



百利保控股有限公司

Paliburg
Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code 股份代號: 817)



2006 INTERIM REPORT
中期報告書

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CORPORATE INFORMATION

DIRECTORS

Lo Yuk Sui
(Chairman and Managing Director)
Donald Fan Tung
Kitty Lo Lee Kit Tai*
Jimmy Lo Chun To
Kenneth Ng Kwai Kai
Ng Siu Chan#
Abraham Shek Lai Him, JP#
Wong Chi Keung#

* *Non-Executive Director*

Independent Non-Executive Director

AUDIT COMMITTEE

Wong Chi Keung (Chairman)
Ng Siu Chan
Abraham Shek Lai Him, JP

REMUNERATION COMMITTEE

Lo Yuk Sui (Chairman)
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

Tengis Limited
26th Floor, Tesbury Centre,
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REGISTERED OFFICE

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REVIEW OF OPERATIONS

For the six months ended 30th June, 2006, the Group attained an unaudited consolidated profit attributable to shareholders of HK\$209.1 million, representing an increase of about 47.3% as compared with the HK\$142.0 million (as restated) recorded for the corresponding period in 2005.

As at 30th June, 2006, the Group beneficially held approximately 45.6% of the issued ordinary shares of Regal Hotels International Holdings Limited, apart from certain holdings in its issued warrants and convertible preference shares. As explained before, Regal's hotel properties in Hong Kong have been stated at cost less accumulated depreciation and amortisation in its audited financial statements since 2005. Accordingly, the attributable share of the net assets of Regal reflected in the interests of the Group held in Regal has correspondingly been adjusted.

In order to more fairly reflect the underlying net asset value of the Group, supplementary information on the Group's net assets position, compiled on a proforma basis that Regal were to state its five hotel properties in Hong Kong based on their aggregate independent professional valuations of HK\$14,500 million as at 31st December, 2005, is provided in the section headed "Management Discussion and Analysis" on pages 7 to 10 in this Interim Report.

The Group owns a 30% interest in the joint venture development project at Ap Lei Chau Inland Lot No.129, comprising primarily residential accommodation having gross floor area of about 900,000 square feet together with ancillary retail, recreational and car parking facilities. The application to revise the flat mix of the proposed development, with a view to increasing the average size of the residential units to suit market demands, has been approved by the Town Planning Board. Site formation works for this project are in progress.

The Group has decided to retain 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, in the commercial building at 211 Johnston Road, Wanchai. Consequently, this property has been reclassified from property held for sale to investment property in the Condensed Consolidated Financial Statements presented in this Interim Report. A fair value gain on this property has been reflected in the financial results for the period under review by reference to its independent professional market valuation as at 30th June, 2006. Progressively increasing rental rates have been achieved on new leaseings or tenancy renewals and, at present, nearly all of the units are leased.

The Group has lately re-launched the marketing of part of its retained duplex units in the "Rainbow Lodge" residential development at 9 Ping Shan Lane, Yuen Long, New Territories and further units have since been sold.



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Each of the Group and Regal 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.

The Group's building construction arm, Chatwin Engineering Limited, is taking steps to expand its business undertakings and has successfully secured new contracts in both the public housing estate sector as well as in the private sector. In addition, to support its core property businesses, the Group continues to operate profitably a wide range of property related services encompassing development consultancy comprising architectural, engineering and interior design services, project management, building services and estate management.

For the six months ended 30th June, 2006, Regal 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 Regal for the period under review are considered to be satisfactory, particularly as the profit attained by the core hotel operations of Regal 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.

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 hotel operations of Regal in Hong Kong also improved from 45% in 2005 to 50% in the current year.

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 Regal 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.

Regal 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.

Although the volume of transactions in the high-end luxury residential market in Hong Kong has slowed down recently, Regal remains optimistic of the future of this segment of the property market. Pending the revival of an active market, certain house units in the Regalia Bay development in Stanley, Hong Kong, which is 70% owned by Regal, have in the meanwhile been leased out at satisfactory rental yield.

