2012 ANNUAL REPORT

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 : 78)

Contents

Corporate Information

DIRECTORS

Executive Directors

Lo Yuk Sui
(Chairman and Chief Executive Officer)
Belinda Yeung Bik Yiu
(Chief Operating Officer)
Donald Fan Tung
Jimmy Lo Chun To
Lo Po Man
Kenneth Ng Kwai Kai
Allen Wan Tze Wai

Non-Executive Director

Francis Choi Chee Ming, GBS, JP
(Vice Chairman)

Independent Non-Executive Directors

Alice Kan Lai Kuen
Japhet Sebastian Law
Ng Siu Chan
Wong Chi Keung

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

SECRETARY

Eliza Lam Sau Fun

AUDITORS

Ernst & Young

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
The Bank of East Asia, Limited
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank Corporation,
Hong Kong Branch
Oversea-Chinese Banking Corporation Limited
Bank of Communications Co., Ltd.
Hong Kong Branch
Australia and New Zealand Banking Group Limited

PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street, Hamilton HM 11, 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

26 Burnaby Street, Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, 68 Yee Wo Street,
Causeway Bay,
Hong Kong
Tel: 2894 7888
Fax: 2890 1697
Website: www.regal.com.hk

***Mr. Lo Yuk Sui**, aged 68; Chairman and Chief Executive Officer* — Chairman and Managing Director since 1989 when the Company was established in Bermuda as the holding company of the Group. Mr. Lo has been the Managing Director and the Chairman of the predecessor listed company of the Group since 1984 and 1987 respectively. Mr. Lo was designated as the Chief Executive Officer of the Company in 2007. He is also the chairman and chief executive officer of Century City International Holdings Limited ("CCIHL") (the ultimate listed holding company of the Company) and Paliburg Holdings Limited ("PHL") (the immediate listed holding company of the Company), and the non-executive chairman of Regal Portfolio Management Limited ("RPML"), the manager of Regal Real Estate Investment Trust (the listed subsidiary of the Company). Mr. Lo is a qualified architect. In his capacity as the Chief Executive Officer, Mr. Lo oversees the overall policy and decision making of the Group. Mr. Lo is the father of Mr. Jimmy Lo Chun To and Miss Lo Po Man.

***Dr. Francis Choi Chee Ming, GBS, JP,** aged 67; Vice Chairman and Non-Executive Director* — Invited to the Board as Non-Executive Director and elected Vice Chairman in 2004. Dr. Choi holds a Master Degree in Business Administration from the Newport University in the United States of America. He also holds a Ph.D. in Business Management from Harbin Institute of Technology, the People's Republic of China, and an Honorary Degree of Doctor of Business Administration from The Hong Kong Polytechnic University. Dr. Choi is the chairman of Early Light International (Holdings) Limited and has extensive business interests in the manufacturing industry and the property sector. He is the Honorary President of the Toys Manufacturers' Association of Hong Kong, Honorary President of the Hong Kong Young Industrialists Council and the Court Member of the Hong Kong Polytechnic University. Dr. Choi is also the vice chairman and non-executive director of Town Health International Investments Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

***Ms. Belinda Yeung Bik Yiu,** aged 54; Executive Director and Chief Operating Officer* — Appointed to the Board in 2002 and designated as the Chief Operating Officer in 2007. Ms. Yeung joined the Group in 1987. Graduated from Barron Hilton School of Hotel Management, University of Houston, U.S.A., Ms. Yeung has devoted her career in the hospitality industry in U.S.A., Mainland China and Hong Kong – on both multi-unit corporate and single-unit hotel property management levels. As the Chief Operating Officer, she is in charge of the operations of all Regal Hotels in Hong Kong and Mainland China. In addition to her hotel management responsibilities, Ms. Yeung is also responsible for the human resources management of the Century City Group. Ms. Yeung is a member of Election Committee for the Hong Kong Chief Executive Election, Deputy Chairman of Executive Committee of the Federation of Hong Kong Hotel Owners and Chairman of the Industry Advisory Committee of the School of Hotel & Tourism Management of The Hong Kong Polytechnic University.

***Mr. Donald Fan Tung,** aged 56; Executive Director* — Appointed to the Board in 2002. Mr. Fan is a qualified architect. He has been with the Group since 1987 and is primarily in charge of the property investment and development businesses and the hotel project works of the Group. Mr. Fan is also an executive director of CCIHL, an executive director and the chief operating officer of PHL and a non-executive director of RPML. Mr. Fan is involved in the property development, architectural design and project management functions as well as overseeing the building construction business of the PHL group.

Ms. Alice Kan Lai Kuen, *aged 58; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Ms. Kan is a shareholder and the managing director of Asia Investment Management Limited providing corporate advisory and investment management services and Asia Investment Research Limited involving in research work in Hong Kong and China based companies. She is a licensed investment adviser under the Securities and Futures Ordinance of Hong Kong (the "SFO") and a responsible officer of Asia Investment Management Limited, Asia Investment Research Limited and Lotus Asset Management Limited. She has over 20 years of experience in corporate finance and is well experienced in both the equity and debt markets. She held various senior positions in international and local banks and financial institutions. Ms. Kan is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. She is a fellow member of the Hong Kong Institute of Directors. Ms. Kan is an independent non-executive director of China Energine International (Holdings) Limited, Shimao Property Holdings Limited and Shougang Concord International Enterprises Company Limited, all of which are companies listed on the Stock Exchange, and an independent director of AVIC International Investments Limited, a company listed on Singapore Exchange Securities Trading Limited.

Professor Japhet Sebastian Law, *aged 61; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director on 18th June, 2012. Professor Law obtained his Ph.D. in Mechanical/Industrial Engineering from The University of Texas at Austin in 1976. He joined The Chinese University of Hong Kong in 1986 and was a professor in the Department of Decision Sciences and Managerial Economics and the director of the Aviation Policy and Research Center until his retirement since August 2012. He was also the associate dean and subsequently the dean of the Faculty of Business Administration of The Chinese University of Hong Kong from 1993 to 2002. Prior to returning to Hong Kong, Professor Law was the director of operations research at the Cullen College of Engineering and director of graduate studies in Industrial Engineering at the University of Houston, and he was also involved with the United States Space Program in his career with McDonnell Douglas and Ford Aerospace in the United States. Professor Law has acted as a consultant for various corporations in Hong Kong and overseas. He is active in public services, having served as a member of the Provisional Regional Council of the Government of the Hong Kong Special Administrative Region and various other government advisory committees, and he is also active in serving on the boards of for-profit, non-profit, public and charitable organisations in Hong Kong and overseas. Professor Law is currently an independent non-executive director of Beijing Capital International Airport Company Limited, Binhai Investment Company Limited, Cypress Jade Agricultural Holdings Limited, Global Digital Creations Holdings Limited, Tianjin Binhai Teda Logistics (Group) Corporation Limited and Tianjin Port Development Holdings Limited, all of which are companies listed on the Stock Exchange. Professor Law has also served on various committees and boards of international organisations, including The Association to Advance Collegiate Schools of Business, Graduate Management Admission Council and Oxfam International.

Mr. Jimmy Lo Chun To*, aged 39; Executive Director* — Appointed to the Board in 1999. He is also an executive director of CCIHL and PHL and a non-executive director of RPML. Mr. Jimmy Lo graduated from Cornell University, New York, U.S.A. with a Degree in Architecture. He joined the Century City Group in 1998. Apart from his involvement with the design of the Group's property and hotel projects, Mr. Jimmy Lo undertakes responsibilities in the business development function of the Century City Group. He is the son of Mr. Lo Yuk Sui and the brother of Miss Lo Po Man.

Miss Lo Po Man, *aged 33; Executive Director* — Joined the Group in 2000 and appointed to the Board in 2004. Miss Lo graduated from Duke University, North Carolina, U.S.A. with a Bachelor Degree in Psychology. She is also an executive director of CCIHL and PHL and a non-executive director of RPML. Miss Lo is an experienced executive in sales and marketing and corporate management. She oversees the sales and marketing functions of the Group and directed the marketing campaign of the Group's luxury residential development, Regalia Bay in Stanley, Hong Kong. She also undertakes responsibilities in the business development function of the Group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Kenneth Ng Kwai Kai, *aged 58; Executive Director* — Joined the Group in 1985 and appointed to the Board in 1998. Mr. Ng is a Chartered Secretary and is in charge of the corporate finance, company secretarial and administrative functions of the Century City Group. He is also an executive director and the chief operating officer of CCIHL, an executive director of PHL, and a non-executive director of RPML and Cosmopolitan International Holdings Limited, a company listed on the Stock Exchange.

Mr. Ng Siu Chan, *aged 82; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2005. Mr. Ng is also an independent non-executive director of CCIHL and PHL. He is a non-executive director of Transport International Holdings Limited, which is a company listed on the Stock Exchange.

Mr. Allen Wan Tze Wai, *aged 54; Executive Director* — Appointed to the Board in 2010. Mr. Wan has been with the Century City Group for over 20 years and is the Group Financial Controller of the Century City Group. Mr. Wan holds a Bachelor Degree in Commerce from the University of New South Wales in Australia. He is a member of Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Wan has over 30 years of experience in finance and accounting field.

Mr. Wong Chi Keung, *aged 58; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Mr. Wong is also an independent non-executive director of CCIHL and PHL. He holds a Master's Degree in Business Administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia and an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a responsible officer for asset management, advising on securities and advising on corporate finance for Greater China Capital Limited under the SFO. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited (now known as "Yuexiu Property Company Limited"), a company listed on the Stock Exchange, for over ten years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, China Nickel Resources Holdings Company Limited, China Ting Group Holdings Limited, ENM Holdings Limited, First Natural Foods Holdings Limited, Golden Eagle Retail Group Limited, Ngai Lik Industrial Holdings Limited, PacMOS Technologies Holdings Limited, TPV Technology Limited and Zhuguang Holdings Group Company Limited, all of which are companies listed on the Stock Exchange. Mr. Wong has over 30 years of experience in finance, accounting and management.

Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31st December, 2012.

FINANCIAL RESULTS

For the year ended 31st December, 2012, the Group achieved a consolidated profit attributable to shareholders of HK$536.3 million, which was an increase of about 4 times over the HK$107.9 million attained in 2011.

The gross profit of the Group for the year under review amounted to HK$1,174.3 million (2011 – HK$867.7 million), of which over HK$1,015.7 million (2011 – HK$856.0 million) were attributable to the gross operating profit and net property income contributed by the core hotel businesses. The operating profit before depreciation and finance costs of the Group for the year amounted to HK$1,182.3 million (2011 – HK$27.4 million).

The six hotel properties within the Group are owned by Regal Real Estate Investment Trust, which became a listed subsidiary of the Group since July 2010. Except for the Regal iClub Hotel in Wanchai, the five initial Regal Hotels are leased to a wholly owned subsidiary of the Group. In accordance with the applicable accounting standards, these hotels are classified as fixed assets and are only stated in the Group's consolidated financial statements at their fair values at the time when Regal REIT became a subsidiary of the Group, plus subsequent capital additions and deducting accumulated depreciation. Consequently, all the subsequent appreciations in the market valuations of these five hotel properties, which are accounted for by Regal REIT, have not been reflected in the consolidated financial statements of the Group. Moreover, total depreciation expenses of HK$380.0 million (2011 – HK$365.5 million), though of non-cash nature, have been charged to the consolidated income statement for the year, which affected the reported profit.

Having regard to the material difference between the carrying values of the Group's hotel property portfolio and their fair values as at 31st December, 2012, an Adjusted Net Asset Value Statement is presented in the section headed "Management Discussion and Analysis" below, showing for the purpose of reference, that if all the hotel properties of the Group were to be stated at their independent professional market valuations as at 31st December, 2012, the underlying adjusted net asset value of the Company would amount to approximately HK$18.27 per share.

In April 2012, the Company announced a share repurchase programme for the repurchase of up to 38,886,400 shares of the Company at a maximum price of HK$3.80 per share, initiated with the objective of enhancing the net asset value as well as the earnings per share of the Company. Up to the date when the share repurchase programme ended on 21st July, 2012, the Company has repurchased a total of 37,344,000 shares of the Company and has utilised total funds of approximately HK$115.3 million.

With a view to raising additional funds to finance its expansion plans, the Group established in October 2012 a US$1 Billion Medium Term Note Programme and has in the same month issued one series of senior unsecured 5-year term notes for a total nominal principal amount of US$300 million at a coupon interest rate of 4.25% per annum.

DIVIDENDS

The Directors have resolved to recommend the payment of a final dividend of HK10.0 cents per ordinary share for the year ended 31st December, 2012, representing an increase of 11.1% over the final dividend of HK9.0 cents per ordinary share paid for the last financial year. This proposed final dividend will absorb an amount of approximately HK$96.4 million (2011 – HK$90.1 million) and will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 10th June, 2013.

Together with the interim dividend of HK3.3 cents (2011 – HK3.0 cents) per ordinary share paid in October 2012, total dividends per ordinary share for the year ended 31st December, 2012 will amount to HK13.3 cents, representing an increase of 10.8% over the total dividends of HK12.0 cents paid for the last financial year.

BUSINESS OVERVIEW

HOTELS

MARKET OVERVIEW

During the year under review, the global economy as a whole improved modestly but the pace of recovery was slow. In the United States, the financial conditions have stabilised and the once acute sovereign debt crisis in the Euro area has also gained some relief, although ripples may still surface from time to time. The further quantitative easing measures undertaken by the central monetary authorities of the United States, the Euro area and Japan have increased market liquidity and improved the investment sentiment. Capital flows to the emerging markets remained strong and the developing economies continued to be the main drivers for global economic growth. With the strengthened domestic demand and the gradual rebound in the industrial production, the economy in China appears to have bottomed out in 2012, with GDP growth being maintained at 7.8%. In Hong Kong, the local economy continued to be resilient but due to the relatively weak external conditions, Hong Kong's economic growth has slowed down from 4.9% in 2011 to 1.4% in 2012. On the other hand, benefiting from the market liquidity and the continuing low interest environment, both the capital and property markets in Hong Kong remained buoyant.

In 2012, visitor arrivals to Hong Kong increased by 16.0% year-on-year to a total of over 48.6 million, which was mainly fueled by the strong growth from Mainland China. The Hong Kong Tourism Board has intensified its promotional campaigns in provinces beyond Guangdong to open up new visitor sources in other Mainland cities and, in the meantime, is also working to keep the visitors' portfolio diversified by rolling out a series of mega events to enhance Hong Kong's appeal internationally.

Based on the Hotel Survey published by the Hong Kong Tourism Board, the average hotel occupancy rate for all the surveyed hotels in different categories for 2012 was 89%, while the average achieved room rate attained a year-on-year increase of 9.8%.

HOTEL OWNERSHIP

REGAL REAL ESTATE INVESTMENT TRUST

The Group's hotel ownership business is undertaken through Regal REIT, which is approximately 74.5% held by the Group, and a wholly owned subsidiary of the Group, Regal Portfolio Management Limited, acts as the REIT Manager of Regal REIT.

For the year ended 31st December, 2012, Regal REIT achieved a consolidated net profit before distributions to Unitholders of HK$3,548.8 million, an increase of 18.4% over the comparative amount of HK$2,997.3 million recorded for the year 2011. The profit achieved for the year under review included a gain of HK$3,068.0 million derived from the changes in the fair values of Regal REIT's investment properties, while for the preceding year, a gain of HK$2,625.3 million was recorded from such fair value changes. Total distributable income has increased by 16.8% from HK$397.9 million last year to HK$464.7 million in the year under review.

The annual base rent for 2012 for the five Regal Hotels leased to the Group, namely, the Regal Airport Hotel, the Regal Hongkong Hotel, the Regal Kowloon Hotel, the Regal Riverside Hotel and the Regal Oriental Hotel was HK$645 million and there was a sharing of variable rent in the sum of HK$138.6 million for each of Regal REIT and the lessee. The Regal iClub Hotel in Wanchai, which is owned and self-operated by Regal REIT, continued to achieve satisfactory results, with average occupancy rate being maintained at a high level of 97.4% and the average room rate improving by 4.2% year-on-year.

The rental review for the leasing of the five Regal Hotels for the year 2013 was completed in August 2012 and the aggregate annual base rent has been determined at HK$734.0 million, an increase of 13.8% over the 2012 rental level, with variable rent being similarly based on a sharing of 50% of the excess of the aggregate net property income over the aggregate base rent. Based on present forecasts and barring any unforeseen circumstances, it is anticipated that the net property income of these five hotels in 2013 will be above the base rent level, with sharing of variable rent to both Regal REIT and the lessee.

The conversion works on the 14th floor of the Regal Oriental Hotel have already been completed and the conversion works on the 2nd floor have recently commenced. When this conversion program is fully completed within the year, the total number of rooms and suites in the Regal Oriental Hotel will be increased by 55 guestrooms, boosting the total room count in the hotel portfolio owned by Regal REIT to an aggregate of 3,984 guestrooms and suites. Total valuation of its overall properties portfolio, before taking into account any value appreciation to arise from the ongoing room conversion programme in the Regal Oriental Hotel, amounted to HK$21,032.0 million as at 31st December, 2012, reflecting an increase of 18.4% as compared with that at the preceding year end.

HOTEL OPERATIONS

During the year under review, the five Regal Hotels in Hong Kong leased to the Group have all achieved steady progress. The combined average occupancy rate for these five hotels was 90.0% and the average room rate increased by 12.0% year-on-year, both of which were above the industry average. Total gross operating profits for these five hotels for the year amounted to approximately HK$958.0 million, an increase of approximately 16.4% over the comparative amount of HK$822.7 million attained in 2011.

To further strengthen the marketing platform and to enhance business efficiency, a new centralised hotel property management system connecting all the six hotels in Hong Kong is being implemented, which will be completed in phases before the end of next year.

HOTEL MANAGEMENT

All the six Regal Hotels in Hong Kong are managed by Regal Hotels International Limited, a wholly owned subsidiary of the Group.

In China, there are seven operating hotels under the management of the Group and eight other hotel projects, also to be managed by the Group, are scheduled to come into operation during the next few years. The Group is presently in negotiations on a number of new hotel management services contracts in different cities in China.

The Group will continue to invest additional resources in its hotel management businesses, with a view to further extending the Regal Hotels network in China as well as overseas.

PROPERTIES

The sale of two connected houses in Regalia Bay, Stanley was completed during the year and the profit derived has been accounted for in the financial statements under review. The Group still retains 19 houses in Regalia Bay, four of which are under lease to third parties. Depending on market conditions and the prices to be offered by potential purchasers, the Group may consider further disposing of some of these retained houses from time to time.

To strengthen its development land bank, the Group acquired through a public land auction in October 2012 a plot of development land in Tianjin City in China for a consideration of RMB985 million. The land is located in a prime urban district in Tianjin City and has a total site area of 31,726 square meters (341,500 square feet). It is presently planned that the site will be developed into a commercial, office, hotel and residential complex with total gross floor area of about 145,000 square meters (1,560,780 square feet).

In the meantime, the Group is undertaking through P&R Holdings Limited, a 50:50 joint venture established with Paliburg in April 2011 primarily to undertake property developments for sale and/or leasing, a total of five development projects. Four of the development projects are in Hong Kong and the other one is a large scale composite development in Chengdu, Sichuan, China. Of the four development projects in Hong Kong, three are hotel redevelopments, with two located in Sheung Wan and one in North Point, while the other development project is a residential development in Yuen Long. One of the hotel redevelopment projects in Sheung Wan, located at Bonham Strand, is scheduled to be completed in the second half of this year and the one at Merlin Street in North Point is anticipated for completion in the first half of 2014.

In December 2012, the Group through one of its wholly owned subsidiaries entered into a provisional agreement with a third party vendor for the purchase of the properties located at Ha Heung Road, To Kwa Wan, Kowloon, which is planned for hotel redevelopment. As the other three hotel redevelopment projects in Hong Kong are already undertaken through P&R Holdings, it was considered to be more efficient and beneficial that this new acquisition would also be undertaken by P&R Holdings. Accordingly, the Group transferred at cost its equity interests in that wholly owned subsidiary to P&R Holdings on 28th February, 2013 and, on that same date, a formal sale and purchase agreement was concluded with the vendor for the purchase of the subject properties at a consideration of HK$464.3 million. It is presently intended by P&R Holdings that the property will be redeveloped into a hotel with a proposed gross floor area of about 6,298 square meters (67,790 square feet) and with not more than 340 hotel rooms as approved by the Town Planning Board.

Shareholders could refer to the section headed "Management Discussion and Analysis" in this Annual Report for the details and latest progress of the property projects undertaken by P&R Holdings.

OTHER INVESTMENTS

The Group holds a substantial portfolio of listed securities and other investments, including two series of convertible bonds in Cosmopolitan International Holdings Limited with an aggregate principal amount of HK$241.5 million. These convertible bonds were previously due for repayment on 14th February, 2013 but the relevant parties have entered into extension agreements in November 2012 to extend the maturity dates to 30th September, 2013. With the approval, among others, of the independent shareholders of the Company obtained at a special general meeting held in January 2013, the extension agreements have since become effective. In addition to the convertible bonds, the Group also holds a relatively minor shareholding in Cosmopolitan, which are being held for long term strategic purpose. Management of the Group is considering various options with regards to the Group's position towards Cosmopolitan and it is expected that a strategic plan will be formulated before the next expiry of the convertible bonds.

With a view to diversifying the scope of the investment portfolio, the Group purchased in December 2012 for investment purpose an Airbus A321-211 aircraft manufactured in 1998 for a consideration of US$10.5 million. The aircraft is under the management of a professional investment adviser and a professional aircraft asset manager and has recently been leased to an airline operator for lease income.

OUTLOOK

In its bid to further develop Hong Kong as Asia's World City and an international financial hub, Hong Kong has embarked on various initiatives to increase tourism facilities, such as the Kai Tak International Cruise Terminal and the expansion projects at Hong Kong Disneyland and Ocean Park. In the meanwhile, the Hong Kong Special Administrative Region Government is also undertaking ten major infrastructural development projects to improve connectivity as well as efficiencies for business activities, including, more notably, the expansion of the Hong Kong International Airport, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macau Bridge. These will all benefit directly or indirectly the development of its tourism and hotel industries in the long run.

The Group is optimistic on the continuing prospects of the tourism and hotel markets in Hong Kong and, jointly with Regal REIT, are committed to maintaining its position as one of the pre-eminent hotel groups in Hong Kong. Through P&R Holdings, the Group is developing four new hotels in Hong Kong, including the latest acquisition in Kowloon. Although there will be quite a number of new hotels that will come on stream in Hong Kong over the course of the next few years, many of those new hotels are of relatively smaller sizes or are located in non-traditional business or tourist districts. The Group believes that it has distinctive competitive advantages over such new hotels due to its operational efficiencies attained through economies of scale as well as its broad hotel network and well-established marketing platform.

When Regal REIT was separately listed from the Group in 2007 to become the first listed hospitality real estate investment trust in Hong Kong, it has always been intended that the Group will act as a key provider of potential acquisition targets to Regal REIT when it implements its plans to expand its properties portfolio. In January 2013, Regal REIT itself established a US$1 Billion Medium Term Note Programme as a funding platform to finance its planned expansion and has at the same time entered into a memorandum of understanding with P&R Holdings for the proposed grant of call options to Regal REIT to acquire two hotel projects in Sheung Wan and North Point, respectively. In order to allow further time for the parties to consider various issues relating to the proposed call options and the corresponding funding arrangements of Regal REIT, the memorandum of understanding was amended by the parties on 28th February, 2013 to extend the end of the exclusivity period thereunder to 30th April, 2013. It is expected that a definitive proposal in relation to the proposed acquisition will be able to be worked out before the end of the extended exclusivity period. Recently in March 2013, Regal REIT has issued under its MTN Programme, through private placements, a series of Hong Kong Dollar denominated senior unsecured 5-year term notes for an aggregate nominal principal amount of HK$775 million at a coupon interest rate of 4.125% per annum.

All the projects undertaken by P&R Holdings are progressing as planned and significant cash flows are expected to be generated when these projects are completed and sold, which will be complemented from time to time with the anticipated sales proceeds from the gradual disposals of the remaining houses in Regalia Bay. The Group believes that its core operating profits will increase over time and is committed to further investing in its core hotel and property businesses with an objective to achieve continuing growth.

DIRECTORS AND STAFF

On behalf of the Board, I would like to extend my heartiest welcome to Professor Japhet Sebastian Law, who joined the Board in June last year as an Independent Non-Executive Director, and I sincerely look forward to his valuable advice in the years ahead. Taking this opportunity, I would also like to thank my fellow Directors for their valuable contribution as well as all management and staff members for their continuous dedication and efforts.

