



百利保控股有限公司

Paliburg
Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code : 617)

2016 INTERIM REPORT



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Corporate Information

DIRECTORS

Executive Directors

Lo Yuk Sui

(Chairman and Chief Executive Officer)

Jimmy Lo Chun To

(Vice Chairman and Managing Director)

Donald Fan Tung

(Chief Operating Officer)

Lo Po Man

Kenneth Ng Kwai Kai

Kenneth Wong Po Man

Independent Non-Executive Directors

Bowen Joseph Leung Po Wing, GBS, JP

Ng Siu Chan

Abraham Shek Lai Him, GBS, JP

Wong Chi Keung

AUDIT COMMITTEE

Wong Chi Keung (Chairman)

Bowen Joseph Leung Po Wing, GBS, JP

Ng Siu Chan

Abraham Shek Lai Him, GBS, JP

REMUNERATION COMMITTEE

Wong Chi Keung (Chairman)

Lo Yuk Sui

Ng Siu Chan

NOMINATION COMMITTEE

Lo Yuk Sui (Chairman)

Bowen Joseph Leung Po Wing, GBS, JP

Ng Siu Chan

Abraham Shek Lai Him, GBS, JP

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

Australia and New Zealand Banking Group Limited

United Overseas Bank Limited, Hong Kong Branch

Industrial and Commercial Bank of China (Asia) Limited

Bank SinoPac, Hong Kong Branch

PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited

The Belvedere Building, 69 Pitts Bay Road

Pembroke HM08, Bermuda

BRANCH REGISTRAR IN HONG KONG

Tricor Tengis Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

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Directors' Profile

Mr. Lo Yuk Sui, aged 71; *Chairman and Chief Executive Officer* — Chairman and Managing Director since 1993 and designated as the Chief Executive Officer in 2007. Mr. Lo has been the managing director and the chairman of the predecessor listed companies of the Group since 1984 and 1986, respectively. He is also an executive director, the chairman and the chief executive officer of Century City International Holdings Limited (“CCIHL”), the ultimate listed holding company of the Company, Regal Hotels International Holdings Limited (“RHIHL”) and Cosmopolitan International Holdings Limited (“Cosmopolitan”), both listed subsidiaries of the Company, and a non-executive director and the chairman of Regal Portfolio Management Limited (“RPML”), the manager of Regal Real Estate Investment Trust (the listed subsidiary of RHIHL). 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.

Mr. Jimmy Lo Chun To, aged 42; *Vice Chairman and Managing Director* — Appointed to the Board in 1999. Mr. Jimmy Lo has been a Vice Chairman and Managing Director of the Company since 2013. He is also an executive director and a vice chairman of CCIHL, an executive director of RHIHL, an executive director, a vice chairman and the managing director of Cosmopolitan, and a non-executive director of RPML. Mr. Jimmy Lo graduated from Cornell University, New York, the United States, with a Degree in Architecture. He joined the Century City Group in 1998. Mr. Jimmy Lo is primarily involved in overseeing the Group’s property projects in the People’s Republic of China (the “PRC”) and, in addition, undertakes responsibilities in the business development of the Century City Group. He is the son of Mr. Lo Yuk Sui and the brother of Miss Lo Po Man.

Mr. Donald Fan Tung, aged 59; *Executive Director and Chief Operating Officer* — Appointed to the Board in 1993 and designated as the Chief Operating Officer in 2007. Mr. Fan has been with the Group since 1987 and is principally involved in the Group’s property development, architectural design and project management functions as well as overseeing the building construction business of the Group. Mr. Fan is a qualified architect. He is also an executive director of CCIHL and RHIHL and a non-executive director of RPML.

Mr. Bowen Joseph Leung Po Wing, *GBS, JP*, aged 66; *Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2008. Mr. Leung previously served the Hong Kong Government for over 32 years until his retirement as the Director of the Office of the Government of the Hong Kong Special Administrative Region in Beijing (“Beijing Office”) in November 2005. Mr. Leung joined the Administrative Service in June 1973 and rose to the rank of Administrative Officer Staff Grade A1 in June 1996. During his service in the Administrative Service, Mr. Leung had served in various policy bureaux and departments. Senior positions held by Mr. Leung included: Deputy Secretary for District Administration (later retitled as Deputy Secretary for Home Affairs); Deputy Secretary for Planning, Environment and Lands; Private Secretary, Government House, Secretary for Planning, Environment and Lands and Director of the Beijing Office. Mr. Leung has extensive experience in corporate leadership and public administration. During his tenure as the Director of the Beijing Office, he had made commendable efforts in promoting Hong Kong in the Mainland, as well as fostering closer links and co-operation between Hong Kong and the Mainland. Mr. Leung is an independent non-executive director and a member of the Audit Committee of North Asia Resources Holdings Limited and Quali-Smart Holdings Limited, all of which are companies listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors' Profile (Cont'd)

Miss Lo Po Man, aged 36; *Executive Director* — Appointed to the Board in 2007. Miss Lo is also an executive director and a vice chairman of CCIHL, an executive director, a vice chairman and the managing director of RHIHL, an executive director and a vice chairman of Cosmopolitan, and a non-executive director and the vice chairman of RPML. She graduated from Duke University, North Carolina, the United States, with a Bachelor's Degree in Psychology. Miss Lo joined the RHIHL Group in 2000 and is an experienced executive in sales and marketing and corporate management. She oversees the sales and marketing functions of the RHIHL Group and also undertakes responsibilities in the business development of the Century City 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 61; *Executive Director* — Appointed to the Board in 1995. Mr. Ng is also an executive director and the chief operating officer of CCIHL, an executive director of RHIHL and Cosmopolitan, and a non-executive director of RPML. He has been with the Group since 1985 and is in charge of the corporate finance, company secretarial and administrative functions of the Century City Group. Mr. Ng is a Chartered Secretary.

Mr. Ng Siu Chan, aged 86; *Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 1995. Mr. Ng is also an independent non-executive director of CCIHL and RHIHL. He is a non-executive director of Transport International Holdings Limited, which is a company listed on the Stock Exchange.

Hon Abraham Shek Lai Him, GBS, JP, aged 71; *Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2002. Mr. Shek is also an independent non-executive director of Cosmopolitan and RPML. Mr. Shek holds a Bachelor's Degree of Arts. He is currently a member of the Legislative Council of the Hong Kong Special Administrative Region. He is also a member of the Court of The Hong Kong University of Science and Technology, a member of both of the Court and the Council of The University of Hong Kong, and a non-executive director of the Mandatory Provident Fund Scheme Authority. Mr. Shek is the chairman and an independent non-executive director of Chuang's China Investments Limited, the vice chairman, an independent non-executive director and a member of the audit committee of ITC Properties Group Limited, an independent non-executive director and a member of the audit committee of China Resources Cement Holdings Limited, Chuang's Consortium International Limited, Country Garden Holdings Company Limited, ITC Corporation Limited, Lifestyle International Holdings Limited, Midas International Holdings Limited, NWS Holdings Limited and SJM Holdings Limited, and an independent non-executive director of Hop Hing Group Holdings Limited, Lai Fung Holdings Limited, MTR Corporation Limited and TUS International Limited, all of which companies are listed on the Stock Exchange. He is also an independent non-executive director and a member of the audit committee of Eagle Asset Management (CP) Limited, the manager of Champion Real Estate Investment Trust (which is listed on the Stock Exchange).

Mr. Wong Chi Keung, aged 61; *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 RHIHL. 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 was a responsible officer for asset management and advising on securities under the Securities and Futures Ordinance of Hong Kong. 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 Shanshui Cement Group Limited, China Ting Group Holdings Limited, ENM Holdings Limited, Fortunet e-Commerce Group Limited, Golden Eagle Retail Group Limited, Nickel Resources International Holdings Company Limited, TPV Technology Limited, Yuan Heng Gas Holdings Limited and Zhuguang Holdings Group Company Limited, all of which are companies listed on the Stock Exchange. Mr. Wong has over 33 years of experience in finance, accounting and management.

Mr. Kenneth Wong Po Man, aged 50; *Executive Director* — Appointed to the Board in 2007. Mr. Wong is a qualified architect. He graduated from The University of Hong Kong with a Bachelor of Arts Degree in Architectural Studies and a Bachelor's Degree of Architecture. He also holds a Master of Science Degree in Real Estates from The University of Hong Kong. Mr. Wong has been with the Group for over 23 years. He has been involved in architectural design and project management in respect of various property development projects of the Group and is also the Technical Director of Chatwin Engineering Limited, the construction arm of the Group, registered under the Buildings Ordinance. Mr. Wong is also an executive director and the chief operating officer of Cosmopolitan.

Chairman's Statement

Dear shareholders,

I am pleased to present herewith the 2016 Interim Report of the Company.

FINANCIAL RESULTS

For the six months ended 30th June, 2016, the Group attained an unaudited consolidated profit attributable to shareholders of HK\$17.2 million, as compared to HK\$54.9 million for the corresponding period in 2015.

As explained in the profit warning announcement of the Company dated 17th August, 2016, the lower profit attained for the current period was primarily attributable to the net fair value loss on financial assets at fair value through profit or loss, while a net fair value gain on such financial assets was recorded in the prior comparative period. Operating profit before depreciation, finance costs and tax for the period amount to HK\$426.5 million, as compared to HK\$503.1 million for the same period in 2015.

As also explained before, the Group's hotel properties in Hong Kong, which constitute the Group's most significant assets, are all owned and operated within the Group. Accordingly, to comply with the currently applicable accounting standards, they are classified in the Group's consolidated financial statements as property, plant and equipment and subject to depreciation charges. Total depreciation charges on the Group's hotel properties for the period amounted to HK\$257.9 million, which although having no cash flow impact, have adversely affected the Group's reported profit.

BUSINESS OVERVIEW

The Group comprises a total of four listed entities, with diversified business interests in properties, hotels, other investments and aircraft ownership and leasing businesses.

As at 30th June, 2016, the Group directly held a controlling shareholding interest of approximately 67.1% in Regal Hotels International Holdings Limited which, in turn, held approximately 74.6% of the outstanding units of Regal Real Estate Investment Trust, a listed subsidiary of Regal which owns all the eight hotels of the Group operating in Hong Kong.

The Group's property development and investment businesses in Hong Kong are principally undertaken through P&R Holdings Limited, a joint venture 50:50 held by each of the Company and Regal. As Regal is a listed subsidiary of the Company, P&R Holdings is effectively also a subsidiary of the Group.

Apart from its property development and investment businesses, P&R Holdings also held as at 30th June, 2016 an effective controlling shareholding interest of approximately 77.0% in Cosmopolitan International Holdings Limited (comprising interests in its ordinary shares and convertible preference shares) and, in addition, substantial interests in the convertible bonds of Cosmopolitan. Cosmopolitan is consequently also a listed member of the Group, which is principally focused on property development and investment in the People's Republic of China and other investment businesses.

Further information on the latest progress of the Group's property businesses as well as the financial results and operational review of Regal (including Regal REIT) and Cosmopolitan are presented below.

PROPERTIES

The property market in Hong Kong continued to stabilise in the period under review and was mainly dominated by residential sales in the primary market. Property prices generally fell in the first part of 2016 but the residential property prices slightly rebounded in the recent few months. Due to the persistent low interest rate environment and the expectation that any future increase in interest rates will be slow, particularly after Brexit, the underlying demand for residential properties is expected to remain strong. This will provide support to the residential property prices, despite the anticipated increase in the supply of new residential units in the coming years.

The residential project at Tan Kwai Tsuen Road in Yuen Long was completed in the fourth quarter of 2015 and the certificate of compliance was obtained in April 2016. The development consists of one residential block, named Domus, with 134 studio apartment units and 36 garden houses, named Casa Regalia. All the Domus apartment units have been sold in June 2015 and the sale of the garden houses was first launched in May 2016. Up to date, 7 houses have been contracted to be sold. While the remaining houses are presently planned to be disposed of on a gradual basis, some of them may in the meantime be leased out for rental income.

In July 2016, P&R Holdings commenced the presale of the residential units in the commercial/residential joint venture project with the Urban Renewal Authority of Hong Kong at Shun Ning Road, Sham Shui Po, Kowloon. Up to date, 154 of the total 157 residential units in this development project have been contracted to be sold.