Subsequent to the half year end date, Regal 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.



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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 of Regal believe that the operating results of the Regal 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.

Regal is confident of the growing prospects of the tourist industry in Hong Kong and the Regal 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, Regal 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, Regal has been actively working on the separate listing of a real estate investment trust involving its five Regal Hotels in Hong Kong.

With the vast experience and expertise readily available within the Group in different facets of the property businesses, the Group is well positioned and prepared to undertake new development projects and property investments. Due to the scarcity of land supply in Hong Kong, the Group believes that the real estate market in mainland China will comparatively provide more attractive opportunities for its planned business expansion. Accordingly, in addition to the joint venture composite development project that is being undertaken in Beijing, the Group is actively reviewing other potential development projects in mainland China with a view to strengthening its overall property portfolio.

By Order of the Board

LO YUK SUI

Chairman

Hong Kong, 18th September, 2006

INTERIM DIVIDEND

In view of the satisfactory results achieved, the Directors have declared the payment of an interim dividend of HK0.15 cent per ordinary share for the financial year ending 31st December, 2006 (2005 – nil), absorbing a total amount of approximately HK\$10.8 million (2005 – nil), 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 accompanied by the relevant certificates must be lodged with the Company's branch registrar in Hong Kong, Tengis 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 constitute its shareholding interest in Regal Hotels International Holdings Limited ("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".

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\$3.8 million (2005 - HK\$12.2 million). Net interest payment for the period amounted to HK\$1.8 million (2005 - HK\$25.8 million).

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

Assets Value

Regal's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation and amortisation on the hotel land and buildings. Consequently, 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.



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In order to more fairly reflect the Group's net assets position, 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 state its five hotel properties in Hong Kong at their open market valuations as at 31st December, 2005.

Statement of Proforma Net Assets

	30th June, 2006 (Unaudited)	31st December, 2005 (Unaudited)
	HK\$'million	HK\$'million
NON-CURRENT ASSETS		
Interests in associates	2,820.7	2,697.4
Add: Attributable revaluation surplus relating to hotel properties of Regal*	3,440.8	3,469.4
	6,261.5	6,166.8
Other non-current assets	470.4	184.2
TOTAL NON-CURRENT ASSETS	6,731.9	6,351.0
CURRENT ASSETS	489.9	641.8
CURRENT LIABILITIES	(292.8)	(304.2)
NET CURRENT ASSETS	197.1	337.6
TOTAL ASSETS LESS CURRENT LIABILITIES	6,929.0	6,688.6
NON-CURRENT LIABILITIES	(197.5)	(148.2)
PROFORMA NET ASSETS	6,731.5	6,540.4
MINORITY INTERESTS	(0.2)	(0.2)
PROFORMA NET ASSETS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	6,731.3	6,540.2
Proforma net asset value per ordinary share	HK\$0.93	HK\$0.91

* Based on the aggregate open market valuations of Regal's hotel properties in Hong Kong of HK\$14,500 million as at 31st December, 2005 less fair value adjustment already taken into account by the Group in its interests in associates

Borrowings

As at 30th June, 2006, the Group's gross borrowings net of cash and bank balances amounted to HK\$67.7 million (31st December, 2005 - HK\$66.7 million). Gearing ratio based on total assets of HK\$3,781.0 million (31st December, 2005 - HK\$3,523.4 million) was 1.8% (31st December, 2005 - 1.9%). However, based on the proforma total assets of HK\$7,221.8 million as at 30th June, 2006 (31st December, 2005 - HK\$6,992.8 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 0.9% (31st December, 2005 - 1.0%).

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.

Information in relation to the maturity profile of the borrowings of the Group 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 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.