LO YUK SUI
Chairman

Hong Kong
25th March, 2013

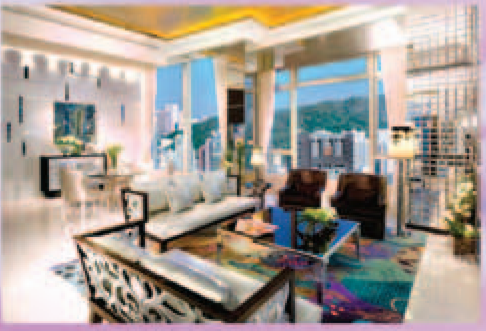
REGAL AIRPORT HOTEL

CHEK LAP KOK · HONG KONG

■ The China Coast Bar + Grill

■ Deluxe Suite

■ Executive Club Lounge



■ Presidential Suite

REGAL HONGKONG HOTEL

CAUSEWAY BAY · HONG KONG

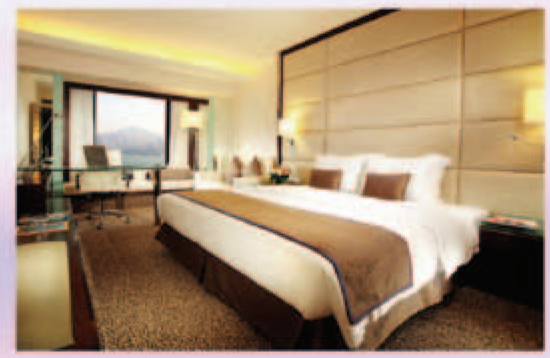
■ Regal Ballroom

■ Zeffirino Ristorante

REGAL KOWLOON HOTEL

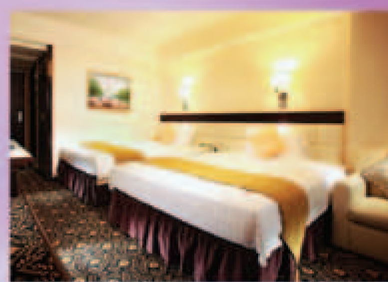
TSIMSHATSUI · HONG KONG

■ Executive Club Lounge



■ Premier Room

■ Regal Court



■ Deluxe Room

REGAL ORIENTAL HOTEL

KOWLOON CITY · HONG KONG

■ Hotel Lobby

■ Regal Terrace

REGAL RIVERSIDE HOTEL

SHA TIN · HONG KONG

■ L'Eau Restaurant

■ Deluxe Suite

■ Spa Room

■ iLounge

REGAL iCLUB HOTEL

WAN CHAI · HONG KONG

■ Hotel Lobby

■ iSuite

REGAL INTERNATIONAL EAST ASIA HOTEL

SHANGHAI · MAINLAND CHINA

■ Executive Club Lounge

■ Presidential Suite

■ California Café

REGAL SHANGHAI EAST ASIA HOTEL

SHANGHAI · MAINLAND CHINA

■ Premier Room

■ The Peak Chinese Restaurant

■ Regal Hall

■ Spa Private Room

REGAL JINFENG HOTEL

SHANGHAI · MAINLAND CHINA

■ Regala

■ Regal Ballroom

Hotel Lobby

REGAL PLAZA HOTEL & RESIDENCE

SHANGHAI · MAINLAND CHINA

Regal Court

Deluxe Studio

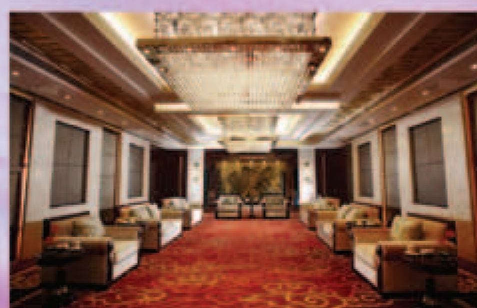
■ Forum

REGAL MASTER HOTEL

CHENGDU · MAINLAND CHINA

■ Deluxe Room

■ Tiffany Lounge



■ Forum VIP Room

REGAL KANGBO HOTEL

DEZHOU · MAINLAND CHINA

■ Premier Room

■ Regal Court

REGAL POLY GUIYANG HOTEL

GUIYANG · MAINLAND CHINA

■ Superior Room

■ The Forum

■ Feng Wei Xuan

■ Presidential Suite

REGALIA BAY

STANLEY · HONG KONG

■ Master Bedroom

■ Club House Function Room

■ Living Room

JOINT VENTURE DEVELOPMENTS

HOTEL DEVELOPMENTS

■ Artist Impression of the two hotel development at 132 - 140 Bonham Strand (right) and 5 - 7 Bonham Strand West / 169 - 171 Wing Lok Street (left), Sheung Wan, Hong Kong

■ Artist impression of a hotel room

■ Artist impression of a hotel development at 14 - 20 Merlin Street, North Point, Hong Kong

■ Artist impression of Regal Xindu Hotel, a five-star hotel of the composite development

■ Artist impression of the hotel lobby of Regal Xindu Hotel

COMPOSITE DEVELOPMENT

CHENGDU · MAINLAND CHINA

■ A composite hotel / residential / commercial development

■ Artist impression of the residential towers of the composite development

COMING ADDITIONS

■ Regal Zhushui Hotel (2013) - Yuncheng China

■ Regal Financial Center Hotel (2014) - Foshan China

■ Regal Yuhong Hotel (2014) - Zhengzhou China

■ Regal Airport Hotel, Xi'an (2014) - Xi'an China

COMING ADDITIONS

■ Regal Royale Hotel (2015) - Kunshan China

■ Regal Wolong Hotel (2015) - Wuhan China

■ Regal Times Hotel, Yantai (2016) - Yantai China

BUSINESS REVIEW

The Group's significant investments and principal business activities mainly comprise hotel ownership business undertaken through Regal Real Estate Investment Trust ("Regal REIT"), hotel operation and management businesses, asset management of Regal REIT, property development and investment, including those undertaken through the joint venture in P&R Holdings Limited ("P&R Holdings") and the interest in the retained houses in Regalia Bay in Stanley, and other investment businesses.

The performance of the Group's hotel, property and other investment businesses as well as that of Regal REIT during the year under review, the commentary on the local hotel and property sectors and changes in general market conditions and the potential impact on their operating performance and future prospects are contained in the sections headed "Financial Results", "Business Overview" and "Outlook", respectively, in the preceding Chairman's Statement.

The Group has no immediate plans for material investments or capital assets, other than those as disclosed in the sections headed "Business Overview" and "Outlook" in the preceding Chairman's Statement and in this Management Discussion and Analysis.

Joint Venture – P&R Holdings Limited

P&R Holdings is a 50:50 owned joint venture established with Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company since 7th May, 2012, in April 2011, with capital contributions to be provided by the Company and PHL on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings. P&R Holdings and its subsidiaries are principally engaged in property development business. Further information relating to the property development projects being undertaken by the P&R Holdings group is set out below:

Hong Kong

Nos.132-140 Bonham Strand, Sheung Wan

This development project has a net site area of approximately 472 square meters (5,076 square feet) and is being developed into a hotel with 248 guestrooms and suites and having gross floor area of approximately 7,776 square meters (83,700 square feet). The superstructure works are in progress and the project is expected to be completed during the second half of 2013.

Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan

This development site is constituted by two adjoining properties having an aggregate site area of approximately 345 square meters (3,710 square feet). The project is planned for the development of a hotel with 98 guestrooms and suites, with total gross floor area of approximately 5,491 square meters (59,108 square feet). Due to some delay encountered in the foundation works for this site, the completion schedule of the hotel development is anticipated to be deferred to the first half of 2015.

Nos.14-20 Merlin Street, North Point

This development project has an aggregate site area of approximately 457 square meters (4,915 square feet) and is being developed into a hotel with about 336 guestrooms, with total gross floor area of approximately 7,378 square meters (79,420 square feet). The superstructure works are in progress and the project is expected to be completed during the first half of 2014.

Lot No.4309 in Demarcation District No.124, Tan Kwai Tsuen Road, Yuen Long, New Territories

This development site, acquired through a government public auction, has an area of approximately 11,192 square meters (120,470 square feet) and is planned for a residential development with a total of 170 units, comprising 36 houses and 134 apartments, having an aggregate gross floor area of approximately 11,192 square meters (120,470 square feet). Site formation and foundation works are in progress and the superstructure works are scheduled to commence in the fourth quarter of 2013. This development project is expected to be completed in the fourth quarter of 2014.

Nos. 8, 8A, 10, 10A, 12 and 12A Ha Heung Road, To Kwa Wan, Kowloon

As reported in the section headed "Business Overview" in the preceding Chairman's Statement, in December 2012, Prosper Harvest Investments Limited ("Prosper Harvest"), a then wholly owned subsidiary of the Group, entered into a provisional agreement with an independent third party for the acquisition of these properties. On 28th February, 2013, the Group transferred its entire equity interests in Prosper Harvest at cost to P&R Holdings for a consideration of approximately HK$46.52 million, effectively representing the shareholders' loan then owing by Prosper Harvest to the Group. Subsequently, on that same date, Prosper Harvest entered into a formal sale and purchase agreement for the property acquisition at a consideration of HK$464.3 million (subject to adjustments), and a total deposit of HK$46.5 million was paid to the vendor. Completion of this agreement is expected to take place in early April 2013. Prosper Harvest plans to redevelop these properties into a hotel with a proposed gross floor area of about 6,298 square meters (67,790 square feet) and with not more than 340 hotel rooms as approved by the Town Planning Board.

The disposal of Prosper Harvest to P&R Holdings constitutes a connected transaction for the Company subject to the reporting and announcement requirements but exempt from independent shareholders' approval under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"). The Company's provision of the financial assistance with respect to the several guarantee for the obligations of Prospect Harvest under the formal sale and purchase agreement in respect of the property acquisition and the proportionate loans provided or to be provided by the Group to P&R Holdings for its acquisition of Prosper Harvest and for the payment by Prosper Harvest of the remaining consideration under the formal sale and purchase agreement constitutes a discloseable transaction for the Company under the Listing Rules. Details of these transactions were disclosed in an announcement of the Company dated 1st March, 2013.

Mainland China

Composite development project in Xindu District, Chengdu, Sichuan

P&R Holdings group holds 70% interest in this property project and the remaining 30% interest is held by a jointly controlled entity owned as to 50% each by the Group and Cosmopolitan International Holdings Limited group.

This project in Chengdu is a mixed use development planned to consist of hotel, commercial, office and residential components. The project has an overall total gross floor area of approximately 496,000 square meters (5,340,000 square feet) and will be developed in stages. The first stage primarily comprises a five-star hotel and three residential towers, being constructed on two separate land parcels. The hotel will have 306 hotel rooms and extensive facilities, with total gross floor area above ground of approximately 41,400 square meters (446,000 square feet). The structural frame for the hotel development has been completed and curtain wall construction of the hotel is in progress. The hotel is presently scheduled to be opened in the fourth quarter of 2014. The three residential towers included in the first stage will have about 340 apartment units with car parks and some ancillary commercial accommodation, commanding total gross floor area of approximately 45,500 square meters (490,000 square feet). The structural frames for this part of the development have also been completed, with overall construction works scheduled to be completed in the first quarter of 2014. Presale of the residential units is anticipated to be launched in the third quarter of 2013. Development works for the other stages are planned to be carried out progressively.

Regal (Chongqing) Equity Investment Fund, L.P.

P&R Holdings group also holds limited partnership interest of approximately RMB250 million in a cross-border Renminbi fund, named as Regal (Chongqing) Equity Investment Fund, L.P., the investment objective of which is principally to support the businesses undertaken by P&R Holdings group in China. A wholly owned subsidiary of Century City International Holdings Limited, the ultimate listed holding company of the Company since 7th May, 2012, acts as the general partner of the fund and holds a very minor interest in the partnership.

FINANCIAL REVIEW

ASSETS VALUE

The Group's hotel properties, which are owned by Regal REIT, were stated in the financial statements at their fair values as at 23rd July, 2010 when Regal REIT became a subsidiary of the Group, plus subsequent capital additions and less accumulated depreciation. The market valuations of these hotel properties have since appreciated substantially but have not been reflected in the Group's financial statements. For the purpose of providing supplementary information, if the Group's hotel property portfolio is restated in the consolidated financial statements at its market value as at 31st December, 2012, the unaudited adjusted net asset value of the ordinary shares of the Company would increase to HK$18.27 per share, as follows:

	As at 31st December, 2012	
	HK$'M	**HK$ per ordinary share**
Book net assets attributable to equity holders of the parent	**11,735.2**	**12.17**
Adjustment to restate the Group's hotel property portfolio at its market value and add back the relevant deferred tax liabilities	**5,882.6**	**6.10**
Unaudited adjusted net assets attributable to equity holders of the parent	**17,617.8**	**18.27**

CAPITAL RESOURCES AND FUNDING

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Cash balances are mostly placed on bank deposits and yield enhancement products are deployed when circumstances are considered to be appropriate.

The Group's banking facilities are mostly denominated in Hong Kong dollar with interest primarily determined with reference to interbank offered rates while its senior unsecured notes issued during the year are denominated in US dollar with a fixed coupon rate. The use of hedging instruments for interest rate purposes to cater to business and operational needs is kept under review by the Group's management from time to time. As the US dollars are pegged to the Hong Kong dollars, the exchange risks are considered to be insignificant and no currency hedging has been deployed.

Cash Flow

During the year under review, there were net cash flows generated from operating activities of HK$423.3 million (2011 – HK$489.0 million). Net interest payment for the year amounted to HK$126.3 million (2011 – HK$170.1 million).

Borrowings and Gearing

As at 31st December, 2012, the Group's borrowings net of cash and bank balances and deposits amounted to HK$4,420.5 million (2011 – HK$4,132.2 million).

As at 31st December, 2012, the gearing ratio of the Group is 20.3% (2011 – 20.8%), representing the Group's borrowings net of cash and bank balances and deposits of HK$4,420.5 million (2011 – HK$4,132.2 million) as compared to the total assets of the Group of HK$21,795.9 million (2011 – HK$19,860.8 million).

Details of the maturity profile of the borrowings of the Group as of 31st December, 2012 are shown in notes 27 and 28 to the financial statements.

Pledge of Assets

As at 31st December, 2012, part of the Group's bank deposits, bank balances, financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments in the amount of HK$380.0 million (2011 – HK$404.0 million) were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Group's property, plant and equipment, investment properties, properties held for sale and held-to-maturity investments in the total amount of HK$14,444.9 million (2011 – HK$15,219.6 million) were also pledged to secure other banking facilities granted to the Group.

The above details of the pledge of assets of the Group are also shown in note 36 to the financial statements.

Capital Commitments

Details of the capital commitments of the Group as at 31st December, 2012 are shown in note 39 to the financial statements.

Contingent Liabilities

As at 31st December, 2012, the Group had contingent liabilities not provided for in the financial statements for corporate guarantees provided in respect of attributable share of banking facilities granted to subsidiaries of a jointly controlled entity in the amount of HK$577.3 million (2011 – HK$170.0 million), of which HK$317.3 million (2011 – HK$90.0 million) was utilised.

Details of the contingent liabilities of the Group are also shown in note 37 to the financial statements.

Share Capital

As previously reported, during the year under review, the Company repurchased a total of 37,344,000 ordinary shares of the Company at aggregate purchase prices of HK$115,259,720 on the Stock Exchange through the implementation of an on-market programme of repurchases of up to 38,886,400 ordinary shares of the Company at a maximum price of HK$3.80 per share (the "RH Share Repurchase Programme"). The RH Share Repurchase Programme was operative for 90 days from the business day immediately following the date of a joint announcement dated 20th April, 2012 of the Company (the "Joint Announcement"), i.e. 23rd April, 2012, until 21st July, 2012 or the date when the maximum of 38,886,400 ordinary shares were repurchased, whichever was earlier. The RH Share Repurchase Programme subsequently ended on 21st July, 2012, and a total of 37,344,000 ordinary shares were repurchased by the Company under the RH Share Repurchase Programme. All these repurchased ordinary shares were cancelled during the year under review.

The RH Share Repurchase Programme untilised the general mandates granted to the Directors of the Company to repurchase ordinary shares at the annual general meetings of the Company held on 31st May, 2011 and 30th May, 2012. The above repurchases under the RH Share Repurchase Programme were implemented with a view to benefiting shareholders as a whole in enhancing the net assets and earnings per share of the Company, and achieving better returns for shareholders in the long run.

Details of the RH Share Repurchase Programme and related matters were disclosed in the Joint Announcement and another joint announcement dated 9th May, 2012 of the Company.

Further details of the repurchase by the Company of its ordinary shares during the year are disclosed under the section headed "Purchase, Sale or Redemption of the Company's Listed Securities" in the Report of the Directors below.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES OR ASSOCIATES

During the year under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company.

STAFF AND REMUNERATION POLICY

The Group employs 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 Regal Hotels International Holdings Limited Share Option Scheme", under which share options had been granted to selected eligible persons.

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiaries are hotel ownership business undertaken through Regal Real Estate Investment Trust ("Regal REIT"), hotel operation and management businesses, asset management of Regal REIT, property development and investment, including those undertaken through the joint venture in P&R Holdings Limited ("P&R Holdings") and the interest in the retained houses in Regalia Bay in Stanley, and other investment businesses. During the year, the Group was also engaged in aircraft ownership and leasing business as part of its other investment businesses. Other than this development, there have been no significant changes in these activities during the year.

The turnover and contribution to trading results by each principal activity are set out in note 4 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 67 to 159.

DIVIDENDS

An interim dividend of HK3.3 cents (2011 – HK3.0 cents) per ordinary share, absorbing an amount of approximately HK$31.8 million (2011 – HK$30.0 million), was paid to holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK10.0 cents (2011 – HK9.0 cents) per ordinary share for the year ended 31st December, 2012, absorbing an amount of approximately HK$96.4 million (2011 – HK$90.1 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 10th June, 2013. This recommendation has been incorporated in the financial statements.

ANNUAL GENERAL MEETING

The 2013 Annual General Meeting of the Company will be convened to be held on Friday, 31st May, 2013. Relevant notice of the Meeting will be contained in the circular of the Company relating to the re-election of Directors and the general mandates to issue and repurchase ordinary shares (the "Circular") to be sent to the shareholders, together with the 2012 Annual Report.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders of the Company will be closed during the following periods, and no transfers of shares will be effected during such periods:

(i) from Wednesday, 29th May, 2013 to Friday, 31st May, 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the 2013 Annual General Meeting. In order to be entitled to attend and vote at the 2013 Annual General Meeting, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited (the "Branch Registrar"), no later than 4:30 p.m. on Tuesday, 28th May, 2013; and

(ii) from Thursday, 6th June, 2013 to Monday, 10th June, 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Branch Registrar no later than 4:30 p.m. on Wednesday, 5th June, 2013.

The relevant dividend warrants for the aforesaid final dividend are expected to be despatched on or about 21st June, 2013.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Dr. Francis Choi Chee Ming, GBS, JP
Ms. Belinda Yeung Bik Yiu
Mr. Donald Fan Tung
Ms. Alice Kan Lai Kuen
Professor Japhet Sebastian Law
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Ng Siu Chan
Mr. Allen Wan Tze Wai
Mr. Wong Chi Keung

During the year, Professor Japhet Sebastian Law was appointed as an Independent Non-Executive Director of the Company with effect from 18th June, 2012.

In accordance with Bye-law 109(A) of the Bye-laws of the Company, Ms. Alice Kan Lai Kuen, an Independent Non-Executive Director, and Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai and Mr. Allen Wan Tze Wai, all Executive Directors, will retire from office by rotation at the 2013 Annual General Meeting.

In accordance with Bye-law 100 of the Bye-laws of the Company, Professor Japhet Sebastian Law, who was appointed as an Independent Non-Executive Director of the Company subsequent to the last annual general meeting of the Company held on 30th May, 2012, shall hold office until the 2013 Annual General Meeting.

All the above retiring Directors, being eligible, have offered themselves for re-election at the 2013 Annual General Meeting. Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), will be set out in the Circular.

The Company has received from each of the four incumbent Independent Non-Executive Directors an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considers that all of these Independent Non-Executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests, whether direct or indirect, in any significant contract to which the Company or any of its holding companies, subsidiaries or fellow subsidiaries was a party at the end of the reporting period or at any time during the year.

None of the Directors had any service contract, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), with the Company or any of its subsidiaries during the year.

At no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the share option scheme of the Company named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Regal Share Option Scheme"), the share option scheme of Century City International Holdings Limited ("CCIHL"), the ultimate listed holding company of the Company since 7th May, 2012, named as "The Century City International Holdings Limited Share Option Scheme" (the "Century Share Option Scheme") and the share option scheme of Paliburg Holdings Limited ("PHL"), the immediate listed holding company of the Company since 7th May, 2012, named as "The Paliburg Holdings Limited Share Option Scheme" (the "Paliburg Share Option Scheme") (collectively, the "Schemes").

Shares options had previously been granted under the Schemes to certain of the above Directors. All the share options granted to such Director(s) under the Regal Share Option Scheme and the Century Share Option Scheme, respectively, lapsed on their expiry in 2011. All the share options granted to such Directors under the Paliburg Share Option Scheme were exercised before their expiry in 2011.

There were no options granted or exercised under any of the Schemes during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2012, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

				Number of shares held			
	The Company/ Name of Associated Corporation	**Name of Director**	**Class of shares held**	**Personal interests**	**Corporate interests**	**Family/Other interests**	**Total (Approximate percentage of the issued shares as at 31st December, 2012)**
1.	**The Company**	Mr. Lo Yuk Sui	Ordinary				
			(i) issued	24,200	494,835,261 (Note c)	260,700	495,120,161
			(ii) underlying	–	26,996,000 (Note d)	–	26,996,000
						Total (i) & (ii):	522,116,161 (54.16%)
		Dr. Francis Choi Chee Ming	Ordinary (issued)	50,240,000	–	–	50,240,000 (5.21%)
		Miss Lo Po Man	Ordinary (issued)	300,000	–	269,169 (Note e)	569,169 (0.06%)
		Mr. Allen Wan Tze Wai	Ordinary (issued)	10,200	–	–	10,200 (0.001%)
2.	CCIHL	Mr. Lo Yuk Sui	Ordinary (issued)	99,587,396	1,769,164,691 (Note a)	380,683	1,869,132,770 (58.18%)
		Mr. Jimmy Lo Chun To	Ordinary (issued)	251,735	–	–	251,735 (0.008%)
		Miss Lo Po Man	Ordinary (issued)	112,298	–	–	112,298 (0.003%)

				Number of shares held			
	The Company/ Name of Associated Corporation	**Name of Director**	**Class of shares held**	**Personal interests**	**Corporate interests**	**Family/Other interests**	**Total (Approximate percentage of the issued shares as at 31st December, 2012)**
2.	CCIHL	Mr. Ng Siu Chan	Ordinary (issued)	–	–	3,521,973	3,521,973 (0.11%)
		Mr. Allen Wan Tze Wai	Ordinary (issued)	24,000	–	–	24,000 (0.001%)
		Ms. Belinda Yeung Bik Yiu	Ordinary (issued)	200	–	–	200 (0.000%)
3.	PHL	Mr. Lo Yuk Sui	Ordinary (issued)	85,484,014	739,970,803 (Note b)	15,000	825,469,817 (74.03%)
		Mr. Donald Fan Tung	Ordinary (issued)	556	–	–	556 (0.000%)
		Mr. Jimmy Lo Chun To	Ordinary (issued)	2,274,600	–	–	2,274,600 (0.20%)
		Miss Lo Po Man	Ordinary (issued)	1,116,000	–	–	1,116,000 (0.10%)
		Mr. Kenneth Ng Kwai Kai	Ordinary (issued)	176,200	–	–	176,200 (0.02%)
		Mr. Ng Siu Chan	Ordinary (issued)	–	–	80,474	80,474 (0.007%)
		Mr. Allen Wan Tze Wai	Ordinary (issued)	284,200	–	–	284,200 (0.03%)
4.	8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	–	1,000 (Note f)	–	1,000 (100%)
5.	Regal REIT	Mr. Lo Yuk Sui	Units (issued)	–	2,434,282,102 (Note g)	–	2,434,282,102 (74.73%)

Notes:

(a) The interests in 1,769,164,691 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, 99.9% owned by Mr. Lo.

(b) The interests in 693,234,547 issued ordinary shares of PHL were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.16% shareholding interests.

The interests in 16,271,685 issued ordinary shares of PHL 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 30,464,571 issued ordinary shares of PHL 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

(c) The interests in 421,400 issued ordinary shares of the Company were held through companies wholly owned by CCIHL in which Mr. Lo held 58.16% shareholding interests, and the interests in the other 494,413,861 issued ordinary shares of the Company were held through companies wholly owned by PHL, in which CCIHL held 62.17% shareholding interests.

(d) These derivative interests in underlying 26,996,000 ordinary shares of the Company were held by a wholly owned subsidiary of PHL through certain equity derivative contracts on ordinary shares of the Company, which will be settled in cash only.

(e) The interests in 269,169 issued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust.

