hong Kong (other than Regal Kowloon Hotel) will add, in stages, an aggregate of 461 additional hotel rooms, boasting the total room count of the hotels owned by the Group in Hong Kong to over 3,800. The asset enhancement programme for the addition of 274 hotel rooms in Regal Riverside Hotel in the three additional floors to be added on top of the existing building structure is aimed to be completed before the holding of the Olympic Equestrian Events to be held in Shatin in August 2008, subject to agreement being able to be concluded with the government in the near future on the amount of applicable land premium payable. All the other portions of the asset enhancement programme are scheduled to be completed before the end of the third quarter of 2007.

The Group views the PRC market as critically important within its overall business development plans and intends to expand its hotel network to other selected cities in mainland China when appropriate opportunities arise.

The Group and Paliburg Holdings Limited each beneficially owns a 50% equity interest in a company which, in turn, holds a 59% interest in an investee company established in the PRC. The investee company has entered into the Land Grant Contracts for the Phase I land sites comprised in a comprehensive development project located at Chao Yang Men Wai Da Jie in the Central Business District of Beijing, PRC and the related land premium payable under the Land Grant Contracts was fully settled in April 2006. The overall development project entails total permissible gross floor area of about 4,630,000 square feet, planned to comprise office, residential, hotel, commercial and carparking accommodations. While the requisite development and design plans are being revised, the investee company is actively working to secure its rights to the remaining land site comprised in the overall development project.

During the interim period under review, the jointly controlled entity that owns the Regalia Bay development in Stanley, Hong Kong contributed a profit of HK\$217.1 million (2005 - HK\$140.6 million) to the Group from a write back of provision. Although the volume of transactions in the high-end luxury residential market in Hong Kong has slowed down recently, the Group remains optimistic of the future of this segment of the property market. Pending the revival of an active market, certain house units have in the meanwhile been leased out at satisfactory rental yield.

Subsequent to the half year end date, the Group disposed of in August 2006 its equity investments held in a listed company for an aggregate consideration of approximately HK\$195 million and the gain arising from such disposal will be reflected in the results for the full year ending 31st December, 2006.

## OUTLOOK

Business at the five Regal Hotels in Hong Kong continued to operate satisfactorily during the past two months. As the last quarter is traditionally the high season of the year, the Directors believe that the operating results of the Group's hotels in Hong Kong in the second half of 2006 should be even more encouraging than those achieved in the period under review.

The government is committed to maintaining Hong Kong as the most important hub and gateway in the region for both international as well as mainland Chinese travelers. Apart from the various major facilities that have been or are being built out in the airport area, such as the Asia World-Expo, the SkyMart and the passenger ferry terminal, the Airport Authority is planning to further upgrade and expand the Hong Kong International Airport, in anticipation of the steadily increasing passenger traffic at the airport. In addition, the government is actively co-ordinating on the construction of the Hong Kong-Zhuhai-Macau Bridge to link land traffic with Macau and the affluent Pearl River Delta area. In the meantime, to strengthen Hong Kong's position as one of the most popular tourist destination in the region, many new tourist attractions will continue to be rolled out in Hong Kong, including the Tung Chung Cable Car, the Ocean Park redevelopment project and the Hong Kong Disneyland Phase 2.

Overall, the Group is confident of the growing prospects of the tourist industry in Hong Kong and the Group's hotels are well poised to benefit from the resultant increase in the market demands in the local hotel sector. Apart from the internal expansion through the asset enhancement programme, the Group is looking to further develop its hotel network, both in hotel ownership as well as in hotel management contracts. To facilitate this planned business expansion, the Group has been actively working on the separate listing of a real estate investment trust involving its five Regal Hotels in Hong Kong. Shareholders will be kept informed once the final timetable for the proposed separate listing is determined.

By Order of the Board

**LO YUK SUI**

Chairman

Hong Kong, 18th September, 2006



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## INTERIM DIVIDEND

In view of the satisfactory results achieved, the Directors have declared the payment of an interim dividend of HK0.25 cent per ordinary share for the financial year ending 31st December, 2006 (2005 - HK0.25 cent), absorbing a total amount of approximately HK\$21.1 million (2005 - HK\$21.1 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 18th October, 2006.

The Register of Ordinary Shareholders will be closed from Monday, 16th October, 2006 to Wednesday, 18th October, 2006, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the interim dividend, all transfers of ordinary shares and/or subscriptions of the outstanding 2007 Warrants of the Company, duly accompanied by the relevant certificates together with, where appropriate, the relevant subscription moneys, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:00 p.m. on Friday, 13th October, 2006. The relevant dividend warrants are expected to be despatched on or about 8th November, 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Highlights

The Group's significant investments principally comprise 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 the Group's hotel 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 as well as the progress and prospects on the Regalia Bay development are contained in the sections above headed "Review of Operations" and "Outlook".

### Cash Flow and Capital Structure

During the period under review, net cash inflow from operating activities totalled HK\$204.1 million (2005 - HK\$193.0 million). Net interest payment for the period amounted to HK\$152.7 million (2005 - HK\$97.6 million). The increase in net interest payment was largely due to the increased interest rates.

