1. CORPORATE INFORMATION

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

During the year, the Group was principally engaged in hotel ownership and management, property development and investment, and other investments.

Subsequent to the balance sheet date, the Group commences to provide asset management service to Regal Real Estate Investment Trust ("Regal REIT") upon the listing of Regal REIT on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 30th March, 2007.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instrument and equity investments, which have been measured at fair value. A disposal group classified as held for sale is stated at the lower of carrying amount and fair value less costs to sell. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31st December, 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no effect on these financial statements.

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

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31st December, 2006 or 31st December, 2005.

(b) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1st January, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1st January, 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1st January, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1st January, 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 11, shall be applied for annual periods beginning on or after 1st March, 2007. This new interpretation prescribes that when the parent grants rights to equity instruments to the employees of the subsidiary, the subsidiary should account for such a scheme as an equity-settled scheme and as an equity contribution by the parent.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1st March, 2006, 1st May, 2006, 1st June, 2006, 1st November, 2006, 1st March, 2007 and 1st January, 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

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

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 are stated at cost less any impairment losses.

(b) Joint venture

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

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

A joint venture is treated as:

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

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

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

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

(c) Jointly controlled entity

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

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(d) Associates

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(e) Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly controlled entity (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

(f) Impairment of non-financial assets

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

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

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

(g) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

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

Hotel buildings	Over the shorter of 100 years or the remaining lease terms
Leasehold properties	Over the shorter of 40 years or the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Other furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%

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

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

(h) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

(i) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date.

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade debtors, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

(k) Derecognition of financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(l) Financial liabilities at amortised cost (including interest bearing loans and borrowings)

Financial liabilities including trade creditors and accruals, amounts due to an associate and related companies and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(m) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

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

(n) Convertible preference shares

The component of the convertible preference shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the income statement. On issuance of the convertible preference shares where the fair value of the conversion option cannot be determined reliably, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised as derivative financial instrument of the convertible preference shares denominated in foreign currency and included under current liabilities. The fair value of such derivative financial instrument is reassessed at each balance sheet date using a binomial valuation model with the corresponding gain or loss from the reassessment recognised in the income statement.

(o) Derecognition of financial liabilities

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

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

(p) Inventories

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

(q) Revenue recognition

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

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

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

(iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

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

(v) proceeds from the sale of investments in listed shares, on the transaction dates when the relevant contract notes are exchanged;

(vi) brewery operations income from trading activities, upon passage of title to the customer, which generally coincides with their delivery and acceptance; and

(vii) bakery and health products operations income, when the goods are delivered to the customers.

(r) Foreign currencies

The financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

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

(s) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

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

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

(t) Leases

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

(u) Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an option pricing model, further details of which are given in note 31 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted on or after 1st January, 2005.

Staff retirement schemes

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute 39% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(v) Related parties

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

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(w) Cash and cash equivalents

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

(x) Dividends

Final and special dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

(a) Judgement

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

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its hotel properties. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) Estimation uncertainty

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

Assessment of impairment of assets

Management periodically reviews each asset for possible impairment or reversal of previously recognised impairment. Recoverability of assets is measured by a comparison of the carrying amount of an asset to its fair value less costs to sell. If such assets are considered by management to be impaired or no longer be impaired, the impairment or reversal of impairment previously recognised is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets less costs to sell. In the analysis of fair value, the Group uses independent valuations which are based on various assumptions and estimates.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31st December, 2006 was HK$197.8 million (2005 - HK$213.9 million). The amount of unrecognised tax losses at 31st December, 2006 was HK$986.3 million (2005 - HK$993.1 million). Further details are contained in note 30 to the financial statements.

Measurement of convertible preference shares and estimation of fair value of derivative financial instrument

On issuance of convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The splitting of the liability component and derivative financial instrument requires an estimation of the market interest rate.

The remainder of the proceeds is allocated to the conversion option that is recognised as derivative financial instrument of the convertible preference shares denominated in foreign currency and included under current liabilities. The fair value of such derivative financial instrument is reassessed at each balance sheet date. In analysis of fair value, the Group uses independent valuation which is based on various assumptions and estimates, with the corresponding gain or loss from the reassessment recognised in the income statement.

Measurement of convertible bonds

On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in the shareholders' equity, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

Estimation of amortised cost of other loan

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

Measurement of fair value of equity-settled transactions

The Company operates share option schemes under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility, dividend yield and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

4. SEGMENT INFORMATION

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

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

(a) the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;

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

(c) the others segment mainly comprises the Group's securities trading, other investment business, brewery operations, health products operations, the provision of laundry services and bakery operations.

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

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

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2006 and 2005.

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Segment revenue:										
Sales to external customers	1,202.5	1,082.7	0.9	1.6	57.8	56.8	–	–	1,261.2	1,141.1
Intersegment sales	15.2	2.4	0.3	0.3	2.9	8.9	(18.4)	(11.6)	–	–
Total	**1,217.7**	**1,085.1**	**1.2**	**1.9**	**60.7**	**65.7**	**(18.4)**	**(11.6)**	**1,261.2**	**1,141.1**
Segment results before depreciation and amortisation	496.7	484.8	0.3	0.2	61.6	63.5	–	–	558.6	548.5
Depreciation and amortisation	(138.8)	(128.7)	(0.1)	(0.1)	(0.1)	(2.7)	–	–	(139.0)	(131.5)
Segment operating results	357.9	356.1	0.2	0.1	61.5	60.8	–	–	419.6	417.0
Interest income and unallocated non-operating and corporate gains									13.2	25.9
Unallocated non-operating and corporate expenses, net									(18.3)	(28.6)
Operating profit									**414.5**	**414.3**
Finance costs									**(265.8)**	**(199.8)**
Share of profits and losses of:										
Jointly controlled entity	–	–	203.6	128.5	–	–	–	–	**203.6**	**128.5**
Associates	(0.4)	(0.4)	3.4	87.9	(0.1)	(3.7)	–	–	**2.9**	**83.8**
Profit before tax									**355.2**	**426.8**
Tax									**(23.9)**	**101.7**
Profit for the year									**331.3**	**528.5**
Attributable to:										
Equity holders of the parent									**331.3**	**528.4**
Minority interests									**–**	**0.1**
									331.3	**528.5**