The operational review on the property businesses conducted in China through Cosmopolitan is set out in the paragraph headed "Cosmopolitan International Holdings Limited" below.

Both P&R Holdings and Cosmopolitan have secured substantial cash flows from the contracted presales of the units in their development projects. Under the currently applicable accounting standards and accounting policies adopted by the Group, the revenues from the contracted presales will not be recognised until in the case of a development project in Hong Kong, when the occupation permit is issued, and in the case of a development project in China, after the relevant units sold have been completed and handed over to the respective purchasers. Accordingly, these contracted and further presales of the units in the ongoing development projects undertaken through P&R Holdings and Cosmopolitan are only expected to record profit contributions to the Group from 2017 onwards. However, the general marketing and promotional expenses spent on the presale programmes are required to be charged to profit or loss as they were incurred, before the sales revenues are recognised, which could have a slight impact on the results of the Group for the current financial year.

Further details on the development projects and properties of P&R Holdings and Cosmopolitan, as well as the Group's construction and building related business and other investments are contained in the section headed "Management Discussion and Analysis" in this Interim Report.

REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED

For the six months ended 30th June, 2016, Regal attained an unaudited consolidated profit attributable to shareholders of HK\$130.3 million, as compared to HK\$123.8 million recorded for the same period in 2015.

During the period under review, the Regal group maintained steady performance amidst relatively competitive and challenging market conditions. Overall revenues (including the proceeds from the disposal of two held-for-sale garden houses in Regalia Bay and the net gain from the sale of the shareholding interests held in Asia Standard Hotel Group Limited) amounted to HK\$1,374.7 million, representing an increase of 9.8% over the HK\$1,251.6 million for the corresponding period last year. Gross profit increased by 7.6% year-on-year to HK\$605.3 million for the current period (2015 – HK\$562.3 million). Largely due to the fair value losses on the financial assets and investment properties, the operating profit before depreciation, financial costs and tax of the Regal group for the half year under review amounted to HK\$527.4 million, which was 8.9% below the HK\$579.2 million for the last corresponding period. Total depreciation charges provided by Regal on its hotel properties amounted to HK\$231.9 million which, although not having an effect on cash flows, have significantly impacted on its reported profit.

BUSINESS OVERVIEW

HOTELS

MARKET OVERVIEW

According to the World Bank Group, growth prospects have weakened throughout the world economy. Global growth for 2016 is projected at 2.4 percent, with the advanced economies expected to expand by 1.7 percent. Emerging market and developing economies are facing stronger headwinds, including weaker growth among advanced economies and persistently low commodity prices, as well as lackluster global trade and capital flows. Growth in China decelerated to 6.9 percent in 2015 and further to 6.7 percent in the first half of 2016, reflecting weak exports and slowing investment, while the domestic rebalancing is gradually under way. In June 2016, the United Kingdom voted to leave the European Union and while the process and timescale for the withdrawal are still uncertain, the move could have significant economic repercussions worldwide. There are, moreover, a number of uncertainties that could materially affect the future development of the global economy, including increased volatility in the financial markets, heightened uncertainties of fiscal policies and enhanced tension in the geopolitical arena.

For the period under review, Hong Kong's economy expanded moderately by 1.2% year-on-year and the GDP for 2016 is forecast to grow by one to two percent in real terms, as adjusted downwards due to the slowdown in the local economy. In the same period, total visitors to Hong Kong amounted to about 27.2 million, representing a decrease of 7.4% year-on-year, of which about 20.4 million were visitors from Mainland China, which was a decrease of 10.6% year-on-year. Visitors from Mainland China under the Individual Visit Scheme alone amounted to approximately 11.5 million, a reduction of 20.1% from the same period in 2015. The reduction in Mainland China visitors was to a certain extent compensated for by the rebound in the number of visitors from the traditional long haul and other short haul markets. The number of overnight visitors maintained at about 12.4 million, which was a decrease of only 2.1% compared on a year-on-year basis. Due to the slowdown in the number of visitors from Mainland China, the retail sector in Hong Kong has been significantly affected, with the value of total retail sales in the first six months of 2016 having contracted by 10.5% year-on-year.

Based on the information published by the Hong Kong Tourism Board, the average hotel room occupancy level for all the surveyed hotels under different categories in Hong Kong for the half year ended 30th June decreased slightly from 85% in 2015 to 84% in 2016, while the average achieved room rate shrunk by 5.8%, reflected in a drop in the Revenue per Available Room (RevPAR) of 6.9% year-on-year.

HOTEL OWNERSHIP

REGAL REAL ESTATE INVESTMENT TRUST

Regal Portfolio Management Limited, a wholly owned subsidiary of the Regal group, acts as the REIT Manager.

For the six months ended 30th June, 2016, Regal REIT achieved an unaudited consolidated profit before distribution to unitholders of HK\$328.6 million, as compared to a loss of HK\$1,376.9 million reported in the corresponding period in 2015. Based on the market valuations appraised by the principal valuer of Regal REIT as of 30th June, 2016, the fair value of Regal REIT's investment properties portfolio has increased by HK\$88.0 million over its last appraised value as of 31st December, 2015. This fair value gain has been reflected in its results for the interim period, while for the comparative period last year, a fair value loss of HK\$1,631.4 million was recorded. If these fair value changes are excluded, the core profit before distributions to unitholders for the period under review would amount to HK\$240.6 million, as compared to HK\$254.6 million for the same period in 2015.

The five initial Regal Hotels in Hong Kong owned by Regal REIT are presently leased to the Regal group for a 5-year term up to 31st December, 2020, with the market rental package to be determined on a yearly basis by an independent professional property valuer. The base rent payable to Regal REIT for the five initial Regal Hotels for 2016, as determined by the independent valuer, is HK\$732.0 million.

Apart from the five initial Regal Hotels, Regal REIT also owns three other hotel properties in Hong Kong, operating under the "iclub by Regal" brand name. The "iclub" brand is a new line of hotels developed by the Regal group, which are typically positioned as upscale select-service hotels, with contemporary design and stylish décor, and equipped with hi-tech facilities.

The first iclub hotel, the "iclub Wan Chai Hotel", has been self-operated by Regal REIT since 2011. During the period, it maintained an occupancy level of 97.5%, although the average achieved room rate retracted by 3.2%. Aggregate net property income from this property, including the lease rentals from the non-hotel portions, amounted to HK\$10.4 million for the interim period, which was a reduction of 9.5% as compared with the same period last year.

The other two iclub hotels, namely, the iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel, have also been leased to the Regal group on fixed terms up to 31st December, 2019, with an option for Regal REIT to extend the leases for another five years. Under the terms of the leases, the rentals for the initial 3 years of the fixed terms are fixed and the aggregate prorated rentals payable for the leasing of these two iclub hotels for the interim period amounted to HK\$84.5 million.

Regal REIT is presently in the course of arranging a HK\$5.5 billion 5-year term and revolving loan facility with a syndicate of local and international financial institutions. This new loan is primarily planned to early refinance the existing HK\$4.5 billion term loan facilities which are due to mature in July 2018. The remaining funds that will become available under the new loan are intended to be used for new acquisitions, if appropriate opportunities are available, and the continuing upgrading of Regal REIT's existing property portfolio.

HOTEL OPERATIONS

Favour Link International Limited, a wholly owned subsidiary of the Regal group, is the lessee of all the hotels owned by Regal REIT, other than the iclub Wan Chai Hotel which is self-operated by Regal REIT.

During the period under review, the combined average occupancy level of the five initial Regal Hotels in Hong Kong, which are operating as full-service hotels under the "Regal" brand name, was maintained at 82.6%, as compared with 83.0% in the same period last year. Due to keen market competition, their combined average room rate over the same period decreased by 6.8%, resulting in a reduction in RevPAR of 7.3% year-on-year. If the operational figures of the five individual Regal Hotels are only compared with those of other comparable hotels in similar categories, their performance is in line with market averages. Aggregate net property income for these five hotels for the half year period amounted to HK\$339.2 million, as compared to HK\$372.6 million for the same period in 2015, and was below the prorated base rent of HK\$366.0 million.

The combined average occupancy level for the two iclub Sheung Wan Hotel and the iclub Fortress Hill Hotel for the period under review was maintained at 84.7%, while their average achieved room rate was 3.3% lower than that in the corresponding period last year, which could be considered satisfactory under the prevailing market conditions. Although the net property incomes generated by these two hotels were below their fixed rental levels, management believes there is still room for improvement in the business operations of these two relatively new hotels. The initial 3-year period with fixed rentals for the iclub Sheung Wan Hotel will end on 9th February, 2017 and in accordance with the terms of the lease agreement, an independent professional property valuer has been jointly appointed by Regal REIT and the lessee to determine the market rental package for the ensuing period from 10th February to 31st December, 2017. As mentioned before, any shortfall in the income from the operation of these two hotels below the lease payments payable for the first three years of the lease terms will be fully reimbursed by P&R Holdings and to be accounted for after expiry of the 3-year period in 2017 on a cumulative basis.

To meet the challenging market environment, the Regal group has taken steps to streamline and centralise the different operating functions of the hotels to take advantage of its scale of operations, with a view to containing the operating costs of the hotels. Moreover, the Regal group continually implements various marketing and sales initiatives to diversify its hotel guest source markets and to strengthen its sale distribution channels, including the setting up of new regional sales offices in South Korea, Singapore, the United Kingdom and the East Coast of the United States on top of its six existing overseas sales offices.

The La Mola Hotel & Conference Centre in Barcelona, Spain was acquired by the Regal group in 2014 at a distressed value. The hotel is presently operating under a third party franchise arrangement. The renovation programme to remodel and upgrade the hotel to an international 5-star standard has recently commenced.

HOTEL MANAGEMENT

Regal Hotels International Limited, the wholly owned management arm of the Regal group, is the hotel manager providing services to all the eight operating Regal and iclub Hotels in Hong Kong. The Regal group is also managing the La Mola Hotel and Conference Centre in Spain.

In China, there are presently nine hotels under operation which are managed by the Regal group. The two hotels that were most recently opened are, respectively, the Regal Financial Center Hotel in Foshan, a 230-room luxury hotel, in December 2015 and the iclub Yuhong Hotel in Zhengzhou, the first hotel managed by the Regal group under the iclub branding, in February 2016. Five other hotels to be managed by the Regal group are in the pipeline, which are expected to open over the course of the next several years. The Regal group believes that the continuing expansion of the hotel management businesses in China will further strengthen the recognition of the "Regal" brand and promote reciprocal businesses among the different hotels within the Regal group.

PROPERTIES

As mentioned above, the Regal group holds a 50% joint venture interest in P&R Holdings, through which its property development and investment businesses are presently principally conducted.

At the beginning of this year, the Regal group held a total of 18 luxury garden houses in Regalia Bay, Stanley. During the period, a total of 3 Regalia Bay houses has been sold by the Regal group, two of which were properties held for sale and the other one was held as an investment property. While certain of the remaining 15 houses are being retained for rental income purposes, the other houses will be disposed of if favourable terms are offered.

OTHER INVESTMENTS

The Regal group maintains a sizable investment portfolio comprising listed securities, investment funds, bonds as well as treasury and yield enhancement products. In June 2016, the Regal group disposed of, through private treaty, its entire 12% shareholding interest in Asia Standard Hotel Group Limited at a total consideration of approximately HK\$358 million, which was substantially above its historical cost and carrying value, and the gain derived has been accounted for in the results under review.

The Regal group diversified into the aircraft ownership and leasing business in 2012. As at 30th June, 2016, the Regal group owned a fleet of 14 aircraft, including two Airbus A321 model aircraft and 12 Embraer ERJ-135 and ERJ-145 model aircraft. Except for one Airbus aircraft which is 85%-owned, all the other aircraft are wholly owned by the Regal group. The aircraft are yielding satisfactory income and generated net lease rentals (before depreciation) of HK\$45.0 million during the period.

COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

For the six months ended 30th June, 2016, Cosmopolitan attained an unaudited consolidated profit attributable to shareholders of HK\$40.3 million, as compared to a loss of HK\$164.0 million recorded for the corresponding six months in 2015.