During the period under review, a total of 81.6 million new ordinary shares of the Company were allotted and issued to the holders of the 2007 Warrants of the Company who exercised the subscription rights in an aggregate amount of HK\$20.4 million attaching to the 2007 Warrants at the subscription price of HK\$0.25 per ordinary share. As at the date of this report, a total of 203.6 million new ordinary shares of the Company have been allotted and issued upon exercise of the 2007 Warrants, and the aggregate amount of the 2007 Warrants remaining outstanding was HK\$157.6 million exercisable into 630.4 million new ordinary shares of the Company at the prevailing subscription price of HK\$0.25 per ordinary share (subject to adjustments).

Up to the date of this report, none of the 2% Guaranteed Convertible Bonds due 2007 (the "Bonds"), in an aggregate principal amount of HK\$200.0 million, (the "Firm Bonds") issued by Cheerview Limited, a wholly owned subsidiary company of the Company, in July 2004 have been converted into new ordinary shares of the Company. Optional Bonds of up to an additional aggregate principal amount of HK\$200.0 million (the "Optional Bonds") can be subscribed for at any time on or before 21st April, 2007. The Firm Bonds and the Optional Bonds, if fully subscribed for and issued, are convertible into a total of 1,600 million ordinary shares of the Company at the initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

### **Assets Value**

The Group's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation on buildings and amortisation on the leasehold land interests. Aggregate depreciation and amortisation provided for the period under review amounted to HK\$68.0 million (2005 - HK\$64.9 million). The amount of the depreciation on the hotel buildings and amortisation of the prepaid land lease payments charged to the income statement for the period of HK\$49.7 million (2005 - HK\$49.6 million) had no actual impact on the operating cash flows.

Due to the significant difference between the fair market values of the Group's hotel properties in Hong Kong based on their annual open market valuations and the values as stated in the financial statements herein presented, particularly that some of these properties were acquired and/or developed by the Group many years ago at relatively low costs, 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 to adjust for the open market valuations as at 31st December, 2005 of the Group's hotel properties in Hong Kong, which should more fairly reflect the Group's net assets position.



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## Statement of Proforma Net Assets

	30th June, 2006 (Unaudited)	31st December, 2005 (Unaudited)
	HK\$'million	HK\$'million
NON-CURRENT ASSETS		
Property, plant and equipment	2,891.6	2,920.2
Prepaid land lease payments	1,076.9	1,088.0
Add: Revaluation surplus relating to hotel properties based on open market valuations *	10,539.5	10,500.0
	<u>14,508.0</u>	<u>14,508.2</u>
Other non-current assets	2,759.1	2,366.4
TOTAL NON-CURRENT ASSETS	<u>17,267.1</u>	<u>16,874.6</u>
CURRENT ASSETS	259.6	543.4
CURRENT LIABILITIES	(1,812.8)	(2,044.7)
NET CURRENT LIABILITIES	<u>(1,553.2)</u>	<u>(1,501.3)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	15,713.9	15,373.3
NON-CURRENT LIABILITIES	(3,113.0)	(3,104.1)
PROFORMA NET ASSETS	12,600.9	12,269.2
MINORITY INTERESTS	(1.3)	(1.3)
PROFORMA NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	<u>12,599.6</u>	<u>12,267.9</u>
Proforma net asset value per ordinary share	<u>HK\$1.49</u>	<u>HK\$1.47</u>

\* Surplus of aggregate independent professional valuations of HK\$14,500 million as at 31st December, 2005 over the carrying values of hotel properties (including furniture, fixture and equipment) at the respective balance sheet dates

## **Borrowings**

As at 30th June, 2006, the Group's borrowings net of cash and bank balances amounted to HK\$4,685.5 million (31st December, 2005 - HK\$4,367.5 million). The Group's gearing ratio based on total assets of HK\$6,987.2 million in the financial statements herein presented (31st December, 2005 - HK\$6,918.0 million) was about 67.1% (31st December, 2005 - 63.1%). However, based on the proforma total assets of HK\$17,526.7 million as at 30th June, 2006 (31st December, 2005 - HK\$17,418.0 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 26.7% (31st December, 2005 - 25.1%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 13 and 14, respectively, to the condensed consolidated financial statements. As disclosed in note 13, most of the Group's assets have been pledged to secure general banking facilities granted to the Group. As at 30th June, 2006, the Company has contingent liabilities in the aggregate amount of HK\$4,668.7 million under the respective corporate guarantees given by the Company in respect of the outstanding syndicated loan facility of HK\$4,468.7 million granted to the Group and the Firm Bonds.

Information in relation to the maturity profile of the Group's borrowings as of 30th June, 2006 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2005.

## **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.

Save as otherwise disclosed in the sections above headed "Review of Operations" and "Outlook", the Group has no immediate plans 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. As the Group's borrowings are primarily denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to interbank offered rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.



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### **Remuneration Policy**

The Group employs approximately 1,720 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 maintains a new share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme", under which share options have been granted to selected eligible persons.