(a) Business segments (continued)

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	2006 HK$'m	2005 HK$'m	2006 HK$'m	2005 HK$'m	2006 HK$'m	2005 HK$'m	2006 HK$'m	2005 HK$'m	2006 HK$'m	2005 HK$'m
Segment assets	145.4	4,142.1	3.4	3.6	44.6	152.7	(0.8)	(0.7)	192.6	4,297.7
Interest in a jointly controlled entity	–	–	2,032.6	1,804.7	–	–	–	–	2,032.6	1,804.7
Interests in associates	6.7	7.1	468.3	239.8	13.8	13.8	–	–	488.8	260.7
Assets of a disposal group classified as held for sale	4,046.1	–	–	–	–	–	–	–	4,046.1	–
Cash and unallocated assets									318.3	554.9
Total assets									7,078.4	6,918.0
Segment liabilities	(207.2)	(179.4)	(0.1)	(0.4)	(5.4)	(3.6)	0.8	0.7	(211.9)	(182.7)
Liabilities directly associated with the assets of a disposal group classified as held for sale	(29.1)	–	–	–	–	–	–	–	(29.1)	–
Bank borrowings and unallocated liabilities									(4,618.2)	(4,966.1)
Total liabilities									(4,859.2)	(5,148.8)
Other segment information:										
Capital expenditure	106.8	76.4	–	–	0.6	1.4				
Other non-cash expenses	0.1	–	–	–	0.1	0.1				

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31st December, 2006 and 2005.

Group

	Hong Kong		Mainland China		Elimination		Consolidated	
	2006 HK$'m	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**	**2006 HK$'m**	**2005 HK$'m**
Segment revenue:								
Sales to external customers	1,255.5	1,104.1	5.7	37.0	–	–	1,261.2	1,141.1
Other segment information:								
Segment assets	4,156.9	4,278.9	1.3	18.8	–	–	4,158.2	4,297.7
Capital expenditure	107.4	76.4	–	1.4				

5. REVENUE, OTHER INCOME AND GAINS

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

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Revenue		
Hotel operations and management services	**1,170.8**	1,058.7
Other operations, including estate management, estate agency, laundry services, brewery, health products and bakery operations	**8.2**	33.8
Rental income from hotel properties	**31.7**	24.0
Proceeds from sale of equity investments at fair value through profit or loss	**50.5**	24.6
	1,261.2	1,141.1

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Other income		
Bank interest income	**4.7**	3.9
Interest income from other loan	**3.5**	4.6
Dividend income from listed investments	**3.1**	1.7
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	**–**	20.9
Others	**0.2**	9.2
	11.5	40.3
Gains		
Fair value gains on equity investments at fair value through profit or loss, net	**6.1**	62.3
Fair value gain on derivative financial instrument	**4.8**	9.0
Gain on disposal of equity investments at fair value through profit or loss	**63.1**	–
Gain on disposal of overseas subsidiaries	**–**	0.7
	74.0	72.0
	85.5	112.3

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	GROUP 2006 HK$'million	GROUP 2005 HK$'million
Cost of sales#	**699.3**	638.0
Cost of inventories sold and services provided	**441.0**	405.0
Depreciation	**116.8**	109.3
Recognition of prepaid land lease payments	**22.2**	22.2
Impairment of trade debtors	**0.2**	–
Employee benefits expense (inclusive of directors' remuneration disclosed in note 8):		
Wages and salaries*	**320.6**	291.9
Equity-settled share option expense	**15.0**	5.7
Staff retirement scheme contributions	**14.6**	13.3
Less: Forfeited contributions	**(0.3)**	(0.6)
Net staff retirement scheme contributions	**14.3**	12.7
	349.9	310.3
Auditors' remuneration	**3.3**	3.4
Minimum lease payments under operating leases:		
Land and buildings	**4.9**	4.3
Other equipment	**0.1**	–
	5.0	4.3
and after crediting:		
Gross rental income	**(31.7)**	(24.0)
Less: Outgoings	**7.1**	6.3
Net rental income	**(24.6)**	(17.7)

Cost of sales does not include depreciation and amortisation, which are separately shown on the face of the consolidated income statement.

* Inclusive of an amount of HK$299.6 million (2005 - HK$280.1 million) classified under cost of inventories sold and services provided.

7. FINANCE COSTS

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
Interest on bank loans, convertible bonds and convertible preference shares, wholly repayable within five years	**264.6**	197.7
Interest on a promissory note payable	**1.2**	2.1
Total finance costs	**265.8**	199.8

8. DIRECTORS' REMUNERATION

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

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
Fees	**1.3**	1.4
Other emoluments:		
Salaries and other allowances	**9.9**	9.1
Performance related/discretionary bonuses	**1.9**	2.0
Employee share option benefits	**13.2**	5.3
Staff retirement scheme contributions	**0.7**	0.6
	27.0	18.4

In the prior year, certain Directors were granted share options in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 31 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above Directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2006 HK$'million	2005 HK$'million
Ms. Alice Kan Lai Kuen	**0.15**	0.15
Mr. Ng Siu Chan	**0.15**	0.12
Mr. Wong Chi Keung	**0.20**	0.19
	0.50	0.46

There were no other emoluments payable to the independent non-executive directors during the year (2005 - Nil).