(f) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 58.16% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.

(g) The interests in 2,428,262,739 units of Regal REIT were held through wholly owned subsidiaries of the Company. The interests in 732,363 units of Regal REIT were held through wholly owned subsidiaries of PHL. The interests in 5,287,000 units of Regal REIT were held through wholly owned subsidiaries of CCIHL. PHL, in which CCIHL held 62.17% shareholding interests, held 51.28% shareholding interests in the Company. Mr. Lo held 58.16% shareholding interests in CCIHL.

Save as disclosed herein, as at 31st December, 2012, 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.

During the year, no right has been granted to, or exercised by, the following persons to subscribe for shares in or debentures of the Company under the Regal Share Option Scheme, and there were no options held by such persons under the Regal Share Option Scheme:

(i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) any participant under the Regal 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 Regal Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2012, so far as is known to the Directors and the chief executive of the Company, the following substantial shareholders (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 or notified to the Company pursuant to the SFO:

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares held	Total number of ordinary shares (issued and underlying) held	Approximate percentage of issued ordinary shares as at 31st December, 2012
CCIHL (Note i)	494,835,261	26,996,000	521,831,261	54.13%
Century City BVI Holdings Limited ("CCBVI") (Note ii)	494,835,261	26,996,000	521,831,261	54.13%
PHL (Note iii)	494,413,861	26,996,000	521,409,861	54.08%
Paliburg Development BVI Holdings Limited (Note iv)	494,413,861	26,996,000	521,409,861	54.08%
Guo Yui Investments Limited (Note iv)	180,930,466	–	180,930,466	18.77%
Paliburg BVI Holdings Limited (Note iv)	230,870,324	–	230,870,324	23.95%
Taylor Investments Ltd. (Note iv)	154,232,305	–	154,232,305	16.00%
H.P. Nominees Limited (Note iv)	32,072,885	26,996,000	59,068,885	6.13%
Glaser Holdings Limited (Note iv)	58,682,832	–	58,682,832	6.09%

Notes:

(i) The interests in the ordinary shares of the Company held by CCIHL 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) CCBVI is a wholly owned subsidiary of CCIHL and its interests in the ordinary shares of the Company were included in the interests held by CCIHL.

(iii) PHL is a listed subsidiary of CCIHL, which held 62.17% shareholding interests in PHL, and PHL's interests in the ordinary shares of the Company were included in the interests held by CCIHL.

(iv) These companies are wholly owned subsidiaries of PHL and their interests in the ordinary shares of the Company were included in the interests held by PHL.

Save as disclosed herein, the Directors and the chief executive of the Company are not aware that there is any person (not being a Director or chief executive of the Company) who, as at 31st December, 2012, 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 or notified to the Company pursuant to the SFO.

Details of directorships of the Company's Directors in each of those companies which has an interest in the shares and underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

(1) Mr. Lo Yuk Sui, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai, Mr. Ng Siu Chan and Mr. Wong Chi Keung are directors of CCIHL and PHL.

(2) Mr. Lo Yuk Sui, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai are directors of all the above-mentioned wholly owned subsidiaries of CCIHL and PHL.

CHANGE IN INFORMATION OF DIRECTORS

The change in the information of the Directors of the Company, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, since the publication of the interim report of the Company for the six months ended 30th June, 2012 is set out below:

Name of Director	Details of changes
Executive Directors:	
Mr. Lo Yuk Sui	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$325,000 commencing from January 2013. (Notes)
Ms. Belinda Yeung Bik Yiu	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$173,000 commencing from January 2013. (Note (i))
Mr. Donald Fan Tung	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$66,400 commencing from January 2013. (Note (i))
Mr. Jimmy Lo Chun To	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$51,200 commencing from January 2013. (Note (i))
Miss Lo Po Man	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$108,800 commencing from January 2013. (Note (i))
	• Appointed as a non-executive director of Regal Portfolio Management Limited ("RPML"), the manager of Regal REIT (a subsidiary of the Company listed on the Stock Exchange), with effect from 24th September, 2012. RPML is a wholly owned subsidiary of the Company. She is entitled to normal director fee of HK$100,000 per annum in acting as a non-executive director of RPML.
Mr. Kenneth Ng Kwai Kai	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$133,250 commencing from January 2013. (Note (i))
	• Appointed as a non-executive director of RPML and a member of the audit committee and the disclosure committee of RPML all with effect from 24th September, 2012. He is entitled to normal director fee of HK$100,000 per annum in acting as a non-executive director of RPML and normal fee of HK$50,000 per annum in acting as a member of the audit committee of RPML.
Mr. Allen Wan Tze Wai	• Entitled to an allocated monthly salary, based on services rendered to the Group, in an amount of HK$78,000 commencing from January 2013. (Note (i))
Independent Non-Executive Director:	
Ms. Alice Kan Lai Kuen	• Retired as an independent non-executive director of Sunway International Holdings Limited ("Sunway"), a company listed on the Stock Exchange, at the annual general meeting of Sunway held on 28th February, 2013.

Notes:

(i) Each Executive Director is also entitled to performance based discretionary bonus and other related employee benefits and allowances for the executive role in the Group, and normal Director's fee in the amount of HK$100,000 per annum in acting as a Director of the Company. Details of the remuneration of the Executive Directors for the year ended 31st December, 2012 are disclosed in note 8 to the financial statements.

(ii) Mr. Lo Yuk Sui and certain Independent Non-Executive Directors, who are also the chairman or members of the Nomination Committee and/or the Remuneration Committee of the Company, are entitled to normal fee of HK$30,000 per annum in acting as the chairman or a member of each of such board committees since 29th March, 2012. Details of the remuneration of all Directors for the year ended 31st December, 2012 are disclosed in note 8 to the financial statements.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules. The updated biographical details of the Directors of the Company are set out in the preceding section headed "Directors' Profile".

DISCLOSURE PURSUANT TO RULE 13.22 OF CHAPTER 13 OF THE LISTING RULES

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rule 13.22 of Chapter 13 of the Listing Rules relating to the information required to be disclosed under Rule 13.16:

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 by the Group as at 31st December, 2012 are set out below:

Name of Affiliated Companies		Principal Amount of Advances (HK$'million)	Interest Receivable (HK$'million)	Guarantee given for Banking Facilities (i) Principal Amount of Banking Facilities (HK$'million)	Guarantee given for Banking Facilities (ii) Amount of Banking Facilities Drawdown (HK$'million)
8D International (BVI) Limited	(A)	0.9	–	Nil	Nil
8D Matrix Limited	(B)	5.5	–	Nil	Nil
Advance Fame Investments Limited	(C)	191.8	8.8	Nil	Nil
Bright Future (HK) Limited	(D)	5.6	–	Nil	Nil
Faith Crown Holdings Limited	(E)	14.4	–	Nil	Nil
Hang Fok Properties Limited	(F)	19.2	–	Nil	Nil
P&R Holdings Limited	(G)	760.8	–	(H)(i) 577.3	(H)(ii) 317.3
			Total:	(A) to (H)(i)	1,584.3
				(A) to (G) & (H)(ii)	1,324.3

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which is 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 through his associates (as defined in the Listing Rules). 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 terms of repayment.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company, which is involved in advertising and promotion businesses. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo through his associates (as defined in the Listing Rules). 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 terms of repayment.

Advance Fame Investments Limited ("Advance Fame"), a wholly owned subsidiary of P&R Holdings (which is a 50% owned jointly controlled entity of the Company), acquired a site located at Lot No.4309 in Demarcation District No.124, Tan Kwai Tsuen Road, Yuen Long, New Territories, Hong Kong at a land premium of HK$361.0 million through a government public auction held in September 2011. The remaining 50% shareholding interest in P&R Holdings is held by PHL, the immediate listed holding company of the Company, through its wholly owned subsidiaries. The site is planned for a residential development (the "Yuen Long Project"). Further information relating to the Yuen Long Project is disclosed in the section headed "Business Review" in the preceding Management Discussion and Analysis ("MD&A"). The advances to Advance Fame are provided by a wholly owned subsidiary of the Company in the form of shareholder's loans in proportion to the Company's shareholding interests in Advance Fame held through P&R Holdings for the purpose of funding the working capital requirements of Advance Fame. The advances to Advance Fame are unsecured, bear interest at a fixed rate of 4% per annum and have no fixed terms of repayment.

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 independent third parties respectively, which are not connected persons (as defined in the Listing Rules) of the Company. 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 terms of repayment.

Faith Crown Holdings Limited ("Faith Crown"), a 50% owned jointly controlled entity of the Company, presently holds 30% effective interests in a site in Xindu District, Chengdu, PRC, which was previously acquired at a public land auction, (the "Chengdu Project"), following the completion of an unconditional sale and purchase agreement dated 30th June, 2011 in respect of the transfer of 70% effective interests in the Chengdu Project to P&R Holdings on 14th July, 2011. The remaining 50% shareholding interest in Faith Crown is indirectly held by Cosmopolitan International Holdings Limited ("Cosmopolitan"), which is a company listed in Hong Kong and is not a connected person (as defined in the Listing Rules) of the Company. The Company holds, through its wholly owned subsidiaries, 2.83% shareholding interests in Cosmopolitan and certain convertible bonds issued by the Cosmopolitan group. The Chengdu Project is a mixed use development planned to consist of hotel, commercial, office and residential components. Further information relating to the Chengdu Project is disclosed in the section headed "Business Review" in the preceding MD&A. The advances to Faith Crown are provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interests in Faith Crown for the purpose of funding the working capital requirements of Faith Crown. The advances to Faith Crown are unsecured, interest-free and have no fixed terms of repayment.

Hang Fok Properties Limited ("Hang Fok"), a 50% owned associate of the Company, holds certain shareholding interests in two investee companies (the "Investee Companies"), which were established as Sino-foreign cooperative joint ventures in the PRC and principally engaged in the development project of a property complex at Chao Yang Men Wai Da Jie in the Central Business District of Beijing, PRC. The remaining 50% shareholding interest in Hang Fok is indirectly held by PHL. 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 terms of repayment. Additional information relating to the investment in Hang Fok is disclosed in note 17 to the financial statements.

P&R Holdings principally engages in the development of real estate projects for sale and/or leasing. P&R Holdings group holds interests in a number of property development projects in Hong Kong and Mainland China (including the Yuen Long Project and the Chengdu Project). Information relating to the investment of P&R Holdings in such property development projects are disclosed in the section headed "Business Review" in the preceding MD&A. The maximum total capital commitment to P&R Holdings is HK$3,800 million, which is to be contributed on a pro-rata basis in accordance with the respective shareholdings of the Company and PHL in P&R Holdings, and the maximum capital commitment for each of the Company and PHL is HK$1,900 million. The advances to P&R Holdings were provided by a wholly owned subsidiary of the Company in the form of shareholders' loan in proportion to its shareholding interest in P&R Holdings. The advances to P&R Holdings are unsecured, interest-free and have no fixed terms of repayment. The guarantees were provided by the Company each on a several basis in proportion to its shareholding interests in P&R Holdings and were given in respect of the respective bank loan facilities of, in aggregate, HK$1,154.6 million made available to three wholly owned subsidiaries of P&R Holdings for financing their hotel development projects in Hong Kong.

Calculated on the basis shown above, as at 31st December, 2012, the aggregate amount of financial assistance provided to and bank guarantees given for affiliated companies by the Group in the respective sums of (a) HK$1,584.3 million (based on the total available amount of the banking facilities) and (b) HK$1,324.3 million (based on the total amount of banking facilities drawdown) represented (a) 7.3% and (b) 6.1% of the consolidated total assets of the Group of HK$21,795.9 million, calculated by reference to its latest audited consolidated financial statements for the year ended 31st December, 2012.

Save as disclosed above, there were no other financial assistance provided to or guarantees given for affiliated companies by the Group as at 31st December, 2012, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

A combined statement of financial position of the abovenamed affiliated companies and the Group's attributable interest in these affiliated companies are presented below:

	Combined statement of financial position (HK$'million)	The Group's attributable interest (HK$'million)
Non-current assets	3,714.5	1,856.5
Current assets	1,433.1	714.5
Current liabilities	(248.1)	(123.6)
Non-current liabilities	(3,297.9)	(1,644.7)
	1,601.6	802.7
Non-controlling interests	(369.8)	(184.9)
Net assets attributable to equity holders of the parent	1,231.8	617.8

CONNECTED TRANSACTIONS

Extension of terms of convertible bonds in Cosmopolitan group

Extension of term of CB2013(B)

On 16th November, 2012, a deed of variation (the "CB2013(B) Extension Agreement") was entered into between Time Crest Investments Limited ("Time Crest"), a wholly owned subsidiary of the Company, Apex Team Limited ("Apex Team"), a wholly owned subsidiary of Cosmopolitan, as the issuer of the zero coupon guaranteed convertible bonds (originally due on 14th February, 2013) ("CB2013s") in a principal amount of HK$100 million issued to Time Crest (the "CB2013(B)") and Cosmopolitan as the guarantor of Apex Team, in relation to the extension of the maturity date of the CB2013(B) to 30th September, 2013 subject to the terms and conditions as set out therein (the "CB2013(B) Extension"). The conversion period of the CB2013(B) would accordingly be extended to 16th September, 2013, being 14 days prior to the extended maturity date of the CB2013(B). Apart from the extension of the maturity date of the CB2013(B) and the redemption premium calculated based on a fixed yield to maturity of 5% per annum (compounded semi-annually) of the CB2013(B), all other terms of the CB2013(B) would remain unchanged.

As at the date of the CB2013(B) Extension Agreement, a total number of 1,666,666,666 new ordinary shares of par value HK$0.0002 each of Cosmopolitan ("Cosmo Shares") would fall to be issued on conversion of the CB2013(B) at the then prevailing conversion price of HK$0.06 per Cosmo Share, representing approximately 14.1% of the then issued ordinary share capital of Cosmopolitan and approximately 12.4% of the then issued ordinary share capital of Cosmopolitan as enlarged by such conversion.

Pursuant to the CB2013(B) Extension Agreement, the CB2013(B) Extension should become unconditional upon fulfilment of the following conditions: (i) CCIHL having obtained approval for the CB2013 Extension Agreements (comprising (a) the CB2013(B) Extension Agreement and (b) the deed of variation dated 16th November, 2012 entered into between Jumbo Pearl Investments Limited (a wholly owned subsidiary of PHL) ("Jumbo Pearl"), Apex Team and Cosmopolitan in respect of the extension of the maturity date of the CB2013s in a principal amount of HK$100 million held by Jumbo Pearl ("CB2013(A)")) by its shareholders; (ii) the Company having obtained approval for the CB2013(B) Extension Agreement by its shareholders other than CCIHL, PHL and their respective associates (the "Independent Shareholders"); (iii) Cosmopolitan having obtained approval for the CB2013 Extension Agreements and the Options Extension Agreements (as referred below) by Cosmopolitan's independent shareholders; (iv) the Stock Exchange's consent in respect of the change of terms of the CB2013(B) pursuant to the CB2013(B) Extension Agreement; and (v) if required, the Stock Exchange granting the listing of and permission to deal in the new Cosmo Shares falling to be issued pursuant to the exercise of the conversion rights attached to the CB2013(B) (as varied by the CB2013(B) Extension Agreement). If the conditions were not fulfilled on or before 14th February, 2013 (being the then prevailing maturity date of the CB2013(B)) or such later date as may be agreed by the parties, the CB2013(B) Extension Agreement would lapse and terminate.

If the CB2013(B) Extension did not become unconditional by the long-stop date of the CB2013(B) Extension Agreement, the CB2013(B) would be subject to conversion at the option of the holder of the CB2013(B) on or before 31st January, 2013 and any unconverted CB2013(B) would be subject to redemption by Apex Team in accordance with its terms at 128.01% of the outstanding principal amount of the CB2013(B) upon the maturity date on 14th February, 2013.

A supplemental agreement dated 16th November, 2012 (which is supplemental to a subscription agreement dated 6th December, 2007 in respect of the subscription for CB2013(B) and the grant of an option to subscribe for CB2013(B) with a principal amount of up to HK$100 million (the "Option(B)")) was also entered into between Apex Team, Time Crest, Well Mount Investments Limited ("Well Mount"), a wholly owned subsidiary of the Company, and Cosmopolitan in relation to the proposed extension of the expiry date of the Option(B) granted to Well Mount to 2nd July, 2013 (the "Option(B) Extension Agreement"). Another supplemental agreement dated 16th November, 2012, which is supplemental to a subscription agreement dated 6th December, 2007 in respect of the subscription for CB2013(A) and the grant of an option to subscribe for CB2013(A) with a principal amount of up to HK$100 million (the "Option(A)"), was also entered into between Apex Team, Jumbo Pearl, Sun Joyous Investments Limited ("Sun Joyous"), a wholly owned subsidiary of PHL, and Cosmopolitan in relation to the proposed extension of the expiry date of the Option(A) granted to Sun Joyous to 2nd July, 2013 (together with the "Option(B) Extension Agreement", the "Options Extension Agreements") (the "Options Extension").

Extension of term of CB2010s

A deed of variation dated 16th November, 2012 (as supplemented by a supplemental deed dated 12th December, 2012) (the "CB2010 Extension Agreement") was entered into between Valuegood International Limited ("Valuegood"), a wholly owned subsidiary of the Company, Fancy Gold Limited ("Fancy Gold"), a wholly owned subsidiary of Cosmopolitan, as the issuer of the zero coupon guaranteed convertible bonds (whose due date was previously extended to 14th February, 2013) issued in 2007 in an aggregate principal amount of HK$205 million and held as to HK$141.5 million by Valuegood (the "CB2010(s)") and Cosmopolitan as the guarantor of Fancy Gold, in relation to further extension of the maturity date of the CB2010s to 30th September, 2013 subject to the terms and conditions as set out therein (the "CB2010 Extension"). The conversion period of the CB2010s would accordingly be extended to 16th September, 2013, being 14 days prior to the extended maturity date of the CB2010s. Apart from the further extension of the maturity date of the CB2010s, the redemption premium calculated based on a fixed yield to maturity of 5% per annum (compounded semi-annually) of the CB2010s and the restriction on conversion, all other terms of the CB2010s would remain unchanged.

As at the date of the CB2010 Extension Agreement, the CB2010s in the principal amount of HK$141.5 million held by Valuegood represented the entire amount of the outstanding CB2010s, and a total number of 3,536,250,000 new Cosmo Shares would fall to be issued on conversion of the outstanding CB2010s at the then prevailing conversion price of HK$0.04 per Cosmo Share, representing approximately 30.0% of the then issued ordinary share capital of Cosmopolitan and approximately 23.1% of the then issued ordinary share capital of Cosmopolitan as enlarged by such conversion.

Pursuant to the CB2010 Extension Agreement, the CB2010 Extension should become unconditional upon fulfilment of the following conditions: (i) CCIHL having obtained approval for the CB2010 Extension Agreement by its shareholders; (ii) the Company having obtained approval for the CB2010 Extension Agreement by the Independent Shareholders; (iii) Cosmopolitan having obtained approval for the CB2010 Extension Agreement by Cosmopolitan's independent shareholders; (iv) the Stock Exchange's consent in respect of the change of terms of the CB2010s pursuant to the CB2010 Extension Agreement; and (v) if required, the Stock Exchange granting the listing of and permission to deal in the new Cosmo Shares falling to be issued pursuant to the exercise of the conversion rights attached to the CB2010s (as varied by the CB2010 Extension Agreement). If the conditions were not fulfilled on or before 14th February, 2013 (being the then prevailing maturity date of the CB2010s) or such later date as may be agreed by the parties, the CB2010 Extension Agreement would lapse and terminate.

If the CB2010 Extension does not become unconditional by the long-stop date of the CB2010 Extension Agreement, the CB2010s would be subject to conversion at the option of the holder of the CB2010s on or before 31st January, 2013 and any unconverted CB2010s would be subject to redemption by Fancy Gold in accordance with their terms at 132.84% of the outstanding principal amount of the CB2010s upon the maturity date on 14th February, 2013.

Reasons for the Transaction

The CB2013(B) and the CB2010s would mature on 14th February, 2013 unless further extended. The conversion price of the CB2010s was at a discount to the then latest closing prices of Cosmo Shares while the conversion price of the CB2013(B) was at a premium over the then latest closing prices of Cosmo Shares. Through conversion of the CB2013(B), the Group would acquire a substantial interest in Cosmo Shares. Given the thin trading volume of Cosmo Shares with monthly trading volume on the Stock Exchange amounting to less than 1% of the total issued Cosmo Shares in the year 2012, the Company considered that it might not be practicable to acquire such substantial interest in Cosmo Shares at the then prevailing trading prices of Cosmo Shares on the Stock Exchange with the proceeds from redemption of the CB2013(B) on the then prevailing maturity date. Furthermore, the conversion of the CB2013(B) and the CB2010s by the Group might result in regulatory compliance issues (including the possible triggering of a mandatory obligation for the Company to make an offer for all the Cosmo Shares not already held by the Group and parties acting in concert with it).

With the CB2013(B) Extension and the CB2010 Extension, the maturity date of the CB2013(B) and the CB2010s would be extended to 30th September, 2013 and the conversion period thereof will accordingly be extended to 16th September, 2013. The Group intends to hold the Cosmo Shares, the CB2013(B) and CB2010s for long-term strategic purposes. Rather than redemption of the CB2013(B) and the CB2010s at the then prevailing maturity date, extending the maturity date of the CB2013(B) and the CB2010s, which would provide an optional right for the Group to acquire Cosmo Shares by way of converting the CB2013(B) and CB2010s, would allow more time and flexibility for the Group to determine its overall planning with regard to its strategic investment in the Cosmopolitan and its subsidiaries.

Listing Rules Requirements

As at the date of the CB2013(B) Extension Agreement and the CB2010 Extension Agreement, the Group held approximately 2.83% of the issued ordinary share capital of Cosmopolitan while PHL held approximately 51.28% of the issued ordinary share capital of the Company and approximately 17.11% of the issued ordinary share capital of Cosmopolitan. As the PHL group (the controlling shareholder of the Company) directly held more than 10% of the issued ordinary share capital of Cosmopolitan, the CB2013(B) Extension and the CB2010 Extension constituted connected transactions for the Company under the Listing Rules. As one of the applicable percentage ratios in respect of the CB2013(B) Extension and the CB2010 Extension in aggregate was more than 5% but all the applicable percentage ratios were less than 25%, the CB2013(B) Extension and the CB2010 Extension constituted a discloseable transaction and a connected transaction for the Company subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules. No consideration was payable for the Options Extension. The Options Extension with respect to the Option (B) did not constitute a notifiable transaction or a connected transaction for the Company under the Listing Rules.

The CB2013(B) Extension and the CB2010 Extension became unconditional upon, among others, the Independent Shareholders' approval being obtained at the special general meeting of the Company held on 11th January, 2013.

Details of the CB2013(B) Extension and the CB2010 Extension were disclosed in the announcements of the Company dated 16th November, 2012 and 12th December, 2012 and the circular of the Company dated 18th December, 2012. Further details relating to the CB2013(B) and CB2010s are disclosed in note 19 to the financial statements.

Disposal of Subsidiary and Provision of Financial Assistance to P&R Holdings

On 28th February, 2013, Regal International (BVI) Holdings Limited, a wholly owned subsidiary of the Company, disposed of the entire equity interest in, and the shareholder's loan owed by, Prosper Harvest Investments Limited ("Prosper Harvest") to P&R Holdings for a consideration of approximately HK$46.52 million (the "Disposal"). Prosper Harvest had entered into a provisional agreement dated 29th December, 2012 with an independent third party for the acquisition of properties located at Nos. 8, 8A, 10, 10A, 12 and 12A Ha Heung Road, To Kwa Wan, Kowloon (the "Property") (the "Property Acquisition").

On 28th February, 2013 after the Disposal, Prosper Harvest (as purchaser), the Company (as several guarantor), PHL (as several guarantor) and an independent third party (as seller) entered into the formal sale and purchase agreement in respect of the Property Acquisition (the "Formal Agreement"). Pursuant to the Formal Agreement, each of the Company and PHL (as the indirect shareholders of Prosper Harvest through P&R Holdings) agreed to guarantee the performance of Prosper Harvest under the Formal Agreement on a several basis proportional to their respective interest in Prosper Harvest. Based on the consideration for the Property Acquisition of HK$464.3 million (subject to adjustments) and the deposits of HK$46.5 million already paid by Prosper Harvest, the share of the Company's guarantee given under the Formal Agreement was approximately HK$208.9 million (being 50% of the amount of the consideration net of the deposits paid). The Company and PHL had each provided a loan of approximately HK$23.25 million to P&R Holdings to fund its acquisition of Prosper Harvest under the Disposal. A further loan of approximately HK$208.9 million would be provided by each of PHL and the Company to P&R Holdings for Prosper Harvest to fund the payment of the remaining consideration for the Property Acquisition. The aforesaid loans are interest free, unsecured and have no fixed terms of repayment. In proportion to its interest in P&R Holdings, the Company should therefore provide financial assistance to P&R Holdings (in the form of loans and guarantee) in the total amount of HK$232.15 million to P&R Holdings (the "Financial Assistance").