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Condensed Consolidated Income Statement

		Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	Notes	HK\$'million	HK\$'million
REVENUE	2	608.3	542.4
Cost of sales		(320.0)	(311.1)
Gross profit		288.3	231.3
Other income and gains	3	41.5	84.5
Administrative expenses		(35.6)	(25.1)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION		294.2	290.7
Depreciation and amortisation		(68.0)	(64.9)
OPERATING PROFIT	2	226.2	225.8
Finance costs	5	(134.9)	(77.5)
Share of profits and losses of:			
Jointly controlled entity		217.1	140.6
Associates		(1.0)	(1.2)
PROFIT BEFORE TAX		307.4	287.7
Tax	6	3.4	14.6
PROFIT FOR THE PERIOD		310.8	302.3
Attributable to:			
Equity holders of the parent		310.8	302.3
Minority interests		–	–
		310.8	302.3
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	7		
Basic		HK3.7 cents	HK3.6 cents
Diluted		HK3.0 cents	HK2.9 cents
DIVIDEND PER ORDINARY SHARE	8	HK0.25 cent	HK0.25 cent



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### Condensed Consolidated Balance Sheet

		30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	Notes	HK\$'million	HK\$'million
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		2,891.6	2,920.2
Prepaid land lease payments		1,076.9	1,088.0
Interest in a jointly controlled entity		2,029.3	1,804.7
Interests in associates		398.8	260.7
Equity investments at fair value through profit or loss		170.5	140.8
Other loan		63.6	62.1
Deferred tax assets		96.9	98.1
Total non-current assets		6,727.6	6,374.6
<b>CURRENT ASSETS</b>			
Hotel and other inventories		16.9	16.3
Debtors, deposits and prepayments	9	146.9	134.0
Equity investments at fair value through profit or loss		17.0	9.7
Time deposits		53.7	356.5
Cash and bank balances		25.1	26.9
Total current assets		259.6	543.4
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	10	(141.8)	(224.6)
Promissory note payable		-	(145.0)
Derivative financial instrument		(1.1)	(5.4)
Interest bearing bank borrowings	11	(1,668.7)	(1,668.7)
Tax payable		(1.2)	(1.0)
Total current liabilities		(1,812.8)	(2,044.7)
NET CURRENT LIABILITIES		(1,553.2)	(1,501.3)
TOTAL ASSETS LESS CURRENT LIABILITIES		5,174.4	4,873.3

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

		30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	Notes	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES		5,174.4	4,873.3
NON-CURRENT LIABILITIES			
Convertible bonds		(192.1)	(188.4)
Convertible preference shares		(130.7)	(126.9)
Interest bearing bank borrowings	11	(2,772.8)	(2,766.9)
Deferred tax liabilities		(17.4)	(21.9)
Total non-current liabilities		(3,113.0)	(3,104.1)
Net assets		2,061.4	1,769.2
EQUITY			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		84.5	83.7
Equity component of convertible bonds		21.8	21.8
Reserves		1,932.7	1,616.3
Dividends		21.1	46.1
		2,060.1	1,767.9
<b>Minority interests</b>		1.3	1.3
Total equity		2,061.4	1,769.2



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## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) HK\$ million	Share premium account (Unaudited) HK\$ million	Equity component of convertible bonds (Unaudited) HK\$ million	Share option reserve (Unaudited) HK\$ million	Capital redemption reserve (Unaudited) HK\$ million	Special reserve (Unaudited) HK\$ million	Investment revaluation reserve (Unaudited) HK\$ million	Exchange equalisation reserve (Unaudited) HK\$ million	Retained profits/ (Accumulated losses) (Unaudited) HK\$ million	Dividends (Unaudited) HK\$ million	Total (Unaudited) HK\$ million	Minority interests (Unaudited) HK\$ million	Total equity (Unaudited) HK\$ million
1st January, 2006	83.7	559.3	21.8	5.7	0.9	-	29.4	0.6	1,020.4	46.1	1,767.9	1.3	1,769.2
Profit for the period	-	-	-	-	-	-	-	-	310.8	-	310.8	-	310.8
Final 2005 dividend declared	-	-	-	-	-	-	-	-	(0.3)	(46.1)	(46.4)	-	(46.4)
Issue of shares	0.8	19.6	-	-	-	-	-	-	-	-	20.4	-	20.4
Equity-settled share option arrangements	-	-	-	7.4	-	-	-	-	-	-	7.4	-	7.4
Interim 2006 dividend	-	-	-	-	-	-	-	-	(21.1)	21.1	-	-	-
At 30th June, 2006	84.5	578.9	21.8	13.1	0.9	-	29.4	0.6	1,309.8	21.1	2,060.1	1.3	2,061.4
1st January, 2005	83.4	574.0	21.8	-	-	1,062.3	29.4	1.3	(501.9)	41.7	1,312.0	0.8	1,312.8
Profit for the period	-	-	-	-	-	-	-	-	302.3	-	302.3	-	302.3
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	-	-	0.3	0.3
Final 2004 dividend declared	-	-	-	-	-	-	-	-	(0.3)	(41.7)	(42.0)	-	(42.0)
Issue of shares	0.6	15.4	-	-	-	-	-	-	-	-	16.0	-	16.0
Equity-settled share option arrangements	-	-	-	0.3	-	-	-	-	-	-	0.3	-	0.3
Interim 2005 dividend	-	-	-	-	-	-	-	-	(21.1)	21.1	-	-	-
Transfer to retained earnings	-	-	-	-	-	(1,062.3)	-	-	1,062.3	-	-	-	-
At 30th June, 2005	84.0	589.4	21.8	0.3	-	-	29.4	1.3	841.3	21.1	1,588.6	1.1	1,589.7

### Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	204.1	193.0
Net cash inflow/(outflow) from investing activities	(327.0)	158.5
Net cash outflow from financing activities	(181.7)	(306.6)
Net increase/(decrease) in cash and cash equivalents	(304.6)	44.9
Cash and cash equivalents at beginning of period	383.4	370.5
Cash and cash equivalents at end of period	<u>78.8</u>	<u>415.4</u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	25.1	17.2
Non-pledged time deposits with original maturity of less than three months when acquired	<u>53.7</u>	<u>398.2</u>
	<u>78.8</u>	<u>415.4</u>



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## 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, 2005, except for the adoption of the following Hong Kong Financial Reporting Standards ("HKFRSs") mandatory for annual periods beginning on or after 1st January, 2006.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HK (IFRIC) - Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above HKFRSs has had no material impact on the Group's results of operations for the current period or financial position at 30th June, 2006 in the Group's condensed consolidated financial statements.