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Remuneration Policy

The Group, together with the Regal group, employ approximately 1,870 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 share option scheme named as "The Paliburg 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 and restated)
	Notes	HK\$'million	HK\$'million
REVENUE	3	86.1	30.1
Cost of sales		(75.9)	(15.6)
Gross profit		10.2	14.5
Other income and gains	4	5.8	12.7
Fair value gain upon reclassification of a property held for sale to an investment property		70.3	–
Administrative expenses		(12.8)	(13.0)
Other operating expenses, net	5	(0.6)	(0.4)
OPERATING PROFIT	3	72.9	13.8
Finance costs	7	(4.6)	(6.8)
Share of profits and losses of associates		141.3	135.6
PROFIT BEFORE TAX		209.6	142.6
Tax	8	(0.5)	(0.6)
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND MINORITY INTERESTS		209.1	142.0
Attributable to:			
Equity holders of the parent		209.1	142.0
Minority interests		–	–
		209.1	142.0
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
Basic		HK2.90 cents	HK1.97 cents
Diluted		HK2.63 cents	HK1.71 cents
DIVIDEND PER ORDINARY SHARE	10	HK0.15 cent	Nil



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Condensed Consolidated Balance Sheet

		30th June, 2006 (Unaudited)	31st December, 2005 (Restated)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Property, plant and equipment		3.8	4.4
Investment properties		270.3	0.3
Property held for future development		26.7	26.7
Interests in associates		2,820.7	2,697.4
Available-for-sale equity investments		151.1	130.8
Loans receivable		18.5	22.0
Total non-current assets		3,291.1	2,881.6
CURRENT ASSETS			
Equity investments at fair value through profit or loss		3.7	3.2
Properties held for sale		43.2	242.9
Inventories		5.1	1.5
Debtors, deposits and prepayments	11	46.2	50.3
Time deposits		129.9	72.4
Cash and bank balances		12.4	22.1
		240.5	392.4
Asset of a disposal group classified as held for sale		249.4	249.4
Total current assets		489.9	641.8
CURRENT LIABILITIES			
Creditors and accruals	12	(89.1)	(101.0)
Tax payable		(6.1)	(5.7)
Interest bearing bank and other borrowings		(12.5)	(13.0)
Deposits received		(86.2)	(85.6)
		(193.9)	(205.3)
Liability directly associated with the asset classified as held for sale		(98.9)	(98.9)
Total current liabilities		(292.8)	(304.2)
NET CURRENT ASSETS		197.1	337.6
TOTAL ASSETS LESS CURRENT LIABILITIES		3,488.2	3,219.2

Condensed Consolidated Balance Sheet (Cont'd)

	30th June, 2006 (Unaudited)	31st December, 2005 (Restated)
	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES	3,488.2	3,219.2
NON-CURRENT LIABILITIES		
Interest bearing bank borrowings	(197.5)	(148.2)
Net assets	3,290.7	3,071.0
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	72.1	72.1
Reserves	3,207.6	2,984.3
Dividends	10.8	14.4
	3,290.5	3,070.8
Minority interests	0.2	0.2
Total equity	3,290.7	3,071.0



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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													
Note	Issued share capital (Unaudited)	Equity component		Share option reserve (Unaudited)	Special reserve (Unaudited)	Assets revaluation reserve (Unaudited)	Available-for-sale equity		Investments revaluation reserve (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Dividends (Unaudited)	Total (Unaudited)	Minority interests (Unaudited)	Total equity (Unaudited)
		Share premium account listed associate (Unaudited)	bonds of the associate (Unaudited)				investments revaluation reserve (Unaudited)	reserves (Unaudited)							
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
	At 1st January, 2006														
	As previously reported	72.1	522.1	9.8	4.2	689.6	693.8	108.0	4.0	0.6	952.2	14.4	3,070.8	0.2	3,071.0
2	Prior period adjustments	-	-	-	-	-	-	(9.2)	9.3	-	(0.1)	-	-	-	-
	As restated	72.1	522.1	9.8	4.2	689.6	693.8	98.8	13.3	0.6	952.1	14.4	3,070.8	0.2	3,071.0
	Changes in fair value of available-for-sale equity investments	-	-	-	-	-	-	20.3	-	-	-	-	20.3	-	20.3
	Total income and expense recognised directly in equity	-	-	-	-	-	-	20.3	-	-	-	-	20.3	-	20.3
	Profit for the period	-	-	-	-	-	-	-	-	-	209.1	-	209.1	-	209.1
	Total income and expense for the period	-	-	-	-	-	-	20.3	-	-	209.1	-	229.4	-	229.4
	Release on deemed disposal of the Group's interest in the listed associate	-	-	-	-	-	-	-	(0.1)	-	-	-	(0.1)	-	(0.1)
	Final 2005 dividend declared	-	-	-	-	-	-	-	-	-	-	(14.4)	(14.4)	-	(14.4)
	Equity-settled share option arrangements	-	-	-	1.5	-	-	-	-	-	-	-	1.5	-	1.5
	Share of the listed associate	-	-	-	3.3	-	-	-	-	-	-	-	3.3	-	3.3
	2006 Interim dividend	-	-	-	-	-	-	-	-	-	(10.8)	10.8	-	-	-
	At 30th June, 2006	72.1	522.1	9.8	9.0	689.6	693.8	119.1	13.2	0.6	1,150.4	10.8	3,290.5	0.2	3,290.7