The profit attained in the period under review was largely attributable to a gain of HK\$89.8 million arising from the decrease in the fair value of the outstanding subscription option for the subscription of the optional convertible bonds due 2017, which was recognised as a reduction in financial liability in the Cosmopolitan group's financial statements, as well as the recognition of a gain on bargain purchase of HK\$30.3 million arising from the Cosmopolitan group's acquisition of a 60% interest in a subsidiary investing in a licensed logistics services provider in Shanghai, the PRC. Both gains are mainly accounting in nature and do not have any immediate impact on the cash flows. As explained in the Interim Report for 2015, the loss incurred for the first six months in 2015 was also primarily due to the change in the fair value of the above outstanding subscription option, which was then recognised as an increase in financial liability.

BUSINESS OVERVIEW

For the period under review, the economy of China continued to stabilise. Its Gross Domestic Product decelerated from 6.9 percent in 2015 to 6.7 percent in the first half of 2016 but was within the target range set by the Central Government. Although faced with relatively weak exports and slowing investment, the domestic rebalancing of its economy is gradually under way and the concerns over a possible hard landing of its economy are being relieved. Benefited by the relaxation in the fiscal and other administrative policies controlling the property market in China since last year, the property market rapidly revived, particularly in the residential sector in the first and second tier cities.

Taking advantage of the favourable market conditions, the Cosmopolitan group began to launch the presale of the residential units in its two composite development projects in the Hedong District in Tianjin and the Xindu District in Chengdu, Sichuan Province in October 2015 and in April 2016, respectively. Up to date, the Tianjin development project has secured contracted sales of approximately RMB968 million (equivalent to approximately HK\$1,132 million) and for the Chengdu development project, approximately RMB166 million (equivalent to approximately HK\$194 million).

The two development projects in Chengdu and Tianjin were acquired by the Cosmopolitan group in 2013 and were then financed by the deferral of the payment of the considerations payable to the vendors, which are effectively P&R Holdings and a subsidiary of Regal, respectively. The consideration payables are due on 13th September, 2016, which was originally set by reference to the development and sale schedules for the two development projects formulated at the time of the acquisition. As the development progress of the two projects has lagged behind the original schedules, the payment of the consideration payables is required to be rescheduled, despite substantive progress having been achieved in their presale programmes.

On 4th August, 2016, the Cosmopolitan group announced that it had entered into a series of conditional agreements with the Regal group and the P&R Holdings group pursuant to which, among others, the Regal group agreed to grant to the Cosmopolitan group loan facilities (comprising term loan of HK\$1,350 million and revolving loan of HK\$500 million) for a term of 5 years, which will be used to settle all the outstanding consideration payables expected to be owing to the Regal group on completion of the agreements and will be secured by the Cosmopolitan group's entire equity interests in both the Chengdu and Tianjin development projects. Moreover, P&R Holdings group has also conditionally undertaken to subscribe for the optional convertible bonds due 2017 in an amount of no less than HK\$330 million on completion of the agreements (which will be used to settle the outstanding consideration payable owing to the P&R Holdings group) and to subscribe for the remaining optional convertible bonds due 2017 by the end of 2016, in conjunction with which the maturity dates for the existing issued convertible bonds and the optional convertible bonds due 2017 will be extended to 18th August, 2021.

The objective of effectively refinancing the consideration payables owing to the Regal group by way of the new 5-year loan facilities and extending the maturity of the convertible bonds to 2021 is to align their due dates with the latest presale progress and completion schedules of the Chengdu and Tianjin development projects.

The Cosmopolitan group and the Regal group may also consider in due course the possible acquisition by the Regal group of the hotel component comprised in the Chengdu project, as it is the intention of the Regal group to expand its hotel network in the PRC.

Completion of the above agreements is inter-conditional and will also be conditional upon, among others, the approval by the independent shareholders of Cosmopolitan and Regal, respectively.

OUTLOOK

REGAL GROUP

In view of the changing mix and spending pattern of visitors, the Hong Kong Government is staging various promotional initiatives to attract more high-spending overnight visitors to Hong Kong and to rebuild Hong Kong's reputation as a hospitality city internationally. In the long term, the Hong Kong Government has committed to upgrade Hong Kong's tourism infrastructure. Although the short term business environment will continue to be challenging, the directors of the REIT Manager believe that the future prospects for the hotel businesses in Hong Kong will remain favourable. The REIT Manager will continue to closely monitor any appropriate investment opportunities that may become available, with a view to further expanding and broadening the asset and income base of Regal REIT. Nevertheless, having regard to the volatile economic environment globally, any such acquisitions will be pursued with particular prudence.

Based on the Half-yearly Economic Report 2016 released by the Hong Kong Government, the latest visitor arrivals trend indicated that the drag from the slowdown of inbound tourism has been reducing. The Regal group expects that the business operations of its hotels in the second half of 2016, which includes the traditional high season of the year, should perform better than in the first six months.

In July 2016, the Regal group launched a new series of unsecured guaranteed 5-year US\$ denominated term notes under its Medium Term Note Programme, which was met with favourable response from institutional and private investors. The 5-year term notes bear coupon interest at 3.875% per annum and were issued at an issue price of 99.663% of the nominal amount, and the total nominal amount of the notes issued was upsized from US\$300 million to US\$350 million.

With its solid asset base and strong liquid resources, the Regal group will continue to expand its investments in different business sectors, with a view to sustaining further growth.

COSMOPOLITAN GROUP

The property market in the PRC witnessed some consolidation in the recent few months but overall long term prospects remain positive. The Cosmopolitan group will soon launch, in stages, the sale of the remaining residential tower, the commercial complex and the car parking spaces in the Tianjin project as well as the other six residential towers under construction in the Chengdu project. The Cosmopolitan group is hopeful that substantial income and cash flows will be generated when these two major development projects currently undertaken by the Cosmopolitan group are completed and sold.

PALIBURG GROUP

The property market in Hong Kong is expected to undergo some further consolidation in the short term. Having regard to the persistent low interest rate environment, the opulent liquidity of the capital market and the strong underlying demands for different types of properties in Hong Kong, particularly the residential sector, the outlook of the property in Hong Kong remains positive. The Hong Kong Government is committed to maintaining a steady supply of development lands, which will provide investment opportunities for real estate developers.

Chairman's Statement (Cont'd)

Apart from the residential project at Tan Kwai Tsuen Road in Yuen Long which was completed in the fourth quarter in 2015, most of the other development projects presently undertaken by the Group in Hong Kong are scheduled for completion within the next few years, including the commercial/residential project at Shun Ning Road in Sham Shui Po, the hotel development projects at Ha Heung Road in To Kwa Wan and at Anchor Street/Fuk Tsun Street in Tai Kok Tsui, the shopping mall development project at Po Tai Street in Ma On Shan and the upscale residential project in Kau To, Sha Tin. These projects are anticipated to generate substantial cash flows and profit contributions to the Group when they are completed and sold, while the shopping mall project in Ma On Shan is presently intended to be retained to boost the Group's recurrent income.

The Group will continue to actively participate in the Government land tenders, with a view to replenishing its land bank. The Directors are optimistic that the Group as a whole will continue to grow and will bring increasing returns to shareholders.

LO YUK SUI

Chairman

Hong Kong
23rd August, 2016

Management Discussion and Analysis

BUSINESS REVIEW

The Group's significant investments and principal business activities mainly comprise property development and investment, construction and building related businesses, hotel ownership, hotel operation and management, asset management, aircraft ownership and leasing business and other investments including financial assets investments.

The significant investments and business interests of Regal Hotels International Holdings Limited ("RHIHL"), a principal listed subsidiary of the Group, 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, aircraft ownership and leasing and other investment businesses. Cosmopolitan International Holdings Limited ("Cosmopolitan") is a listed subsidiary of the Group held through P&R Holdings. The principal business activities of the Cosmopolitan group comprise property development and investment, mainly focused in the People's Republic of China (the "PRC"), and financial assets and other investments.

The performance of the Group's property, construction and building related and other investment businesses, and the principal businesses of RHIHL, Regal REIT as well as those of Cosmopolitan during the period under review, the commentary on the hotel and property sectors in which the Group operates and the changes in general market conditions and the potential impact on their operating performance and future prospects are contained in the preceding Chairman's Statement and in this Management Discussion and Analysis.

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 section.

P&R HOLDINGS LIMITED

P&R Holdings is a 50:50 owned joint venture established with RHIHL, with capital contributions provided by the Company and RHIHL on a pro-rata basis in accordance with their respective shareholdings in P&R Holdings, and is a subsidiary of the Company. The business scope of P&R Holdings is the development of real estate projects for sale and/or leasing, the undertaking of related investment and financing activities, and the acquisition or making of any investments (directly or indirectly) in the financial assets of or interests in, or extending loans to, any private, public or listed corporations or undertakings that have interests in real estate projects or other financial activities where the underlying assets or security comprise real estate properties.

Further information relating to the property development projects being undertaken and properties owned by the P&R Holdings group is set out below:

Hong Kong

Apart from the Shun Ning Road development project in Sham Shui Po, Kowloon and the Anchor Street/Fuk Tsun Street development project in Tai Kok Tsui, Kowloon, both of which are being undertaken pursuant to the development contracts awarded by the Urban Renewal Authority of Hong Kong, all of the following ongoing development projects and properties are wholly owned by P&R Holdings group.

Management Discussion and Analysis (Cont'd)

Domus and Casa Regalia at Nos.65-89 Tan Kwai Tsuen Road, Yuen Long, New Territories

This residential project has a site area of approximately 11,192 square metres (120,470 square feet) and provides a total of 170 units, comprising 36 luxurious garden houses and a low-rise apartment block with 134 units, having aggregate gross floor area of approximately 11,192 square metres (120,470 square feet). The occupation permit for the project was issued in November 2015 and the certificate of compliance was obtained in April 2016.

As previously reported, all the 134 units in the apartment block, named Domus, were sold in June 2015. The sale programme for the garden houses, named Casa Regalia, which constitute the main component of the development, was first launched in May 2016 and up to date, 7 houses have been contracted to be sold. While the remaining houses are presently planned to be disposed of on a gradual basis, some of them may in the meantime be leased out for rental income.

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

The project has an aggregate site area of approximately 700 square metres (7,535 square feet) and is being developed into a hotel with 340 guestrooms, having total gross floor area of approximately 6,298 square metres (67,790 square feet) and covered floor area of approximately 9,490 square metres (102,160 square feet). The superstructure works have been completed and the occupation permit is expected to be issued in the fourth quarter of 2016.

Sha Tin Town Lot No.482 at Po Tai Street, Ma On Shan, Sha Tin, New Territories

This development site has a site area of 5,090 square metres (54,788 square feet) and a maximum permissible gross floor area of 15,270 square metres (164,364 square feet). The site is planned to be developed into a shopping mall. The foundation works have been completed and the superstructure works are in progress. The project is scheduled to be completed in 2017 and is intended to be retained for rental income.

Sha Tin Town Lot No.578, Area 56A, Kau To, Sha Tin, New Territories

The project has a site area of 17,476 square metres (188,100 square feet) and is planned for a luxurious residential development comprising 7 mid-rise apartment blocks with about 136 units, 24 detached garden houses and 198 carparking spaces, with aggregate gross floor area of approximately 32,474 square metres (349,547 square feet). The site formation works and foundation works are expected to be completed and the superstructure works contract scheduled to be awarded in the third quarter of 2016. The completion of this development is presently scheduled for 2018.

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

The project has an aggregate site area of approximately 345 square metres (3,710 square feet) and is planned for the development of a hotel with 98 guestrooms and suites, with total gross floor area of approximately 5,236 square metres (56,360 square feet) and covered floor area of approximately 6,420 square metres (69,120 square feet). The foundation works have been completed. Installation of pipe pile works for construction of pile cap is in progress.

The Ascent at No.83 Shun Ning Road, Sham Shui Po, Kowloon

This is a joint venture project awarded by the Urban Renewal Authority of Hong Kong through a tender process in March 2014. The land has a site area of 824.9 square metres (8,879 square feet) and is planned for a commercial/residential development with total gross floor area of 7,159 square metres (77,059 square feet), providing 157 residential units, 2 storeys of shops and 1 storey of basement carpark. The superstructure works are in progress. The development has been named The Ascent and is scheduled to be completed before the end of 2017. The presale of the residential units in this development was launched in July 2016 and, up to date, 154 residential units have been contracted to be sold.