### 2. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;
- (b) the property development and investment segment includes investments in properties held for sale and for their rental income, and the provision of property agency and management services; and
- (c) the others segment mainly comprises the Group's securities trading, other investment business, brewery operations, health products operations, the provision of 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 tables present revenue and profit/(loss) information for the Group's business segments.

**Group**

	Hotel ownership and management Six months ended 30th June, 2006		Property development and investment Six months ended 30th June, 2006		Others Six months ended 30th June, 2006		Eliminations Six months ended 30th June, 2006		Consolidated Six months ended 30th June, 2006	
	(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	575.0	509.1	0.5	1.0	32.8	32.3	-	-	608.3	542.4
Intersegment sales	1.1	1.2	0.1	0.2	1.2	3.5	(2.4)	(4.9)	-	-
<b>Total</b>	<b>576.1</b>	<b>510.3</b>	<b>0.6</b>	<b>1.2</b>	<b>34.0</b>	<b>35.8</b>	<b>(2.4)</b>	<b>(4.9)</b>	<b>608.3</b>	<b>542.4</b>
Segment results before depreciation and amortisation	262.4	238.0	0.2	0.2	31.5	61.5	-	-	294.1	299.7
Depreciation and amortisation	(67.8)	(62.2)	(0.1)	(0.1)	(0.1)	(2.6)	-	-	(68.0)	(64.9)
Segment operating results	194.6	175.8	0.1	0.1	31.4	58.9	-	-	226.1	234.8
Interest income and unallocated non-operating and corporate gains									8.5	1.6
Unallocated non-operating and corporate expenses									(8.4)	(10.6)
Operating profit									226.2	225.8
Finance costs									(134.9)	(77.5)
Share of profits and losses of: Jointly controlled entity									217.1	140.6
Associates									(1.0)	(1.2)
Profit before tax									307.4	287.7
Tax									3.4	14.6
Profit for the period									310.8	302.3
Attributable to:										
Equity holders of the parent									310.8	302.3
Minority interests									-	-
									310.8	302.3



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(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, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m
Segment revenue:								
Sales to external customers	606.1	511.1	2.2	31.3	-	-	608.3	542.4

### 3. Other Income and Gains

Other income and gains are analysed as follows:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
<u>Other income</u>		
Bank interest income	2.8	1.5
Interest income from other loan	1.5	–
Dividend income from listed investments	3.0	0.9
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	–	20.9
Others	–	0.2
	<u>7.3</u>	<u>23.5</u>
<u>Gains</u>		
Fair value gains on equity investments at fair value through profit or loss, net	29.9	61.0
Fair value gain on derivative financial instrument	4.3	–
	<u>34.2</u>	<u>61.0</u>
	<u>41.5</u>	<u>84.5</u>

### 4. An analysis of gain on sale of investments of the Group is as follows:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Gain on sale of equity investments at fair value through profit or loss	<u>2.5</u>	<u>–</u>



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## 5. Finance Costs

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans, convertible bonds, convertible preference shares, other loans and a promissory note payable wholly repayable within five years	<u>134.9</u>	<u>77.5</u>

## 6. Tax

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Current - Hong Kong		
Prior year overprovision	-	(5.0)
Current - Overseas		
Provision for tax in respect of profits for the period	0.2	0.2
Prior year overprovision	(0.3)	-
Deferred tax	<u>(3.3)</u>	<u>(9.8)</u>
Tax credit for the period	<u>(3.4)</u>	<u>(14.6)</u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits or had available tax losses brought forward from prior years to offset the assessable profits, derived from or earned in Hong Kong during the period (2005 - Nil).

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

No provision for tax is required for the associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period (2005 - Nil).

Deferred tax income has been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

## 7. Earnings Per Ordinary Share Attributable to Equity Holders of the Parent

### (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the period attributable to equity holders of the parent of HK\$310.8 million (2005 - HK\$302.3 million), and on the weighted average of 8,397.9 million (2005 - 8,356.2 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, 2006 is based on the adjusted profit for the period attributable to equity holders of the parent of HK\$316.5 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,413.2 million ordinary shares of the Company that would have been in issue during the period assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the period. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the period and is not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of the Company outstanding during the period is higher than the average market price of the Company's ordinary shares 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, 2005 was based on the adjusted profit for that period attributable to equity holders of the parent of HK\$307.8 million, as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,461.7 million ordinary shares of the Company that would have been in issue during that period assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of that period. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that period and was not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of the Company outstanding during that period was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

## 8. Dividend

The Directors have declared the payment of an interim dividend of HK0.25 cent per ordinary share for the financial year ending 31st December, 2006 (2005 - HK\$0.25 cent), absorbing a total amount of approximately HK\$21.1 million (2005 - HK\$21.1 million).