Condensed Consolidated Statement of Changes in Equity (Cont'd)

Note	Attributable to equity holders of the parent										
	Issued share capital	Share premium account	Share of convertible bonds of the listed associate	Equity component	Share option reserve	Special reserve	Assets revaluation reserve	Investments revaluation reserve	Exchange equalisation reserve	Retained profits	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m	HK\$'m
At 1st January, 2005											
As previously reported	72.1	522.1	9.8	-	-	689.6	693.8	123.9	4.0	1.5	2,565.9
Prior period adjustments	-	-	-	-	-	-	-	(8.3)	9.3	-	-
As restated	72.1	522.1	9.8	-	-	689.6	693.8	114.6	13.3	1.5	2,566.1
Changes in fair value of available-for-sale equity investments	-	-	-	-	-	-	-	40.0	-	-	40.0
Exchange realignment	-	-	-	-	-	-	-	-	0.1	-	0.1
Total income and expense recognised directly in equity	-	-	-	-	-	-	-	40.0	-	-	40.0
Profit for the period	-	-	-	-	-	-	-	-	-	142.0	142.0
Total income and expense for the period	-	-	-	-	-	-	-	40.0	0.1	142.0	182.0
Equity-settled share option arrangements	-	-	-	0.1	-	-	-	-	-	-	0.1
Share of the listed associate	-	-	-	0.1	-	-	-	-	-	-	0.1
At 30th June, 2005	72.1	522.1	9.8	0.2	-	689.6	693.8	154.6	13.3	1.6	2,748.2
											0.1
											2,748.3



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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 outflow from operating activities	(3.8)	(12.2)
Net cash inflow from investing activities	21.5	5.7
Net cash inflow from financing activities	30.6	30.5
Net increase in cash and cash equivalents	48.3	24.0
Cash and cash equivalents at beginning of period	94.0	97.2
Cash and cash equivalents at end of period	142.3	121.2
Analysis of balances of cash and cash equivalents		
Cash and bank balances	12.4	10.9
Non-pledged time deposits with original maturity of less than three months when acquired	129.9	110.3
	142.3	121.2

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

Except for HKAS 39 Amendment, the adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

The amendment to HKAS 39 regarding fair value options has changed the definition of financial instruments classified as fair value through profit or loss and restricted the ability to designate financial instruments as part of this category. Upon the adoption of this amendment, the Group has de-designated equity investments in the amount of HK\$8.6 million as at 1st January, 2006 as equity investments at fair value through profit or loss and classified them as available-for-sale equity investments as such equity investments failed to comply with the amended criteria for the designation.

The effects of the above changes are summarised in note 2 below. In accordance with the transitional provisions of the amendment, comparative amounts have been restated using the new classification.