(b) Executive directors and non-executive directors

	Fees HK$'million	Salaries and other allowances HK$'million	Performance related/ discretionary bonuses HK$'million	Employee share option benefits HK$'million	Staff retirement scheme contributions HK$'million	Total remuneration HK$'million
2006						
Executive directors:						
Mr. Lo Yuk Sui	0.10	5.53	0.49	7.27	0.29	13.68
Mr. Donald Fan Tung	0.10	0.55	0.16	1.03	0.06	1.90
Mr. Jimmy Lo Chun To	0.10	0.20	0.05	0.77	0.01	1.13
Miss Lo Po Man	0.10	0.96	0.43	1.55	0.07	3.11
Mr. Kenneth Ng Kwai Kai	0.10	1.23	0.28	1.03	0.09	2.73
Ms. Belinda Yeung Bik Yiu	0.10	1.38	0.50	1.55	0.14	3.67
	0.60	9.85	1.91	13.20	0.66	26.22
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.15	–	–	–	–	0.15
Mr. Kai Ole Ringenson	0.09	–	–	–	–	0.09
	0.84	9.85	1.91	13.20	0.66	26.46

2005	Fees HK$'million	Salaries and other allowances HK$'million	Performance related/ discretionary bonuses HK$'million	Employee share option benefits HK$'million	Staff retirement scheme contributions HK$'million	Total remuneration HK$'million
Executive directors:						
Mr. Lo Yuk Sui	0.10	4.82	0.49	3.96	0.28	9.65
Mr. Donald Fan Tung	0.10	0.48	0.16	0.23	0.05	1.02
Mr. Tommy Lam Chi Chung	0.07	0.41	0.03	–	0.03	0.54
Mr. Jimmy Lo Chun To	0.10	0.15	0.05	0.17	0.01	0.48
Miss Lo Po Man	0.10	0.93	0.46	0.34	0.07	1.90
Mr. Kenneth Ng Kwai Kai	0.10	1.17	0.28	0.23	0.09	1.87
Ms. Belinda Yeung Bik Yiu	0.10	1.20	0.50	0.34	0.12	2.26
	0.67	9.16	1.97	5.27	0.65	17.72
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.15	–	–	–	–	0.15
Mr. Kai Ole Ringenson	0.10	–	–	–	–	0.10
	0.92	9.16	1.97	5.27	0.65	17.97

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.50 million (2005 - HK$0.46 million) as Directors' fees, including the fees entitled by those Independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2006.

In addition, during the year, a consultancy fee of HK$1.00 million (2005 - HK$1.00 million) was paid to Dr. Francis Choi Chee Ming for services rendered on business development of the Group. Furthermore, a consultancy fee of HK$1.81 million (2005 - Nil) was paid to a company beneficially owned by Mr. Kai Ole Ringenson for the provision of consultancy services in relation to the spin-off of Regal REIT.

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

9. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included five (2005 - four) Directors, details of whose remuneration are disclosed in note 8 to the financial statements. The emoluments of the remaining one individual for the year ended 31st December, 2005, who was not a Director, are as follows:

	GROUP	
	2006 HK$'million	2005 HK$'million
Salaries and other emoluments	–	0.9
Performance related/discretionary bonuses	–	0.3
Employee share option benefits	–	0.1
Staff retirement scheme contributions	–	0.1
	–	1.4

The emoluments of the non-director, highest paid individual for the year ended 31st December, 2005 fall within the band of HK$1,000,001 to HK$1,500,000.

In the prior year, 9 million share options were granted to the non-director, highest-paid individual in respect of his service to the Group, under the share option scheme of the Company. Further details of the share option scheme of the Company are set out in note 31 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of grant and was included in the above non-director, senior executives' emoluments disclosures.

10. TAX

	GROUP	
	2006 **HK$'million**	**2005** HK$'million
Group:		
Current - Hong Kong		
Provision for tax in respect of profits for the year	**–**	0.1
Prior year overprovision	**–**	(5.0)
Current - Overseas		
Provision for tax in respect of profits for the year	**0.7**	0.6
Prior year underprovision	**0.8**	–
Deferred tax (note 30)	**22.4**	(97.4)
Total tax charge/(credit) for the year	**23.9**	(101.7)

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2005 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year.

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

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense/(income) at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	GROUP			
	2006 HK$' million	%	2005 HK$'million	%
Profit before tax	**355.2**		426.8	
Tax at the statutory tax rate	**62.2**	**17.5**	74.7	17.5
Adjustment in respect of current tax of previous years	**0.8**	**0.2**	(5.0)	(1.2)
Profits and losses attributable to a jointly controlled entity and associates	**(36.2)**	**(10.2)**	(37.2)	(8.7)
Higher tax rates of other countries	**0.3**	**0.1**	0.3	0.1
Income not subject to tax	**(14.9)**	**(4.2)**	(16.8)	(4.0)
Expenses not deductible for tax	**10.8**	**3.0**	15.6	3.7
Tax losses utilised from previous years	**(40.8)**	**(11.5)**	(27.8)	(6.5)
Increase/(Decrease) in deferred tax assets not recognised during the year	**41.7**	**11.8**	(105.0)	(24.6)
Others	**—**	**—**	(0.5)	(0.1)
Tax charge/(credit) at the Group's effective rate	**23.9**	**6.7**	(101.7)	(23.8)

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

The share of tax attributable to associates amounting to HK$0.2 million (2005 - HK$0.1 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent for the year ended 31st December, 2006 includes a profit of HK$303.3 million (2005 - HK$509.8 million) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2006 HK$'million	2005 HK$'million
Interim - HK0.25 cent (2005 - HK0.25 cent) per ordinary share	**21.1**	21.1
Proposed final - HK0.6 cent (2005 - HK0.55 cent) per ordinary share	**54.9**	46.1
Proposed special - HK1.0 cent (2005 - Nil) per ordinary share	**91.6**	–
	167.6	67.2