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## 9. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$67.3 million (31st December, 2005 - HK\$73.0 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	61.9	64.6
Between 4 to 6 months	1.9	1.9
Between 7 to 12 months	0.9	4.0
Over 1 year	3.5	3.6
	<hr/>	<hr/>
	68.2	74.1
Impairment	(0.9)	(1.1)
	<hr/>	<hr/>
	<b>67.3</b>	<b>73.0</b>
	<hr/> <hr/>	<hr/> <hr/>

### Credit terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amount less any impairment which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest bearing.

Included in the Group's debtors, deposits and prepayments are amounts due from related companies of HK\$1.7 million (31st December, 2005 - HK\$2.1 million) which are repayable on similar credit terms to those offered to the major customers of the Group.

At 31st December, 2005, an amount of HK\$8.1 million was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin Engineering Limited ("Chatwin"), a subsidiary company of Paliburg Holdings Limited, which is a substantial shareholder of the Company, against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of the Regal Airport Hotel. The balance continued to be held by Chatwin as the reserve fund against potential claims from a sub-contractor as at 30th June, 2006.

## 10. Creditors and Accruals

Included in the balance is an amount of HK\$37.2 million (31st December, 2005 - HK\$45.8 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	36.3	45.0
Between 4 to 6 months	0.6	0.8
Between 7 to 12 months	0.3	-
	<u>37.2</u>	<u>45.8</u>

The trade creditors are interest-free and are normally settled on 30 to 60 days.

Included in creditors and accruals are amounts due to an associate and related companies of HK\$3.0 million (31st December, 2005 - HK\$4.8 million) and HK\$4.5 million (31st December, 2005 - HK\$19.2 million) respectively, which represent similar credit terms to those offered by the associate and those related companies to their major customers.

## 11. Interest bearing bank borrowings

	Effective interest rate p.a. (%)	Maturity	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
			HK\$'million	HK\$'million
<b>Current</b>				
Bank loans - secured	1.3 - 5.7	2006	1,668.7	1,668.7
<b>Non-current</b>				
Bank loans - secured	1.3 - 5.7	2009	2,772.8	2,766.9
			<u>4,441.5</u>	<u>4,435.6</u>

The borrowings are in Hong Kong dollars and bear interests at floating interest rate.

The Group's bank borrowings are secured by a pledge of the Group's certain assets as further detailed in note 13 to the financial statements.

The carrying amounts of the Group's bank loans approximate to their fair values.



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## 12. Related Party Transactions

### (a) Transactions with related parties

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

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
A substantial shareholder: Management fees	5.5	5.7
Wholly-owned subsidiary companies of a substantial shareholder, Paliburg Holdings Limited ("PHL"):		
Service fees in respect of security systems and products and other software	0.2	2.5
Repairs and maintenance fees and construction fees	3.1	4.1
An associate: Advertising and promotion fees (including cost reimbursements)	5.0	3.7
An jointly controlled entity: Estate agency fee income	-	0.6
	<u>          </u>	<u>          </u>

#### Note:

The nature and terms of the related party transactions set out above were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2005.

(b) Outstanding balances with related parties

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Due from the jointly controlled entity	366.7	366.7
Due from related companies	9.8	10.2
Due to related companies	(4.5)	(19.2)
Loans to the jointly controlled entity	2,967.8	2,960.3
Due to an associate	(3.0)	(4.8)
Loans to associates	175.8	36.7
Promissory note payable to PHL	-	(145.0)
	<u>          </u>	<u>          </u>

(c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	4.9	4.7
Share-based payments	<u>6.5</u>	<u>0.3</u>
Total compensation paid to key management personnel	<u>11.4</u>	<u>5.0</u>



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### **13. Pledge of Assets**

At 30th June, 2006, certain of the Group's interest in a jointly controlled entity, hotel properties (including land element, hotel buildings and the related hotel furniture, fixtures and equipment), construction in progress included in property, plant and equipment, bank deposits and cash, inventories and receivables with a total carrying value of HK\$6,069.7 million (31st December, 2005 - HK\$5,885.0 million) and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

### **14. Contingent Liability**

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\$3.8 million as at 30th June, 2006 (31st December, 2005 - HK\$5.6 million). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

## 15. Operating Lease Arrangements

### (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30th June, 2006 (Unaudited)</b>	<b>31st December, 2005 (Audited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Within one year	15.7	21.0
In the second to fifth years, inclusive	4.0	7.8
	<u>19.7</u>	<u>28.8</u>

### (b) As lessee

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms from 6 months to 2 years, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Lease for office equipment of the Group is negotiated for a term of 3 to 5 years.

At 30th June, 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30th June, 2006 (Unaudited)</b>	<b>31st December, 2005 (Audited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Land and buildings:		
Within one year	3.0	2.4
In the second to fifth years, inclusive	6.5	6.9
	<u>9.5</u>	<u>9.3</u>
Other equipment:		
Within one year	0.1	0.1
In the second to fifth years, inclusive	0.2	0.3
	<u>0.3</u>	<u>0.4</u>
	<u>9.8</u>	<u>9.7</u>



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## 16. Commitments

In addition to the operating lease arrangements detailed in note 15(b) above, the Group had the following outstanding capital commitments at the balance sheet date:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:		
Authorised and contracted for	96.6	8.1
Authorised, but not contracted for	260.8	294.3
	<u>357.4</u>	<u>302.4</u>

## 17. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group disposed of its equity interest in a listed company for a gross consideration of HK\$195.0 million which included an amount of HK\$188.5 million attributable to the equity investments at fair value through profit or loss classified under both non-current assets and current assets with a total carrying value of HK\$180.3 million as at 30th June, 2006. Consequently, a gain (before expenses but after release of relevant investment revaluation reserve) of HK\$37.8 million was realised.