Anchor Street/Fuk Tsun Street, Tai Kok Tsui, Kowloon

This is a hotel development project also awarded by the Urban Renewal Authority of Hong Kong through a tender process in June 2015. The project has a site area of 725.5 square metres (7,809 square feet) and total permissible gross floor area of approximately 6,529 square metres (70,278 square feet) and is planned to be developed into a multi-storey hotel building comprising about 288 guest rooms, with ancillary accommodation. The general building plans have been approved. The foundation works have been commenced and are scheduled to be completed by the end of this year. The development project is presently anticipated to be completed in 2018.

COSMOPOLITAN INTERNATIONAL HOLDINGS LIMITED

Cosmopolitan is a listed subsidiary of P&R Holdings. Further information relating to the property projects, all of which are wholly owned, and the 60% owned logistics business currently undertaken by the Cosmopolitan group in the PRC is set out below:

Property Development

Chengdu Project

Located in the Xindu District in Chengdu, Sichuan Province, the project is a mixed use development consisting of hotel, commercial, office, serviced apartments and residential components, with an overall total gross floor area of approximately 497,000 square metres. The first stage of the development includes a hotel with about 306 hotel rooms and extensive facilities and three residential towers with 339 residential units with car parking spaces and ancillary commercial accommodation. While the business remodeling works in response to the current local market environment continue, the hotel is scheduled to open in phases from 2017. The second stage of the development comprises six residential towers with 957 units, the construction works for which are in progress. The completion of the residential towers in both the first and second stages of the development is expected to be in 2017. The presale of two residential towers in the first stage and one residential tower in the second stage, consisting of a total of 362 units, commenced in April 2016, and there have been contracted sales of approximately RMB166 million. Presale of the remaining six residential towers with 934 units in both stages is scheduled to be launched in stages commencing from the fourth quarter of 2016. The other components within the development, comprising commercial, office, serviced apartments and residential units, will continue to be developed in stages.

Tianjin Project

Located in the Hedong District in Tianjin, this project entails a development site with total site area of about 31,700 square metres, which is planned for a mixed use development comprising commercial, office and residential components with total gross floor area of about 145,000 square metres. The superstructure works of the four residential towers are progressing and the superstructure works of the commercial complex and the two office towers have already commenced. The presale of three residential towers, comprising 376 units, commenced in October 2015. Up to date, approximately 98% of the available units have been sold, realising contracted sales of approximately RMB968 million. The remaining residential tower, comprising 136 units, the commercial complex, comprising mainly shops of about 19,000 square metres, and the car parking spaces are expected to be marketed for presale before the end of 2016. The entire development is anticipated to be completed in stages from 2017.

Management Discussion and Analysis (Cont'd)

Xinjiang Project

This is a re-forestation and land grant project for a land parcel with site area of about 7,600 mu in accordance with the relevant laws and policies in Urumqi, Xinjiang Uygur Autonomous Region. The Cosmopolitan group has re-forested an aggregate area of about 4,300 mu within the project site and in accordance with the relevant government policies of Urumqi, a parcel of land with an area of about 1,843 mu (equivalent to approximately 1,228,700 square metres) within the project site will be available for real estate development after the requisite inspection, land grant listing and tender procedures are completed.

The Cosmopolitan group has already taken necessary steps to reorganise the local management team, with a view to restoring normal business operations for the project and carrying out the remedial re-forestation works for inspection by the relevant government authorities. The Cosmopolitan group will also initiate measures to settle the land disputes with the surrounding villagers, with an aim to resume the possession of certain parcels of land within the project site being illegally occupied. Based on the legal advice obtained, the legitimate interests of the Cosmopolitan group in this re-forestation and land grant contract remain valid and effective. The Cosmopolitan group is planning to have the required remedial re-forestation works carried out as soon as practicable, such that the inspection and measurement of the reforested area by the relevant government authorities can be resumed and the final procedures leading to the land grant listing and tender of the development land may be concluded.

Logistics Business

Shanghai Logistics Project

With the aim of diversifying and broadening its business portfolio through the expansion and development of the logistics business and capitalising on the increasing demands for logistics services market by e-commerce merchants in Mainland China, the Cosmopolitan group entered into certain agreements to acquire an effective 60% interest in a group of companies (the "Logistics Group") operating logistics and related businesses in the PRC, details of which were disclosed in the announcements of Cosmopolitan dated 13th January, 2016, 11th March, 2016, 12th April, 2016 and 29th April, 2016. The Cosmopolitan group completed the acquisition on 31st May, 2016 and the acquired Logistics Group companies have since become subsidiaries of the Cosmopolitan group. The Cosmopolitan group recognised a gain on bargain purchase of HK\$30.3 million upon the business combination during the period, which is based on a provisional amount and subject to the finalisation of the fair value estimation of the considerations transferred and identifiable net assets acquired within 12 months from the date of acquisition.

One of the companies within the Logistics Group is a licensed courier services provider in the PRC. It has leased an industrial premises with an aggregate lettable area of about 40,000 square metres in Pudong, Shanghai, the PRC (the "Leased Property") from an affiliated company of the ultimate shareholder holding the remaining 40% interest in the Logistics Group to operate the logistics and related businesses. The ultimate 40% shareholder of the Logistics Group has also through his wholly owned subsidiary entered into a consultancy agreement with the Logistics Group to procure the development and expansion of the logistics businesses with an additional business operating area of 120,000 square metres. The shareholders of the company owning the Leased Property (being the ultimate 40% shareholder of the Logistics Group and his family member) have granted a purchase option to the Logistics Group to acquire the aforesaid property owning company owning the Leased Property and its wholly owned subsidiary which has a contractual right to acquire the land parcel adjacent to the Leased Property. Further details of the above-mentioned acquisition, consultancy agreement, purchase option and other related transactions were disclosed in the related announcements.

Since the completion of the acquisition, the Logistics Group has performed profitably and steadily. The rental occupancy of the Leased Property is about 82% which is based on the occupancy rate of the available area of about 37,000 square metres for sub-letting, with about 77% being rented to e-commerce merchants (who are exclusively using courier services provided by the Logistics Group) and the remaining areas being rented to other tenants with fixed-rate rentals. In light of the positive outlook of the e-commerce market in China and taking into account the planned expansion of the logistics business, it is expected that the Logistics Group would generate satisfactory income to the Cosmopolitan group.

HANG FOK PROPERTIES LIMITED

Hang Fok Properties Limited ("Hang Fok") is an entity that is 50% beneficially owned by each of the Group and the RHIHL group and is effectively a subsidiary of the Group. Hang Fok holds equity interests in a joint venture project company involved in a development project in the Central Business District in Beijing, the PRC. As previously reported, Hang Fok was engaged in a series of legal actions in the PRC with the other joint venture parties in the Beijing project, some of which were initiated by Hang Fok to protect its equity interests in the Beijing project. Appropriate provisions had been made by Hang Fok in the prior years and the interest held by the Group in the project was carried in the consolidated financial statements at an insignificant amount as at 31st December, 2013. In the process of the legal actions taken, the other joint venture parties had funded the joint venture project company and procured the latter to deposit an amount of approximately RMB195 million into the court in the PRC in August 2014, as repayment proceeds of certain of the shareholder's loans, plus accrued interest thereon, made by Hang Fok to the joint venture project company. Accordingly, Hang Fok had written back loans receivable and recognised related interest income of approximately HK\$159.0 million and HK\$84.2 million respectively, which were reflected in the results of the Group in the financial year ended 31st December, 2014. The aforesaid sum of RMB195 million (net of incidental expenses) had been received by Hang Fok in February 2016 through payment from the PRC court. Hang Fok is pursuing further claims against the joint venture project company for underpaid interest due. The Group will continue to exercise strenuous efforts with a view to salvaging the value of the Group's interest in this development project.

CONSTRUCTION AND BUILDING RELATED BUSINESSES

The Group's wholly owned construction arm, Chatwin Engineering Limited ("Chatwin"), was the main contractor for the construction of P&R Holdings' hotel developments at Bonham Strand, Sheung Wan (now operating as the iclub Sheung Wan Hotel) and at Merlin Street, Fortress Hill (now operating as the iclub Fortress Hill Hotel), which were completed in January and May 2014, respectively, as well as the residential project at Tan Kwai Tsuen Road, Yuen Long which was completed in November 2015. Chatwin is presently undertaking the main contract works for P&R Holdings' hotel development project at Ha Heung Road, To Kwa Wan, which was also awarded to Chatwin through competitive tender process. Due to the increasing number of projects undertaken by the Group as whole, the Group's development consultancy division, which provides professional services on architectural, engineering and interior design aspects, is likewise principally supporting the needs of the Group's member companies.

OTHER INVESTMENTS

The Group holds a significant portfolio of investments comprising listed securities and other investments, including investment funds, bonds as well as treasury and yield enhancement products.

FINANCIAL REVIEW

ASSETS VALUE

As at 30th June, 2016, the Group's net assets attributable to equity holders of the parent amounted to HK\$12,948.6 million, representing HK\$11.62 per ordinary share.

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 treasury and yield enhancement products are deployed when circumstances are considered to be appropriate.

Property development projects in Hong Kong are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date. Property development projects in the PRC are presently financed by internal resources and proceeds from the presale of the units. Project financing may be arranged in local currency on appropriate terms to cover a part of the land cost and/or construction cost, and with the loan maturity tied in to the estimated project completion date.

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 are denominated in US dollar and Hong Kong dollar with fixed coupon interest rates. 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 Hong Kong dollar is pegged to the US dollar, the exchange risks are considered to be insignificant and no currency hedging has been deployed. As regards the Group's overseas investments which are based in currencies other than US dollar and Hong Kong dollar, the Group will consider hedging part or all of the investment amounts into US dollar or Hong Kong dollar to contain the Group's exposure to currency fluctuation.

Cash Flows

Net cash flows generated from operating activities during the period under review amounted to HK\$1,123.0 million (2015 – HK\$1.5 million). Net interest payment for the period amounted to HK\$69.6 million (2015 – HK\$134.7 million).

Borrowings and Gearing

As at 30th June, 2016, the Group had cash and bank balances and deposits of HK\$3,123.7 million (31st December, 2015 – HK\$2,500.3 million) and the Group's borrowings, net of cash and bank balances and deposits, amounted to HK\$10,791.0 million (31st December, 2015 – HK\$11,237.7 million).

As at 30th June, 2016, the gearing ratio of the Group was 28.5% (31st December, 2015 – 30.1%), representing the Group's borrowings net of cash and bank balances and deposits of HK\$10,791.0 million (31st December, 2015 – HK\$11,237.7 million), as compared to the total assets of the Group of HK\$37,907.9 million (31st December, 2015 – HK\$37,293.7 million).

Details of the maturity profile of the borrowings of the Group as of 30th June, 2016 are shown in notes 11 and 12 to the condensed consolidated financial statements.

Pledge of Assets

As at 30th June, 2016, certain of the Group's property, plant and equipment, investment properties, properties held for sale, properties under development, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, bank deposits and bank balances in the total amount of HK\$19,028.6 million (31st December, 2015 – HK\$18,745.8 million) were pledged to secure general banking facilities granted to the Group and, in addition, certain of the Group's bank deposits, bank balances, financial assets at fair value through profit or loss and held-to-maturity investments in the amount of HK\$324.3 million (31st December, 2015 – HK\$462.1 million) were pledged to secure bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT. In addition, as at 30th June, 2016, certain ordinary shares in a listed subsidiary with a market value of HK\$333.1 million (31st December, 2015 – HK\$406.5 million) were also pledged to secure general banking facilities granted to the Group.

The above details of the pledge of assets of the Group are also shown in note 16 to the condensed consolidated financial statements.

Capital Commitments

Details of the capital commitments of the Group as at 30th June, 2016 are shown in note 19 to the condensed consolidated financial statements.

Contingent Liabilities

Details of the contingent liabilities of the Group as at 30th June, 2016 are shown in note 17 to the condensed consolidated financial statements.