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

13. EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit for the year attributable to equity holders of the parent of HK$331.3 million (2005 - HK$528.4 million), and on the weighted average of 8,485.4 million (2005 - 8,387.6 million) ordinary shares of the Company in issue during the year.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2006 is based on the adjusted profit for the year attributable to equity holders of the parent of HK$342.7 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,448.3 million ordinary shares of the Company that would have been in issue during the year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the year. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the year. In addition, the exercise price of the share options of the Company outstanding during the year is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2005 was based on the adjusted profit for that year attributable to equity holders of the parent of HK$539.6 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,459.6 million ordinary shares of the Company that would have been in issue during that year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of that year. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that year. In addition, the exercise price of share options of the Company outstanding during that year was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel buildings HK$'million	Leasehold properties HK$'million	Leasehold improvements HK$'million	Other furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Construction in progress HK$'million	Total HK$'million
31st December, 2006							
At 31st December, 2005 and 1st January, 2006:							
Cost	3,588.2	5.3	4.2	536.5	0.4	–	4,134.6
Accumulated depreciation	(853.8)	(1.8)	(0.2)	(358.4)	(0.2)	–	(1,214.4)
Net carrying amount	2,734.4	3.5	4.0	178.1	0.2	–	2,920.2
At 1st January, 2006, net of accumulated depreciation	2,734.4	3.5	4.0	178.1	0.2	–	2,920.2
Additions	8.1	–	2.3	67.5	0.4	29.1	107.4
Disposals	–	–	–	(0.6)	–	–	(0.6)
Write-back of depreciation upon disposal	–	–	–	0.2	–	–	0.2
Depreciation provided during the year	(77.3)	(0.1)	(2.0)	(37.3)	(0.1)	–	(116.8)
Classified as assets of a disposal group held for sale (note 23)	(2,665.2)	–	–	(205.5)	–	(29.1)	(2,899.8)
At 31st December, 2006, net of accumulated depreciation	–	3.4	4.3	2.4	0.5	–	10.6
At 31st December, 2006:							
Cost	–	5.3	6.5	6.9	0.8	–	19.5
Accumulated depreciation	–	(1.9)	(2.2)	(4.5)	(0.3)	–	(8.9)
Net carrying amount	–	3.4	4.3	2.4	0.5	–	10.6

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Hotel buildings HK$'million	Leasehold properties HK$'million	Leasehold improvements HK$'million	Other furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Construction in progress HK$'million	Total HK$'million
31st December, 2005							
At 31st December, 2004 and 1st January, 2005:							
Cost	3,580.9	41.0	–	529.8	2.6	8.6	4,162.9
Accumulated depreciation	(776.7)	(9.6)	–	(375.0)	(2.3)	(8.6)	(1,172.2)
Net carrying amount	2,804.2	31.4	–	154.8	0.3	–	2,990.7
At 1st January, 2005, net of accumulated depreciation	2,804.2	31.4	–	154.8	0.3	–	2,990.7
Additions	7.3	0.2	4.2	66.0	0.1	–	77.8
Arising from disposal of overseas subsidiaries (note 34(c))	–	(35.9)	–	(59.3)	(2.3)	(8.6)	(106.1)
Write-back of depreciation arising from disposal of overseas subsidiaries (note 34(c))	–	8.5	–	47.9	2.1	8.6	67.1
Depreciation provided during the year	(77.1)	(0.7)	(0.2)	(31.3)	–	–	(109.3)
At 31st December, 2005, net of accumulated depreciation	2,734.4	3.5	4.0	178.1	0.2	–	2,920.2
At 31st December, 2005:							
Cost	3,588.2	5.3	4.2	536.5	0.4	–	4,134.6
Accumulated depreciation	(853.8)	(1.8)	(0.2)	(358.4)	(0.2)	–	(1,214.4)
Net carrying amount	2,734.4	3.5	4.0	178.1	0.2	–	2,920.2

Analysis of carrying value by geographical location:

	2006 HK$'million	2005 HK$'million
Properties situated in Hong Kong:		
Medium term leasehold properties	**3.4**	3.5

Certain of the Group's shop units in the hotel properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

As at 31st December, 2006, all of the hotel properties situated in Hong Kong were mortgaged to secure banking facilities granted to the Group as further detailed in note 36 to the financial statements.

The open market value of all hotel properties (including land and buildings and hotel furniture, fixtures and equipment), based on a valuation performed by independent professionally qualified valuers with an RICS qualification on an existing use basis, amounted to HK$14,900.0 million as at 31st December, 2006.

15. PREPAID LAND LEASE PAYMENTS

	2006 HK$'million	2005 HK$'million
Carrying amount at 1st January	**1,088.0**	1,110.2
Recognised during the year	**(22.2)**	(22.2)
Classified as assets of a disposal group held for sale (note 23)	**(1,065.8)**	–
Carrying amount at 31st December	**–**	1,088.0

The Group's leasehold land situated in Hong Kong is held under the following lease terms:

	2006 HK$'million	2005 HK$'million
Long term leases	**506.6**	507.5
Medium term leases	**559.2**	580.5
	1,065.8	1,088.0

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
Share of net liabilities	**(1,318.7)**	(1,522.3)
Loans to the jointly controlled entity	**2,984.6**	2,960.3
Amount due from the jointly controlled entity	**366.7**	366.7
	2,032.6	1,804.7

The share of net liabilities included a provision for a foreseeable loss in respect of a property development project as follows:

	GROUP	
	2006	**2005**
	HK$'million	**HK$'million**
Carrying amount at 1st January	**222.5**	370.5
Reversed during the year	**(222.5)**	(134.1)
Realised upon disposal of the properties during the year	**–**	(13.9)
Carrying amount at 31st December	**–**	222.5

The loans to the jointly controlled entity are unsecured, bear interest at Hong Kong prime rate per annum and are not repayable within one year. The amount due from the jointly controlled entity is unsecured, interest-free and has no fixed terms of repayment. The carrying amounts of the loans to and the amount due from the jointly controlled entity approximate to their fair values.

Details of the Group's interest in the jointly controlled entity are as follows:

Name	Place of incorporation	Particulars of issued shares	Percentage of equity interest attributable to the Group 2006	2005	Principal activity
Chest Gain Development Limited ("Chest Gain")	Hong Kong	Ordinary shares of HK$1 each	70	70	Property development

The jointly controlled entity is indirectly held by the Company.

Despite the Group's holding of a 70% interest in Chest Gain, the Directors have confirmed that neither the Group nor the other shareholder of Chest Gain has unilateral control over the operating and financing decisions of Chest Gain in accordance with the agreed terms under the shareholders' agreement of Chest Gain. Accordingly, the Directors consider it appropriate to continue to account for the Group's interest therein as a jointly controlled entity.