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## 18. Share Options

The Company operates a share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Share Option Scheme"). The Share Option Scheme was adopted by the Company's shareholders on 16th June, 2005 and became effective on 21st July, 2005. Share options granted under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

Offer date**	Name or category of participant	Number of ordinary shares under share options*			Vesting/Exercise periods of share options	Exercise price of share options* HK\$
		At 1st January, 2006	Movement during the period	At 30th June, 2006		
<b>Directors</b>						
12th May, 2005	Mr. Lo Yuk Sui Unvested:	200,000,000***	–	200,000,000	Note	0.75
25th July, 2005	Mr. Donald Fan Tung Unvested:	20,000,000	–	20,000,000	Note	0.75
25th July, 2005	Mr. Jimmy Lo Chun To Unvested:	15,000,000	–	15,000,000	Note	0.75
25th July, 2005	Miss Lo Po Man Unvested:	30,000,000	–	30,000,000	Note	0.75
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	20,000,000	–	20,000,000	Note	0.75
25th July, 2005	Ms. Belinda Yeung Bik Yiu Unvested:	30,000,000	–	30,000,000	Note	0.75
<b>Other Employees</b>						
25th July, 2005	Employees, in aggregate Unvested:	35,000,000	–	35,000,000	Note	0.75
	Total:	<u>350,000,000</u>	<u>–</u>	<u>350,000,000</u>		

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

\*\* Offer date is the date on which the grant of share options is offered by the Company, and it is deemed the date of grant of the share options unless the grant of share options is declined or lapsed.

\*\*\* In excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date.



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**Note:**

Vesting/Exercise periods of share options:

<b>On completion of continuous service of</b>	<b>Percentage vesting</b>	<b>Cumulative percentage exercisable</b>
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)

The fair values of the share options for 200 million and 165 million ordinary shares granted in 2005 were HK\$22.5 million and HK\$25.6 million, respectively, which are amortised to the income statement over the vesting periods of the share options granted.



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## OTHER INFORMATION

### Directors' Interests in Share Capital

As at 30th June, 2006, 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, 2006)
			Personal Interests	Corporate Interests	Family/ Other Interests	
1. The Company	Mr. Lo Yuk Sui ("Mr. Lo")	Ordinary (i) issued	220,000	3,853,067,610 (Note a(i))	-	3,853,287,610
		(ii) unissued (Notes a(iii) & (v))	200,022,000	369,805,453 (Notes a(ii) to (iv))	-	569,827,453
					Total (i) & (ii):	4,423,115,063 (52.33%)
		Preference (issued)	-	3,440 (Note a(iv))	-	3,440 (20.54%)
	Dr. Francis Choi Chee Ming	Ordinary (i) issued	2,400,000	-	-	2,400,000
		(ii) unissued	-	800,000,000 (Note b)	-	800,000,000
					Total (i) & (ii):	802,400,000 (9.49%)
	Mr. Donald Fan Tung	Ordinary (unissued)	20,000,000 (Note c)	-	-	20,000,000 (0.24%)
	Mr. Jimmy Lo Chun To	Ordinary (unissued)	15,000,000 (Note d)	-	-	15,000,000 (0.18%)
	Miss Lo Po Man	Ordinary (i) issued	3,000,000	-	2,503,898 (Note e)	5,503,898
		(ii) unissued (Note f)	30,000,000	-	187,792 (Note e)	30,187,792
					Total (i) & (ii):	35,691,690 (0.42%)



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		Number of Shares Held				Total (Approximate percentage of the Issued Shares as at 30th June, 2006)
	Name of Director	Class of Shares Held	Personal Interests	Corporate Interests	Family/ Other Interests	
1.	<b>The Company</b>					
	Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 (Note c)	-	-	20,000,000 (0.24%)
	Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	30,000,000 (Note f)	-	-	30,000,000 (0.35%)
	<b>Number of Associated Corporation</b>					
2.	8D International (BVI) Limited	Ordinary (issued)	-	1,000 (Note g)	-	1,000 (100%)

**Notes:**

- (a) (i) The issued ordinary shares of the Company were held through companies wholly owned by Paliburg Holdings Limited ("PHL"), in which Century City International Holdings Limited ("CCIHL") held 54.71% shareholding interests.
- (ii) The interests in 369,805,453 unissued ordinary shares of the Company were held through companies wholly owned by PHL, in which CCIHL held 54.71% shareholding interests.
- (iii) The interests in 22,000 and 354,197,026 unissued ordinary shares of the Company related to the interests in the warrants of the Company (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 the Company at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustments).
- (iv) The interests in 15,608,427 unissued ordinary shares of the Company related to the interests in 3,440 convertible cumulative preference shares of the Company carrying rights to convert into 15,608,427 new ordinary shares of the Company, 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 the Company were held through the interests in the options granted under the share option scheme of the Company named as "The Regal Hotels International Holdings Limited" (the "Share Option Scheme"), entitling the holder thereof to subscribe for a total of 200,000,000 new ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 21st July, 2005 and 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	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