Reasons for and benefits of the Transaction

P&R Holdings is primarily engaged in the development of real estate projects and was set up by PHL and the Company jointly with a view to leveraging on the resources of both groups to invest and develop property projects in Hong Kong and other areas. Apart from the plan for the redevelopment of the Property, P&R Holdings is presently undertaking a total of four development projects in Hong Kong and one in the PRC, and three of the development projects in Hong Kong are hotel redevelopments.

The Property has a site area of about 699.8 square meters. It is presently intended that Prosper Harvest will redevelop for sale the Property into a hotel with a proposed gross floor area of about 6,298.3 square meters and with not more than 340 hotel rooms as approved by the Town Planning Board.

To better structure the business of the Group and utilize the resources and position of P&R Holdings to develop the property project of Prosper Harvest, the Company considered that it would be in the interest of its shareholder to sell Prosper Harvest (together with its shareholder's loan) to P&R Holdings. After the Disposal, the Group continues to hold a 50% interest in the property development project of Prosper Harvest through the Group's investment in P&R Holdings.

Listing Rules Requirements

As P&R Holdings is owned as to 50% by a wholly owned subsidiary of the Company and 50% by a wholly owned subsidiary of PHL, the immediate listed holding company of the Company, P&R Holdings is a connected person of the Company and the Disposal constituted a connected transaction for the Company. As all the applicable percentage ratios were more than 0.1% but less than 5%, the Disposal consituted a connected transaction for the Company subject to the reporting and announcement requirements but exempt from independent shareholders' approval under the Listing Rules.

As the Company's provision of the Financial Assistance was on normal commercial terms and in proportion to the Company's equity interest in P&R Holdings, it was exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As one of the applicable percentage ratios in respect of the Company's provision of the Financial Assistance was more than 5% but all of the applicable percentage ratios are less than 25%, the Company's provision of the Financial Assistance constituted a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

Details of the transactions contemplated under the Disposal and Financial Assistance were disclosed in the announcement of the Company dated 1st March, 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31st December, 2012, the Company repurchased a total of 37,344,000 ordinary shares of the Company at aggregate purchase prices of HK$115,259,720 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

Month of repurchase	Number of ordinary shares repurchased	Price per ordinary share Highest (HK$)	Price per ordinary share Lowest (HK$)	Aggregate purchase price (HK$)
April 2012	3,778,000	3.230	3.170	12,101,600
May 2012	17,760,000	3.330	2.820	56,223,180
June 2012	15,806,000	3.130	2.820	46,934,940
Total	37,344,000			115,259,720
		Total expenses on shares repurchased		353,095
		Dividends received before cancellation		(354,979)
			Total	115,257,836

As disclosed in the sub-section headed "Share Capital" under "Capital Resources and Funding" of "Financial Review" in the preceding MD&A, all of the above repurchases of ordinary shares were made under the RH Share Repurchase Programme (as referred to in the preceding MD&A). All the repurchased ordinary shares were cancelled during the year. The issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled.

Save as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's 5 largest suppliers and the percentage of turnover or sales attributable to the Group's 5 largest customers combined in respect of goods and services was in each case less than 30% of the total amount involved.

Further relevant information about a major customer is set out in note 4 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The details of movements in the Group's property, plant and equipment during the year are set out in note 14 to the financial statements.

INVESTMENT PROPERTIES

The details of movements in the Group's investment properties during the year are set out in note 15 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the end of the reporting period are set out in notes 27 and 28 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company, together with the reasons therefor, during the year are set out in note 31 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the Company's share premium account during the year are set out in note 31 to the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

HEDGE RESERVE

The details of movements in the hedge reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

CAPITAL RESERVE

The details of movements in the capital reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

AVAILABLE-FOR-SALE INVESTMENT REVALUATION RESERVE

The details of movements in the available-for-sale investment revaluation reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 33 to the financial statements.

JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Group's investments in its jointly controlled entities and associates are set out in notes 16 and 17 to the financial statements, respectively.

CHARITABLE CONTRIBUTION

During the year, the Group made charitable contributions totalling HK$0.9 million.

RESERVES

The details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements and in the consolidated statement of changes in equity of the financial statements, respectively.

DISTRIBUTABLE RESERVES

As at 31st December, 2012, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$6,025.7 million, of which HK$96.4 million has been proposed as final dividend for the year.

In addition, the Company's share premium account, in the amount of HK$740.8 million, may be distributed in the form of fully paid bonus shares.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events of the Group after the reporting period are set out in note 43 to the financial statements.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong
25th March, 2013

The Board of Directors of the Company (the "Board") is pleased to present the Corporate Governance Report of the Company for the year ended 31st December, 2012.

The Company is committed to maintaining good corporate governance practices and procedures. Review of existing policies and practices in respect of the management and corporate matters of the Group has been conducted by the Company. Enhancement to the current standards for complying with new requirements, revision of the existing policies and practices and introduction of appropriate new measures have been implemented. Periodic review of the system and controls within the Group will be carried out by the Company to comply with the prevailing standards and requirements of good corporate governance.

(I) CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices (effective until 31st March, 2012) and the Corporate Governance Code (effective from 1st April, 2012) (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31st December, 2012, 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 to cater to the Group's corporate operating structure.

(2) The Non-Executive Director and Independent Non-Executive Directors of the Company were not appointed for specific terms, but in accordance with the provisions of the Bye-laws of the Company, all Directors (including the Non-Executive Director and Independent Non-Executive Directors) of the Company are subject to retirement by rotation at least once every three years, and the retiring Directors are eligible for re-election.

(3) The Non-Executive Director of the Company was unable to attend the Annual General Meeting of the Company held in May 2012 due to other engagement.

(II) BOARD OF DIRECTORS

The Board currently comprises the following members:

Executive Directors:

Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)*
Ms. Belinda Yeung Bik Yiu *(Chief Operating Officer)*
Mr. Donald Fan Tung
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Allen Wan Tze Wai

Non-Executive Director:

Dr. Francis Choi Chee Ming, GBS, JP *(Vice Chairman)*

Independent Non-Executive Directors:

Ms. Alice Kan Lai Kuen
Professor Japhet Sebastian Law
Mr. Ng Siu Chan
Mr. Wong Chi Keung

The personal and biographical details of the Directors, including the relationship among them, are disclosed in the preceding section headed "Directors' Profile" contained in this Annual Report.

During the year ended 31st December, 2012, the Company has fully complied with Rules 3.10 and 3.10A of the Listing Rules regarding the number of Independent Non-Executive Directors and the requirement that at least one of these Directors must have appropriate professional qualifications.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-Executive Directors have met the independence guidelines of Rule 3.13 of the Listing Rules.

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to Board members in a timely manner in order to enable them to discharging their duties.

All material policies and decisions remain within the authority of the Board as a whole. The Board only delegates authorities to management to an extent that would not significantly hinder or reduce the ability of the Board to discharge its proper functions as a whole. The functions of the Board and those delegated to management of the Company are properly distinguished and clarified. Review of the formalised arrangements will be carried out on a periodic basis to ensure that they remain appropriate to the needs of the Company. The Board is also responsible for developing, reviewing and/or monitoring the Company's policies and practices on corporate governance and compliance with legal and regulatory requirements.

In year 2012, the attendance rates of individual Board members of the Company were as follows:

Name of Directors	**Attendance**	
	Board Meetings	*General Meetings*
Executive Directors		
Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)*	13/13	1/1
Ms. Belinda Yeung Bik Yiu *(Chief Operating Officer)*	13/13	1/1
Mr. Donald Fan Tung	13/13	1/1
Mr. Jimmy Lo Chun To	13/13	1/1
Miss Lo Po Man	13/13	1/1
Mr. Kenneth Ng Kwai Kai	13/13	1/1
Mr. Allen Wan Tze Wai	13/13	1/1
Non-Executive Director		
Dr. Francis Choi Chee Ming, GBS, JP *(Vice Chairman)*	13/13	0/1
Independent Non-Executive Directors		
Ms. Alice Kan Lai Kuen	12/13	1/1
Professor Japhet Sebastian Law *(appointed on 18th June, 2012)*	6/7	0/0
Mr. Ng Siu Chan	13/13	1/1
Mr. Wong Chi Keung	10/13	1/1

The Chairman or an Executive Director so delegated is responsible for providing every newly appointed Director with an induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the operations and business of the Group. With respect to compliance matters, the Company Secretary is responsible for providing any new Director with information and materials relating to his/her responsibilities under applicable statutory and regulatory requirements. Subsequent updating about the latest changes and development of such requirements will be sent to the Directors by the Company Secretary. In addition, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. In the year 2012, the Company has arranged for Directors a seminar in relation to updating of Directors' obligations and duties under the CG Code and with respect to the amendments to the Securities and Futures Ordinance relating to disclosure of price sensitive/inside information, which came into effect on 1st January, 2013. The training received by the Directors during the year 2012 is summarised below:

Name of Directors	**Types of training**
Executive Directors	
Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)*	A, B
Ms. Belinda Yeung Bik Yiu *(Chief Operating Officer)*	A, B
Mr. Donald Fan Tung	A, B
Mr. Jimmy Lo Chun To	A, B
Miss Lo Po Man	A, B
Mr. Kenneth Ng Kwai Kai	A, B
Mr. Allen Wan Tze Wai	A, B
Non-Executive Director	
Dr. Francis Choi Chee Ming, GBS, JP *(Vice Chairman)*	B
Independent Non-Executive Directors	
Ms. Alice Kan Lai Kuen	A, B
Professor Japhet Sebastian Law	A, B
Mr. Ng Siu Chan	B
Mr. Wong Chi Keung	A, B

A - Attending briefings/seminars/conferences/forums
B - Reading/studying training or other materials

(III) BOARD COMMITTEES

There are three board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, established by the Board for overseeing certain functions delegated by the Board.

(a) Audit Committee

The Audit Committee was established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee currently comprises the following members:

Independent Non-Executive Directors:

Mr. Wong Chi Keung *(Chairman of the Committee)*
Ms. Alice Kan Lai Kuen *(Member)*
Professor Japhet Sebastian Law *(Member)*
Mr. Ng Siu Chan *(Member)*

Non-Executive Director:

Dr. Francis Choi Chee Ming, GBS, JP *(Member)*

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim and final financial statements.

As both the Board and the Audit Committee recommended to re-appoint the current external Auditors, Messrs. Ernst & Young, no circumstances exist as would require an explanation from the Audit Committee as to why the Board has taken a different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external Auditors.

In year 2012, the Audit Committee met twice and the meetings were attended by the external Auditors of the Company. The attendance rates of individual Audit Committee members of the Company were as follows:

Name of Audit Committee members	**Attendance**
Mr. Wong Chi Keung *(Chairman of the Committee)*	2/2
Dr. Francis Choi Chee Ming, GBS, JP	2/2
Ms. Alice Kan Lai Kuen	2/2
Professor Japhet Sebastian Law *(appointed on 18th June, 2012)*	1/1
Mr. Ng Siu Chan	2/2

On 29th March, 2012, the Board adopted the revised terms of reference of the Audit Committee in compliance with relevant amendments to the CG Code which took effect on 1st April, 2012. The revised terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

(b) Remuneration Committee

The Remuneration Committee was established with specific written terms of reference that deal with its authority and duties. The terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange. The principal responsibilities of the Remuneration Committee are to review the remuneration of individual Directors and senior management and to make recommendations to the Board on the policy and structure for the determination of the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing the policy of the Company on such matters.

The Remuneration Committee currently comprises the following members:

Executive Director:

Mr. Lo Yuk Sui *(Member)*

Independent Non-Executive Directors:

Mr. Wong Chi Keung *(Chairman of the Committee)*
Ms. Alice Kan Lai Kuen *(Member)*
Mr. Ng Siu Chan *(Member)*

Mr. Kenneth Ng Kwai Kai, an Executive Director of the Company, has acted as the Secretary of the Committee.

In year 2012, the Remuneration Committee met once and has reviewed the Company's policy and structure for the remuneration of Directors and senior management. The attendance rates of individual Remuneration Committee members of the Company were as follows:

Name of Remuneration Committee members	Attendance
Mr. Wong Chi Keung *(Chairman of the Committee)*	1/1
Mr. Lo Yuk Sui	1/1
Ms. Alice Kan Lai Kuen	1/1
Mr. Ng Siu Chan	1/1

On 29th March, 2012, the Board adopted the revised terms of reference of the Remuneration Committee in compliance with relevant amendments to the CG Code which took effect on 1st April, 2012. Pursuant to the revised terms of reference of the Remuneration Committee, the Remuneration Committee is delegated to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment). The revised terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The remuneration of the senior management (comprising Executive Directors) of the Company for the year ended 31st December, 2012 by band is set out below:

Remuneration band	Number of individuals
HK$500,001 – 1,000,000	1
HK$1,000,001 – 1,500,000	2
HK$1,500,001 – 2,000,000	1
HK$2,000,001 – 2,500,000	1
HK$2,500,001 – 3,000,000	1
Within bands from HK$3,000,001 – 9,500,000	0
HK$9,500,001 – 10,000,000	1

Further details of the Executive Directors' remuneration for the year ended 31st December, 2012 are disclosed in note 8 to the financial statements contained in this Annual Report.

(c) Nomination Committee

In compliance with the relevant amendments to the CG Code which took effect from 1st April, 2012, the Nomination Committee was established with specific written terms of reference by the Board for the purpose of making recommendations to the Board in relation to the nomination and appointment of Directors, with a view to ensuring fairness and transparency in the nomination and selection procedures. The terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently comprises the following members:

Executive Director:

Mr. Lo Yuk Sui *(Chairman of the Committee)*

Independent Non-Executive Directors:

Ms. Alice Kan Lai Kuen *(Member)*
Mr. Ng Siu Chan *(Member)*
Mr. Wong Chi Keung *(Member)*

In year 2012, the Nomination Committee met once and has reviewed and considered the proposed appointment of Professor Japhet Sebastian Law as an additional Independent Non-Executive Director of the Company and made related recommendation to the Board about the appointment. This appointment was for the purpose of compliance with the new Rule 3.10A of the Listing Rules, pursuant to which, effective from 31st December, 2012, a listed issuer must appoint independent non-executive directors representing at least one-third of its board. Accordingly, the Company was required to appoint an additional Independent Non-Executive Director before 31st December, 2012, as the Board had a total of eleven Directors, of which only three are Independent Non-Executive Directors, before such appointment. The attendance rates of individual Nomination Committee members of the Company were as follows:

Name of Nomination Committee members	Attendance
Mr. Lo Yuk Sui *(Chairman of the Committee)*	1/1
Ms. Alice Kan Lai Kuen	1/1
Mr. Ng Siu Chan	1/1
Mr. Wong Chi Keung	1/1

(IV) DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements of the Group, which give a true and fair view of the state of affairs of the Group, and ensuring that appropriate accounting policies are selected and applied consistently and that the financial statements are prepared in accordance with the relevant statutory requirements and applicable accounting standards. The Directors will also ensure that the financial statements are published in a timely manner. As a manpower policy of the Group, which is subject to regular review by the Directors and senior management, adequate resources have been allocated to the accounting and financial reporting function with staff members possessing appropriate qualifications and experience engaged in the discharge of the relevant functions. The relevant staff members attend seminars and workshops organised by the professional accounting bodies on a regular basis, and a reasonable budget has been allocated for continuous professional development purposes.

The statement by the external Auditors, Messrs. Ernst & Young, about their reporting responsibilities is set out in the Independent Auditors' Report contained in this Annual Report.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(V) DIRECTORS' SECURITIES TRANSACTIONS

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 for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct governing the securities transactions by the Directors of the Company.

Following specific enquiry by the Company, the Directors have confirmed that they have complied with the Model Code and the Regal Code during the year ended 31st December, 2012.

(VI) INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the system of internal controls of the Group during the year, including financial, operational and compliance controls and risk management functions with a view to safeguarding the shareholders' investment and the Company's assets.

Management of the Company has put into effect a full set of corporate policies and procedures as well as detailed operating manuals for the hotel operations of the Group, with an objective to achieving a sound internal control system. Separate meetings attended by Executive Directors, Group Financial Controller, Area Financial Controller, Hotel General Managers and Hotel Financial Controllers are held regularly to review the effectiveness of the internal control system, to identify any significant control failings or weaknesses, and also to review the need for any control improvements or updating to respond to changes in the business and external environment. Regular management audits have also been performed by the Area Financial Control department on the internal control systems of individual hotels to ensure that there are no significant control failings or weaknesses. Recommendations for improvement are forwarded to individual hotels' management for implementation. While the regular monitoring of the internal control mechanisms is mainly conducted by the delegated Executive Directors and senior management staff members, support and advice from external consultants and professionals are sought as and when required.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Accordingly, while periodic committee meetings are held with the delegated Executive Directors and senior management staff members, clear instructions have been provided to management of the Company that any material issues relating to the internal control system, particularly any incidence of significant control failings or weaknesses that has had, or might have, a material impact on the business of the Group is to be reported to the Board and the Audit Committee of the Company on a timely basis.

(VII) AUDITORS' REMUNERATION

Messrs. Ernst & Young have been re-appointed as the external auditors of the Company at the 2012 Annual General Meeting until the conclusion of the forthcoming 2013 Annual General Meeting.

The remuneration to Messrs. Ernst & Young, the auditors of the Company, in respect of the audit and non-audit services rendered for the year ended 31st December, 2012 were HK$4.7 million (2011 - HK$4.8 million) and HK$2.3 million (2011 - HK$1.1 million), respectively. The significant non-audit services covered by these fees are as follows:

Nature of services	**Fees paid (HK$'million)**
(1) Interim review of the financial statements of the Group and the Regal REIT group, respectively, for the six months ended 30th June, 2012	0.8
(2) Compliance and other services to the Group	1.5

(VIII) SHAREHOLDERS' RIGHT

Special general meetings may be convened upon receipt of written request submitted by any shareholder(s) of the Company holding not less than one-tenth of the share capital of the Company carrying the right of voting at general meetings of the Company. Such written requisition must state the purposes of the meeting, and be signed by the requisitionist(s) and deposited at the Head Office of the Company at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong (for the attention of the Company Secretary).

Shareholders may also send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company at the abovementioned address (for the attention of the Company Secretary).

During the year ended 31st December, 2012, the Company has not made any changes to its Bye-laws. A consolidated version of the Memorandum of Association and New Bye-laws of the Company is available on the website of the Company.

Consolidated Income Statement

For the year ended 31st December, 2012

	Notes	2012 HK$'million	2011 HK$'million
REVENUE	5	**2,330.9**	2,037.2
Cost of sales		**(1,156.6)**	(1,169.5)
Gross profit		**1,174.3**	867.7
Other income and gains	5	**30.7**	81.7
Administrative expenses		**(175.9)**	(167.0)
Fair value losses on financial assets at fair value through profit or loss, net		**(45.1)**	(822.8)
Fair value gains on investment properties	15	**61.1**	67.8
Realisation of hedge reserve		**137.2**	–
OPERATING PROFIT BEFORE DEPRECIATION		**1,182.3**	27.4
Depreciation		**(380.0)**	(365.5)
OPERATING PROFIT/(LOSS)		**802.3**	(338.1)
Finance costs	7	**(159.8)**	(190.5)
Share of profits and losses of:			
Jointly controlled entities		**(5.5)**	623.4
Associates		**(3.9)**	52.2
PROFIT BEFORE TAX	6	**633.1**	147.0
Income tax	10	**(47.3)**	(16.3)
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS		**585.8**	130.7
Attributable to:			
Equity holders of the parent	11	**536.3**	107.9
Non-controlling interests		**49.5**	22.8
		585.8	130.7
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	13		
Basic and diluted		**HK$0.55**	HK$0.11

Details of the dividends paid and proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December, 2012

	2012 HK$'million	2011 HK$'million
PROFIT FOR THE YEAR BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	**585.8**	130.7
OTHER COMPREHENSIVE INCOME/(LOSS)		
Available-for-sale investments:		
Changes in fair value	**1.2**	(1.8)
Cash flow hedges:		
Changes in fair value of cash flow hedges	**23.2**	(21.4)
Transfer from hedge reserve to the income statement	**(129.9)**	128.1
	(106.7)	106.7
Exchange differences on translating foreign operations	**1.3**	3.7
Share of other comprehensive income/(loss) of associates/jointly controlled entities	**3.6**	(68.4)
Other comprehensive income/(loss) for the year	**(100.6)**	40.2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**485.2**	170.9
Attributable to:		
Equity holders of the parent	**428.0**	120.9
Non-controlling interests	**57.2**	50.0
	485.2	170.9

Consolidated Statement of Financial Position

As at 31st December, 2012

	Notes	2012 HK$'million	2011 HK$'million
NON-CURRENT ASSETS			
Property, plant and equipment	14	**13,845.2**	14,041.4
Investment properties	15	**948.0**	886.0
Investments in jointly controlled entities	16	**1,597.3**	1,689.6
Investments in associates	17	**27.6**	16.7
Available-for-sale investments	18	**4.7**	18.0
Financial assets at fair value through profit or loss	19	**23.4**	508.6
Other loan	20	**18.9**	17.6
Deposits		**2.3**	–
Total non-current assets		**16,467.4**	17,177.9
CURRENT ASSETS			
Properties held for sale	22	**788.0**	914.3
Inventories	21	**25.3**	26.0
Debtors, deposits and prepayments	23	**843.2**	208.8
Other loan	20	**–**	14.5
Held-to-maturity investments	24	**210.8**	45.1
Available-for-sale investments	18	**–**	7.7
Financial assets at fair value through profit or loss	19	**730.3**	240.5
Restricted cash	25	**44.2**	69.2
Pledged time deposits and bank balances		**321.9**	301.6
Time deposits		**1,739.2**	569.2
Cash and bank balances		**625.6**	286.0
Total current assets		**5,328.5**	2,682.9
CURRENT LIABILITIES			
Creditors, deposits received and accruals	26	**(382.6)**	(372.8)
Interest bearing bank borrowings	27	**(81.5)**	(4,731.1)
Derivative financial instruments	29	**(2.1)**	(32.0)
Tax payable		**(41.4)**	(1.4)
Total current liabilities		**(507.6)**	(5,137.3)

As at 31st December, 2012

	Notes	2012 HK$'million	2011 HK$'million
NET CURRENT ASSETS/(LIABILITIES)		**4,820.9**	(2,454.4)
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,288.3**	14,723.5
NON-CURRENT LIABILITIES			
Deposits received		**(2.5)**	–
Interest bearing bank borrowings	27	**(4,776.1)**	(627.1)
Other borrowing	28	**(2,293.8)**	–
Derivative financial instruments	29	**(2.8)**	–
Deferred tax liabilities	30	**(1,065.5)**	(1,093.3)
Total non-current liabilities		**(8,140.7)**	(1,720.4)
Net assets		**13,147.6**	13,003.1
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	**96.4**	100.1
Reserves	32(a)	**11,542.4**	11,352.6
Proposed final dividend	12	**96.4**	90.1
		11,735.2	11,542.8
Non-controlling interests		**1,412.4**	1,460.3
Total equity		**13,147.6**	13,003.1

KENNETH NG KWAI KAI
Director

LO YUK SUI
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2012

	Notes	Attributable to equity holders of the parent												
		Issued capital HK$'m	Share premium account HK$'m	Share option reserve HK$'m	Capital redemption reserve HK$'m	Hedge reserve HK$'m	Capital reserve HK$'m	Available-for-sale investment revaluation reserve HK$'m	Exchange equalisation reserve HK$'m	Retained profits HK$'m	Proposed final dividend HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1st January, 2011		100.2	854.1	45.6	7.4	33.7	14.4	–	129.9	10,265.6	85.1	11,536.0	1,546.6	13,082.6
Profit for the year		–	–	–	–	–	–	–	–	107.9	–	107.9	22.8	130.7
Other comprehensive income/(loss) for the year:														
Changes in fair value of available-for-sale investments		–	–	–	–	–	–	(1.8)	–	–	–	(1.8)	–	(1.8)
Changes in fair value of cash flow hedges		–	–	–	–	(16.0)	–	–	–	–	–	(16.0)	(5.4)	(21.4)
Transfer from hedge reserve to income statement		–	–	–	–	95.5	–	–	–	–	–	95.5	32.6	128.1
Exchange differences on translating foreign operations		–	–	–	–	–	–	–	3.7	–	–	3.7	–	3.7
Share of other comprehensive loss of:														
Associate		–	–	–	–	–	–	–	(64.1)	–	–	(64.1)	–	(64.1)
Jointly controlled entities		–	–	–	–	–	–	–	(4.3)	–	–	(4.3)	–	(4.3)
Total comprehensive income/(loss) for the year		–	–	–	–	79.5	–	(1.8)	(64.7)	107.9	–	120.9	50.0	170.9
Final 2010 dividend declared		–	–	–	–	–	–	–	–	–	(85.1)	(85.1)	(86.2)	(171.3)
Repurchase and cancellation of ordinary shares	31	(0.1)	(1.7)	–	0.1	–	–	–	–	(0.1)	–	(1.8)	–	(1.8)
Acquisition of additional interest in a listed subsidiary		–	–	–	–	0.1	2.7	–	–	–	–	2.8	(2.8)	–
Share option lapsed		–	–	(45.6)	–	–	–	–	–	45.6	–	–	–	–
Interim 2011 dividend	12	–	–	–	–	–	–	–	–	(30.0)	–	(30.0)	(47.3)	(77.3)
Proposed final dividend	12	–	–	–	–	–	–	–	–	(90.1)	90.1	–	–	–
At 31st December, 2011		100.1	852.4	–	7.5	113.3	17.1	(1.8)	65.2	10,298.9	90.1	11,542.8	1,460.3	13,003.1