The following table illustrates the summarised financial statements of the Group's jointly controlled entity:

	2006 HK$'million	2005 HK$'million
Share of the jointly controlled entity's assets and liabilities:		
Current assets	**2,068.8**	1,838.6
Current liabilities	**(24.0)**	(21.5)
Non-current liabilities	**(3,363.5)**	(3,339.4)
Net liabilities	**(1,318.7)**	(1,522.3)
Share of the jointly controlled entity's results:		
Revenue	**–**	80.9
Other income and gains	**223.3**	135.2
Total revenue	**223.3**	216.1
Total expenses	**(19.7)**	(87.6)
Profit after tax	**203.6**	128.5

17. INTERESTS IN ASSOCIATES

	GROUP	
	2006 HK$'million	2005 HK$'million
Unlisted companies:		
Share of net assets	**236.6**	224.0
Loans to/Amounts due from associates	**252.2**	36.7
	488.8	260.7
At the balance sheet date:		
Share of post-acquisition undistributed surplus	**68.0**	65.1

The loans to/amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these loans approximate to their fair values.

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

Name	Place of incorporation	Particulars of issued shares held	Percentage of equity interest attributable to the Group 2006	2005	Principal activities
8D International (BVI) Limited ("8D-BVI")	British Virgin Islands	Ordinary shares of US$1 each	30.0	30.0	Investment holding
8D International Limited	Hong Kong	Ordinary shares of HK$1 each	36.0[1]	36.0[1]	Promotions and information technology
8D Matrix Limited	British Virgin Islands	Ordinary shares of US$1 each	36.0[1]	36.0[1]	Investment holding
8D Travel Limited	Hong Kong	Ordinary shares of HK$1 each	36.0[1]	36.0[1]	Travel agency
Bright Future (HK) Limited*	Hong Kong	Ordinary shares of HK$1 each	50.0	50.0	Investment holding
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US$1 each	50.0[3]	50.0[3]	Investment holding
Mira Technology Limited	Hong Kong	Ordinary shares of HK$1 each	33.0[2]	33.0[2]	Software development
Regala Management Limited	Hong Kong	Ordinary shares of HK$1 each	25.0	25.0	Light refreshment operation

* not audited by Ernst & Young

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

(2) The percentage of equity interest includes a 3% attributable interest held through 8D-BVI.

(3) The major asset of Hang Fok is its 59% equity interest in each of two sino-foreign joint ventures, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"). As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The Group and the other parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site.

In February 2006, one of the Investee Companies formally entered into two new land grant contracts in respect of certain portions of the original land site (the "Land Grant Contracts"). As at 31st December, 2006, the land premium payable under the Land Grant Contracts was fully settled while the land use certificates remain yet to be issued by the Land Bureau. Construction work on those portions of the original land site has not yet commenced.

All associates were indirectly held by the Company.

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

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

	2006 HK$'million	2005 HK$'million
Assets	**1,127.5**	781.8
Liabilities	**677.7**	357.0
Revenues	**18.8**	7.1
Profit	**5.5**	298.1

18. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2006 HK$'million	2005 HK$'million
Listed equity investments in Hong Kong, at fair value	–	140.8

The above equity investments at 31st December, 2005 were, upon initial recognition, designated by the Group as equity investments at fair value through profit or loss.

19. OTHER LOAN

The balance represents a loan of US$10.0 million (HK$78.0 million) (2005 - HK$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the Group. The loan is unsecured, interest-free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years.

The other loan was classified as loans and receivables and was stated at amortised cost of HK$65.6 million as at 31st December, 2006 (2005 - HK$62.1 million), calculated using the effective interest method.

20. HOTEL AND OTHER INVENTORIES

	GROUP	
	2006 HK$'million	2005 HK$'million
Hotel and other merchandise	**15.0**	16.3
Raw materials	**0.2**	–
Finished goods	**2.6**	–
	17.8	16.3

As at 31st December, 2006, the carrying amount of the inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK$4.1 million (2005 - HK$4.5 million).

21. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$91.1 million (2005 - HK$73.0 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Outstanding balances with ages:		
Within 3 months	**81.7**	64.6
Between 4 to 6 months	**5.8**	1.9
Between 7 to 12 months	**2.0**	4.0
Over 1 year	**2.3**	3.6
	91.8	74.1
Impairment	**(0.7)**	(1.1)
	91.1	73.0

Credit terms

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

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

Included in the Group's debtors, deposits and prepayments are amounts due from an associate and related companies of HK$10.3 million (2005 - Nil) and HK$2.4 million (2005 - HK$2.1 million), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

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

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2006 HK$'million	2005 HK$'million
Listed equity investments in Hong Kong, at market value	**29.8**	9.7

The above equity investments at 31st December, 2005 and 2006 were classified as held for trading.

23. A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Subsequent to the balance sheet date, as described in note 41 to the financial statements, the Group completed the spin-off of Regal REIT and disposed of the entire issued share capital of certain of the Group's subsidiaries holding directly and indirectly the five hotel properties in Hong Kong (the "Disposal Group") to Regal REIT.

The spin-off of Regal REIT has not been completed at the balance sheet date and in accordance with HKFRS 5, certain assets and liabilities of the Disposal Group are presented as assets and liabilities of a disposal group classified as held for sale under the current assets and current liabilities section, respectively.

The major classes of assets and liabilities of the Disposal Group classified as held for sale as at 31st December, 2006 are as follows:

	2006 HK$'million	2005 HK$'million
Assets		
Property, plant and equipment	**2,899.8**	–
Prepaid land lease payments	**1,065.8**	–
Deferred tax assets	**80.5**	–
Assets classified as held for sale	**4,046.1**	–
Liabilities		
Deferred tax liabilities	**(29.1)**	–
Liabilities directly associated with the assets classified as held for sale	**(29.1)**	–
Net assets directly associated with the Disposal Group	**4,017.0**	–

24. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$64.2 million (2005 - HK$45.8 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	GROUP	
	2006 HK$'million	2005 HK$'million
Outstanding balances with ages:		
Within 3 months	**61.9**	45.0
Between 4 to 6 months	**1.6**	0.8
Between 7 to 12 months	**0.6**	–
Over 1 year	**0.1**	–
	64.2	45.8

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

Included in creditors and accruals are amounts due to an associate and related companies of HK$11.3 million (2005 - HK$4.8 million) and HK$9.5 million (2005 - HK$19.2 million), respectively, which have similar credit terms to those offered by the associate and those related companies to their major customers.