- (b) The interests in 800,000,000 unissued ordinary shares of the Company were held by Clovering Enterprise Limited ("Clovering Enterprise"), which is a company controlled by Dr. Francis Choi Chee Ming, through its interests in and rights to subscribe for the 2% Guaranteed Convertible Bonds due 2007 (the "Bonds"), guaranteed by, and convertible into new ordinary shares of the Company, for an aggregate principal amount of HK\$200,000,000 issued and to be issued by Cheerview Limited ("Cheerview"), a wholly owned subsidiary of the Company, pursuant to a conditional subscription agreement dated 3rd June, 2004 between Cheerview, the Company and Clovering Enterprise (the "Subscription Agreement"). Such HK\$200,000,000 Bonds comprise the issued firm bonds of an aggregate principal amount of HK\$100,000,000 (the "Firm Bonds") and the optional bonds of up to an aggregate principal amount of HK\$100,000,000 which Clovering Enterprise may subscribe for pursuant to the Subscription Agreement (the "Optional Bonds"). The Firm Bonds are, and the Optional Bonds (when in issue) will be, convertible into a total number of 800,000,000 new ordinary shares of the Company at the initial conversion price of HK\$0.25 per share (subject to adjustments).
- (c) The interests in 20,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 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>
25th July, 2007 to 24th July, 2011	8,000,000
25th July, 2008 to 24th July, 2011	4,000,000
25th July, 2009 to 24th July, 2011	4,000,000
25th July, 2010 to 24th July, 2011	4,000,000

- (d) The interests in 15,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 15,000,000 new ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 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>
25th July, 2007 to 24th July, 2011	6,000,000
25th July, 2008 to 24th July, 2011	3,000,000
25th July, 2009 to 24th July, 2011	3,000,000
25th July, 2010 to 24th July, 2011	3,000,000

- (e) The interests in 2,503,898 issued ordinary shares of the Company and the interests in 187,792 unissued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust. The interests in 187,792 unissued ordinary shares related to the interests in the 2007 Warrants carrying subscription rights in an aggregate amount of HK\$46,948.00, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 187,792 new ordinary shares of the Company at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustments).



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- (f) The interests in 30,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 30,000,000 new ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 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>
25th July, 2007 to 24th July, 2011	12,000,000
25th July, 2008 to 24th July, 2011	6,000,000
25th July, 2009 to 24th July, 2011	6,000,000
25th July, 2010 to 24th July, 2011	6,000,000

- (g) 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.

Save as disclosed herein, as at 30th June, 2006, 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 to be notified to the Company and the Stock Exchange.

Save as disclosed in note 18 to the condensed consolidated financial statements, during the period, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the Share Option Scheme and no option granted to such persons under the Share Option Scheme has been cancelled and lapsed:

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



## Substantial Shareholders' Interests in Share Capital

As at 30th June, 2006, the following substantial shareholders (as defined in the Listing Rules) (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Substantial Shareholder	Number of Issued Ordinary Shares Held	Number of Ordinary Shares (Unissued) Held	Total number of Ordinary Shares (Issued and Unissued) Held	Approximate percentage of the Issued Ordinary Shares as at 30th June, 2006
CCIHL (Note i)	3,853,067,610	369,805,453	4,222,873,063	49.96%
Century City BVI Holdings Limited (Note ii)	3,853,067,610	369,805,453	4,222,873,063	49.96%
Almighty International Limited (Note ii)	3,853,067,610	369,805,453	4,222,873,063	49.96%
PHL (Note iii)	3,853,067,610	369,805,453	4,222,873,063	49.96%
Paliburg Development BVI Holdings Limited (Note iv)	3,853,067,610	369,805,453	4,222,873,063	49.96%
Guo Yui Investments Limited (Note iv)	997,597,333	74,833,333	1,072,430,666	12.69%
Paliburg International Holdings Limited (Note iv)	2,390,392,820	239,039,281	2,629,432,101	31.11%
Paliburg BVI Holdings Limited (Note iv)	2,390,392,820	239,039,281	2,629,432,101	31.11%
Taylor Investments Ltd. (Note iv)	1,402,111,870	140,211,187	1,542,323,057	18.25%
Glaser Holdings Limited (Note iv)	533,480,286	53,348,028	586,828,314	6.94%
Clovinger Enterprise Limited ("CEL") (Note v)	-	800,000,000	800,000,000	9.46%

### Notes:

- (i) The interests in ordinary shares held by CCIHL were included in the corporate interests of Mr. Lo in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) These companies are wholly owned subsidiary companies of CCIHL and their interests in the ordinary shares of the Company are included in the interests held by CCIHL.
- (iii) PHL is a listed subsidiary company of CCIHL, which held 54.71% shareholding interests in PHL, and PHL's interests in the ordinary shares of the Company are included in the interests held by CCIHL.
- (iv) These companies are wholly owned subsidiary companies of PHL and their interests in the ordinary shares of the Company are included in the interests held by PHL.
- (v) The interests in unissued ordinary shares held by CEL were duplicated in the corporate interests of Dr. Francis Choi Chee Ming in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.

Save as disclosed herein, there is no person who, as at 30th June, 2006, 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.