2. Summary of the Impact of Changes in Accounting Policies

(a) Effect on the condensed consolidated balance sheet

Effect of new policy (Increase/(Decrease))	Effect of adopting HKAS 39 Amendment [#]	
	De-designation of equity investments at fair value through profit or loss	
	1st January, 2006 HK\$'million	30th June, 2006 HK\$'million
<u>Assets</u>		
Available-for-sale equity investments	8.6	9.4
Equity investments at fair value through profit or loss	(8.6)	(9.4)
	<u>—</u>	<u>—</u>
<u>Equity</u>		
Available-for-sale equity investments revaluation reserve	(9.2)	(8.4)
Investments revaluation reserve	9.3	9.3
Retained profits	(0.1)	(0.9)
	<u>—</u>	<u>—</u>

[#] Adjustments/Presentation taken effect retrospectively



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(b) Effect on the balances of equity

Effect of new policy (Increase/(Decrease))	Effect of adopting HKAS 39 Amendment	
	De-designation of equity investments at fair value through profit or loss	
	1st January, 2005 HK\$'million	1st January, 2006 HK\$'million
Available-for-sale equity investments		
revaluation reserve	(9.3)	(9.2)
Investments revaluation reserve	9.3	9.3
Retained profits	—	(0.1)
	<u>—</u>	<u>—</u>

(c) Effect on the condensed consolidated income statement

Effect of new policy	Effect of adopting HKAS 39 Amendment	
	De-designation of equity investments at fair value through profit or loss	
	Six months ended 30th June, 2006 HK\$'million	Six months ended 30th June, 2005 HK\$'million
Decrease in other income and gains and total decrease in profit	(0.8)	(2.8)
Decrease in basic earnings per ordinary share (cent)	(0.01)	(0.04)
Decrease in diluted earnings per ordinary share (cent)	(0.01)	(0.04)

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:

- (a) the property development and investment segment comprises the development and sale of properties, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related businesses segment engages 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;
- (c) the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;
- (d) the securities investment segment engages in securities trading businesses; and
- (e) the others segment mainly comprises other investments.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.



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(a) Business segments

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

GROUP

[illegible]

(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	2005 (Unaudited) HK\$'m	Six months ended 30th June, 2006	2005 (Unaudited) HK\$'m	Six months ended 30th June, 2006	2005 (Unaudited) HK\$'m	Six months ended 30th June, 2006	2005 (Unaudited) HK\$'m
Segment revenue:								
Sales to external customers	86.0	30.0	0.1	0.1	-	-	86.1	30.1



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4. Other Income and Gains

Other income and gains represent the following items:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited and restated)
	HK\$'million	HK\$'million
Interest income	3.5	1.8
Dividend income	–	9.9
Fair value gains on equity investments at fair value through profit or loss, net	0.3	1.0
Gain on deemed disposal of the Group's interest in the listed associate	1.4	–
Others	0.6	–
	<u>5.8</u>	<u>12.7</u>

5. Other Operating Expenses, net

Included in the balance is a depreciation charge of HK\$0.6 million (2005 - HK\$0.1 million).

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

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Profit on disposal of listed investments	2.5	–
Loss on sale of properties	<u>–</u>	<u>(0.2)</u>

7. Finance Costs

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Interest in respect of:		
Bank loans and overdrafts, wholly repayable within five years	4.1	5.8
Other loans, wholly repayable within five years	0.5	1.0
	<u>4.6</u>	<u>6.8</u>

8. Tax

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Current - Hong Kong		
Provision for tax in respect of profits for the period	0.4	0.6
Current - Overseas		
Underprovision in prior periods	0.1	—
	<u>0.5</u>	<u>0.6</u>

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 - 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.

The share of tax credit attributable to the associates amounting to HK\$1.5 million (2005 - HK\$6.6 million) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.