25. PROMISSORY NOTE PAYABLE

The promissory note payable at the prior year end represented the consideration for the acquisition of a 50% equity interest in Hang Fok during the year as further detailed in note 17 to the financial statements. The promissory note was unsecured, interest bearing at 3% per annum and was fully repaid on 10th April, 2006.

26. DERIVATIVE FINANCIAL INSTRUMENT

	GROUP AND COMPANY	
	2006 HK$'million	2005 HK$'million
The conversion option of the convertible preference shares	**0.6**	5.4

As detailed in note 29 to the financial statements, the derivative financial instrument represents the residual amount assigned to the conversion option of the convertible preference shares denominated in foreign currency at inception.

The fair value of the derivative financial instrument is reassessed at each balance sheet date using the binomial valuation model.

27. INTEREST BEARING BANK AND OTHER BORROWINGS

GROUP

	2006			2005		
	Effective interest rate p.a. (%)	Maturity	HK$'million	Effective interest rate p.a. (%)	Maturity	HK$'million
Current						
Bank loans – secured	**4.7-5.7**	**2007**	**1,718.7**	1.3-5.5	2006	1,668.7
Convertible bonds (note 28)	**5.92**	**2007**	**122.5**	–	–	–
			1,841.2			1,668.7
Non-current						
Bank loans – secured	**4.7-5.7**	**2009**	**2,628.8**	1.3-5.5	2009	2,766.9
Convertible bonds (note 28)	**–**	**–**	**–**	5.92	2007	188.4
Convertible preference shares (note 29)	**5.75**	**2008**	**127.7**	5.75	2008	126.9
			2,756.5			3,082.2
			4,597.7			4,750.9

COMPANY

	2006			2005		
	Effective interest rate p.a. (%)	Maturity	HK$'million	Effective interest rate p.a. (%)	Maturity	HK$'million
Non-current						
Convertible preference shares (note 29)	**5.75**	**2008**	**127.7**	5.75	2008	126.9

	GROUP		COMPANY	
	2006 HK$'million	2005 HK$'million	**2006 HK$'million**	2005 HK$'million
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**1,718.7**	1,668.7	**–**	–
In the second year	**148.8**	148.2	**–**	–
In the third to fifth years, inclusive	**2,480.0**	2,618.7	**–**	–
	4,347.5	4,435.6	**–**	–
Other borrowings repayable:				
Within one year	**122.5**	–	**–**	–
In the second year	**127.7**	188.4	**127.7**	–
In the third to fifth years, inclusive	**–**	126.9	**–**	126.9
	250.2	315.3	**127.7**	126.9
	4,597.7	4,750.9	**127.7**	126.9

All interest bearing bank and other borrowings are in Hong Kong dollars.

The Group's bank borrowings are secured by a pledge of the Group's certain assets as further detailed in note 36 to the financial statements.

Other interest rate information:

GROUP

	2006 Fixed rate HK$'million	2006 Floating rate HK$'million	2005 Fixed rate HK$'million	2005 Floating rate HK$'million
Bank loans – secured	**–**	**4,347.5**	–	4,435.6
Convertible bonds	**122.5**	**–**	188.4	–
Convertible preference shares	**127.7**	**–**	126.9	–

COMPANY

	2006 Fixed rate HK$'million	2006 Floating rate HK$'million	2005 Fixed rate HK$'million	2005 Floating rate HK$'million
Convertible preference shares	**127.7**	**–**	126.9	–

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's and the Company's non-current borrowings are as follows:

	Carrying amounts and fair values 2006 HK$'million	Carrying amounts and fair values 2005 HK$'million
Bank loans – secured	**2,628.8**	2,766.9
Convertible bonds	**–**	188.4
Convertible preference shares	**127.7**	126.9
	2,756.5	3,082.2

The fair values of the liability components of the convertible bonds and the convertible preference shares are determined using a market rate for an equivalent non-convertible bond.

28. CONVERTIBLE BONDS

In 2004, the Group made agreements with certain investors in relation to the issue by the Group of 2% guaranteed convertible bonds due 2007, guaranteed by, and convertible into ordinary shares of, the Company (the "Convertible Bonds") up to an aggregate principal amount of HK$400.0 million, comprising firm bonds in an aggregate principal amount of HK$200.0 million (the "Firm Bonds") and optional bonds of up to an aggregate principal amount of HK$200.0 million (the "Optional Bonds").

The Convertible Bonds, if fully subscribed for and issued, are convertible into a total of 1,600.0 million new ordinary shares of the Company at the initial conversion price of HK$0.25 per ordinary share (subject to adjustments).

The Firm Bonds, which were subscribed for and issued in July 2004, are unsecured, bear interest at 2% per annum and are due for repayment in 2007, if not previously converted or redeemed. The Optional Bonds, if subscribed and issued, are not redeemable. Unless previously converted, any outstanding Optional Bonds are to be converted into new ordinary shares of the Company mandatorily on the aforesaid basis at maturity.

In December 2006, the Firm Bonds in nominal value of HK$75.0 million were converted into 300.0 million new ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.25 per ordinary share.

The initial fair value of the liability component of the issued Firm Bonds is determined using a market rate for an equivalent non-convertible bond. The residual amount is recognised as the equity component and included in shareholders' equity.