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### Disclosure Pursuant to Rules 13.13 and 13.16 of Chapter 13 of the Listing Rules

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

#### *Advances to an Entity (Rule 13.13 of Chapter 13)*

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by the Company and 30% by China Overseas Land & Investment Limited, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules), by the Company and its subsidiary companies (the "Group") as at 30th June, 2006 are set out below:

<b>Advances</b>	<b>Group (HK\$'million)</b>
(A) Principal Amount of Advances	2,967.8
(B) Interest Receivable	379.2
	<hr/>
Total: (A)+(B)	3,347.0
	<hr/> <hr/>

The above advances to Chest Gain in an aggregate sum of HK\$3,347.0 million included an amount of HK\$1,701.1 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from PHL in 2002 as detailed in the audited consolidated financial statements for the year ended 31st December, 2002. Such contributions of funds to Chest Gain are provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, interest-bearing at prime rate per annum (but related interest had only been accrued to 31st December, 1998). The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of the "Regalia Bay" luxury residential project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Regalia Bay Development"). The site for the Regalia Bay Development was acquired by Chest Gain at the government land auction held on 3rd June, 1997.

Calculated on the basis shown above, the aggregate of advances as at 30th June, 2006 provided by the Group to Chest Gain in the sum of HK\$3,347.0 million represented 47.9% of the consolidated total assets of the Company of HK\$6,987.2 million (the "Regal TA"), by reference to its latest unaudited condensed consolidated financial statements for the six months ended 30th June, 2006.

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

Details of the financial assistance provided to affiliated companies (including Chest Gain) by the Group as at 30th June, 2006 are set out below:

<b>Name of Affiliated Companies</b>	<b>Principal Amount of Advances (HK\$'million)</b>	<b>Interest Receivable (HK\$'million)</b>	<b>Total (HK\$'million)</b>
Chest Gain	2,967.8	379.2	3,347.0
8D International (BVI) Limited	28.9	–	28.9
8D Matrix Limited	0.5	–	0.5
Bright Future (HK) Limited	5.6	–	5.6
Network Sky Limited	1.6	–	1.6
Hang Fok Properties Limited	139.1	–	139.1
	<u>3,143.5</u>	<u>379.2</u>	<u>3,522.7</u>

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

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

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



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

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

Hang Fok Properties Limited ("Hang Fok"), a 50% owned associate of the Company, holds a 59% shareholding interest in each of the two investee companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (both of which are Sino-foreign cooperative joint ventures incorporated in the PRC) (the "Investee Companies"). The Investee Companies are principally engaged in the development of a property project at Chao Yang Men Wai Da Jie in the Central Business District of Beijing, the PRC, planned to comprise office, residential, hotel, commercial and carparking accommodations with a total permissible gross floor area of about 4,630,000 square feet. One of the Investee Companies has been granted by the relevant authority in the PRC the Land Grant Contracts in respect of certain portions of the original development site encompassing office, commercial and residential uses. The remaining 50% shareholding interest in Hang Fok is owned by an indirect wholly owned subsidiary of PHL. The remaining 41% equity interests in the Investee Companies are owned by third parties, which are independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiary companies or any of their respective associates (as defined in the Listing Rules). The advances to Hang Fok were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Hang Fok, for the purpose of funding the working capital requirements of Hang Fok and its investment in the Investee Companies. The advances to Hang Fok are unsecured, interest free and have no fixed term of repayment.

Calculated on the basis shown above, as at 30th June, 2006, the aggregate amount of financial assistance provided to affiliated companies by the Group in the sum of HK\$3,522.7 million represented 50.4% of the Regal TA.

Save as disclosed above, there were no other financial assistance provided to and guarantees given for affiliated companies by the Group as at 30th June, 2006, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

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

	<b>Pro-forma combined balance sheet (HK\$'million)</b>	<b>The Group's attributable interest (HK\$'million)</b>
Non-current assets	440.2	212.6
Current assets	3,608.3	2,372.7
Current liabilities	(275.6)	(142.0)
Non-current liabilities	(5,178.7)	(3,525.2)
	<hr/>	<hr/>
Net liabilities	<u>(1,405.8)</u>	<u>(1,081.9)</u>

## **Corporate Governance**

### *Code of Corporate Governance Practices*

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30th June, 2006, except that:

- (1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals due to practical necessity on account of the Group's corporate operating structure.
- (2) The Non-Executive Directors and the Independent Non-Executive Directors of the Company were not appointed for specific terms, but arrangements have been put in place such that the Non-Executive Directors and the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

### *Code of Conduct for Securities Transactions by Directors*

The Company has adopted the "Code for Securities Transactions by Directors of Regal Hotels International Holdings Limited" (the "Regal 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 Regal Code during the six months ended 30th June, 2006.



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### **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, 2006.

### **Review of Results**

The Audit Committee of the Company currently comprises the following members:

Mr. Wong Chi Keung (Chairman of the Committee) (*Independent Non-Executive Director*)

Dr. Francis Choi Chee Ming (*Vice Chairman and Non-Executive Director*)

Ms. Alice Kan Lai Kuen (*Independent Non-Executive Director*)

Mr. Ng Siu Chan (*Independent Non-Executive Director*)

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2006, in conjunction with the Company's external auditors. The review report of the external auditors is set out on page 41 of this report.

# INDEPENDENT AUDITORS' REVIEW REPORT

**To the Board of Directors  
Regal Hotels International Holdings Limited**

## **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 11 to 30.

## **Respective responsibilities of Directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with 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 Statement of Auditing Standards 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 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.

## **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, 2006.

## **Ernst & Young**

*Certified Public Accountants*

Hong Kong  
18th September, 2006



**Regal Hotels**  
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