For the year ended 31st December, 2012

	Notes	Attributable to equity holders of the parent											
		Issued capital HK$'m	Share premium account HK$'m	Capital redemption reserve HK$'m	Hedge reserve HK$'m	Capital reserve HK$'m	Available-for-sale investment revaluation reserve HK$'m	Exchange equalisation reserve HK$'m	Retained profits HK$'m	Proposed final dividend HK$'m	Total HK$'m	Non-controlling interests HK$'m	Total equity HK$'m
At 1st January, 2012		100.1	852.4	7.5	113.3	17.1	(1.8)	65.2	10,298.9	90.1	11,542.8	1,460.3	13,003.1
Profit for the year		–	–	–	–	–	–	–	536.3	–	536.3	49.5	585.8
Other comprehensive income/(loss) for the year:													
Changes in fair value of available-for-sale investments		–	–	–	–	–	1.2	–	–	–	1.2	–	1.2
Cash flow hedges		–	–	–	(114.4)	–	–	–	–	–	(114.4)	7.7	(106.7)
Exchange differences on translating foreign operations		–	–	–	–	–	–	1.3	–	–	1.3	–	1.3
Share of other comprehensive income of:													
Associate		–	–	–	–	–	–	0.3	–	–	0.3	–	0.3
Jointly controlled entities		–	–	–	–	–	–	3.3	–	–	3.3	–	3.3
Total comprehensive income/(loss) for the year		–	–	–	(114.4)	–	1.2	4.9	536.3	–	428.0	57.2	485.2
Final 2011 dividend declared		–	–	–	–	–	–	–	1.6	(90.1)	(88.5)	(52.2)	(140.7)
Repurchase and cancellation of ordinary shares	31	(3.7)	(111.6)	3.7	–	–	–	–	(3.7)	–	(115.3)	–	(115.3)
Deregistration of subsidiaries		–	–	–	–	–	–	–	–	–	–	(0.6)	(0.6)
Interim 2012 dividend	12	–	–	–	–	–	–	–	(31.8)	–	(31.8)	(52.3)	(84.1)
Proposed final dividend	12	–	–	–	–	–	–	–	(96.4)	96.4	–	–	–
At 31st December, 2012		96.4	740.8	11.2	(1.1)	17.1	(0.6)	70.1	10,704.9	96.4	11,735.2	1,412.4	13,147.6

Consolidated Statement of Cash Flows

For the year ended 31st December, 2012

	Notes	2012 HK$'million	2011 HK$'million
Net cash flows from operating activities	34(a)	**423.3**	489.0
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure for investment properties		**(1.0)**	(1.7)
Purchases of items of property, plant and equipment		**(172.6)**	(98.1)
Proceeds from disposal of investment properties		**–**	194.8
Purchases of available-for-sale investments		**(1.2)**	(27.5)
Proceeds from redemption of available-for-sale investments		**23.4**	–
Purchases of held-to-maturity investments		**(363.9)**	(45.1)
Proceeds from redemption of held-to-maturity investments		**198.2**	–
Acquisition of a subsidiary	33	**–**	6.3
Advances to jointly controlled entities		**(21.3)**	(1,013.9)
Repayment from jointly controlled entities		**111.4**	125.4
Advances to associates		**(14.4)**	(39.2)
Repayment from associates		**–**	20.7
Interest received		**20.6**	9.7
Dividends received from listed investments		**4.6**	3.5
Decrease in pledged time deposits and bank balances		**(20.3)**	701.4
Increase in restricted cash		**(12.4)**	(9.2)
Decrease in other loan		**15.5**	15.6
Net cash flows used in investing activities		**(233.4)**	(157.3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repurchase and cancellation of ordinary shares	31	**(115.3)**	(1.8)
Increase in other borrowing		**2,312.1**	–
Drawdown of new bank loans		**5,172.0**	828.0
Repayments of bank loans		**(5,622.9)**	(576.5)
Interest paid		**(146.9)**	(179.8)
Payment of loan and other costs		**(94.7)**	–
Dividends paid		**(120.2)**	(115.0)
Dividends paid to non-controlling shareholders		**(104.5)**	(133.5)
Decrease in restricted cash		**37.5**	12.1
Net cash flows from/(used in) financing activities		**1,317.1**	(166.5)
Net increase in cash and cash equivalents		**1,507.0**	165.2
Cash and cash equivalents at beginning of year		**855.2**	686.6
Effect of foreign exchange rate changes, net		**2.6**	3.4
Cash and cash equivalents at end of year		**2,364.8**	855.2
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**625.6**	286.0
Non-pledged time deposits with original maturity of less than three months when acquired		**1,739.2**	569.2
		2,364.8	855.2

Statement of Financial Position

As at 31st December, 2012

	Notes	2012 HK$'million	2011 HK$'million
NON-CURRENT ASSETS			
Investments in subsidiaries	33	**6,877.6**	7,117.6
CURRENT ASSETS			
Deposits and prepayments		**0.2**	0.2
Cash and bank balances		**0.8**	0.7
Total current assets		**1.0**	0.9
CURRENT LIABILITIES			
Creditors and accruals		**(4.5)**	(4.1)
NET CURRENT LIABILITIES		**(3.5)**	(3.2)
Net assets		**6,874.1**	7,114.4
EQUITY			
Issued capital	31	**96.4**	100.1
Reserves	32(b)	**6,681.3**	6,924.2
Proposed final dividend	12	**96.4**	90.1
Total equity		**6,874.1**	7,114.4

KENNETH NG KWAI KAI
Director

LO YUK SUI
Director

1. CORPORATE INFORMATION

Regal Hotels International Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business in Hong Kong of the Company is located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally engaged in hotel operations and management, hotel ownership through its listed subsidiary, Regal Real Estate Investment Trust ("Regal REIT"), asset management of Regal REIT, property development and investment, and other investments.

On 20th April, 2012, the Company announced a share repurchase programme for the repurchase of up to 38,886,400 shares of the Company at a maximum price of HK$3.80 per share, which was to be operative until 21st July, 2012. Up to 7th May, 2012, an aggregate of 12,600,000 shares of the Company have been repurchased under the programme and, as a result, the aggregate proportionate shareholdings held by Paliburg Holdings Limited ("PHL") in the Company crossed over the 50% shareholding threshold. Consequently, both the Company and Regal REIT became subsidiaries of PHL and, in turn, Century City International Holdings Limited ("CCIHL"), the controlling shareholder of PHL. In the opinion of the Directors, the parent and the ultimate holding company of the Group is CCIHL, which was incorporated in Bermuda and is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments, financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31st December, 2012. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if it results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*

The adoption of these revised HKFRSs has had no significant financial effect on these financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* [2]
HKFRS 9	*Financial Instruments* [4]
HKFRS 10	*Consolidated Financial Statements* [2]
HKFRS 11	*Joint Arrangements* [2]
HKFRS 12	*Disclosure of Interests in Other Entities* [2]
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – *Transition Guidance* [2]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities* [3]
HKFRS 13	*Fair Value Measurement* [2]
HKAS 1 Amendments	Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* [1]
HKAS 19 (2011)	*Employee Benefits* [2]
HKAS 27 (2011)	*Separate Financial Statements* [2]
HKAS 28 (2011)	*Investments in Associates and Joint Ventures* [2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* [3]
HK(IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine* [2]
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012 [2]

1 Effective for annual periods beginning on or after 1st July, 2012
2 Effective for annual periods beginning on or after 1st January, 2013
3 Effective for annual periods beginning on or after 1st January, 2014
4 Effective for annual periods beginning on or after 1st January, 2015

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group expects to adopt the amendments from 1st January, 2013.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1st January, 2015. The Group will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in HK(SIC)-Int 12. Based on the preliminary analyses performed, HKFRS 10 is not expected to have any significant impact on the currently held investments of the Group.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

In July 2012, the HKICPA issued amendments to HKFRS 10, HKFRS 11 and HKFRS 12 which clarify the transition guidance in HKFRS 10 and provide further relief from full retrospective application of these standards, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The amendments clarify that retrospective adjustments are only required if the consolidation conclusion as to which entities are controlled by the Group is different between HKFRS 10 and HKAS 27 or HK(SIC)-Int 12 at the beginning of the annual period in which HKFRS 10 is applied for the first time. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before HKFRS 12 is first applied.

The amendments to HKFRS 10 issued in December 2012 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Group expects that these amendments will not have any impact on the Group as the Company is not an investment entity as defined in HKFRS 10.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (2011), HKAS 28 (2011), and the subsequent amendments to these standards issued in July and December 2012 from 1st January, 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1st January, 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group expects to adopt the amendments from 1st January, 2013.

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1st January, 2013.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1st January, 2014.

The *Annual Improvements to HKFRSs 2009-2011 Cycle* issued in June 2012 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1st January, 2013. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) HKAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Upon the disposal of investments in subsidiaries, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the income statement.

(b) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's investments in the jointly controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of the jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's investments in the jointly controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred.

(d) Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

(e) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with change in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. The carrying amount of goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31st December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

(f) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

(g) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset or as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Hotel land	Over the lease terms
Hotel buildings	Over the shorter of 40 years or the remaining lease terms
Leasehold properties	Over the shorter of 40 years or the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%
Aircraft	20% to 100% depending on the age of the aircraft at acquisition either by calendar months or flight cycles

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at the end of each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress in reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(h) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

(i) Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments and held-to-maturity investments, or as derivatives designed as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised as a separate line item in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify them. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement in other operating expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

(j) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through the income statement if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

(k) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset, or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (i) the Group has transferred substantially all the risks and rewards of the asset, or (ii) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(l) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

(m) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(n) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle liabilities simultaneously.

(o) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(p) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as foreign currency option contracts and interest rate swaps to hedge its foreign currency risk and interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly as other comprehensive income in the hedge reserve, while any ineffective portion is recognised immediately in the income statement in finance costs.

Amounts recognised in other comprehensive income are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognised in equity is transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any estimated costs expected to be incurred to disposal.

(r) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) hotel and other agency and management services income, in the period in which such services are rendered;

(ii) proceeds from the sale of properties, on the exchange of legally binding sales contracts;

(iii) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(v) dividend income, when the shareholders' right to receive payment has been established;

(vi) net gain or loss from the sale of investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and

(vii) sale of food products, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the food products sold.

(t) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain overseas subsidiaries, jointly controlled entities and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange equalisation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(u) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has became probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(w) Employee benefits

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7th November, 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

Staff retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a percentage of their payroll costs to the relevant central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

(x) Related parties

A party is considered to be related to the Group if:

(i) the party is a person or a close member of that person's family and that person

(1) has control or joint control over the Group;

(2) has significant influence over the Group;

(3) is a member of the key management personnel of the Group or of a parent of the Group;

or

(ii) the party is an entity where any of the following conditions applies:

(1) the entity and the Group are members of the same group;

(2) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(3) the entity and the Group are joint ventures of the same third party;

(4) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(5) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(6) the entity is controlled or jointly controlled by a person identified in (i); and

(7) a person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(y) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(z) Dividends

Final dividend proposed by the Directors is classified as a separate allocation of retained profits within the equity section of the statement of financial position, until it has been approved by the shareholders in a general meeting. When the dividend has been approved by the shareholders and declared, it is recognised as a liability.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

(aa) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

Derivative financial instruments and hedging activities

Derivative financial instruments and hedging activities require the Group to make judgements on the designation of the hedging relationship of the Group's derivatives and their hedge effectiveness. These judgements determine if the changes in fair values of the derivative instruments are recognised directly in other comprehensive income in the hedge reserve or any ineffective element is recognised in the income statement.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined by using valuation techniques. The Group uses judgements to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group uses a discounted cash flow analysis for its derivative financial instruments that are not traded in active markets.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of fair value of investment properties

The fair value of each investment property is individually determined at the end of each reporting period by an independent valuer based on a market value assessment, on an open market, existing use basis. The valuer has relied on the discounted cash flow analysis and the capitalisation of income approach as its primary methods, supported by the direct comparison method. These methodologies are based upon estimates of future results and a set of assumptions specific to each property to reflect its tenancy and cash flow profile. The discounted cash flow projections of each investment property are based on reliable estimates of expected future cash flows, supported by the terms of any existing leases and other contracts and (when possible) by external evidence, and using discount rates that reflect current market assessments of the uncertainty in the amounts and timing of the cash flows.

Deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the carryforward of unused tax losses can be utilised. Recognition of deferred tax assets primarily involves judgements and estimations regarding the future performance of the Group. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amounts of deferred tax assets and related taxable profit projections are reviewed at the end of each reporting period. The amount of unrecognised deferred tax assets at 31st December, 2012 was HK$516.6 million (2011 - HK$542.4 million). Further details are contained in note 30 to the financial statements.

Estimation of amortised cost of other loan

Other loan is a non-derivative financial asset and is stated at its amortised cost which is calculated using the discounted cash flow model based on estimated future cash inflow in repayment of the loan. The determination of the value requires the Group to make assumptions and estimates of the expected future cash flows, including an appropriate discount rate to calculate the present value of those net cash flows.

Impairment of available-for-sale financial assets

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31st December, 2012, no impairment losses have been recognised for available-for-sale assets. The carrying amount of available-for-sale assets was HK$4.7 million (2011 - HK$25.7 million).

Impairment of property, plant and equipment – aircraft

Impairment is recognised when events and circumstances indicate that the aircraft may be impaired and the carrying amount of the aircraft exceed the recoverable amount. Recoverable amount is defined as the higher of an aircraft's fair value less costs to sell and its value-in-use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing the assets. When value-in-use calculations are undertaken, the Group uses discounted cash flow projections based on financial budgets approved by the management covering a specified period.

Depreciation of property, plant and equipment – aircraft

Aircraft is depreciated on a straight-line basis at rate which is calculated to write-down the cost to its estimated residual value at the end of its operational life. Certain estimates regarding the operational life and residual value of the aircraft are made by the Group based on industry practice and internal technical valuation. The operational life and residual value are reviewed at least on an annual basis. The carrying amount of the Group's aircraft was HK$81.8 million (2011 - Nil).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has five reportable operating segments as follows:

(a) the hotel operation and management and hotel ownership segment engages in hotel operations and the provision of hotel management services, and the ownership in hotel properties for rental income through Regal REIT;

(b) the asset management segment engages in the provision of asset management services to Regal REIT;

(c) the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;

(d) the securities investment segment engages in securities trading and investment businesses; and

(e) the others segment mainly comprises aircraft ownership, travel agency services, development and distribution of edutainment products and sale of food products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that certain interest income, finance costs, head office and corporate gains and expenses are excluded from such measurement.

Segment assets exclude time deposits, cash and bank balances, and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest bearing bank borrowings, other borrowing, derivative financial instruments, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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.

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's operating segments for the years ended 31st December, 2012 and 2011:

GROUP

	Hotel operation and management and hotel ownership		Asset management		Property development and investment		Securities investment		Others		Eliminations		Consolidated	
	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m	2012 HK$'m	2011 HK$'m
Segment revenue:														
Sales to external customers	1,991.0	1,754.6	–	–	296.0	220.1	7.3	(8.7)	36.6	71.2	–	–	2,330.9	2,037.2
Intersegment sales	–	–	88.6	75.5	3.4	3.4	–	–	–	–	(92.0)	(78.9)	–	–
Total	**1,991.0**	**1,754.6**	**88.6**	**75.5**	**299.4**	**223.5**	**7.3**	**(8.7)**	**36.6**	**71.2**	**(92.0)**	**(78.9)**	**2,330.9**	**2,037.2**
Segment results before depreciation	941.3	811.6	(11.7)	(10.5)	193.3	82.9	(32.9)	(832.0)	(0.4)	0.4	–	–	1,089.6	52.4
Depreciation	(379.0)	(363.9)	(0.1)	(0.3)	(0.1)	(0.1)	–	–	(0.7)	(1.0)	–	–	(379.9)	(365.3)
Segment operating results	562.3	447.7	(11.8)	(10.8)	193.2	82.8	(32.9)	(832.0)	(1.1)	(0.6)	–	–	709.7	(312.9)
Unallocated interest income and unallocated non-operating and corporate gains													149.4	15.4
Unallocated non-operating and corporate expenses, net													(56.8)	(40.6)
Operating profit/(loss)													**802.3**	**(338.1)**
Finance costs													**(159.8)**	**(190.5)**
Share of profits and losses of:														
Jointly controlled entities	–	–	–	–	(5.5)	623.4	–	–	–	–	–	–	**(5.5)**	**623.4**
Associates	(0.8)	(0.4)	–	–	(0.4)	53.2	–	–	(2.7)	(0.6)	–	–	**(3.9)**	**52.2**
Profit before tax													**633.1**	**147.0**
Income tax													**(47.3)**	**(16.3)**
Profit for the year before allocation between equity holders of the parent and non-controlling interests													**585.8**	**130.7**
Attributable to:														
Equity holders of the parent													**536.3**	**107.9**
Non-controlling interests													**49.5**	**22.8**
													585.8	**130.7**

GROUP

	Hotel operation and management and hotel ownership		Asset management		Property development and investment		Securities investment		Others		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	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
Segment assets	14,150.3	14,413.7	44.1	38.1	2,184.6	1,669.7	1,009.9	826.9	93.4	13.6	(43.7)	(37.7)	17,438.6	16,924.3
Investments in jointly controlled entities	–	–	–	–	1,597.3	1,689.6	–	–	–	–	–	–	1,597.3	1,689.6
Investments in associates	6.6	7.0	–	–	17.6	7.3	–	–	3.4	2.4	–	–	27.6	16.7
Cash and unallocated assets													2,732.4	1,230.2
Total assets													21,795.9	19,860.8
Segment liabilities	(335.8)	(352.7)	(1.5)	(1.5)	(35.8)	(27.1)	(2.2)	(0.4)	(16.5)	(2.4)	43.7	37.7	(348.1)	(346.4)
Bank borrowings and unallocated liabilities													(8,300.2)	(6,511.3)
Total liabilities													(8,648.3)	(6,857.7)
Other segment information:														
Other interest income	(2.6)	(4.9)	–	–	(9.1)	–	(4.7)	(1.1)	–	–				
Reversal of impairment of other loan	–	(29.5)	–	–	–	–	–	–	–	–				
Impairment of trade debtors, net	0.9	0.3	–	–	–	–	–	–	–	–				
Fair value losses on financial assets at fair value through profit or loss, net	–	–	–	–	–	–	43.0	822.8	–	–				
Fair value gains on investment properties	(17.7)	(10.9)	–	–	(43.4)	(56.9)	–	–	–	–				
Capital expenditure	102.2	87.6	–	–	0.6	1.6	–	–	81.8	2.8				

Geographical information

(a) Revenue from external customers

	2012 HK$'million	2011 HK$'million
Hong Kong	**2,278.7**	1,951.0
Mainland China	**52.2**	86.2
	2,330.9	2,037.2

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	2012 HK$'million	2011 HK$'million
Hong Kong	**14,957.1**	15,223.8
Mainland China	**1,379.2**	1,409.9
Other	**81.8**	–
	16,418.1	16,633.7

The non-current asset information above is based on the locations of the assets and excludes financial instruments.

Information about a major customer

Revenue of approximately HK$286.5 million (2011 - Nil) was derived from sales to a major customer in the property development and investment segment.

5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	GROUP	
	2012 HK$'million	2011 HK$'million
Revenue		
Hotel operations and management services	**1,956.6**	1,721.1
Other operations, including estate management, estate agency, travel agency and sale of food products	**37.8**	72.2
Rental income:		
Hotel properties	**29.3**	28.6
Investment properties	**13.4**	10.5
Net gain/(loss) from sale of financial assets at fair value through profit or loss	**2.7**	(12.2)
Dividend income from listed investments	**4.6**	3.5
Sale of properties	**286.5**	213.5
	2,330.9	2,037.2
Other income		
Bank interest income	**8.9**	3.9
Other interest income	**16.6**	9.7
Reversal of impairment of other loan	**–**	29.5
Others	**5.2**	18.8
	30.7	61.9
Gains		
Fair value changes on derivative financial instruments	**–**	3.7
Gain on disposal of investment properties	**–**	16.1
	–	19.8
	30.7	81.7

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	GROUP 2012 HK$'million	GROUP 2011 HK$'million
Cost of sales#	**1,156.6**	1,169.5
Cost of inventories sold and services provided	**679.1**	666.5
Depreciation	**380.0**	365.5
Foreign exchange differences, net	**(2.4)**	(8.0)
Impairment of trade debtors, net	**0.9**	0.3
Employee benefit expense (inclusive of directors' remuneration disclosed in note 8):		
Salaries, wages and benefits*	**516.8**	487.2
Staff retirement scheme contributions	**22.8**	21.8
Less: Forfeited contributions	**(1.1)**	(1.1)
Net staff retirement scheme contributions	**21.7**	20.7
	538.5	507.9
Fair value lossess, net, on financial assets at fair value through profit or loss		
- held for trading	**(45.9)**	106.5
- designated as such upon initial recognition	**88.9**	716.3
- derivative instruments - transactions not qualifying as hedges	**2.1**	–
	45.1	822.8
Minimum lease payments under operating leases:		
Land and buildings	**14.5**	14.2
Other equipment	**0.3**	0.3
	14.8	14.5
Gross rental income	**(42.7)**	(39.1)
Less: Outgoings	**4.9**	5.9
Net rental income	**(37.8)**	(33.2)
Gain on deregistration of subsidiaries	**(0.6)**	–
Auditors' remuneration	**4.7**	4.8

Cost of sales does not include depreciation, which is separately shown on the face of the consolidated income statement. Cost of sales also includes cost of inventories sold and services provided.

* Inclusive of an amount of HK$452.7 million (2011 - HK$422.7 million) classified under cost of inventories sold and services provided.

7. FINANCE COSTS

	GROUP	
	2012 **HK$'million**	**2011** **HK$'million**
Interest on bank loans wholly repayable within five years	**106.7**	49.6
Interest on other borrowing wholly repayable within five years	**20.2**	–
Fair value changes on derivative financial instruments - cash flow hedge (transfer from hedge reserve)	**7.3**	128.1
Amortisation of debt establishment cost	**23.6**	12.1
Other loan costs	**2.0**	0.7
	159.8	190.5

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2012 **HK$'million**	**2011** **HK$'million**
Fees	**2.0**	1.7
Other emoluments:		
Salaries and other allowances	**14.9**	14.4
Performance related/discretionary bonuses	**2.7**	2.5
Staff retirement scheme contributions	**1.0**	0.9
	20.6	19.5

(a) Non-executive directors

The fees paid to non-executive directors during the year were as follows:

	2012 HK$'million	2011 HK$'million
Non-executive director:		
Dr. Francis Choi Chee Ming	**0.15**	0.15
Independent non-executive directors:		
Ms. Alice Kan Lai Kuen	**0.20**	0.15
Professor Japhet Sebastian Law*	**0.08**	–
Mr. Ng Siu Chan	**0.20**	0.15
Mr. Wong Chi Keung	**0.25**	0.20
	0.88	0.65

For the year ended 31st December, 2012, Directors' fees entitled by the non-executive director and the independent non-executive directors of the Company also including a fee for serving as members of the Audit Committee (HK$0.1 million per annum and HK$0.05 million per annum as its chairman and a member, respectively), the Nomination Committee (HK$0.03 million per annum) and the Remuneration Committee (HK$0.03 million per annum) of the Company, where applicable, amounted to HK$0.88 million (2011 - HK$0.65 million, which also included a fee for serving as members of the Audit Committee).

There were no other emoluments payable to the non-executive directors during the year (2011 - Nil).

* Appointed as independent non-executive director with effect from 18th June, 2012.