The net proceeds received from the issue of the Firm Bonds have been split between the liability and equity components, as follows:

	2006 HK$'million	2005 HK$'million
Nominal value of the Firm Bonds issued	**125.0**	200.0
Equity component	**(13.6)**	(21.8)
Liability component at 1st January	**188.4**	183.0
Interest expense	**11.3**	11.2
Interest paid	**(3.2)**	(5.8)
Conversion into ordinary shares during the year	**(74.0)**	–
Liability component at 31st December (note 27)	**122.5**	188.4

29. CONVERTIBLE PREFERENCE SHARES

The outstanding preference shares at the beginning of the year represented 16,748 5$\frac{1}{4}$% convertible cumulative redeemable preference shares of US$10 each issued by the Company for cash on 13th December, 1993 at US$1,000 each. The preference shares are redeemable on 13th December, 2008 at US$1,000 each (the "Reference Amount"). The Company has the right to redeem, on or at any time after 13th December, 1996, either part or all of the preference shares, subject to certain conditions, at a redemption price of not less than the Reference Amount, with such amount to be determined by reference to specified percentages applicable to the year in which the redemption takes place. The redemption can be made either in United States dollars, or by issuing such number of the Company's ordinary shares calculated by reference to 95% of the average daily closing price of the ordinary shares for the five dealing days ending on the seventh day prior to the date on which notice of such redemption (the "Redemption Notice") is first given to the preference shareholders, at the fixed exchange rate of HK$7.730255 to US$1.00.

All preference shareholders have the right (the "Conversion Rights") to convert any or all of their preference shares into fully paid ordinary shares of the Company at an initial price of HK$2.0445 per share based on the Reference Amount of US$1,000 per preference share at the fixed exchange rate of HK$7.730255 to US$1.00. On 19th June, 1997, the conversion price of the preference shares was adjusted to HK$1.7037 per share as a result of a bonus issue of ordinary shares. The Conversion Rights are exercisable on or after 28th December, 1993 until and including the eighth day prior to 13th December, 2008 or, if earlier, the date fixed for redemption thereof as set out in the Redemption Notice.

None of the preference shares was converted during the year. The exercise in full of the Conversion Rights attached to the outstanding 16,748 (2005 – 16,748) preference shares in issue at 31st December, 2006 would have, with the present capital structure of the Company, resulted in the issue of a further 76.0 million (2005 – Nil) additional ordinary shares.

The fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The residual amount is recognised as the derivative financial instrument classified as current liabilities which is remeasured at fair value at each balance sheet date (note 26). The dividend on the convertible preference shares is charged as interest expense in the income statement.

	2006 HK$'million	2005 HK$'million
Liability component at 1st January	**126.9**	166.9
Interest expense	**7.6**	7.6
Dividend paid	**(6.8)**	(47.6)
Liability component at 31st December (note 27)	**127.7**	126.9

30. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets

Group

	Losses available for offset against future taxable profits	
	2006 HK$'million	**2005 HK$'million**
Balance at beginning of year	**213.9**	104.8
Deferred tax credited/(charged) to the income statement during the year (note 10)	**(16.1)**	109.1
Classified as assets of a disposal group held for sale (note 23)	**(195.1)**	–
Gross deferred tax assets at end of year	**2.7**	213.9

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation	
	2006 HK$'million	**2005 HK$'million**
Balance at beginning of year	**137.7**	126.0
Deferred tax charged to the income statement during the year (note 10)	**6.3**	11.7
Deferred tax liabilities included in a disposal group (note 23)	**(143.7)**	–
Gross deferred tax liabilities at end of year	**0.3**	137.7
Net deferred tax assets at end of year	**2.4**	76.2

	GROUP	
	2006 **HK$'million**	**2005** **HK$'million**
Deferred tax assets and liabilities at end of year, presented after appropriate offsetting:		
Deferred tax assets	**2.4**	98.1
Deferred tax liabilities	**–**	(21.9)
Net deferred tax assets at end of year	**2.4**	76.2

The Group had tax losses arising in Hong Kong amounting to HK$2,116.6 million (2005 - HK$2,215.3 million) at the balance sheet date. The balance included an amount of HK$1,179.5 million representing the tax losses of a disposal group held for sale at the balance sheet date. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. In the opinion of the Directors, deferred tax assets have been recognised for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the tax losses as at 31st December, 2006 amounted to HK$986.3 million (2005 - HK$993.1 million). The balance included an amount of HK$65.9 million representing the tax losses of a disposal group held for sale at the balance sheet date.

At 31st December, 2006, there was no significant unrecognised deferred tax liability (2005 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly controlled entity as the Group has no liability to additional tax should such amounts be remitted.

31. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY 2006 HK$'million	COMPANY 2005 HK$'million
Shares		
Authorised:		
20,000 million (2005 – 20,000 million) ordinary shares of HK$0.01 each	**200.0**	200.0
Issued and fully paid:		
9,139.4 million (2005 – 8,371.3 million) ordinary shares of HK$0.01 each	**91.4**	83.7
Share premium		
Ordinary shares	**750.8**	559.3

A summary of the movements of the Company's share capital and share premium during the period from 1st January, 2005 to 31st December, 2006 is as follows:

		Authorised		Issued and fully paid		Share premium
	Notes	No. of shares 'million	Amount HK$'million	No. of shares 'million	Amount HK$'million	Amount HK$'million
Ordinary shares						
At 1st January, 2005		20,000.0	200.0	8,340.4	83.4	574.0
Increase of new shares upon exercise of warrants	(i)	–	–	118.9	1.2	28.5
Repurchase and cancellation of shares	(ii)	–	–	(88.0)	(0.9)	(43.2)
At 31st December, 2005 and at 1st January, 2006		20,000.0	200.0	8,371.3	83.7	559.3
Increase of new shares upon exercise of warrants	(i)	–	–	468.1	4.7	112.3
Increase of new shares upon conversion of convertible bonds	(iii)	–	–	300.0	3.0	79.2
At 31st December, 2006		20,000.0	200.0	9,139.4	91.4	750.8
Total issued share capital						
At 31st December, 2006			**200.0**		**91.4**	**750.8**
At 31st December, 2005			200.0		83.7	559.3

(i) During the years ended 31st December, 2005 and 2006, an aggregate of 118.9 million and 468.1 million new ordinary shares of HK$0.01 each were issued for cash at a subscription price of HK$0.25 to the exercise of the Company's warrants for a total cash consideration of HK$29.7 million and HK$117.0 million, respectively, before expenses.