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9. 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\$209.1 million (2005 - HK\$142.0 million, as restated) and on the weighted average of 7,208.5 million (2005 - 7,208.5 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, 2006 is based on the profit for the period attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the earnings of Regal Hotels International Holdings Limited ("RHIHL"), the listed associate of the Company, and its subsidiary companies (the "RHIHL Group") of HK\$18.3 million 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 weighted average number of ordinary shares used in the calculation is the aggregate of the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per ordinary share calculation, and the weighted average number of ordinary shares of 39.4 million that would be issued at no consideration assuming all outstanding share options 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 RHIHL 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 RHIHL outstanding during the period is higher than the average market price of the ordinary shares of 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, 2005 was based on the profit for that period (as restated) attributable to equity holders of the parent, adjusted for the decrease in the Group's proportionate interest in the RHIHL Group's earnings of HK\$19.0 million and on the weighted average of 7,208.5 million ordinary shares of the Company in issue during the prior 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 that period. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that period and was not included in the calculation of diluted earnings per ordinary share. In addition, the exercise prices of the 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.

10. Dividend

The Directors have declared the payment of an interim dividend of HK0.15 cent per ordinary share for the financial year ending 31st December, 2006 (2005 - Nil), absorbing a total amount of approximately HK\$10.8 million.

11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$4.0 million (31st December, 2005 - HK\$22.4 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	3.7	21.9
Between 4 to 6 months	–	0.5
Between 7 to 12 months	0.3	–
	<hr/>	<hr/>
	4.0	22.4
	<hr/>	<hr/>

Credit Terms

Trade debtors generally have credit terms of 30 to 90 days. The Group seeks to maintain strict control over its outstanding debts and overdue balances are reviewed regularly by senior management. In view of the aforementioned and that the Group's exposures spread over a number of counter-parties and customers, the Group has no significant concentration of credit risk.

Included in the balances are amounts due from the Group's listed associate, a jointly controlled entity of the listed associate and a related company of HK\$1.5 million (31st December, 2005 - HK\$13.8 million), HK\$1.9 million (31st December, 2005 - HK\$2.7 million) and HK\$8.0 million (31st December, 2005 - HK\$8.4 million), respectively, which are unsecured, non-interest bearing and repayable either on similar credit terms to those offered to the major customers of the Group or on demand.



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12. Creditors and Accruals

Included in the balance is an amount of HK\$1.7 million (31st December, 2005 - HK\$5.2 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	1.7	5.1
Over 3 months	–	0.1
	<u>1.7</u>	<u>5.2</u>

The trade creditors are non-interest bearing and are normally settled within 90 days.

Included in the balance is an amount due to the Group's listed associate of HK\$8.1 million (31st December, 2005 - HK\$8.1 million), which is unsecured, non-interest bearing and has no fixed terms of repayment.

13. 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
The listed ultimate holding company:		
Management fees	2.8	3.3
The listed associate:		
Gross construction fee income	3.1	4.1
Gross income in respect of security systems and products and other software	0.2	2.5
A jointly controlled entity of the listed associate:		
Gross construction fee income	0.4	10.8
A related company:		
Advertising and promotion fees (including cost reimbursements)	0.2	–

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, 2005.

(b) Outstanding balances with related parties

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Due from associates	147.1	16.7
Due from a jointly controlled entity of the listed associate	1.9	2.7
Due from a related company	8.0	8.4
Due to the listed associate	(9.8)	(10.2)
Loans to associates	156.4	156.4
Promissory note receivable	–	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	2.1	2.1
Share-based payments	<u>1.3</u>	<u>0.1</u>
Total compensation paid to key management personnel	<u>3.4</u>	<u>2.2</u>



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14. Pledge of Assets

At 30th June, 2006, certain of the Group's investment property, properties held for sale and available-for-sale equity investments with a total carrying value of HK\$321.6 million (31st December, 2005 - HK\$270.8 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, 2006 (31st December, 2005 - HK\$0.5 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 employments are 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.

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 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:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Within one year	6.9	5.6
In the second to fifth years, inclusive	3.5	2.2
	<u>10.4</u>	<u>7.8</u>

(b) As lessee

The Group leases certain area under an operating lease arrangement. Lease for the area is negotiated for a term of 1 year.