(b) Executive directors

	Fees HK$'million (Notes)	Salaries and other allowances HK$'million	Performance related/ discretionary bonuses HK$'million	Staff retirement scheme contributions HK$'million	Total remuneration HK$'million
2012					
Mr. Lo Yuk Sui	0.25	8.25	0.92	0.37	9.79
Ms. Belinda Yeung Bik Yiu	0.10	1.96	0.62	0.19	2.87
Mr. Donald Fan Tung	0.20	0.75	0.22	0.07	1.24
Mr. Jimmy Lo Chun To	0.20	0.35	0.09	0.03	0.67
Miss Lo Po Man	0.13	1.19	0.30	0.12	1.74
Mr. Kenneth Ng Kwai Kai	0.14	1.56	0.39	0.13	2.22
Mr. Allen Wan Tze Wai	0.10	0.80	0.20	0.08	1.18
	1.12	14.86	2.74	0.99	19.71
2011					
Mr. Lo Yuk Sui	0.20	8.07	0.88	0.35	9.50
Ms. Belinda Yeung Bik Yiu	0.10	1.84	0.50	0.18	2.62
Mr. Donald Fan Tung	0.20	0.71	0.18	0.07	1.16
Mr. Jimmy Lo Chun To	0.20	0.33	0.08	0.03	0.64
Miss Lo Po Man	0.10	1.14	0.29	0.11	1.64
Mr. Kenneth Ng Kwai Kai	0.10	1.50	0.38	0.12	2.10
Mr. Allen Wan Tze Wai	0.10	0.76	0.19	0.08	1.13
	1.00	14.35	2.50	0.94	18.79

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

Notes:

1. For the year ended 31st December, 2012, the fees entitled by:

   – Mr. Lo Yuk Sui also included (i) a fee of HK$0.03 million per annum for serving as a member of each of the Nomination Committee and the Remuneration Committee of the Company; and (ii) a fee of HK$0.1 million per annum entitled by him for serving as a non-executive director of Regal Portfolio Management Limited ("RPML") (the manager of Regal REIT).

   – Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To and Miss Lo Po Man also included a fee of HK$0.1 million per annum entitled by each of these Directors for serving as a non-executive director of RPML.

   – Mr. Kenneth Ng Kwai Kai also included a fee of HK$0.1 million per annum entitled by him for serving as a non-executive director of RPML and a fee of HK$0.05 million per annum for serving as a member of the audit committee of RPML.

2. For the year ended 31st December, 2011, the fees entitled by Mr. Lo Yuk Sui, Mr. Donald Fan Tung and Mr. Jimmy Lo Chun To also included a fee of HK$0.1 million per annum entitled by each of these Directors for serving as a non-executive director of RPML.

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid individuals included four (2011 - four) Directors, details of whose remuneration are disclosed in note 8 to the financial statements. The emoluments of the remaining one (2011 - one) highest paid individual, who was not a Director, are as follows:

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Salaries and other emoluments	**1.6**	1.6
Performance related/discretionary bonuses	**0.3**	0.3
Staff retirement scheme contributions	**0.1**	0.1
	2.0	2.0

The emoluments of the non-director, highest paid individual for the year ended 31st December, 2012 fell within the band of HK$2,000,001 to HK$2,500,000 (2011 - HK$2,000,001 to HK$2,500,000).

10. INCOME TAX

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Group:		
Current - Hong Kong		
Charge for the year	**76.0**	24.5
Underprovision/(overprovision) in prior years	**(1.1)**	0.1
Current - Overseas		
Charge for the year	**1.1**	1.0
Overprovision in prior years	**(0.9)**	(0.2)
Deferred (note 30)	**(27.8)**	(9.1)
Total tax charge for the year	**47.3**	16.3

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2011 - 16.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	GROUP	
	2012 **HK$'million**	**2011** **HK$'million**
Profit before tax	**633.1**	147.0
Tax at the statutory tax rate	**104.5**	24.3
Adjustment in respect of current tax of previous years	**(2.0)**	(0.1)
Profits and losses attributable to jointly controlled entities and associates	**1.6**	(111.5)
Higher tax rates of other jurisdiction	**0.2**	0.2
Income not subject to tax	**(53.1)**	(22.7)
Expenses not deductible for tax	**22.9**	114.5
Tax losses utilised from previous years	**(28.3)**	(23.0)
Increase in deferred tax assets not recognised during the year	**2.6**	33.7
Others	**(1.1)**	0.9
Tax charge at the Group's effective rate of 7.5% (2011 - 11.1%)	**47.3**	16.3

No provision for tax is required for the jointly controlled entities and associates as no assessable profits were earned by the jointly controlled entities and associates during the year (2011 - Nil).

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2012 includes a loss of HK$4.7 million (2011 - HK$4.5 million) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2012 HK$'million	2011 HK$'million
Interim - HK3.3 cents (2011 - HK3.0 cents) per ordinary share	**31.8**	30.0
Proposed final - HK10.0 cents (2011 - HK9.0 cents) per ordinary share	**96.4**	90.1
	128.2	120.1

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. 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 year attributable to equity holders of the parent of HK$536.3 million (2011 - HK$107.9 million), and on the weighted average of 979.4 million (2011 - 1,001.4 million) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

No adjustment has been made to the basic earnings per ordinary share amount presented for the year ended 31st December, 2012 as the Company had no potentially dilutive ordinary shares in issue and therefore no diluting events existed throughout the year.

No adjustment had been made to the basic earnings per ordinary share amount presented for the year ended 31st December, 2011 in respect of a dilution as the exercise price of the share options of the Company outstanding during the prior year was higher than the average market price of the Company's ordinary shares for that year and, accordingly, the share options had no dilutive effect on the basic earnings per ordinary share.

14. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Hotel land and buildings HK$'million	Leasehold properties HK$'million	Leasehold improvements HK$'million	Furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Aircraft HK$'million	Construction in progress HK$'million	Total HK$'million
31st December, 2012								
At 31st December, 2011 and 1st January, 2012:								
Cost	14,387.0	5.3	109.2	83.3	2.5	–	–	14,587.3
Accumulated depreciation	(496.2)	(2.4)	(26.2)	(19.2)	(1.9)	–	–	(545.9)
Net carrying amount	13,890.8	2.9	83.0	64.1	0.6	–	–	14,041.4
At 1st January, 2012, net of accumulated depreciation	13,890.8	2.9	83.0	64.1	0.6	–	–	14,041.4
Additions	–	–	29.4	42.0	0.3	81.8	30.3	183.8
Depreciation provided during the year	(345.9)	(0.2)	(14.3)	(19.3)	(0.3)	–	–	(380.0)
At 31st December, 2012, net of accumulated depreciation	13,544.9	2.7	98.1	86.8	0.6	81.8	30.3	13,845.2
At 31st December, 2012:								
Cost	14,387.0	5.3	138.6	125.3	2.8	81.8	30.3	14,771.1
Accumulated depreciation	(842.1)	(2.6)	(40.5)	(38.5)	(2.2)	–	–	(925.9)
Net carrying amount	13,544.9	2.7	98.1	86.8	0.6	81.8	30.3	13,845.2

GROUP

	Hotel land and buildings HK$'million	Leasehold properties HK$'million	Leasehold improvements HK$'million	Furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Total HK$'million
31st December, 2011						
At 1st January, 2011:						
Cost	13,950.0	5.3	77.3	25.2	2.5	14,060.3
Accumulated depreciation	(150.3)	(2.3)	(16.4)	(10.3)	(1.4)	(180.7)
Net carrying amount	13,799.7	3.0	60.9	14.9	1.1	13,879.6
At 1st January, 2011, net of accumulated depreciation	13,799.7	3.0	60.9	14.9	1.1	13,879.6
Transfer from investment properties (note 15)	437.0	–	–	–	–	437.0
Additions	–	–	32.2	58.1	–	90.3
Depreciation provided during the year	(345.9)	(0.1)	(10.1)	(8.9)	(0.5)	(365.5)
At 31st December, 2011, net of accumulated depreciation	13,890.8	2.9	83.0	64.1	0.6	14,041.4
At 31st December, 2011:						
Cost	14,387.0	5.3	109.2	83.3	2.5	14,587.3
Accumulated depreciation	(496.2)	(2.4)	(26.2)	(19.2)	(1.9)	(545.9)
Net carrying amount	13,890.8	2.9	83.0	64.1	0.6	14,041.4

The Group's hotel land and buildings and leasehold properties are situated in Hong Kong and are held under the following lease terms:

	2012 HK$'million	2011 HK$'million
Long term lease	**7,107.0**	7,169.4
Medium term lease	**6,440.6**	6,724.3
	13,547.6	13,893.7

At 31st December, 2012, the Group's property, plant and equipment with a net carrying amount of HK$13,709.6 million (2011 - HK$14,011.2 million) were pledged to secure banking facilities granted to the Group.

15. INVESTMENT PROPERTIES

	GROUP	
	2012 **HK$'million**	**2011** **HK$'million**
Carrying amount at 1st January	**886.0**	1,379.5
Transfer to owner-occupied property (note 14)	**–**	(437.0)
Capital expenditure for the year	**0.9**	1.7
Disposals	**–**	(126.0)
Gains from fair value adjustments	**61.1**	67.8
Carrying amount at 31st December	**948.0**	886.0

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

	2012 **HK$'million**	**2011** **HK$'million**
Long term lease	**162.0**	144.0
Medium term lease	**786.0**	742.0
	948.0	886.0

The Group's investment properties were revalued on 31st December, 2012 by independent professionally qualified valuers with an RICS qualification at HK$948.0 million, on an open market, existing use basis. Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31st December, 2012, the Group's investment properties with a carrying value of HK$413.0 million (2011 - HK$736.0 million) were pledged to secure banking facilities granted to the Group.

Further particulars of the Group's investment properties are included on pages 165 to 166.

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Unlisted companies:		
Share of net assets	**621.5**	623.7
Loans to jointly controlled entities	**975.8**	1,065.9
	1,597.3	1,689.6

The loans to the jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment except for an amount of HK$191.8 million which is interest bearing at 4.0% per annum. In the opinion of the Directors, these loans are considered as quasi-equity investments in the jointly controlled entities.

Details of the Group's investments in jointly controlled entities are as follows:

Name	Place of incorporation	Particulars of issued shares held	Percentage of equity interest attributable to the Group 2012	2011	Principal activities
Faith Crown Holdings Limited ("Faith Crown")	British Virgin Islands	Ordinary shares of US$1 each	50[(1)]	50[(1)]	Investment holding
P&R Holdings Limited ("P&R Holdings")	British Virgin Islands	Ordinary shares of US$1 each	50[(2)]	50[(2)]	Investment holding

The jointly controlled entities were indirectly held by the Company.

(1) The major asset of Faith Crown is its 30% (2011 - 30%) indirect interest in a property development project in Xindu District, Chengdu in the Sichuan Province, the People's Republic of China (the "PRC") following the disposal of Faith Crown's 70% indirect interest in the project to P&R Holdings, another jointly controlled entity noted in (2) below, during the prior year.

(2) P&R Holdings is owned by the Group and a wholly owned subsidiary of PHL, the immediate listed holding company of the Company, on a 50:50 basis and is the holding company of subsidiaries primarily involved in the property development projects for sale and/or leasing and the undertaking of related investment and financing activities. P&R Holdings was formerly known as Flourish Lead Investments Limited when it was established as a jointly controlled entity in 2011, and it was subsequently renamed as "P&R Holdings Limited" on 6th March, 2012.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	2012 HK$'million	2011 HK$'million
Share of jointly controlled entities' assets and liabilities:		
Non-current assets	**1,848.1**	2,373.1
Current assets	**692.0**	119.1
Current liabilities	**(121.0)**	(123.1)
Non-current liabilities	**(1,612.9)**	(1,559.8)
	806.2	809.3
Non-controlling interests	**(184.7)**	(185.6)
Net assets attributable to equity holders of the parent	**621.5**	623.7
Share of jointly controlled entities' results:		
Other income and gains	**0.1**	639.1
Total expenses	**(7.4)**	(15.2)
Share of profits and losses of associates	**0.3**	(2.6)
Profit/(loss) after tax	**(7.0)**	621.3
Non-controlling interests	**1.5**	2.1
Profit/(loss) after tax attributable to equity holders of the parent	**(5.5)**	623.4

At 31st December, 2012, the Group's share of the maximum capital commitment to P&R Holdings in respect of its property development projects amounted to HK$1,900.0 million (2011 - HK$1,900.0 million), of which HK$961.3 million (2011 - HK$970.0 million) has been contributed as shareholder's loan and HK$577.3 million (2011 - HK$170.0 million) has been provided as guarantees, each on a several basis, for banking facilities granted to certain subsidiaries of P&R Holdings during the year.

At the end of the reporting period, the Group's share of the P&R Holdings group's own capital commitments in respect of property development projects, was as follows:

	2012 HK$'million	**2011 HK$'million**
Contracted, but not provided for	**470.8**	307.1
Authorised, but not contracted for	**294.6**	302.2
	765.4	609.3

17. INVESTMENTS IN ASSOCIATES

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Unlisted companies:		
Share of net liabilities	**(4.3)**	(267.6)
Amounts due from associates	**31.9**	284.3
	27.6	16.7

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, these amounts are considered as quasi-equity investments in the associates.

Details of the Group's principal associates are as follows:

Name	Place of incorporation	Particulars of issued shares held	Percentage of equity interest attributable to the Group 2012	2011	Principal activities
8D International (BVI) Limited ("8D-BVI")	British Virgin Islands	Ordinary shares of US$1 each	30.0	30.0	Investment holding
8D International Limited	Hong Kong	Ordinary shares of HK$1 each	36.0[1]	36.0[1]	Advertising and promotions
8D Matrix Limited	British Virgin Islands	Ordinary shares of US$1 each	36.0[1]	36.0[1]	Investment holding
Bright Future (HK) Limited*	Hong Kong	Ordinary shares of HK$1 each	50.0	50.0	Investment holding
Century Innovative Technology Limited	Hong Kong	Ordinary shares of HK$1 each	36.0[1]	–	Development and distribution of edutainment products
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US$1 each	50.0[2]	50.0[2]	Investment holding
Yieldtop Holdings Limited ("Yieldtop")	British Virgin Islands	Ordinary shares of US$1 each	50.0[3]	–	Investment holding

* Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

(1) The percentage of equity interest includes a 6% attributable interest held through 8D-BVI.

(2) The major asset of Hang Fok is its equity interest in each of two sino-foreign joint ventures, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. established in Beijing, the PRC, which are engaged in a property development project in Beijing, the PRC.

As previously reported, Hang Fok was engaged in arbitration proceedings conducted in Beijing, involving claims against the associate by the vendor of the 36% shareholding interest (comprised within the 59% equity interest originally held) in the joint venture entities for the rescission of the relevant sale and purchase contracts entered into between the parties in 2005. Despite the strenuous efforts made by Hang Fok to set aside the adverse arbitral award to rescind the said contracts, such efforts have unfortunately not been successful and the beneficial interests of Hang Fok in the joint venture entities have effectively been reduced from 59% to 23% in the prior year.

(3) Yieldtop became the immediate holding company holding 100% interest in Hang Fok on 16th November, 2012.

All associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2012 HK$'million	2011 HK$'million
Assets	**67.8**	64.9
Liabilities	**81.5**	601.3
Revenue	**8.6**	243.7
Profit/(Loss)	**(11.3)**	103.6

18. AVAILABLE-FOR-SALE INVESTMENTS

	GROUP	
	2012 HK$'million	2011 HK$'million
Non-current assets:		
Overseas listed investments, at fair value	**–**	14.5
Unlisted investments, at fair value	**4.7**	3.5
	4.7	18.0
Current assets:		
Hong Kong listed investments, at fair value	**–**	7.7
	4.7	25.7

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to HK$1.2 million (2011 - gross loss of HK$1.8 million).

The above unlisted investments represent investments which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Non-current assets:		
Hong Kong listed equity investments, at market value	**23.4**	23.7
Unlisted debt investment, at fair value	**–**	484.9
	23.4	508.6
Current assets:		
Hong Kong listed equity investments, at market value	**261.6**	240.0
Hong Kong listed debt investments, at market value	**13.6**	–
Overseas listed debt investments, at market value	**58.8**	–
Unlisted debt investment, at fair value	**396.3**	0.5
	730.3	240.5
	753.7	749.1

The listed equity investments included under non-current assets and the unlisted debt investments at 31st December, 2011 and 2012 were designated upon initial recognition as financial assets at fair value through profit or loss as they are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management and investment strategy, and information about the investments are provided on that basis to the Group's key management personnel.

The listed equity investments and listed debt investments included under current assets at 31st December, 2011 and 2012 were classified as held for trading.

The unlisted debt investment represents two series of convertible bonds, the 2013 Extended CB and 2013 CB as further detailed below, issued by certain subsidiaries of Cosmopolitan International Holdings Limited ("Cosmopolitan", and together with its subsidiaries, "Cosmopolitan Group"), a listed company in Hong Kong.

2013 Extended CB

These convertible bonds were issued by the Cosmopolitan Group in a principal amount of HK$141.45 million, which were originally due 2010 and were convertible into 690 million new shares of Cosmopolitan at an initial conversion price of HK$0.205 per share ("2010 CB"). The conversion price of 2010 CB was adjusted to HK$0.2 per share upon the issuance of new convertible bonds by the Cosmopolitan Group on 25th February, 2009. On 26th April, 2010, the maturity date of 2010 CB was extended to 16th May, 2011 ("2011 CB"). The conversion price of 2011 CB was further adjusted to HK$0.04 per share upon the subdivision of shares of Cosmopolitan on 27th August, 2010. On 27th April, 2011, the maturity date of 2011 CB was further extended to 14th February, 2013 ("2013 Extended CB"). At 31st December, 2012, the 2013 Extended CB in an aggregate principal amount of HK$141.45 million were convertible into a total of 3,536.3 million new shares of Cosmopolitan at the adjusted conversion price of HK$0.04 per share.

2013 CB

These convertible bonds were also issued by the Cosmopolitan Group in a principal amount of HK$100.0 million, which were due 2013 and were convertible into 166.7 million new shares of Cosmopolitan at an initial conversion price of HK$0.6 per share ("2013 CB"). The Group was also granted an option to subscribe for further 2013 CB in an additional principal amount of up to HK$100.0 million. The optional 2013 CB, if fully subscribed for and issued, would be convertible into 166.7 million new shares of Cosmopolitan at an initial conversion price of HK$0.6 per share. The conversion price of 2013 CB was adjusted to HK$0.3 per share upon the issuance of new convertible bonds by the Cosmopolitan Group on 25th February, 2009. The conversion price of 2013 CB was further adjusted to HK$0.06 per share upon the subdivision of shares of Cosmopolitan on 27th August, 2010. At 31st December, 2012, the 2013 CB (including the issued 2013 CB and, if fully subscribed for and issued, the optional 2013 CB) in an aggregate principal amount of HK$200.0 million were convertible into a total of 3,333.3 million new shares of Cosmopolitan at the adjusted conversion price of HK$0.06 per share.

On 16th November, 2012, the Group entered into extension agreements with the Cosmopolitan Group (the "Extension Agreements") to further extend the maturity dates of both the 2013 Extended CB and 2013 CB to 30th September, 2013. The Extension Agreements became unconditional upon, among others, the relevant shareholders' approval being obtained in January, 2013.

At 31st December, 2012, the Group also held approximately 2.8% interest in the share capital of Cosmopolitan, which was included in listed equity investments under non-current assets. On the basis that all outstanding convertible bonds were converted, and all optional bonds were subscribed and converted, by the Group and other bond holders, the interest held by the Group in the enlarged share capital of Cosmopolitan would be increased to 32.8%. The results of the Cosmopolitan Group have not been equity accounted for by the Group as the Directors consider that despite the Group's investments in the shares of Cosmopolitan, the 2013 Extended CB and the 2013 CB, the Group is not in a position to exercise significant influence over the financial and operating policy of Cosmopolitan.

The fair values of the unlisted debt investments have been estimated by an independent professional valuer using valuation techniques, including discounted cash flows and binomial option pricing models, based on the quoted market price of the underlying listed security.

At the date of approval of these financial statements, the market value of the listed equity investments included under non-current assets was approximately HK$16.4 million and the fair value of the unlisted debt investment was approximately HK$343.3 million.

20. OTHER LOAN

The amount represents the outstanding balance of a loan in an original sum of US$10.0 million (HK$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the Group. The loan is unsecured, interest-free and was originally repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit over the tenure of the management contract for the hotel of 15 years.

Pursuant to a new agreement signed with the hotel owner in 2009, which superseded the previous financing agreement, a partial payment of RMB20 million (approximately HK$22.8 million) was received by the Group and the remaining balance was repayable before the then expiry date of the relevant hotel management contract in 2012.

Pursuant to a supplemental agreement signed with the hotel owner in September 2011, the term of the said hotel management contract was extended to the end of 2019 with the outstanding balance of the loan repayable in installments, the last of which falls due no later than 2015. The first installment of US$2 million (approximately HK$15.6 million) was received by the Group during the prior year. Accordingly, a provision in the amount of HK$29.5 million made in the prior years was fully written back during the prior year.

As at 31st December, 2012, the other loan was classified as loans and receivables and was stated at amortised cost of HK$18.9 million (2011 - HK$32.1 million) calculated using the effective interest rate method.

21. INVENTORIES

	GROUP	
	2012 **HK$'million**	**2011** **HK$'million**
Hotel and other merchandise	**25.3**	26.0

22. PROPERTIES HELD FOR SALE

At 31st December, 2012, the Group's properties held for sale with a carrying value of HK$322.3 million (2011 - HK$435.7 million) were pledged to secure banking facilities granted to the Group.

23. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$140.7 million (2011 - HK$138.6 million) representing the trade debtors of the Group.

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Trade debtors	**142.9**	139.9
Impairment	**(2.2)**	(1.3)
	140.7	138.6

Credit terms

Trade debtors, which generally have credit terms of 30 to 90 days, are recognised and carried at their original invoiced amounts less impairment which is made when collection of the full amounts 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 the fact that the Group's trade debtors relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade debtor balance. Trade debtors are non-interest bearing.

The aged analysis of such debtors as at the end of the reporting period, based on the invoice date, is as follows:

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Outstanding balances with ages:		
Within 3 months	**118.1**	120.2
Between 4 to 6 months	**6.6**	9.4
Between 7 to 12 months	**7.1**	4.2
Over 1 year	**11.1**	6.1
	142.9	139.9
Impairment	**(2.2)**	(1.3)
	140.7	138.6

The movements in provision for impairment of trade debtors are as follows:

	GROUP	
	2012 HK$'million	2011 HK$'million
At 1st January	**1.3**	1.0
Impairment losses recognised (note 6)	**0.9**	0.3
At 31st December	**2.2**	1.3

Included in the above provision for impairment of trade debtors is a provision for individually impaired trade debtors of HK$2.2 million (2011 - HK$1.3 million) with a gross carrying amount before provision of HK$2.2 million (2011 - HK$1.3 million). The individually impaired trade debtors relate to customers that were in financial difficulties and only a portion of the balances is expected to be recovered.

The aged analysis of the trade debtors that are not considered to be impaired is as follows:

	GROUP	
	2012 HK$'million	2011 HK$'million
Neither past due nor impaired	**77.7**	76.0
Within 3 months past due	**41.0**	45.4
4 to 6 months past due	**6.2**	8.8
7 to 12 months past due	**6.1**	3.4
Over 1 year past due	**9.7**	5.0
	140.7	138.6

Trade debtors that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of diversified independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Included in the Group's debtors, deposits and prepayments are amounts due from fellow subsidiaries/related companies and a jointly controlled entity of HK$2.7 million (2011 - HK$2.2 million) and HK$1.0 (2011 - Nil), respectively. These balances are repayable on similar credit terms to those offered to the major customers of the Group.

24. HELD-TO-MATURITY INVESTMENTS

At 31st December, 2012, the amount represented unlisted certificate of deposits and note receivables with fixed maturity dates. All unlisted certificate of deposits and note receivables were denominated in Renminbi with fixed interest rates ranging from 2.4% to 3.1%.

At 31st December, 2011, the amount represented unlisted certificate of deposits with fixed maturity dates. Except for an amount of HK$2.3 million which was denominated in United States dollars with no coupon rate, the remaining unlisted certificate of deposits held were denominated in Renminbi with fixed interest rates ranging from 1.3% to 1.4% per annum.

25. RESTRICTED CASH

At 31st December, 2012, the Group had approximately HK$44.2 million (2011 - HK$69.2 million) of cash which was restricted as to use and mainly to be utilised for the purpose of servicing the finance costs and repayments on certain interest-bearing bank borrowings, funding the furniture, fixtures and equipment reserve for use in the hotel buildings, and deposits of certain tenants in respect of certain investment properties.

26. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

Included in the balance is an amount of HK$74.6 million (2011 - HK$75.9 million) representing the trade creditors of the Group. The aged analysis of such creditors as at the end of the reporting period, based on the invoice date, is as follows:

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Outstanding balances with ages:		
Within 3 months	**73.1**	75.3
Between 4 to 6 months	**1.1**	0.3
Between 7 to 12 months	**0.1**	–
Over 1 year	**0.3**	0.3
	74.6	75.9

The trade creditors are non-interest bearing and are normally settled on 30 to 60-day terms.