Share Capital

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

DIVIDEND

The Directors have declared the payment of an interim dividend of HK2.3 cents (2015 – HK2.3 cents) per ordinary share for the financial year ending 31st December, 2016, absorbing an amount of approximately HK\$25.6 million (2015 – HK\$25.6 million) and will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 12th October, 2016.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Friday, 7th October, 2016 to Wednesday, 12th October, 2016, both days inclusive, during which period no transfers of ordinary shares will be effected. In order to qualify for the interim dividend declared, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Tricor Tengis Limited, no later than 4:30 p.m. on Thursday, 6th October, 2016. The relevant dividend warrants are expected to be despatched on or about 24th October, 2016.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES OR ASSOCIATES

On 31st May, 2016, the Cosmopolitan group completed the acquisition of 60% effective interest in the Logistics Group operating logistics and related businesses in the PRC pursuant to the relevant framework agreement dated 13th January, 2016 (as supplemented by the supplemental framework agreement dated 12th April, 2016). Further details relating to the investment of the Logistics Group are mentioned under the sub-section headed "Business Review" in this section and note 13 to the condensed consolidated financial statements.

Save as disclosed above, during the period under review, there were no other material acquisitions or disposals of subsidiaries or associates of the Company.

STAFF AND REMUNERATION POLICY

The Group employs approximately 2,280 staff in Hong Kong and the PRC. 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 for staff in Hong Kong, and the social security fund and the housing provident fund for staff in the PRC.

Condensed Consolidated Statement of Profit or Loss

		Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	Notes	HK\$'million	HK\$'million
REVENUE	2, 3	1,502.0	1,265.8
Cost of sales		(964.2)	(754.3)
Gross profit		537.8	511.5
Other income and gains, net	3	13.5	39.0
Fair value gains on investment properties, net		80.3	42.9
Fair value gains/(losses) on financial assets at fair value through profit or loss, net		(27.0)	68.7
Gain on bargain purchase		30.3	–
Impairment loss on properties held for sale		(7.9)	–
Property selling and marketing expenses		(30.8)	(6.2)
Administrative expenses		(169.7)	(152.8)
OPERATING PROFIT BEFORE DEPRECIATION		426.5	503.1
Depreciation		(302.0)	(282.0)
OPERATING PROFIT	2, 4	124.5	221.1
Finance costs	5	(120.5)	(116.6)
Share of profits and losses of associates		(2.9)	(13.2)
PROFIT BEFORE TAX		1.1	91.3
Income tax	6	20.1	(5.7)
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS		21.2	85.6
Attributable to:			
Equity holders of the parent		17.2	54.9
Non-controlling interests		4.0	30.7
		21.2	85.6
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted		HK1.55 cents	HK4.93 cents

Condensed Consolidated Statement of Comprehensive Income

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
PROFIT FOR THE PERIOD BEFORE ALLOCATION BETWEEN EQUITY HOLDERS OF THE PARENT AND NON-CONTROLLING INTERESTS	21.2	85.6
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	(1.8)	5.9
Cash flow hedges:		
Changes in fair value of cash flow hedges	–	(0.3)
Transfer from hedge reserve to the statement of profit or loss	–	1.2
	–	0.9
Exchange differences on translating foreign operations	(23.9)	(5.5)
Other comprehensive income/(loss) for the period	(25.7)	1.3
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	<u>(4.5)</u>	<u>86.9</u>
Attributable to:		
Equity holders of the parent	(1.0)	55.8
Non-controlling interests	(3.5)	31.1
	<u>(4.5)</u>	<u>86.9</u>

Condensed Consolidated Statement of Financial Position

		30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	Notes	HK\$'million	HK\$'million
NON-CURRENT ASSETS			
Property, plant and equipment		19,768.1	19,993.3
Investment properties		2,243.3	2,101.3
Properties under development		1,296.3	1,297.3
Investments in associates		29.2	20.8
Available-for-sale investments		252.4	173.9
Financial assets at fair value through profit or loss		50.7	1.9
Contingent consideration receivable		11.2	–
Loans receivable		9.2	9.4
Deposits and prepayments		78.7	78.4
Deferred tax assets		93.3	79.1
Goodwill		261.0	261.0
Trademark		610.2	610.2
Other intangible assets		119.6	–
Total non-current assets		24,823.2	24,626.6
CURRENT ASSETS			
Properties under development		6,895.1	6,363.9
Properties held for sale		1,274.6	1,740.2
Inventories		70.4	52.7
Debtors, deposits and prepayments	9	841.0	974.6
Loans receivable		0.4	0.4
Held-to-maturity investments		419.9	201.2
Financial assets at fair value through profit or loss		457.5	826.0
Derivative financial instruments		–	4.7
Tax recoverable		2.1	3.1
Restricted cash		215.6	177.8
Pledged time deposits and bank balances		235.9	346.3
Time deposits		1,203.8	455.7
Cash and bank balances		1,468.4	1,520.5
Total current assets		13,084.7	12,667.1

Condensed Consolidated Statement of Financial Position (Cont'd)

		30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	Notes	HK\$'million	HK\$'million
CURRENT LIABILITIES			
Creditors and accruals	10	(847.8)	(860.8)
Deposits received		(1,062.6)	(343.1)
Interest bearing bank borrowings	11	(1,186.5)	(1,271.7)
Derivative financial instruments		–	(2.8)
Tax payable		(141.5)	(119.6)
Total current liabilities		<u>(3,238.4)</u>	<u>(2,598.0)</u>
NET CURRENT ASSETS		<u>9,846.3</u>	<u>10,069.1</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>34,669.5</u>	<u>34,695.7</u>
NON-CURRENT LIABILITIES			
Creditors and deposits received		(118.9)	(147.0)
Interest bearing bank borrowings	11	(8,473.1)	(8,247.6)
Other borrowings	12	(4,227.5)	(4,218.7)
Convertible bonds		(27.6)	–
Deferred tax liabilities		(2,222.6)	(2,231.2)
Total non-current liabilities		<u>(15,069.7)</u>	<u>(14,844.5)</u>
Net assets		<u>19,599.8</u>	<u>19,851.2</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		111.4	111.4
Reserves		12,837.2	12,918.6
		<u>12,948.6</u>	<u>13,030.0</u>
Non-controlling interests		<u>6,651.2</u>	<u>6,821.2</u>
Total equity		<u>19,599.8</u>	<u>19,851.2</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2016

		Attributable to equity holders of the parent											
		Issued capital (Unaudited)	Share premium account (Unaudited)	Capital redemption reserve (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Available-for-sale investment revaluation reserve (Unaudited)	Equity component of convertible bonds of a listed subsidiary (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Total (Unaudited)	Non-controlling interests (Unaudited)	Total equity (Unaudited)
Note	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1st January, 2016	111.4	1,356.1	4.3	1,910.6	689.6	51.4	-	(77.5)	8,984.1	13,030.0	6,821.2	19,851.2	
Profit for the period	-	-	-	-	-	-	-	-	17.2	17.2	4.0	21.2	
Other comprehensive loss for the period:													
Changes in fair value of available-for-sale investments	-	-	-	-	-	(1.1)	-	-	-	(1.1)	(0.7)	(1.8)	
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	(17.1)	-	(17.1)	(6.8)	(23.9)	
Total comprehensive income/(loss) for the period	-	-	-	-	-	(1.1)	-	(17.1)	17.2	(1.0)	(3.5)	(4.5)	
Acquisition of non-controlling interests in listed subsidiaries	-	-	-	(27.6)	-	-	-	-	-	(27.6)	(134.0)	(161.6)	
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	50.9	50.9	
Issue of convertible bonds by a listed subsidiary	-	-	-	-	-	-	21.9	-	-	21.9	10.3	32.2	
Final 2015 dividend declared	-	-	-	-	-	-	-	-	(74.7)	(74.7)	(93.7)	(168.4)	
At 30th June, 2016	111.4	1,356.1	4.3	1,883.0	689.6	50.3	21.9	(94.6)	8,926.6	12,948.6	6,651.2	19,599.8	

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

For the six months ended 30th June, 2015

	Attributable to equity holders of the parent											
	Issued capital (Unaudited) HK\$'m	Share premium account (Unaudited) HK\$'m	Capital redemption reserve (Unaudited) HK\$'m	Capital reserve (Unaudited) HK\$'m	Special reserve (Unaudited) HK\$'m	Available-for-sale investment revaluation reserve (Unaudited) HK\$'m	Hedge reserve (Unaudited) HK\$'m	Exchange equalisation reserve (Unaudited) HK\$'m	Retained profits (Unaudited) HK\$'m	Total (Unaudited) HK\$'m	Non-controlling interests (Unaudited) HK\$'m	Total equity (Unaudited) HK\$'m
At 1st January, 2015	111.4	1,356.1	4.3	1,751.5	689.6	22.1	(0.6)	36.2	9,091.9	13,062.5	7,380.6	20,443.1
Profit for the period	-	-	-	-	-	-	-	-	54.9	54.9	30.7	85.6
Other comprehensive income/(loss) for the period:												
Changes in fair value of available-for-sale investments	-	-	-	-	-	3.9	-	-	-	3.9	2.0	5.9
Cash flow hedges	-	-	-	-	-	-	0.6	-	-	0.6	0.3	0.9
Exchange differences on translating foreign operations	-	-	-	-	-	-	-	(3.6)	-	(3.6)	(1.9)	(5.5)
Total comprehensive income/(loss) for the period	-	-	-	-	-	3.9	0.6	(3.6)	54.9	55.8	31.1	86.9
Acquisition of non-controlling interests in listed subsidiaries	-	-	-	92.1	-	-	-	-	-	92.1	(181.8)	(89.7)
Final 2014 dividend declared	-	-	-	-	-	-	-	-	(103.7)	(103.7)	(110.8)	(214.5)
At 30th June, 2015	111.4	1,356.1	4.3	1,843.6	689.6	26.0	-	32.6	9,043.1	13,106.7	7,119.1	20,225.8

Condensed Consolidated Statement of Cash Flows

	Note	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
		HK\$'million	HK\$'million
Net cash flows from operating activities		<u>1,123.0</u>	<u>1.5</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of subsidiaries	13	0.7	–
Purchases of available-for-sale investments		(80.3)	(4.3)
Purchases of held-to-maturity investments		(276.7)	(537.7)
Proceeds from redemption of held-to-maturity investments		278.0	571.2
Decrease in loans receivable		0.2	6.7
Additions to investment properties		(74.5)	(93.0)
Purchases of items of property, plant and equipment		(78.4)	(229.5)
Deposits paid for purchases of items of property, plant and equipment		(1.6)	(3.4)
Proceeds from disposal of items of property, plant and equipment		0.8	64.0
Recovery of deposit paid for acquisition of a subsidiary		14.4	–
Advances to associates		(11.4)	(8.5)
Interest received		98.5	27.3
Dividend received from unlisted investment		0.3	–
Decrease in pledged time deposits and bank balances		110.4	141.6
Decrease/(Increase) in restricted cash		(8.5)	6.6
Net cash flows used in investing activities		<u>(28.1)</u>	<u>(59.0)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawdown of new bank loans		530.0	914.8
Repayment of bank loans		(402.5)	(1,088.9)
Interest paid		(175.7)	(172.0)
Payment of loan and other costs		(11.4)	(18.6)
Dividends paid		(74.5)	(103.5)
Dividends paid to non-controlling shareholders		(93.3)	(110.1)
Acquisition of non-controlling interests in listed subsidiaries		(161.6)	(89.7)
Decrease in restricted cash		–	2.4
Net cash flows used in financing activities		<u>(389.0)</u>	<u>(665.6)</u>

Condensed Consolidated Statement of Cash Flows (Cont'd)

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	705.9	(723.1)
Cash and cash equivalents at beginning of period	1,976.2	2,951.5
Effect of foreign exchange rate changes, net	(9.9)	(3.4)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>2,672.2</u>	<u>2,225.0</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,468.4	1,673.7
Non-pledged time deposits with original maturity of less than three months when acquired	<u>1,203.8</u>	<u>551.3</u>
	<u>2,672.2</u>	<u>2,225.0</u>

Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31st December, 2015, except for the adoption of the following revised Hong Kong Financial Reporting Standards (“HKFRSs”), which are effective for the Group’s annual periods beginning on or after 1st January, 2016.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of these revised HKFRSs has had no significant financial effect on the Group’s results of operation and financial position.