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

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Within one year	<u>0.1</u>	<u>0.1</u>



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17. Share Options

The Company operates a share option scheme named as "The Paliburg Holdings Limited Share Option Scheme" (the "Paliburg Share Option Scheme"). The Paliburg 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 Paliburg 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 Paliburg 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		
	Directors					
12th May, 2005	Mr. Lo Yuk Sui Unvested:	180,000,000***	–	180,000,000	Note	0.22
25th July, 2005	Mr. Donald Fan Tung Unvested:	20,000,000	–	20,000,000	Note	0.22
25th July, 2005	Mr. Jimmy Lo Chun To Unvested:	20,000,000	–	20,000,000	Note	0.22
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	20,000,000	–	20,000,000	Note	0.22
	Other Employees					
25th July, 2005	Employees, in aggregate Unvested:	40,000,000	–	40,000,000	Note	0.22
	Total:	280,000,000	–	280,000,000		

* 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 deemed the date of grant of the share options unless the grant of the share options is otherwise declined or lapsed.

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

Note:

Vesting/Exercise periods of share options:

On completion of continuous service of	Percentage vesting	Cumulative percentage exercisable
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 180 million and 100 million ordinary shares granted in 2005 were HK\$5.2 million and HK\$4.5 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	Family Interests	Corporate Interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary (i) issued	442,765	–	4,250,774,001 (Note c)	4,251,216,766
		(ii) unissued	180,000,000 (Note c(iii))	–	–	180,000,000
					Total (i) & (ii):	4,431,216,766 (61.47%)
	Mr. Donald Fan Tung	Ordinary (i) issued	2,718	–	–	2,718
		(ii) unissued	20,000,000 (Note d)	–	–	20,000,000
					Total (i) & (ii):	20,002,718 (0.28%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	100,000	–	–	100,000 (0.0014%)
	Mr. Jimmy Lo Chun To	Ordinary (i) issued	284,000	–	–	284,000
		(ii) unissued	20,000,000 (Note d)	–	–	20,000,000
					Total (i) & (ii):	20,284,000 (0.28%)
	Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 (Note d)	–	–	20,000,000 (0.28%)

	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	Family Interests	Corporate Interests	
1. The Company	Mr. Ng Siu Chan	Ordinary (issued)	–	536,500	–	536,500 (0.0074%)
Name of Associated Corporation						
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	294,516,903	–	11,664,822,186 (Note a(ii))	11,959,339,089
		(ii) unissued	408,903,380 (Notes a(i) & (iii))	–	2,332,964,436 (Note a(iv))	2,741,867,816
	Total (i) & (ii):					14,701,206,905 (89.27%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (i) issued	2,510,000	–	–	2,510,000
		(ii) unissued	502,000 (Note b(i))	–	–	502,000
	Total (i) & (ii):					3,012,000 (0.018%)
	Mr. Jimmy Lo Chun To	Ordinary (i) issued	1,659,800	–	–	1,659,800
		(ii) unissued	331,960 (Note b(ii))	–	–	331,960
	Total (i) & (ii):					1,991,760 (0.012%)
	Mr. Ng Siu Chan	Ordinary (i) issued	–	15,453,000	–	15,453,000
		(ii) unissued	–	3,090,600 (Note b(iii))	–	3,090,600
	Total (i) & (ii):					18,543,600 (0.113%)



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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, 2006)
			Personal Interests	Family Interests	Corporate Interests	
3. Regal Hotels International Holdings Limited ("RHIHL")	Mr. Lo Yuk Sui	Ordinary (i) issued	220,000	–	3,853,067,610 (Note e(i))	3,853,287,610
		(ii) unissued	200,022,000 (Notes e(iii) & (v))	–	369,805,453 (Note e(ii) to (iv))	569,827,453
					Total (i) & (ii):	4,423,115,063 (52.33%)
		Preference (issued)	–	–	3,440 (Note e(iv))	3,440 (20.54%)
	Mr. Donald Fan Tung	Ordinary (unissued)	20,000,000 (Note f)	–	–	20,000,000 (0.24%)
	Mrs. Kitty Lo Lee Kit Tai	Ordinary (i) issued	2,370,000	–	–	2,370,000
		(ii) unissued	237,000 (Note g)	–	–	237,000
					Total (i) & (ii):	2,607,000 (0.031%)
	Mr. Jimmy Lo Chun To	Ordinary (unissued)	15,000,000 (Note h)	–	–	15,000,000 (0.18%)
	Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 (Note f)	–	–	20,000,000 (0.24%)
4. 8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	–	–	1,000 (Note i)	1,000 (100%)
5. Network Sky Limited	Mrs. Kitty Lo Lee Kit Tai	Ordinary (issued)	–	–	50,000 (Note j)	50,000 (25%)