Included in creditors, deposits received and accruals are amounts due to an associate and fellow subsidiaries/related companies of HK$2.0 million (2011 - HK$3.0 million) and HK$2.0 million (2011 - HK$3.4 million), respectively, which have similar credit terms to those offered by the associate and those fellow subsidiaries/related companies to their major customers.

27. INTEREST BEARING BANK BORROWINGS

	GROUP			
	2012		2011	
	Maturity	HK$'million	Maturity	HK$'million
Current				
Bank loans – secured	**2013**	**81.5**	2012	4,731.1
Non-current				
Bank loans – secured	**2014-2015**	**4,776.1**	2013-2014	627.1
		4,857.6		5,358.2

	GROUP	
	2012 HK$'million	2011 HK$'million
Analysed into:		
Bank loans repayable:		
Within one year	**81.5**	4,731.1
In the second year	**4.8**	423.6
In the third to fifth years, inclusive	**4,771.3**	203.5
	4,857.6	5,358.2

Included in the bank loans under current liabilities in the prior year was a facility aggregating HK$4.5 billion granted to the Regal REIT group (the "Initial Facility"). The Initial Facility bore interest at a floating interest rate of 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.6% per annum. The Regal REIT group had entered into interest rate swap arrangements to hedge against the interest rate exposure for the Initial Facility for a notional amount of HK$4.35 billion, details of which are set out in note 29.

On 7th March, 2012, the Regal REIT group entered into a new facility agreement amounting to HK$4.5 billion (the "New Term Loan Facility") for a term of three years. The full drawdown of the principal amount under the New Term Loan Facility was made on 30th March, 2012 to refinance the Initial Facility that matured on the same date. The New Term Loan Facility bears interest at HIBOR plus 2.1% per annum and is repayable in full on 9th March, 2015. The Regal REIT group also entered into interest rate swap arrangements to hedge against the interest rate exposure for the New Term Loan Facility for a notional amount of HK$3.0 billion, details of which are set out in note 29.

On 28th January, 2011, the Regal REIT group entered into a new loan agreement for loan facilities aggregating HK$280.0 million for a term of three years, comprised of a term loan of HK$220.0 million and a revolving credit facility of HK$60.0 million (the "Previous iClub Facilities"). The Previous iClub Facilities bore interest at rates ranging from 215 to 230 basis points above HIBOR per annum.

On 24th February, 2012, the Regal REIT group entered into another loan agreement for a new loan facility of HK$340.0 million (the "New iClub Facility") for a term of three years, to replace the Previous iClub Facilities. The New iClub Facility also bears HIBOR-based interest.

As at the end of the reporting period, the New iClub Facility had an outstanding amount of HK$334.6 million, of which a portion of HK$14.4 million is repayable quarterly and a final repayment portion of HK$320.2 million is due on 24th February, 2015.

Bank borrowings under the New Term Loan Facility are guaranteed by Regal REIT and, on a joint and several basis, by certain individual companies within the Regal REIT group. The New iClub Facility is guaranteed by Regal REIT.

The Regal REIT group's interest bearing bank borrowings are also secured by, among others:

(i) legal charges and debentures over the corresponding properties;

(ii) an assignment of rental income and all other proceeds arising from and including all rights, titles and interests under all hotel management agreements and lease agreements, where appropriate, and relating to the relevant properties;

(iii) charges over each relevant rental account, sales proceeds account and other control accounts, if any;

(iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant Regal REIT group companies; and

(v) an equitable charge over the shares in the relevant Regal REIT group companies.

The Group's other bank borrowings are secured by a pledge over certain assets of the Group as further detailed in note 36 to the financial statements. They bear interest at HIBOR plus 0.98% per annum (2011 - HIBOR plus 0.98% to 1.08% per annum except for a bank loan of HK$33.0 million which bore interest at a fixed rate of 1.23% per annum).

All interest bearing bank borrowings are denominated in Hong Kong dollars. In the prior year, all interest bearing bank borrowings were denominated in Hong Kong dollars except for a bank loan of HK$33.0 million which was in United States dollars.

28. OTHER BORROWING

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Non-current		
Unsecured other borrowing repayable in the third to fifth years, inclusive	**2,293.8**	–

On 5th October, 2012, RH International Finance Limited (the "MTN Issuer"), a wholly owned subsidiary of the Company, established a US$1,000 million medium term note programme (the "MTN Programme").

On 19th October, 2012, the MTN Issuer issued under the MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US$300.0 million at a coupon interest rate of 4.25% per annum. The notes were issued at a discount at 99.444% of the principal amount.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	LIABILITIES	
	2012 HK$'million	**2011 HK$'million**
Interest rate swaps - cash flow hedges	**2.8**	32.0
Foreign currency options contracts	**2.1**	–
	4.9	32.0
Portion classified as non-current		
Interest rate swaps - cash flow hedges	**(2.8)**	–
Current portion	**2.1**	32.0

The Regal REIT group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to one of its floating rate term loans. As at 31st December, 2012, the interest rate swaps had an aggregate notional amount of HK$3.0 billion (2011 - HK$4.35 billion) (note 27). The interest rate swaps will mature on 9th March, 2015 and the fixed swap interest rates range from 0.355% per annum to 0.483% per annum as at 31st December, 2012.

The interest rate swaps are measured at fair values at the end of the reporting period and are determined based on discounted cash flow models.

In addition, the Group has entered into foreign currency options contracts which are not designated for hedge purposes and are measured at fair value through profit or loss. Changes in the fair value of non-hedging currency derivatives amounting to HK$2.1 million were charged to the income statement during the year (2011 - Nil).

30. DEFERRED TAX LIABILITIES

The movements in deferred tax assets and liabilities during the year were as follows:

	Depreciation allowances in excess of related depreciation HK$'million	Losses available for offsetting against future taxable profits HK$'million	Total HK$'million
At 1st January, 2011	(1,133.0)	30.6	(1,102.4)
Deferred tax credited/(charged) to the income statement during the year (note 10)	29.0	(19.9)	9.1
Gross deferred tax assets/(liabilities) at 31st December, 2011 and at 1st January, 2012	(1,104.0)	10.7	(1,093.3)
Deferred tax credited/(charged) to the income statement during the year (note 10)	31.6	(3.8)	27.8
Gross deferred tax assets/(liabilities) at 31st December, 2012	(1,072.4)	6.9	(1,065.5)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position.

The Group had tax losses arising in Hong Kong amounting to HK$3,131.1 million (2011 - HK$3,287.1 million) at the end of the reporting period. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets amounting to HK$516.6 million (2011 - HK$542.4 million) have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1st January, 2008 and applies to earnings after 31st December, 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1st January, 2008.

At 31st December, 2012, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries and jointly controlled entities established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries and jointly controlled entities will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries and jointly controlled entities in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$6.0 million at 31st December, 2012 (2011 - HK$1.2 million).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2012 HK$'million	**2011 HK$'million**
Shares		
Authorised:		
2,000.0 million (2011 - 2,000.0 million) ordinary shares of HK$0.10 each	**200.0**	200.0
0.1 million 5¹/₄% convertible cumulative redeemable preference shares of US$10 each	**1.3**	1.3
	201.3	201.3
Issued and fully paid:		
964.1 million (2011 - 1,001.4 million) ordinary shares of HK$0.10 each	**96.4**	100.1
Share premium		
Ordinary shares	**740.8**	852.4

A summary of the movements of the Company's share capital and share premium account during the period from 1st January, 2011 to 31st December, 2012 is as follows:

	Notes	Authorised		Issued and fully paid		Share premium account
		Number of shares 'million	Amount HK$'million	Number of shares 'million	Amount HK$'million	Amount HK$'million
Ordinary shares						
At 1st January, 2011		2,000.0	200.0	1,002.0	100.2	854.1
Repurchase and cancellation of shares	(i)	–	–	(0.6)	(0.1)	(1.7)
At 31st December, 2011 and at 1st January, 2012		2,000.0	200.0	1,001.4	100.1	852.4
Repurchase and cancellation of shares	(ii)	–	–	(37.3)	(3.7)	(111.6)
At 31st December, 2012		2,000.0	200.0	964.1	96.4	740.8
5¼% convertible cumulative redeemable preference shares of US$10 each						
At 1st January, 2011, 31st December, 2011 and 2012		0.1	1.3	–	–	–
Total share capital						
At 31st December, 2012			**201.3**		**96.4**	**740.8**
At 31st December, 2011			201.3		100.1	852.4

Notes:

(i) All ordinary shares repurchased during the year ended 31st December, 2011 were cancelled during that year, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The premium and related expenses paid on the repurchases of the ordinary shares, of HK$1.7 million, were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

(ii) All ordinary shares repurchased during the year were cancelled during the year, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The premium and related expenses paid on the repurchases of the ordinary shares, of HK$111.6 million, were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the repurchases during the year are summarised as follows:

Month of repurchase	**Number of ordinary shares repurchased**	**Price per ordinary share Highest (HK$)**	**Price per ordinary share Lowest (HK$)**	**Aggregate purchase price (HK$)**
April 2012	3,778,000	3.230	3.170	12,101,600
May 2012	17,760,000	3.330	2.820	56,223,180
June 2012	15,806,000	3.130	2.820	46,934,940
Total	37,344,000			115,259,720
Total expenses on shares repurchased during the year				353,095
Dividends received before cancellation during the year				(354,979)
			Total	115,257,836

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.

No options were granted or exercised under the Share Option Scheme during the year, and there were no outstanding options under the Share Option Scheme during the year.

During the prior year, all the outstanding share options previously granted by the Company under the Share Option Scheme lapsed before their expiry in that year.

The summarised information on the Share Option Scheme is set out as follows:

(i)	Purpose:	To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons
(ii)	Participants:	Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person
(iii)	Total number of ordinary shares subject to outstanding options under the Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2012 and at the date of this report:	Nil

(iv)	Maximum entitlement of each participant under the Share Option Scheme:	Not exceeding 1% of the offer ordinary shares of the Company in issue as of the offer date in any 12 month period
(v)	The period within which the shares must be taken up under an option:	From the time when the options become vested to no later than ten years after the offer date
(vi)	Minimum period for which an option must be held before it can be exercised:	No minimum period unless otherwise determined by the Board at the time of the approval of the grant
(vii)	Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	N/A
(viii)	The basis of determining the exercise price:	Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of the Company
(ix)	The life of the Share Option Scheme:	The life of the Share Option Scheme commenced from 16th June, 2005, date of adoption, and ending on 15th June, 2015.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements on pages 71 and 72.

(b) Company

	Notes	Share premium account HK$'million	Capital redemption reserve HK$'million	Share option reserve HK$'million	Retained profits HK$'million	Total HK$'million
At 1st January, 2011		854.1	7.4	45.6	6,143.4	7,050.5
Repurchase and cancellation of ordinary shares	31(i)	(1.7)	0.1	–	(0.1)	(1.7)
Share option lapsed		–	–	(45.6)	45.6	–
Loss for the year		–	–	–	(4.5)	(4.5)
Interim 2011 dividend	12	–	–	–	(30.0)	(30.0)
Proposed final 2011 dividend	12	–	–	–	(90.1)	(90.1)
At 31st December, 2011 and at 1st January, 2012		852.4	7.5	–	6,064.3	6,924.2
Repurchase and cancellation of ordinary shares	31(ii)	(111.6)	3.7	–	(3.7)	(111.6)
Loss for the year		–	–	–	(4.7)	(4.7)
Overprovision of final 2011 dividend		–	–	–	1.6	1.6
Interim 2012 dividend	12	–	–	–	(31.8)	(31.8)
Proposed final 2012 dividend	12	–	–	–	(96.4)	(96.4)
At 31st December, 2012		740.8	11.2	–	5,929.3	6,681.3

33. INVESTMENTS IN SUBSIDIARIES

	COMPANY	
	2012 HK$'million	**2011 HK$'million**
Unlisted shares, at cost	**5,552.2**	5,552.2
Amount due from a subsidiary	**1,325.4**	1,565.4
	6,877.6	7,117.6

The amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment.

Details of the principal subsidiaries are as follows:

Name	**Place of incorporation or registration/ operations**	**Nominal value of issued share capital/ registered capital/ issued units**	**Percentage of equity interest attributable to the Company 2012**	**2011**	**Principal activities**
8D Travel (Shanghai) Ltd [(1)]	PRC/ Mainland China	US$375,000	100	100	Travel agency
Aim Success Investments Limited	Hong Kong	HK$1	100	100	Property investment
Best Time Enterprises Limited	Hong Kong	HK$2	100	100	Lessee of offices
Big Result Investments Limited	Hong Kong	HK$1	100	100	Property investment
Camomile Investments Limited	Hong Kong	HK$2	100	100	Property investment
Chest Gain Development Limited ("Chest Gain") [(3)]	Hong Kong	HK$10,000	100	100	Property development and investment, and investment holding
Come On Investment Company Limited	Hong Kong	HK$10,000	100	100	Securities trading and investment
Complete Success Investments Limited	British Virgin Islands	US$1	100	100	Investment holding

Name	Place of incorporation or registration/ operations	Nominal value of issued share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company 2012	2011	Principal activities
Cranfield Investments Limited	Hong Kong	HK$2	100	100	Financing
Favour Link International Limited	Hong Kong	HK$1	100	100	Hotel operations
Favourite Stock Limited	British Virgin Islands	US$1	100	100	Securities investment
Flexi Sky Limited	Hong Kong	HK$1	100	100	Property investment
Fortune Nice Investment Limited	Hong Kong	HK$2	100	100	Financing
Fountain Sky Limited	Hong Kong	HK$2	100	100	Securities investment
Gaud Limited	Hong Kong	HK$2	100	100	Securities trading and investment
Great Prestige Investments Limited	British Virgin Islands	US$1	100	100	Investment holding
Greatlead Investments Limited	Hong Kong	HK$1	100	100	Property investment
Harvest Charm Investment Limited	Hong Kong	HK$2	100	100	Financing
Harvest Crown International Invest Limited	British Virgin Islands	US$1	100	100	Property investment
Honormate Nominees Limited	Hong Kong	HK$2	100	100	Securities investment and nominee services
Honrich Investment Limited	Hong Kong	HK$2	100	100	Financing
Kaybro Investments Limited	British Virgin Islands	US$1	100	100	Investment holding

Name	Place of incorporation or registration/ operations	Nominal value of issued share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company 2012	2011	Principal activities
Maximum Good Limited	Hong Kong	HK$1	100	100	Property investment
Million Sharp International Limited	Hong Kong	HK$1	100	100	Property investment
New Surplus Investments Limited	Hong Kong	HK$1	100	100	Property investment
PBL0781 Limited	Gibraltar	GBP2,000	100	–	Aircraft ownership and leasing
Prosper Harvest Investments Limited	British Virgin Islands	US$1	100	–	Investment holding
Regal Contracting Agency Limited	Hong Kong	HK$1	100	100	Contracting agency
Regal Estate Agents Limited	Hong Kong	HK$2	100	100	Estate agency
Regal Estate Management Limited	Hong Kong	HK$2	100	100	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK$1,151,598,638	100	100	Investment holding and management services
Regal Hotels International Limited	Hong Kong	HK$100,000	100	100	Hotel management and investment holding
Regal Hotels Management (BVI) Limited	British Virgin Islands/ Mainland China	US$1	100	100	Investment holding and hotel management
Regal International Limited	British Virgin Islands	US$20	100	100	Investment and trademark holding

Name	Place of incorporation or registration/ operations	Nominal value of issued share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company 2012	2011	Principal activities
Regal International (BVI) Holdings Limited	British Virgin Islands	HK$10.1	100	100	Investment holding
Regal Portfolio Management Limited	Hong Kong	HK$11,611,937	100	100	Asset management
Regal Quality Foods Limited	Hong Kong	HK$2	100	100	Sale of food products
RH International Finance Limited	British Virgin Islands	US$1	100	–	Financing
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Speedy Track Limited	Hong Kong	HK$1	100	100	Property investment
Success Path Investments Limited	Hong Kong	HK$1	100	100	Property investment
Tenshine Limited	Hong Kong	HK$2	100	100	Securities trading and investment and financing
Time Crest Investments Limited	British Virgin Islands	US$1	100	100	Securities investment
Unicorn Star Limited	British Virgin Islands	US$1	100	100	Securities investment
Valuegood International Limited	British Virgin Islands	US$1	100	100	Securities investment
Vast Charm International Limited	Hong Kong	HK$1	100	100	Property investment
Well Mount Investments Limited	British Virgin Islands	US$1	100	100	Securities investment

Name	Place of incorporation or registration/ operations	Nominal value of issued share capital/ registered capital/ issued units	Percentage of equity interest attributable to the Company 2012	2011	Principal activities
Will Smart Investments Limited	Hong Kong	HK$1	100	100	Property investment
廣州市富堡訂房服務有限公司[(1)]	PRC/ Mainland China	RMB100,000	100	100	Room reservation services
天津市富都房地產開發有限公司[(1)]	PRC/ Mainland China	RMB1,100,000,000	100	–	Property development
富豪酒店投資管理（上海）有限公司[(1)]	PRC/ Mainland China	US$140,000	100	100	Hotel management
Regal Real Estate Investment Trust	Hong Kong	3,257,431,189 units	74.55	74.55	Property investment
Bauhinia Hotels Limited[(2)]	Hong Kong	HK$2	74.55	74.55	Hotel ownership
Cityability Limited[(2)]	Hong Kong	HK$10,000	74.55	74.55	Hotel ownership
Gala Hotels Limited[(2)]	Hong Kong	HK$2	74.55	74.55	Hotel ownership
Regal Asset Holdings Limited[(2)]	Bermuda/ Hong Kong	US$12,000	74.55	74.55	Investment holding
Regal Riverside Hotel Limited[(2)]	Hong Kong	HK$2	74.55	74.55	Hotel ownership
Rich Day Investments Limited[(2)]	Hong Kong	HK$1	74.55	74.55	Financing
Ricobem Limited[(2)]	Hong Kong	HK$100,000	74.55	74.55	Hotel ownership
Sonnix Limited[(2)]	Hong Kong	HK$2	74.55	74.55	Property ownership and hotel operations

Notes:

(1) These subsidiaries are registered as wholly foreign owned enterprises under the PRC law.

(2) These companies are subsidiaries of Regal REIT.

(3) Despite the Group's holding of 70% interest in Chest Gain, it was accounted for as a jointly controlled entity in prior years as explained in note 16 to the prior year's financial statements. Since 2007, the Group has consolidated certain items of the results, assets and liabilities of Chest Gain in accordance with the terms of a supplemental shareholders' agreement signed with the joint venture partner as explained in detail in note 16 to the prior year's financial statements. On 8th July, 2011, Chest Gain ceased to be a jointly controlled entity and became a wholly owned subsidiary as the remaining 30% interest in Chest Gain was transferred to the Group by that other joint venture partner as also further explained in that note.

The fair values of the identifiable assets and liabilities of Chest Gain at the date of acquisition are summarised as follows:

	HK$'million
Bank balance	6.4
Creditors and accruals	(6.0)
Total identifiable net assets at fair value	0.4
Satisfied by interest in a jointly controlled entity	(0.3)
Cash consideration	0.1

An analysis of the cash flows in respect of the acquisition of Chest Gain is as follows:

Cash consideration	(0.1)
Bank balance acquired	6.4
Net cash inflow of cash and cash equivalents in respect of the acquisition	6.3

Had the combination taken place at the beginning of the prior year, the profit of the Group for the prior year would have been HK$130.5 million.

Except for Regal International (BVI) Holdings Limited, all principal subsidiaries are indirectly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before tax to net cash flows from operating activities

	2012 HK$'million	2011 HK$'million
Profit before tax	**633.1**	147.0
Adjustments for:		
Finance costs	**159.8**	190.5
Share of profits and losses of jointly controlled entities and associates	**9.4**	(675.6)
Interest income	**(25.5)**	(13.6)
Depreciation	**380.0**	365.5
Dividend income from listed investments	**(4.6)**	(3.5)
Gain on disposal of investment properties	**–**	(16.1)
Fair value losses on financial assets at fair value through profit or loss, net	**43.0**	822.8
Fair value changes on derivative financial instruments	**2.1**	(3.7)
Fair value gains on investment properties	**(61.1)**	(67.8)
Gain on deregistration of subsidiaries	**(0.6)**	–
Realisation of hedge reserve	**(137.2)**	–
Write back of other creditors, net	**(1.7)**	–
Reversal of impairment of other loan	**–**	(29.5)
Impairment of trade debtors	**0.9**	0.3
	997.6	716.3
Decrease/(increase) in inventories	**0.7**	(3.1)
Decrease/(increase) in properties held for sale	**126.3**	(107.6)
Decrease/(increase) in debtors, deposits and prepayments	**(645.0)**	60.3
Increase in restricted cash	**(0.1)**	(0.1)
Increase in financial assets at fair value through profit or loss	**(39.6)**	(167.5)
Increase in creditors, deposits received and accruals	**18.5**	37.0
Cash flows generated from operations	**458.4**	535.3
Overseas taxes paid	**(0.1)**	(1.1)
Hong Kong tax paid	**(35.0)**	(45.2)
Net cash flows from operating activities	**423.3**	489.0

(b) Deregistration of subsidiaries

	2012 HK$'million
Non-controlling interests disposed/Gain on deregistration of subsidiaries	**(0.6)**

(c) Cash and cash equivalent balances

At the end of the reporting period, the cash and bank balances of the Group amounted to HK$94.7 million (2011 - HK$57.4 million) were held by certain subsidiaries operating in Mainland China where exchange controls apply.

35. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	Notes	2012 HK$'million	2011 HK$'million
A fellow subsidiary/a wholly owned subsidiary of a substantial shareholder, CCIHL:			
Management fees expenses	(i)	**20.9**	18.0
Fellow subsidiaries/wholly owned subsidiaries of a substantial shareholder, PHL:			
Development consultancy fees expenses	(ii)	**2.8**	0.6
Service fees expenses in respect of security systems and products and other software	(iii)	**1.6**	2.2
Repairs and maintenance fees and construction fees expenses	(iv)	**4.9**	5.9
An associate:			
Advertising and promotion fees expenses (including cost reimbursements)	(v)	**8.1**	10.0
Jointly controlled entities:			
Service fee income	(vi)	**1.0**	1.0
Interest income	(vii)	**8.8**	–

Notes:

(i) The management costs included rentals and other overheads allocated from a fellow subsidiary/a wholly owned subsidiary of CCIHL, either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, PHL and the Company based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.

(ii) The development consultancy fees were paid to a fellow subsidiary/a wholly owned subsidiary of PHL for various services provided, which include advisory, supervisory, architectural and design services in connection with the room extension and other renovation projects of the hotels operated by the Group. The fees were charged at agreed rates of the estimated cost of individual projects.

(iii) Fees were paid to certain fellow subsidiaries/wholly owned subsidiaries of PHL for the purchases and maintenance services of the security systems and products and other software installed in the Group's hotel properties. The fees were charged based on cost plus a margin depending on the nature and location of the work provided.

(iv) Fees were paid to a fellow subsidiary/a wholly owned subsidiary of PHL for providing repairs and maintenance and construction works for the hotel properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.

(v) The advertising and promotion fees paid to an associate comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

(vi) The service fee income represented the service fee charged to a subsidiary of a jointly controlled entity for providing hotel project consultancy services. The fees were charged on a pre-determined rate agreed by management.

(vii) The interest income was earned by the Group with respect to an interest bearing loan to a subsidiary of a jointly controlled entity at a fixed rate of 4% per annum.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

(b) Outstanding balances with related parties:

	Notes	2012 HK$'million	2011 HK$'million
Due from a jointly controlled entity	(i)	**1.0**	–
Due from fellow subsidiaries/related companies	(i)	**2.7**	2.2
Due to an associate	(ii)	**(2.0)**	(3.0)
Due to fellow subsidiaries/related companies	(ii)	**(2.0)**	(3.4)
Loans to jointly controlled entities	(iii)	**975.8**	1,065.9
Amounts due from associates	(iv)	**31.9**	284.3

Notes:

(i) Details of an amount due from a jointly controlled entity and the amounts due from fellow subsidiaries/related companies are included in debtors, deposits and prepayments in note 23 to the financial statements.

(ii) Details of the amount due to an associate and fellow subsidiaries/related companies are included in creditors, deposits received and accruals in note 26 to the financial statements.

(iii) Details of the loans to jointly controlled entities are included in investments in jointly controlled entities in note 16 to the financial statements.