2. Operating Segment Information

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

- (a) the property development and investment segment comprises the development and sale of properties, the leasing of properties and the provision of estate agency services;
- (b) the construction and building related businesses segment engages in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and products and other software development and distribution;
- (c) the hotel 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 Real Estate Investment Trust (“Regal REIT”);
- (d) the asset management segment engages in the provision of asset management services to Regal REIT;
- (e) the financial assets investments segment engages in trading of financial assets at fair value through profit or loss and other financial assets investments;
- (f) the aircraft ownership and leasing segment engages in the aircraft ownership and leasing for rental income; and
- (g) the others segment mainly comprises the provision of financing services, travel agency services, sale of food products, logistics and related services and development and distribution of multimedia entertainment and digital educational content and multi-platform social games.

Notes to Condensed Consolidated Financial Statements (Cont'd)

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.

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.

Notes to Condensed Consolidated Financial Statements (Cont'd)

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

	Property development and investment		Construction and building related businesses		Hotel operation and management and hotel ownership		Asset management		Financial assets investments		Aircraft ownership and leasing		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2015		Six months ended 30th June, 2016		Six months ended 30th June, 2015		Six months ended 30th June, 2016		Six months ended 30th June, 2015		Six months ended 30th June, 2016		Six months ended 30th June, 2015		Six months ended 30th June, 2016		Six months ended 30th June, 2015	
	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)	HK\$m	(Unaudited)
Segment revenue:																		
Sales to external customers	320.7	126.9	7.3	6.4	995.9	1,039.9	-	-	113.7	31.8	50.7	46.6	13.7	14.2	-	-	1,502.0	1,265.8
Intersegment sales	3.5	3.9	110.5	177.4	-	-	47.3	50.6	-	-	-	-	3.3	0.7	(164.6)	(232.6)	-	-
Total	324.2	130.8	117.8	183.8	995.9	1,039.9	47.3	50.6	113.7	31.8	50.7	46.6	17.0	14.9	(164.6)	(232.6)	1,502.0	1,265.8
Segment results before depreciation	(19.3)	8.2	(0.5)	0.2	347.5	381.1	(5.5)	(5.4)	90.8	105.8	44.2	56.0	26.9	(2.9)	-	-	484.1	543.0
Depreciation	(12.0)	(7.1)	(0.2)	(0.2)	(239.9)	(252.2)	(0.2)	(0.2)	-	-	(27.9)	(20.2)	(1.1)	(0.5)	-	-	(301.3)	(281.4)
Segment results	(31.3)	1.1	(0.7)	-	87.6	127.9	(5.7)	(5.6)	90.8	105.8	16.3	35.8	25.8	(3.4)	-	-	182.8	261.6
Unallocated interest income and unallocated non-operating and corporate gains																	12.8	17.2
Unallocated non-operating and corporate expenses																	(71.1)	(57.7)
Operating profit																	124.5	221.1
Finance costs																	(120.5)	(116.6)
Share of profits and losses of associates					1.8	-	-	-	-	-	-	-	(4.7)	(13.2)	-	-	(2.9)	(13.2)
Profit before tax																	1.1	91.3
Income tax																	20.1	(5.7)
Profit for the period before allocation between equity holders of the parent and non-controlling interests																	21.2	85.6
Attributable to:																		
Equity holders of the parent																	17.2	54.9
Non-controlling interests																	4.0	30.7
																	21.2	85.6

Notes to Condensed Consolidated Financial Statements (Cont'd)

3. Revenue, Other Income and Gains, Net

Revenue, other income and gains, net are analysed as follows:

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
<u>Revenue</u>		
Rental income:		
Hotel properties	22.6	23.8
Investment properties	6.9	8.9
Properties held for sale	1.3	1.4
Aircraft	50.7	46.6
Construction and construction-related income	5.0	3.9
Proceeds from sale of properties	316.0	120.0
Estate management fees	2.3	2.5
Net gain from sale of financial assets at fair value through profit or loss	103.1	18.0
Net gain on settlement of derivative financial instruments	–	1.7
Interest income from financial assets at fair value through profit or loss	7.7	9.9
Dividend income from listed investments	2.9	2.2
Hotel operations and management services	969.8	1,012.7
Logistics and related services income	3.7	–
Other operations	10.0	14.2
	<u>1,502.0</u>	<u>1,265.8</u>
<u>Other income and gains, net</u>		
Bank interest income	12.0	16.4
Other interest income	6.5	6.7
Dividend income from unlisted investment	0.3	–
Loss on disposal of an investment property	(23.7)	–
Fair value gain upon reclassification of a property, plant and equipment to an investment property	3.7	–
Gain on disposal of items of property, plant and equipment, net	–	14.7
Others	14.7	1.2
	<u>13.5</u>	<u>39.0</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)

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

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
Profit from sale of financial assets at fair value through profit or loss	103.1	18.0
Profit on settlement of derivative financial instruments	–	1.7
Loss on disposal of properties	<u>(51.4)</u>	<u>(6.8)</u>

5. Finance Costs

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans	88.3	79.4
Interest on other borrowings	91.1	90.7
Amortisation of debt establishment costs	<u>20.0</u>	<u>18.6</u>
Total interest expenses on financial liabilities not at fair value through profit or loss	199.4	188.7
Fair value changes on derivative financial instruments – cash flow hedge (transfer from hedge reserve)	–	1.0
Other loan costs	<u>6.8</u>	<u>7.4</u>
	206.2	197.1
Less: Finance costs capitalised	<u>(85.7)</u>	<u>(80.5)</u>
	<u>120.5</u>	<u>116.6</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)

6. Income Tax

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
Current – Hong Kong		
Charge for the period	44.8	41.1
Current – Overseas		
Charge for the period	0.5	0.4
Overprovision in prior years	(0.3)	(1.7)
Deferred	(65.1)	(34.1)
Total tax charge/(credit) for the period	(20.1)	5.7

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2015 - 16.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

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

No provision for tax was required for the associates as no assessable profits were earned by the associates during the period (2015 - Nil).

7. Dividend

The Directors have declared the payment of an interim dividend of HK2.3 cents (2015 - HK2.3 cents) per ordinary share for the financial year ending 31st December, 2016, absorbing a total amount of approximately HK\$25.6 million (2015 - HK\$25.6 million).

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

(a) Basic earnings per ordinary share

The calculation of the basic earnings per ordinary share is based on the profit for the period attributable to equity holders of the parent of HK\$17.2 million (2015 - HK\$54.9 million) and on the weighted average of 1,114.6 million (2015 - 1,114.6 million) ordinary shares of the Company in issue during the period.

(b) Diluted earnings per ordinary share

No adjustment has been made to the basic earnings per ordinary share amount presented for the periods ended 30th June, 2016 and 2015 as the Company had no potentially dilutive ordinary shares in issue and therefore no diluting events existed throughout the periods.

9. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$396.7 million (31st December, 2015 - HK\$165.0 million) representing the trade debtors of the Group. The aged analysis of these debtors as at the end of the reporting period, based on the invoice date, is as follows:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	382.1	142.3
Between 4 to 6 months	2.8	8.8
Between 7 to 12 months	2.7	5.3
Over 1 year	10.8	10.9
	<u>398.4</u>	<u>167.3</u>
Impairment	(1.7)	(2.3)
	<u>396.7</u>	<u>165.0</u>

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 these balances.

Included in the balance are amounts due from a fellow subsidiary and a related company of HK\$1.1 million (31st December, 2015 - HK\$1.0 million) and HK\$1.2 million (31st December, 2015 - HK\$1.2 million), respectively, which are unsecured, non-interest bearing and repayable on demand.

Notes to Condensed Consolidated Financial Statements (Cont'd)

10. Creditors and Accruals

Included in the balance is an amount of HK\$92.8 million (31st December, 2015 - HK\$97.9 million) representing the trade creditors of the Group. The aged analysis of these creditors as at the end of the reporting period, based on the invoice date, is as follows:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	91.5	97.7
Between 4 to 6 months	0.7	0.1
Over 1 year	0.6	0.1
	<u>92.8</u>	<u>97.9</u>

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

Included in the balance are amounts due to an associate and fellow subsidiaries of HK\$1.2 million (31st December, 2015 - HK\$1.4 million) and HK\$3.7 million (31st December, 2015 - HK\$6.4 million), respectively, which are unsecured, non-interest bearing and have no fixed terms of repayment.

Notes to Condensed Consolidated Financial Statements (Cont'd)

11. Interest Bearing Bank Borrowings

	30th June, 2016 (Unaudited)		31st December, 2015 (Audited)	
	Maturity	HK\$'million	Maturity	HK\$'million
Current				
Bank loans – secured	2016-2017	1,186.5	2016	1,271.7
Non-current				
Bank loans – secured	2017-2019	8,473.1	2017-2019	8,247.6
		<u>9,659.6</u>		<u>9,519.3</u>

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Analysed into:		
Bank loans repayable:		
Within one year	1,186.5	1,271.7
In the second year	2,277.9	1,635.7
In the third to fifth years, inclusive	6,195.2	6,611.9
	<u>9,659.6</u>	<u>9,519.3</u>

The agreement for a term loan facility of HK\$4,500.0 million and a revolving loan facility of up to HK\$300.0 million (the "2013 IH Facilities") was entered into on 23rd July, 2013 by Regal REIT group, through its wholly owned subsidiaries, namely, Bauhinia Hotels Limited and Rich Day Investments Limited as the borrowers, for a term of five years to July 2018, and is secured by three of the five Initial Regal Hotels, namely, Regal Airport Hotel, Regal Hongkong Hotel and Regal Riverside Hotel. After the voluntary cancellation of the revolving loan facility by Regal REIT group, the outstanding amount on the 2013 IH Facilities was HK\$4,500.0 million as at 30th June, 2016, comprising the full amount of the term loan facility.

On 22nd December, 2014, a term loan facility agreement for a principal amount of HK\$440.0 million (the "2014 WC Facility") was entered into, for a term of five years to December 2019, by Sonnix Limited, a wholly owned subsidiary of Regal REIT group. The 2014 WC Facility, secured by the iclub Wan Chai Hotel, was fully drawn down with the proceeds having been applied mainly for the repayment of the previous term loan facility which was entered into in 2012. As at 30th June, 2016, the outstanding amount on the 2014 WC Facility was HK\$440.0 million.

On 10th February, 2014, Regal REIT group, through its wholly owned subsidiary, Tristan Limited, arranged a bilateral loan facility of up to HK\$790.0 million, comprised of a term loan facility of HK\$632.0 million and a revolving loan facility of up to HK\$158.0 million (the "2014 SW Facilities"), secured by the iclub Sheung Wan Hotel. The 2014 SW Facilities have a term of five years to February 2019. As at 30th June, 2016, the term loan amount of HK\$632.0 million was utilised and outstanding while the revolving loan facility of HK\$158.0 million remained undrawn.

Notes to Condensed Consolidated Financial Statements (Cont'd)

On 28th July, 2014, Regal REIT group, through its wholly owned subsidiary, Wise Decade Investments Limited, arranged another bilateral loan facility of up to HK\$825.0 million, comprised of a term loan facility of HK\$660.0 million and a revolving loan facility of up to HK\$165.0 million (the "2014 FH Facilities"), secured by the iclub Fortress Hill Hotel. The 2014 FH Facilities have a term of five years to July 2019. As at 30th June, 2016, the utilised 2014 FH Facilities amounted to HK\$660.0 million under the term loan facility and HK\$90.0 million under the revolving loan facility.

As at 30th June, 2016, the outstanding loan facilities of Regal REIT group bear interest at the Hong Kong Interbank Offered Rates ("HIBOR") plus an interest margin ranging from 1.4% per annum to 1.62% per annum (31st December, 2015 – ranging from 1.4% per annum to 1.62% per annum).

The Regal REIT group's interest bearing bank borrowings are also secured by, amongst 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, relating to the relevant properties;
- (iii) charges over each relevant rental account, sale proceeds account and other control accounts of the Regal REIT group, if any;
- (iv) a floating charge over all of the undertakings, properties, assets and rights of each of the relevant companies of the Regal REIT group; and
- (v) an equitable charge over the shares in the relevant companies of the Regal REIT group.

At 30th June, 2016, the Group's other bank borrowings bear interest at HIBOR plus 1.4% to 1.75% per annum (31st December, 2015 - HIBOR plus 1.5% to 1.75% per annum) except for a bank loan of HK\$18.9 million (31st December, 2015 - HK\$18.5 million), which bears interest at the bank's cost of fund plus 0.75% per annum (31st December, 2015 - the bank's cost of fund plus 0.75% per annum). The Group's other bank borrowings are secured by a pledge over certain assets of the Group as further detailed in note 16 to the condensed consolidated financial statements.