Notes:

- (a) (i) The interests in 914,822,186 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 10,750,000,000 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 350,000,000 unissued ordinary shares of CCIHL were held through the interests in the options granted under the share option scheme of CCIHL named as "The Century City International Holdings Limited Share Option Scheme" (the "Century City Option Scheme"), entitling the holder thereof 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). 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:

<u>Exercise period</u>	<u>Number of ordinary shares of CCIHL under vested options</u>
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

- (iii) The interests in 58,903,380 unissued ordinary shares of CCIHL related to the interests in the warrants of CCIHL (the "2011 Warrants") carrying subscription rights in an aggregate amount of HK\$5,890,338.00, which are exercisable during the period from 18th April, 2006 to 11th January, 2011 to subscribe for new ordinary shares of CCIHL at an initial subscription price of HK\$0.10 per ordinary share (subject to adjustment).



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- (iv) The interests in 2,332,964,436 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$233,296,443.60, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (b) (i) The interests in 502,000 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$50,200.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (ii) The interests in 331,960 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$33,196.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (iii) The interests in 3,090,600 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$309,060.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (c) (i) The interests in 3,944,018,001 issued ordinary shares of the Company were held through companies wholly owned by CCIHL, in which Mr. Lo held 72.62% shareholding interests.

The interests in 106,756,000 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 granted under the share option scheme of the Company named as "The Paliburg Holdings Limited Share Option Scheme" (the "Paliburg Share Option Scheme"), entitling the holder thereof to subscribe for a total of 180,000,000 new ordinary shares of the Company at an exercise price of HK\$0.22 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:

<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



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- (d) The interests in 20,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Paliburg 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\$0.22 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

- (e) (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 granted under the share option scheme of RHIHL named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Regal Share Option Scheme"), entitling the holder thereof 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). 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:

<u>Exercise period</u>	<u>Number of ordinary shares of RHIHL under vested options</u>
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

- (f) The interests in 20,000,000 unissued ordinary shares of RHIHL were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of RHIHL 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 RHIHL 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

- (g) The interests in 237,000 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 to subscribe for such new ordinary shares of RHIHL upon the terms as set out in note (e)(iii) above.

- (h) The interests in 15,000,000 unissued ordinary shares of RHIHL were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 15,000,000 new ordinary shares of RHIHL 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 RHIHL 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

- (i) 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.
- (j) The shares were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.



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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 in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed in note 17 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 Paliburg Share Option Scheme and no option granted to such persons under the Paliburg 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 Paliburg 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 Paliburg 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	Approximate percentage of issued ordinary shares as at 30th June, 2006
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%
Cheah Cheng Hye (Note iii)	360,896,000	5.01%
Value Partners Limited (Note iii)	360,896,000	5.01%

Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 72.62% shareholding interests in CCIHL and the interests in these ordinary shares of the Company 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.
- (iii) Mr. Cheah Cheng Hye held 32.77% shareholding interests in Value Partners Limited and the interests in these ordinary shares of the Company held by it as investment manager were included in the interests held by Mr. Cheah Cheng Hye.

Save as disclosed herein, there is no person who being a substantial shareholder (as defined in the Listing Rules), 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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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 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, 2006.

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 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 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, 2006, in conjunction with the external auditors. The review report of the external auditors is set out on page 43 of this report.

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 31.

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 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.

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



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