(iv) Details of the amounts due from associates are included in investments in associates in note 17 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2012 HK$'million	2011 HK$'million
Short term employee benefits	**23.0**	21.7
Staff retirement scheme contributions	**1.3**	1.2
Total compensation paid to key management personnel	**24.3**	22.9

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transaction set out in note 35(a)(i) above also constituted a continuing connected transaction as defined in Chapter 14A of the Listing Rules to the Company, but is exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval in accordance with the Listing Rules ("Relevant Requirements") pursuant to rule 14A.33(2) of the Listing Rules.

The related party transactions set out in note 35(a)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.31(2)(a) of the Listing Rules.

Certain of the related party transactions set out in note 35(a)(iii) above also constituted connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.31(2)(a). The other related party transactions set out in note 35(a)(iii) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.33(3)(a) of the Listing Rules.

One of the related party transactions set out in note 35(a)(iv) above also formed part of a transaction which constituted a connected transaction to the Company subject only to the reporting and announcement requirements and exempted from the requirement of independent shareholders' approval pursuant to Rule 14A.32(1) of the Listing Rules, and relevant requirements had been complied with. Certain of the other related party transactions set out in note 35(a)(iv) above also constituted connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.31(2)(a). The remaining related party transactions set out in note 35(a)(iv) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.33(3)(a).

The related party transactions set out in notes 35(a)(v) and (vi) above also constituted continuing connected transactions to the Company, but are exempted from the Relevant Requirements pursuant to rule 14A.33(3)(a).

The related party transaction set out in note 35(a)(vii) above was contemplated under a transaction (the "Transaction") which constituted a connected transaction to the Company subject to the Relevant Requirements. The Relevant Requirements with respect to the Transaction had been complied with.

Relevant disclosures and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to the connected transactions during the prior year set out in note 35(a) had been made or met or otherwise exempted.

36. PLEDGE OF ASSETS

At 31st December, 2012, part of the Group's bank deposits, bank balances, financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments in the amount of HK$380.0 million (2011 - HK$404.0 million) were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Group's, property, plant and equipment, investment properties, properties held for sale and held-to-maturity investments, in the total amount of HK$14,444.9 million (2011 - HK$15,219.6 million) were also pledged to secure other banking facilities granted to the Group.

37. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	GROUP		COMPANY	
	2012 HK$'million	**2011 HK$'million**	**2012 HK$'million**	**2011 HK$'million**
Corporate guarantee provided in respect of the MTN Programme of a subsidiary (note 28)	**–**	–	**7,752.0**	–
Corporate guarantees provided in respect of attributable share of banking facilities granted to:				
A subsidiary	**–**	–	**409.0**	706.0
Certain subsidiaries of a jointly controlled entity	**577.3**	170.0	**577.3**	170.0
	577.3	170.0	**8,738.3**	876.0

At 31st December, 2012, the outstanding principal amount of the notes issued under the MTN Programme amounted to US$300.0 million (approximately HK$2,325.6 million).

At 31st December, 2012, the banking facility granted to a subsidiary subject to a guarantee given to the bank by the Company was utilised to the extent of HK$77.0 million (2011 - HK$554.0 million). The banking facilities granted to certain subsidiaries of a jointly controlled entity subject to corporate guarantees given on a several basis to banks by the Group and the Company were utilised to the extent of HK$317.3 million (2011 - HK$90.0 million).

In addition, the Company has also entered into lease guarantees to guarantee the lessee's obligations under the lease agreements in connection with the leasing of certain hotel properties from Regal REIT.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain retail space and areas of its hotel properties under operating lease arrangements, with leases negotiated for terms ranging from 1 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.

The Group also leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms of 1 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 31st December, 2012, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2012 HK$'million	**2011 HK$'million**
Within one year	**32.9**	32.6
In the second to fifth years, inclusive	**20.9**	16.8
	53.8	49.4

(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 1 to 12 years. Leases for office equipment in respect of the Group are negotiated for a term of 5 years.

At 31st December, 2012, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2012 HK$'million	2011 HK$'million
Land and buildings:		
Within one year	**10.3**	10.0
In the second to fifth years, inclusive	**26.8**	28.2
After five years	**25.6**	31.8
	62.7	70.0
Other equipment:		
Within one year	**0.3**	0.3
In the second to fifth years, inclusive	**0.4**	0.7
	0.7	1.0
	63.4	71.0

At the end of the reporting period, the Company had no outstanding operating lease commitments.

39. COMMITMENTS

In addition to the Group's share of the jointly controlled entities' own capital commitments detailed in note 16 and the operating lease commitments detailed in note 38(b) above, the Group had the following capital commitments at the end of the reporting period:

	2012 HK$'million	2011 HK$'million
Contracted, but not provided for:		
Land	**674.9**	–
Authorised, but not contracted for:		
Hotel buildings	**40.0**	37.3
	714.9	37.3

At the end of the reporting period, the Company had no significant commitments.

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2012 **GROUP**

Financial assets

	Financial assets at fair value through profit or loss					
	- designated as such upon initial recognition HK$'million	- held for trading HK$'million	Available-for-sale investments HK$'million	Loans and receivables HK$'million	Held-to-maturity investments HK$'million	Total HK$'million
Other loan (note 20)	–	–	–	18.9	–	18.9
Trade debtors (note 23)	–	–	–	140.7	–	140.7
Other financial assets included in debtors, deposits and prepayments	–	–	–	688.3	–	688.3
Financial assets at fair value through profit or loss (note 19)	419.7	334.0	–	–	–	753.7
Available-for-sale investments (note 18)	–	–	4.7	–	–	4.7
Held-to-maturity investments (note 24)	–	–	–	–	210.8	210.8
Restricted cash	–	–	–	44.2	–	44.2
Pledged time deposits and bank balances	–	–	–	321.9	–	321.9
Time deposits	–	–	–	1,739.2	–	1,739.2
Cash and bank balances	–	–	–	625.6	–	625.6
	419.7	334.0	4.7	3,578.8	210.8	4,548.0

Financial liabilities

	Financial liabilities at fair value through profit or loss			
	- held for trading HK$'million	- designated as hedging instruments HK$'million	Financial liabilities at amortised cost HK$'million	Total HK$'million
Trade creditors (note 26)	–	–	74.6	74.6
Other financial liabilities included in creditors, deposits received and accruals	–	–	277.8	277.8
Derivative financial instruments	2.1	2.8	–	4.9
Interest bearing bank borrowings (note 27)	–	–	4,857.6	4,857.6
Other borrowing (note 28)	–	–	2,293.8	2,293.8
	2.1	2.8	7,503.8	7,508.7

2011 **GROUP**

Financial assets

	Financial assets at fair value through profit or loss - designated as such upon initial recognition HK$'million	Financial assets at fair value through profit or loss - held for trading HK$'million	Available-for-sale investments HK$'million	Loans and receivables HK$'million	Held-to-maturity investments HK$'million	Total HK$'million
Other loan (note 20)	–	–	–	32.1	–	32.1
Trade debtors (note 23)	–	–	–	138.6	–	138.6
Other financial assets included in debtors, deposits and prepayments	–	–	–	47.7	–	47.7
Financial assets at fair value through profit or loss (note 19)	509.1	240.0	–	–	–	749.1
Available-for-sale investments (note 18)	–	–	25.7	–	–	25.7
Held-to-maturity investments (note 24)	–	–	–	–	45.1	45.1
Restricted cash	–	–	–	69.2	–	69.2
Pledged time deposits and bank balances	–	–	–	301.6	–	301.6
Time deposits	–	–	–	569.2	–	569.2
Cash and bank balances	–	–	–	286.0	–	286.0
	509.1	240.0	25.7	1,444.4	45.1	2,264.3

Financial liabilities

	Financial liabilities at fair value through profit or loss - designated as hedging instruments HK$'million	Financial liabilities at amortised cost HK$'million	Total HK$'million
Trade creditors (note 26)	–	75.9	75.9
Other financial liabilities included in creditors, deposits received and accruals	–	264.3	264.3
Derivative financial instruments	32.0	–	32.0
Interest bearing bank borrowings (note 27)	–	5,358.2	5,358.2
	32.0	5,698.4	5,730.4

	COMPANY	
Financial assets	**2012 Loans and receivables HK$'million**	**2011 Loans and receivables HK$'million**
Cash and bank balances	**0.8**	0.7

Financial liabilities	**2012 Financial liabilities at amortised cost HK$'million**	**2011 Financial liabilities at amortised cost HK$'million**
Creditors and accruals	**4.5**	4.1

41. FAIR VALUE AND FAIR VALUE HIERARCHY

As at the end of the reporting period, the carrying amounts of the Group's and the Company's financial assets and financial liabilities approximated to their fair values.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value as at 31st December, 2012

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
Available-for-sale investments:				
Unlisted equity investments	**–**	**–**	**4.7**	**4.7**
Financial assets at fair value through profit or loss:				
Listed equity investments	**285.0**	**–**	**–**	**285.0**
Listed debt investments	**–**	**72.4**	**–**	**72.4**
Unlisted debt investment	**–**	**396.3**	**–**	**396.3**
	285.0	**468.7**	**4.7**	**758.4**

Assets measured at fair value as at 31st December, 2011

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
Available-for-sale investments:				
Unlisted equity investments	–	–	3.5	3.5
Listed debt investments	7.7	14.5	–	22.2
Financial assets at fair value through profit or loss:				
Listed equity investments	263.7	–	–	263.7
Unlisted debt investments	–	485.4	–	485.4
	271.4	499.9	3.5	774.8

The movements in fair value measurements in Level 3 during the year are as follows:

	2012 HK$'million	2011 HK$'million
Available-for-sale investments – unlisted:		
At 1 January	**3.5**	–
Purchases	**1.2**	4.0
Total losses recognised in other comprehensive income	**–**	(0.5)
At 31 December	**4.7**	3.5

Liabilities measured at fair value as at 31st December, 2012

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
Derivative financial instruments	**–**	**4.9**	**–**	**4.9**

Liabilities measured at fair value as at 31st December, 2011

	Level 1 HK$'million	Level 2 HK$'million	Level 3 HK$'million	Total HK$'million
Derivative financial instruments	–	32.0	–	32.0

The Company did not have any financial assets or financial liabilities at fair value as at 31st December, 2012 and 2011.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011 - Nil).

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest bearing bank borrowings, other borrowing and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, and trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group adopts prudent strategies on its risk management. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's long-term borrowings with floating interest rates. The interest rates and terms of repayment of the Group's interest bearing bank borrowings are disclosed in note 27 to the financial statements. Interest rate risk is managed on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rate.

The Group has put in place interest rate swap arrangements to limit the variability in cash flows attributable to changes in interest rates of certain borrowings. This involves fixing portions of interest payable on its underlying borrowings through derivative instruments. Details of interest rate swaps are set out in note 29 to the financial statements. These swaps are designated to hedge underlying borrowing obligations. At 31st December, 2011, excluding the amount subject to the interest rate swaps, approximately 3% of the Group's interest bearing bank borrowings bore interest at fixed rate.

For Hong Kong dollar borrowings, assuming the amount of bank borrowings and interest rate swap contracts outstanding at the end of the reporting period was outstanding for the whole year, a 100 basis point increase in interest rates would have decreased the Group's profit before tax for the current year by HK$19.1 million (2011 - HK$9.8 million). A 10 basis point decrease in interest rates would have increased the Group's profit before tax for the current year by HK$1.9 million (2011 - HK$1.0 million).

For interest rate swap contracts, a 100 basis point increase in interest rates would have increased the Group's equity as at 31st December, 2012 by HK$61.9 million (2011 - Nil) as a result of fair value changes on derivative financial instruments. A 10 basis point decrease in interest rates would have decreased the Group's equity at 31st December, 2012 by HK$6.3 million (2011 - Nil).

The sensitivity to the interest rate used above is considered reasonable with the other variables held constant. The sensitivity for interest rate swap contracts is based on the assumption that there are parallel shifts in the yield curve.

Credit risk

The Group's major exposure to the credit risk arising from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the consolidated statement of financial position. The Group only grants credits after due credit risk assessments. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash, bank balances and deposits, financial assets at fair value through profit or loss, available-for-sale investments, held-to-maturity investments, other loan and financial assets included in debtors, deposits and prepayments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade debtors are widely dispersed in different sectors and industries (except for sales proceeds receivable from the disposal of properties).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 23 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of banking facilities. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group will raise funds from different sources, including through the financial market or realisation of its assets, if required.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

GROUP

	2012		
	Within 1 year or on demand HK$'million	**1 to 5 years HK$'million**	**Total HK$'million**
Interest bearing bank borrowings	**207.6**	**4,971.8**	**5,179.4**
Other borrowing	**79.0**	**2,721.0**	**2,800.0**
Trade creditors	**74.6**	**–**	**74.6**
Corporate guarantees provided in respect of attributable share of banking facilities granted to certain subsidiaries of a jointly controlled entity	**317.3**	**–**	**317.3**
Other financial liabilities included in creditors, deposits received and accruals	**275.3**	**2.5**	**277.8**
Derivative financial instruments	**2.1**	**2.8**	**4.9**
	955.9	**7,698.1**	**8,654.0**

GROUP

	2011		
	Within 1 year or on demand HK$'million	**1 to 5 years HK$'million**	**Total HK$'million**
Interest bearing bank borrowings	4,759.2	638.9	5,398.1
Trade creditors	75.9	–	75.9
Corporate guarantee provided in respect of attributable share of banking facilities granted to a subsidiary of a jointly controlled entity	90.0	–	90.0
Other financial liabilities included in creditors, deposits received and accruals	264.3	–	264.3
Derivative financial instruments	32.0	–	32.0
	5,221.4	638.9	5,860.3

COMPANY

	2012 On demand HK$'million	2011 On demand HK$'million
Corporate guarantee provided in respect of the MTN Programme of a subsidiary	**2,325.6**	–
Corporate guarantees provided in respect of attributable share of banking facilities granted to:		
A subsidiary	**77.0**	554.0
Certain subsidiaries of a jointly controlled entity	**317.3**	90.0
Creditors and accruals	**4.5**	4.1
	2,724.4	648.1

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual listed equity investments and unlisted debt investment in convertible bonds classified as financial assets at fair value through profit or loss (note 19) and unlisted equity investment classified as available-for-sale investments (note 18) as at 31st December, 2012. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the end of the reporting period. The Group's unlisted investments are either valued by an independent professional valuer using valuation techniques based on the quoted market price of the underlying listed securities or carried at the net asset value provided by a financial institution at the end of the reporting period.

The following table demonstrates the sensitivity to a 5% change in the fair values of the equity investments and the underlying listed securities of the convertible bonds, with all other variables held constant and before any impact on tax, based on the carrying amounts of the relevant financial assets at the end of the reporting period. For the purpose of this analysis, for the available-for-sale equity investments, the impact is deemed to be on the available-for-sale investment revaluation reserve and no account is given for factors such as impairment which might impact on the income statement.

	Carrying amount of equity investments HK$'million	Change in profit before tax HK$'million	Change in equity* HK$'million
2012			
Hong Kong listed investments	**285.0**	**14.3**	**–**
Unlisted investments at fair value:			
Convertible bonds	**396.3**	**15.1**	**–**
Available-for-sale	**4.7**	**–**	**0.2**
2011			
Hong Kong listed investments	263.7	13.2	–
Unlisted investments at fair value:			
Convertible bonds	484.9	21.1	–
Available-for-sale	3.5	–	0.2

* Excluding retained profits

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and enhance shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. Capital represents equity attributable to equity holders of the parent. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements except for the obligation under the lease guarantees as mentioned in note 37 and undertakings under corporate guarantees given by the Company for banking facilities granted to the Group and certain subsidiaries of a jointly controlled entity, to maintain a minimum consolidated tangible net worth, which has been complied with during the year. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st December, 2012 and 31st December, 2011.

The Group monitors capital using a debt to total assets ratio, which is net debt divided by the total assets. Net debt includes interest bearing bank borrowings and other borrowing less cash, bank balances and deposits. The debt to total assets ratios as at the end of the reporting periods were as follows:

GROUP

	2012 HK$'million	2011 HK$'million
Interest bearing bank borrowings and other borrowing	**7,151.4**	5,358.2
Less: Cash, bank balances and deposits	**(2,730.9)**	(1,226.0)
Net debt	**4,420.5**	4,132.2
Total assets	**21,795.9**	19,860.8
Debt to total assets ratio	**20.3%**	20.8%

43. EVENTS AFTER THE REPORTING PERIOD

On 11th January, 2013, Regal REIT group announced the establishment and listing of a US$1 Billion Medium Term Note Programme (the "Regal REIT MTN Programme"), which is intended to serve as a funding platform to finance the planned expansion of Regal REIT group. On that same date, Regal REIT group entered into a memorandum of understanding with P&R Holdings for the proposed grant of call options by P&R Holdings for Regal REIT group to acquire two hotel projects being developed by P&R Holdings, namely, a hotel in Sheung Wan with 248 rooms and suites and a 336-room hotel in North Point. Details of the proposed call options were contained in the separate announcements published by the Company and the REIT Manager of Regal REIT both on 11th January, 2013. In order to allow further time for the parties to consider various issues relating to the proposed call options and the corresponding funding arrangements, the memorandum of understanding was amended by the parties on 28th February, 2013 to extend the end of the exclusivity period thereunder to 30th April, 2013. It is expected that a definitive proposal in relation to the proposed acquisition will be able to be worked out before the expiry of the extended exclusivity period.

On 22nd March, 2013, Regal REIT group issued under the Regal REIT MTN Programme, through private placements, a series of Hong Kong dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of HK$775.0 million at a coupon interest rate of 4.125% per annum.

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25th March, 2013.

ERNST & YOUNG
安 永

To the shareholders of Regal Hotels International Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Regal Hotels International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 67 to 159, which comprise the consolidated and company statements of financial position as at 31st December, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2012, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
25th March, 2013

As at 31st December, 2012

PROPERTIES FOR DEVELOPMENT AND/OR SALE

	Description	Use	Approx. Area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(1)	Certain luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Site area for the whole development - approx. 53,126 sq. m. (571,848 sq. ft.) Gross floor area of 12 remaining houses held - approx. 5,557 sq. m. (59,816 sq. ft.)	Completed in March 2004	100
(2)	Nos.132-140 Bonham Strand, Sheung Wan, Hong Kong	Hotel	Net site area - approx. 472 sq. m. (5,076 sq. ft.) Gross floor area - approx. 7,776 sq. m. (83,700 sq. ft.) (248 guestrooms and suites)	Superstructure works in progress (expected to be completed in 2nd half of 2013)	50
(3)	Nos.5-7 Bonham Strand West and Nos.169-171 Wing Lok Street, Sheung Wan, Hong Kong	Hotel	Site area - approx. 345 sq. m. (3,710 sq. ft.) Gross floor area - approx. 5,491 sq. m. (59,108 sq. ft.) (98 guestrooms and suites)	Foundation works to be commenced (completion anticipated to be deferred to 1st half of 2015)	50

As at 31st December, 2012

	Description	Use	Approx. Area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(4)	Nos.14-20 Merlin Street, North Point, Hong Kong	Hotel	Site area - approx. 457 sq. m. (4,915 sq. ft.) Gross floor area - approx. 7,378 sq. m. (79,420 sq. ft.) (336 guestrooms)	Superstructure works in progress (expected to be completed in 1st half of 2014)	50
(5)	Lot No. 4309 in Demarcation District No.124, Tan Kwai Tsuen Road, Yuen Long, New Territories, Hong Kong	Residential	Site area - approx. 11,192 sq. m. (120,470 sq. ft.) Gross floor area - approx. 11,192 sq. m. (120,470 sq. ft.) (36 houses and 134 apartments)	• Site formation and foundation works in progress • Superstructure works scheduled to commence in 4th quarter of 2013 (expected to be completed in 4th quarter of 2014)	50

As at 31st December, 2012

	Description	Use	Approx. Area	Stage of completion (completion date of development project)	Percentage of interest attributable to the Company
(6)	Development site at south of Xindu Main Road and both sides of Xingle Road, Banqiao Village, Xindu County, Xindu District, Chengdu, Sichuan Province, PRC	Hotel and commercial complex/ residential	Site area for the whole development - approx. 111,869 sq. m. (1,204,148 sq. ft.) Total gross floor area - approx. 496,000 sq. m. (5,340,000 sq. ft.) First stage • a 306-room hotel • 3 residential towers having 340 apartment units with car parks and ancillary commercial accommodation (Total gross floor area - approx. 45,500 sq. m. (490,000 sq. ft.)) Stage two • residential development with total gross floor area of approx. 176,516 sq. m. (1,900,000 sq. ft.) Stage three • commercial and office accommodations with total gross floor area of approx. 139,355 sq. m. (1,500,000 sq. ft.)	First stage • Curtain wall construction of the hotel in progress (The hotel is presently scheduled to be opened in 4th quarter of 2014.) • Structural frames of the residential towers completed (overall construction works scheduled to be completed in 1st quarter of 2014)	50

As at 31st December, 2012

PROPERTIES FOR INVESTMENT

	Description	Use	Lease	Percentage of interest attributable to the Company
(1)	7 luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Medium term	100
(2)	Regal Airport Hotel 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, New Territories, Hong Kong	Hotel	Medium term	74.55
(3)	Regal Hongkong Hotel 88 Yee Wo Street, Causeway Bay, Hong Kong	Hotel	Long term	74.55
(4)	Regal Kowloon Hotel 71 Mody Road, Tsimshatsui, Kowloon, Hong Kong	Hotel	Long term	74.55
(5)	Regal Oriental Hotel 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and the whole of 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road and 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong	Hotel	Medium term	74.55

As at 31st December, 2012

	Description	Use	Lease	Percentage of interest attributable to the Company
(6)	Regal Riverside Hotel 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong	Hotel	Medium term	74.55
(7)	Regal iClub Building Shops A, B and C on G/F, Flat Roof on 3/F, Whole of 5-12/F, 15-23/F and 25-29/F, Eastern and Western Elevations of External Walls, Architectural Feature at Roof Top and Upper Roof, 211 Johnston Road, Wanchai, Hong Kong	Hotel/ commercial	Long term	74.55

The summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out below.

RESULTS

	Year ended 31st December,				
	2012 HK$'million	2011 HK$'million	2010 HK$'million	2009 HK$'million	2008 HK$'million
Revenue	**2,330.9**	2,037.2	1,502.7	1,381.2	1,511.8
Operating profit/(loss) before depreciation	**1,182.3**	27.4	7,471.7	113.2	(331.5)
Depreciation	**(380.0)**	(365.5)	(159.4)	(6.4)	(4.0)
Finance costs	**(159.8)**	(190.5)	(86.4)	(4.9)	(9.9)
Share of profits and losses of:					
Jointly controlled entities	**(5.5)**	623.4	(1.8)	(2.3)	(4.9)
Associates	**(3.9)**	52.2	(159.3)	361.1	(616.3)
Profit/(loss) before tax	**633.1**	147.0	7,064.8	460.7	(966.6)
Income tax	**(47.3)**	(16.3)	(74.0)	(12.7)	(0.6)
Profit/(loss) for the year	**585.8**	130.7	6,990.8	448.0	(967.2)
Attributable to:					
Equity holders of the parent	**536.3**	107.9	6,928.8	448.0	(967.2)
Non-controlling interests	**49.5**	22.8	62.0	–	–
	585.8	130.7	6,990.8	448.0	(967.2)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	31st December,				
	2012 HK$'million	**2011 HK$'million**	**2010 HK$'million**	**2009 HK$'million**	**2008 HK$'million**
Property, plant and equipment	**13,845.2**	14,041.4	13,879.6	38.2	16.8
Investment properties	**948.0**	886.0	1,379.5	805.0	855.0
Investments in jointly controlled entities	**1,597.3**	1,689.6	182.5	176.6	203.8
Investments in associates	**27.6**	16.7	10.1	601.8	517.4
Available-for-sale investments	**4.7**	18.0	–	–	3.1
Financial assets at fair value through profit or loss	**23.4**	508.6	636.5	358.0	423.0
Other loan	**18.9**	17.6	13.3	13.3	36.1
Pledged bank deposits	**–**	–	–	1,000.0	1,000.0
Deposits	**2.3**	–	–	–	–
Current assets	**5,328.5**	2,682.9	3,689.7	2,237.9	1,780.2
Total assets	**21,795.9**	19,860.8	19,791.2	5,230.8	4,835.4
Current liabilities	**(507.6)**	(5,137.3)	(520.5)	(490.0)	(430.7)
Deposits received	**(2.5)**	–	–	–	–
Interest bearing bank borrowings	**(4,776.1)**	(627.1)	(4,943.3)	(246.8)	(268.5)
Other borrowing	**(2,293.8)**	–	–	–	–
Derivative financial instruments	**(2.8)**	–	(142.4)	–	–
Deferred tax liabilities	**(1,065.5)**	(1,093.3)	(1,102.4)	–	–
Total liabilities	**(8,648.3)**	(6,857.7)	(6,708.6)	(736.8)	(699.2)
Non-controlling interests	**(1,412.4)**	(1,460.3)	(1,546.6)	(1.3)	(1.3)

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