All interest bearing bank borrowings are denominated in Hong Kong dollars except for a bank loan of HK\$18.9 million (31st December, 2015 – HK\$18.5 million) which is denominated in Euro.

12. Other Borrowings

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Unsecured other borrowings repayable:		
In the second year	4,227.5	2,289.4
In the third to fifth years, inclusive	—	1,929.3
	<u>4,227.5</u>	<u>4,218.7</u>

On 5th October, 2012, RH International Finance Limited (the "MTN Issuer"), a wholly owned subsidiary of Regal Hotels International Holdings Limited ("RHIHL"), a listed subsidiary of the Company, established a US\$1,000 million medium term note programme guaranteed by RHIHL (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.

On 11th January, 2013, R-REIT International Finance Limited (the "Regal REIT MTN Issuer"), a wholly owned subsidiary of Regal REIT, established a US\$1,000 million medium term note programme (the "Regal REIT MTN Programme").

On 22nd March, 2013, the Regal REIT MTN Issuer issued under the Regal REIT MTN Programme a series of Hong Kong dollar denominated senior unsecured 5-year term notes in the aggregate nominal principal amount of HK\$775.0 million at a coupon interest rate of 4.125% per annum. The notes were issued at a discount at 99.44% of the principal amount.

On 22nd May, 2013, the Regal REIT MTN Issuer issued under the Regal REIT MTN Programme a series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$150.0 million at a coupon interest rate of 4.10% per annum. The notes were issued at a discount at 99.553% of the principal amount.

13. Acquisition of Subsidiaries

Business combination - Acquisition of the SH Logistics Group

On 31st May, 2016, Cosmopolitan International Holdings Limited and its subsidiaries (the "Cosmopolitan Group") acquired from independent third parties 60% effective equity interest in 上海禾允投資諮詢有限公司 and its wholly owned subsidiary (the "SH Logistics Group"). The SH Logistics Group is principally engaged in the provision of logistics and related services in Shanghai, the PRC.

The Cosmopolitan Group has elected to measure the non-controlling interest in the SH Logistics Group at the non-controlling interest's proportionate share of the SH Logistics Group's identifiable net assets.

The aggregate fair values of the identifiable assets and liabilities of the SH Logistics Group as at the date of acquisition were as follows:

	Fair value recognised on acquisition HK\$ million
Property, plant and equipment	3.2
Financial assets at fair value through profit or loss	48.8
Cash and bank balances	0.7
Debtors, deposits and prepayments	4.5
Creditors and accruals	(3.2)
Other intangible assets	119.6
Deferred tax liabilities	(42.1)
Non-controlling interests	(50.9)
	80.6
Total identifiable net assets at fair value	80.6
Gain on bargain purchase recognised in the condensed consolidated statement of profit or loss	(30.3)
	50.3
Satisfied by:	
Cash consideration	4.1
Convertible bonds	55.7
Contingent consideration receivable	(11.2)
Assignment of a shareholder's loan	1.7
	50.3

The fair values of the considerations transferred and identifiable net assets acquired of the above business combination as at the date of acquisition are provisional amounts and are subject to the finalisation of the fair value estimation within 12 months from the date of acquisition.

Notes to Condensed Consolidated Financial Statements (Cont'd)

The Cosmopolitan Group issued convertible bonds with an aggregate principal amount of HK\$57.1 million (net of cash proceeds of HK\$4.1 million) as part of the considerations for the acquisition.

The convertible bonds contain two components: equity component of HK\$32.2 million and liability component of HK\$27.6 million which represented their fair values at the date of acquisition.

As part of the acquisition, the Cosmopolitan Group is entitled to a priority right to receive dividends up to an aggregate of RMB48.0 million, before allocation of profits to the minority shareholder, in relation to the future profits generated by the SH Logistics Group.

The initial amount of contingent consideration receivable recognised was HK\$11.2 million, being the fair value of the priority right to receive dividends at the date of acquisition, which was determined using the discounted cash flow model and is within Level 3 fair value measurement. As at the end of the reporting period, there is no significant change to the fair value of the contingent consideration receivable.

The aggregate gross contractual amount and the aggregate fair value of the trade debtors and other debtors as at the date of acquisition amounted to HK\$3.6 million and HK\$0.1 million respectively, which are expected to be collectible.

The Cosmopolitan Group incurred transaction costs of HK\$2.2 million for the acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of the SH Logistics Group is as follows:

	HK\$ million
Cash consideration	(4.1)
Proceeds from issue of convertible bonds	4.1
Cash and bank balances acquired	<u>0.7</u>
Net inflow of cash and cash equivalents included in cash flows from investing activities	0.7
Transaction costs of the acquisition included in cash flows from operating activities	<u>(2.2)</u>
	<u><u>(1.5)</u></u>

Since the acquisition, the SH Logistics Group contributed approximately HK\$3.7 million to the Group's revenue and a profit of approximately HK\$1.4 million to the consolidated profit for the period ended 30th June, 2016.

It was impracticable to disclose the information as if the combination had taken place at the beginning of the period ended 30th June, 2016 since the Cosmopolitan Group did not have full access to the accounting books and records of the SH Logistics Group for the period prior to the date of acquisition.

Notes to Condensed Consolidated Financial Statements (Cont'd)

14. Notes to the condensed consolidated statement of cash flows

Major non-cash transactions

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
Security deposits, maintenance liabilities and other liabilities assumed in purchases of aircraft	<u>–</u>	<u>103.6</u>
Security deposit and maintenance liabilities settled upon disposal of an aircraft	<u>–</u>	<u>35.4</u>

15. Related Party Transactions

(a) Transactions with related parties

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

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
A wholly owned subsidiary of the listed ultimate holding company: Management fees	30.1	27.8
An associate: Advertising and promotion fees (including cost reimbursements)	<u>4.1</u>	<u>8.2</u>

The nature and terms of the above related party transactions have not changed and were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2015.

Notes to Condensed Consolidated Financial Statements (Cont'd)

(b) Outstanding balances with related parties:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Due from associates	74.0	59.4
Due from a fellow subsidiary	1.1	1.0
Due from a related company	1.2	1.2
Due to fellow subsidiaries	(3.7)	(6.4)
Due to an associate	(1.2)	(1.4)
	<u> </u>	<u> </u>

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

	Six months ended 30th June, 2016 (Unaudited)	Six months ended 30th June, 2015 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	21.0	20.7
Staff retirement scheme contributions	1.3	1.3
	<u> </u>	<u> </u>
Total compensation paid to key management personnel	<u>22.3</u>	<u>22.0</u>

16. Pledge of Assets

As at 30th June, 2016, certain of the Group's property, plant and equipment, investment properties, properties held for sale, properties under development, available-for-sale investments, financial assets at fair value through profit or loss, held-to-maturity investments, bank deposits and bank balances in the total amount of HK\$19,028.6 million (31st December, 2015 - HK\$18,745.8 million) were pledged to secure general banking facilities granted to the Group and, in addition, certain of the Group's bank deposits, bank balances, financial assets at fair value through profit or loss and held-to-maturity investments in the amount of HK\$324.3 million (31st December, 2015 - HK\$462.1 million) were pledged to secure bank guarantees procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT. In addition, as at 30th June, 2016, certain ordinary shares in a listed subsidiary with a market value of HK\$333.1 million (31st December, 2015 - HK\$406.5 million) were also pledged to secure general banking facilities granted to the Group.

17. Contingent Liabilities

A subsidiary of the Cosmopolitan Group is currently a defendant in certain outstanding litigation claims relating to the re-forestation project located in Xinjiang in the PRC. Based on the advice from the Cosmopolitan Group's legal counsel, the litigation claims are pending verification and/or the Cosmopolitan Group has good grounds of defence against the allegations. Accordingly, the Directors consider that it is appropriate to disclose such claims in an aggregate amount of approximately RMB9.6 million (HK\$11.2 million) (31st December, 2015 - RMB1.8 million (HK\$2.1 million)) as contingent liabilities and no provision has been made in the financial statements.

18. Operating Lease Arrangements

(a) As lessor

The Group leases certain retail space and areas of its hotel properties and warehouse premises, and aircraft under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 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 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.

At 30th June, 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Within one year	105.2	142.1
In the second to fifth years, inclusive	50.2	131.7
After five years	7.8	–
	163.2	273.8
	163.2	273.8

Notes to Condensed Consolidated Financial Statements (Cont'd)

(b) As lessee

The Group leases certain office and warehouse premises, shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 12 years. Leases for office equipment are negotiated for terms ranging from 1 to 5 years.

At 30th June, 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	17.2	14.1
In the second to fifth years, inclusive	9.9	5.2
After five years	0.1	0.2
	<u>27.2</u>	<u>19.5</u>
Other equipment:		
Within one year	0.4	0.4
In the second to fifth years, inclusive	1.1	1.3
	<u>1.5</u>	<u>1.7</u>
	<u>28.7</u>	<u>21.2</u>

19. Commitments

In addition to the operating lease commitments detailed in note 18(b) above, the Group had the following capital commitments at the end of the reporting period:

	30th June, 2016 (Unaudited)	31st December, 2015 (Audited)
	HK\$'million	HK\$'million
Contracted, but not provided for:		
Property development projects	<u>1,729.5</u>	<u>2,615.8</u>

20. Fair Value and Fair Value Hierarchy of Financial Instruments

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

The Group's management is responsible for determining the policies and procedures for the fair value measurement of financial instruments. At each reporting date, the management analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. Independent professional valuers are engaged for the valuation as appropriate. The valuation is reviewed and approved by the management. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value as at 30th June, 2016

	Fair value measurement using			Total (Unaudited) HK\$'million
	Quoted prices in active markets (Level 1) (Unaudited) HK\$'million	Significant observable inputs (Level 2) (Unaudited) HK\$'million	Significant unobservable inputs (Level 3) (Unaudited) HK\$'million	
Available-for-sale investments:				
Unlisted equity investments	–	–	248.5	248.5
Financial assets at fair value through profit or loss:				
Listed equity investments	246.2	16.2	–	262.4
Listed debt investments	–	195.1	–	195.1
Structured deposit	–	1.9	–	1.9
A purchase option	–	–	48.8	48.8
Contingent consideration receivable	–	–	11.2	11.2
	<u>246.2</u>	<u>213.2</u>	<u>308.5</u>	<u>767.9</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)

Assets measured at fair value as at 31st December, 2015

	Fair value measurement using			Total (Audited) HK\$'million
	Quoted prices in active markets (Level 1) (Audited) HK\$'million	Significant observable inputs (Level 2) (Audited) HK\$'million	Significant unobservable inputs (Level 3) (Audited) HK\$'million	
Available-for-sale investments:				
Unlisted equity investments	–	–	170.0	170.0
Financial assets at fair value through profit or loss:				
Listed equity investments	560.7	16.7	–	577.4
Listed debt investments	–	248.6	–	248.6
Structured deposit	–	1.9	–	1.9
Derivative financial instruments	–	4.7	–	4.7
	<u>560.7</u>	<u>271.9</u>	<u>170.0</u>	<u>1,002.6</u>

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

	2016 (Unaudited) HK\$'million	2015 (Audited) HK\$'million
At 1st January	170.0	131.8
Purchases	80.3	1.3
Arising from acquisition of subsidiaries	60.0	–
Total gains/(losses) recognised in other comprehensive income/(loss)	(1.8)	36.9
At 30th June/31st December	<u>308.5</u>	<u>170.0</u>

Notes to Condensed Consolidated Financial Statements (Cont'd)

Liabilities measured at fair value as at 31st December, 2015

	Fair value measurement using			Total (Audited) HK\$'million
	Quoted prices in active markets (Level 1) (Audited) HK\$'million	Significant observable inputs (Level 2) (Audited) HK\$'million	Significant unobservable inputs (Level 3) (Audited) HK\$'million	
Derivative financial instruments	–	2.8	–	2.8

The Group did not have any financial liabilities measured at fair value as at 30th June, 2016.

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (year ended 31st December, 2015 - Nil).

Valuation techniques

The fair values of certain listed equity investments are based on quoted market prices.

The unlisted equity investments are carried at the net asset values provided by financial institutions or related administrators or valued by a financial institution based on quoted market price of the underlying listed security.

The fair values of the derivative financial instruments, including interest rate swaps, foreign currency option and forward contracts, were determined based on discounted cash flow models or market values provided by financial institutions.

The fair value of a purchase option has been estimated using a valuation technique which incorporates various unobservable inputs including fair values of land and buildings. The Directors believe that the estimated fair value resulting from the valuation technique is reasonable and it is the most appropriate value at the end of the reporting period.

The fair value of the contingent consideration receivable is determined with reference to the probability weighted discounted cash flows.

The fair values of certain listed equity investments, listed debt investments and a structured deposit are determined based on market values provided by financial institutions.

21. Event after the Reporting Period

On 20th July, 2016, the MTN Issuer issued under the MTN Programme a new series of United States dollar denominated senior unsecured 5-year term notes in an aggregate nominal principal amount of US\$350.0 million at a coupon interest rate of 3.875% per annum. The notes were issued at a discount at 99.663% of the principal amount.

22. Approval of the Unaudited Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 23rd August, 2016.

Other Information

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2016, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

The Company/ Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at 30th June, 2016)
			Personal interests	Corporate interests	Family/Other interests	
1. The Company	Mr. Lo Yuk Sui	Ordinary (issued)	90,078,014	740,396,803 (Note b)	15,000	830,489,817 (74.51%)
	Mr. Jimmy Lo Chun To	Ordinary (issued)	2,274,600	-	-	2,274,600 (0.20%)
	Mr. Donald Fan Tung	Ordinary (issued)	556	-	-	556 (0.000%)
	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. Kenneth Wong Po Man	Ordinary (issued)	6,200	-	-	6,200 (0.001%)

Other Information (Cont'd)

The Company/ Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at 30th June, 2016)	
			Personal interests	Corporate interests	Family/Other interests		
2. Century City International Holdings Limited ("CCIHL")	Mr. Lo Yuk Sui	Ordinary (issued)	109,791,396	1,769,164,691 (Note a)	380,683	1,879,336,770 (58.66%)	
	Mr. Jimmy Lo Chun To	Ordinary (issued)	251,735	-	-	251,735 (0.008%)	
	Miss Lo Po Man	Ordinary (issued)	112,298	-	-	112,298 (0.004%)	
	Mr. Ng Siu Chan	Ordinary (issued)	-	-	3,521,973	3,521,973 (0.11%)	
	Mr. Kenneth Wong Po Man	Ordinary (issued)	200	-	-	200 (0.000%)	
3. Regal Hotels International Holdings Limited ("RHIHL")	Mr. Lo Yuk Sui	Ordinary (issued)	24,200	620,749,261 (Note c)	260,700	621,034,161 (67.21%)	
	Miss Lo Po Man	Ordinary (issued)	300,000	-	269,169 (Note d)	569,169 (0.06%)	
	Mr. Kenneth Wong Po Man	Ordinary (issued)	200	-	-	200 (0.000%)	
4. Cosmopolitan International Holdings Limited ("Cosmopolitan")	Mr. Lo Yuk Sui	Ordinary (i) (issued)	-	3,117,856,716 (Note e)	-	3,117,856,716	
		Ordinary (ii) (unissued)	-	5,024,058,784 (Note f)	-	5,024,058,784	
						Total:	8,141,915,500 (191.55%)
		Preference (issued)	-	2,345,487,356 (Note f)	-	2,345,487,356 (99.98%)	
	Mr. Jimmy Lo Chun To	Ordinary (issued)	2,269,101	-	-	2,269,101 (0.05%)	
	Miss Lo Po Man	Ordinary (issued)	1,380,000	-	-	1,380,000 (0.03%)	

The Company/ Name of associated corporation	Name of Director	Class of shares held	Number of shares held			Total (Approximate percentage of the issued shares as at 30th June, 2016)
			Personal interests	Corporate interests	Family/Other interests	
5. Regal Real Estate Investment Trust ("Regal REIT")	Mr. Lo Yuk Sui	Units (issued)	–	2,443,033,102 (Note g)	–	2,443,033,102 (74.99%)
6. 8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	–	1,000 (Note h)	–	1,000 (100%)

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").
- (b) The interests in 693,660,547 issued ordinary shares of the Company were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.65% shareholding interests as at 30th June, 2016.

The interests in 16,271,685 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

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

The interests in 30,464,571 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

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

- (c) The interests in 421,400 issued ordinary shares of RHIHL were held through companies wholly owned by CCIHL, in which Mr. Lo held 58.65% shareholding interests as at 30th June, 2016. The interests in 599,025,861 issued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 62.23% shareholding interests as at 30th June, 2016. The interests in the other 21,302,000 issued ordinary shares of RHIHL were held through a wholly owned subsidiary of Cosmopolitan, in which P&R Holdings Limited ("P&R Holdings") (which is owned as to 50% each by the Company and RHIHL through their respective wholly owned subsidiaries) held 64.26% shareholding interests as at 30th June, 2016. The Company held 67.13% shareholding interests in RHIHL as at 30th June, 2016.
- (d) The interests in 269,169 issued ordinary shares of RHIHL were held by Miss Lo Po Man as the beneficiary of a trust.

Other Information (Cont'd)

- (e) The interests in 2,731,316,716 issued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of P&R Holdings, which is owned as to 50% each by the Company and RHIHL through their respective wholly owned subsidiaries. The interests in the other 386,540,000 issued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of RHIHL. The Company, in which CCIHL held 62.23% shareholding interests as at 30th June, 2016, held 67.13% shareholding interests in RHIHL as at 30th June, 2016. Mr. Lo held 58.65% shareholding interests in CCIHL as at 30th June, 2016.
- (f) The interests in 5,024,058,784 unissued ordinary shares of Cosmopolitan were held through wholly owned subsidiaries of P&R Holdings, which is owned as to 50% each by the Company and RHIHL through their respective wholly owned subsidiaries. The Company, in which CCIHL held 62.23% shareholding interests as at 30th June, 2016, held 67.13% shareholding interests in RHIHL as at 30th June, 2016. Mr. Lo held 58.65% shareholding interests in CCIHL as at 30th June, 2016.

The interests in 2,345,487,356 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in 2,345,487,356 convertible preference shares of Cosmopolitan, convertible into new ordinary shares of Cosmopolitan on a one to one basis (subject to adjustments in accordance with the terms of the convertible preference shares).

The interests in 1,428,571,428 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in the convertible bonds in the principal amount of HK\$500,000,000 issued by a wholly owned subsidiary of Cosmopolitan. The convertible bonds are convertible into new ordinary shares of Cosmopolitan at a conversion price of HK\$0.35 per ordinary share (subject to adjustments in accordance with the terms of the convertible bonds).

The interests in 1,250,000,000 unissued ordinary shares of Cosmopolitan are derivative interests held through interests in the possible subscription for the optional convertible bonds in a principal amount of HK\$500,000,000 to be issued by a wholly owned subsidiary of Cosmopolitan pursuant to the subscription agreement dated 30th April, 2014 (as supplemented by a supplemental agreement dated 19th June, 2014) entered into between Cosmopolitan and P&R Holdings. The optional convertible bonds, if subscribed for and issued, will be convertible into new ordinary shares of Cosmopolitan at a conversion price of HK\$0.40 per ordinary share (subject to adjustments in accordance with the terms of the optional convertible bonds).

- (g) The interests in 10,219,000 issued units of Regal REIT were held through a wholly owned subsidiary of Cosmopolitan. The interests in 2,429,394,739 issued units of Regal REIT were held through wholly owned subsidiaries of RHIHL. The interests in 732,363 issued units of Regal REIT were held through wholly owned subsidiaries of the Company. The interests in 2,687,000 issued units of Regal REIT were held through wholly owned subsidiaries of CCIHL. Cosmopolitan were held as to 64.26% shareholding interests by P&R Holdings, which is owned as to 50% each by the Company and RHIHL through their respective wholly owned subsidiaries as at 30th June, 2016. The Company, in which CCIHL held 62.23% shareholding interests as at 30th June, 2016, held 67.13% shareholding interests in RHIHL as at 30th June, 2016. Mr. Lo held 58.65% shareholding interests in CCIHL as at 30th June, 2016.
- (h) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 58.65% shareholding interests as at 30th June, 2016, and 600 shares were held through a company controlled by Mr. Lo.

Save as disclosed herein, as at 30th June, 2016, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 30th June, 2016, 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 30th June, 2016
YSL International Holdings Limited ("YSL Int'l") (Note i)	693,660,547	–	693,660,547	62.23%
Grand Modern Investments Limited ("Grand Modern") (Note ii)	693,660,547	–	693,660,547	62.23%
CCIHL (Note iii)	693,660,547	–	693,660,547	62.23%
Century City BVI Holdings Limited ("CCBVI") (Note iv)	693,660,547	–	693,660,547	62.23%
Almighty International Limited ("Almighty") (Note iv)	346,530,526	–	346,530,526	31.09%
Cleverview Investments Limited ("Cleverview") (Note iv)	180,811,470	–	180,811,470	16.22%

Notes:

- (i) The interests in the ordinary shares of the Company held by YSL Int'l 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) Grand Modern is a wholly owned subsidiary of YSL Int'l and its interests in the ordinary shares of the Company were included in the interests held by YSL Int'l.
- (iii) CCIHL is owned as to 50.89% by Grand Modern and its interests in the ordinary shares of the Company were included in the interests held by Grand Modern.
- (iv) These companies are wholly owned subsidiaries of CCIHL and their interests in the ordinary shares of the Company were included in the interests held by CCIHL.

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 30th June, 2016, 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 is a director of YSL Int'l.
- (2) Mr. Lo Yuk Sui, Mr. Jimmy Lo Chun To and Miss Lo Po Man are directors of Grand Modern.
- (3) Mr. Lo Yuk Sui, Mr. Jimmy Lo Chun To, Mr. Donald Fan Tung, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai, Mr. Ng Siu Chan and Mr. Wong Chi Keung are directors of CCIHL.
- (4) Mr. Lo Yuk Sui, Mr. Jimmy Lo Chun To, Mr. Donald Fan Tung, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai are directors of CCBVI, Almighty and Cleverview.

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 annual report of the Company for the financial year ended 31st December, 2015 is set out below:

Name of Director

Details of changes

Independent Non-Executive Directors:

Mr. Bowen Joseph Leung Po Wing, GBS, JP	<ul style="list-style-type: none">• Ceased to act as special consultant to the board of directors of Sands China Limited, a company listed on the Stock Exchange, with effect from 1st April, 2016.
Mr. Wong Chi Keung	<ul style="list-style-type: none">• Ceased to act as a responsible officer for asset management, advising on securities and advising on corporate finance for Greater China Capital Limited under the SFO with effect from 16th April, 2016.
Hon Abraham Shek Lai Him, GBS, JP	<ul style="list-style-type: none">• Retired as a non-executive director of The Hong Kong Mortgage Corporation Limited with effect from 25th April, 2016.

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".

CORPORATE GOVERNANCE

Corporate Governance Code

The Company has complied with the Code Provisions in the Corporate Governance Code as set out in Appendix 14 of the Listing Rules during the six months ended 30th June, 2016, 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 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 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.

Code of Conduct for Securities Transactions by Directors

The Company has adopted the "Code for Securities Transactions by Directors of Paliburg Holdings Limited" (the "Paliburg Code"), on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors of the Company. Following specific enquiry by the Company, the Directors have confirmed that they have complied with the Model Code and the Paliburg Code during the six months ended 30th June, 2016.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2016.

REVIEW OF RESULTS

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

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

Mr. Bowen Joseph Leung Po Wing, GBS, JP (*Independent Non-Executive Director*)

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

Hon Abraham Shek Lai Him, GBS, JP (*Independent Non-Executive Director*)

The Audit Committee has reviewed and discussed with the Company's management the accounting principles and practices adopted by the Group, auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2016, in conjunction with the external auditors. The review report of the external auditors is set out on page 60 of this report.

Report on Review of Interim Financial Information



**To the Board of Directors of
Paliburg Holdings Limited**
(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial information of Paliburg Holdings Limited (the "Company") and its subsidiaries set out on pages 23 to 52 which comprises the condensed consolidated statement of financial position as at 30th June, 2016 and the related condensed consolidated statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 *Interim Financial Reporting* ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The Directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Ernst & Young
Certified Public Accountants

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

23rd August, 2016