(ii) The repurchased ordinary shares were cancelled in the prior year and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchases of the ordinary shares, of HK$43,179,527, was charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the repurchases are summarised as follows:

Month	Number of ordinary shares repurchased	Price per ordinary share Highest HK$	Lowest HK$	Aggregate purchase price HK$
October 2005	40,864,000	0.510	0.475	19,963,480
November 2005	47,130,000	0.560	0.495	23,821,780
	87,994,000			43,785,260
		Total expenses on shares repurchased		274,207
				44,059,467

(iii) During the year, convertible bonds in nominal value of HK$75.0 million were converted into 300.0 million new ordinary shares of HK$0.01 each of the Company.

Share options

(a) Executive Share Option Scheme

During the year ended 31st December, 2005, the share option previously granted under an executive share option scheme of the Company (the "Executive Share Option Scheme") and remained outstanding was surrendered for cancellation. The Executive Share Option Schemes was approved by the Company's shareholders on 28th June, 1990 and was subsequently terminated in 2000. Share options granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholder's meetings.

Details of Directors' interests in and movements in the outstanding share option granted by the Company pursuant to the Executive Share Option Scheme during the year ended 31st December, 2005 were as follows:

		Number of ordinary shares under share option**					
Date of grant of share option	Name or category of participant	At 1st January, 2005	Vested during the year	Cancelled during the year	At 31st December, 2005	Vesting period*/ Exercise period of share option	Exercise price of share option ** HK$
	Director						
22nd February, 1997	Ms. Belinda Yeung Bik Yiu						
	Vested:	756,000	108,000	(864,000)	–	Note	2.1083
	Unvested:	324,000	(108,000)	(216,000)	–	Note	
	Total	**1,080,000**	**–**	**(1,080,000)*** **	**–**		

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

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

*** The outstanding share option for 1,080,000 ordinary shares was surrendered and cancelled in August 2005.

Note:

Vesting/Exercise periods of share option:

On completion of continuous service of	Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a) 2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b) 3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c) 9 1/2 years after date of grant	100%	100% (exercisable until 10 years after date of grant)

(b) The Regal Hotels International Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "New Share Option Scheme") and the conditional grant to Mr. Lo Yuk Sui ("Mr. Lo"), the chairman of the Company, of share options for 200,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 200,000,000 new ordinary shares at an exercise price of HK$0.75 per ordinary share (subject to adjustments), were approved by the shareholders and the independent shareholders of the Company, respectively. The exercise price for the options granted to Mr. Lo represents (i) approximately 10.29% premium to the closing price of HK$0.68 of the ordinary shares traded on the Stock Exchange on the offer date, i.e. the date of the conditional grant approved by the Directors of the Company and (ii) approximately 7.45% premium to the average closing price of HK$0.698 of the ordinary shares for the five business days immediately preceding such approval date. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Both the New Share Option Scheme and the conditional grant of options have become effective on 21st July, 2005.

On 25th July, 2005, share options for an aggregate number of 165,000,000* ordinary shares, entitling the holders thereof to subscribe for a total of 165,000,000 new ordinary shares at an exercise price of HK$0.75 per ordinary share (subject to adjustments), were offered to be granted to other selected eligible persons under the New Share Option Scheme. The exercise price for the options granted to the selected eligible persons represents (i) the closing price of HK$0.75 of the ordinary shares traded on the Stock Exchange on the offer date, i.e. the date of the grants approved by the Directors of the Company and (ii) approximately 1.08% premium to the average closing price of HK$0.742 of the ordinary shares for the five business days immediately preceding such approval date. Such further grants of options have been duly accepted and became effective by end of July 2005.

* Share options for 15,000,000 ordinary shares were subsequently cancelled following the resignation of a director during the year ended 31st December, 2005.

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

(i)	Purpose:	To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons
(ii)	Participants:	Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person
(iii)	Total number of ordinary shares subject to outstanding options under the New Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2006 and at the date of this report:	350,000,000 ordinary shares (approximately 3.8%)

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

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

Offer date**	Name or category of participant	At 1st January, 2006	Granted during the year	Cancelled during the year	At 31st December, 2006	Vesting period/ Exercise period of share options	Exercise price of share options* HK$
		Number of ordinary shares under share options*					
	Directors						
12th May, 2005	Mr. Lo Yuk Sui Unvested:	200,000,000	–	–	200,000,000	Note	0.75
25th July, 2005	Ms. Belinda Yeung Bik Yiu Unvested:	30,000,000	–	–	30,000,000	Note	0.75
25th July, 2005	Mr. Donald Fan Tung Unvested:	20,000,000	–	–	20,000,000	Note	0.75
25th July, 2005	Mr. Jimmy Lo Chun To Unvested:	15,000,000	–	–	15,000,000	Note	0.75
25th July, 2005	Miss Lo Po Man Unvested:	30,000,000	–	–	30,000,000	Note	0.75
25th July, 2005	Mr. Kenneth Ng Kwai Kai Unvested:	20,000,000	–	–	20,000,000	Note	0.75
	Other Employees						
25th July, 2005	Employees, in aggregate Unvested:	35,000,000	–	–	35,000,000	Note	0.75
		350,000,000	–	–	350,000,000		

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

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

Note:

Vesting/Exercise periods of share options:

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

Warrants

At the special general meeting of the Company held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of the Company with respect to a bonus issue of warrants ("Warrants") of the Company to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK$0.25 for every ten ordinary shares of the Company held by the shareholders on the register of members of the Company on 19th July, 2004.

On 2nd August, 2004, Warrants carrying aggregate subscription rights of approximately HK$208.5 million were issued to the shareholders of the Company. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of the Company at the initial subscription price of HK$0.25 per ordinary share (subject to adjustments), at any time from the date falling 6 months after the date of issue (i.e. 2nd February, 2005) to the date falling 7 days prior to the third anniversary of the date of issue (i.e. 26th July, 2007).

During the years ended 31st December, 2005 and 2006, 118.9 million and 468.1 million warrants were exercised for 118.9 million and 468.1 million new ordinary shares of HK$0.01 each at a price of HK$0.25 per share, respectively. At the balance sheet date, the Company had 247.0 million warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 247.0 million additional ordinary shares and share premium of HK$59.3 million (before issue expenses).

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 108 to 109 of the financial statements.

The special reserve as at 1st January, 2005 represents reserve arising from the Company's capital reorganisation in 2002.

(b) Company

	Notes	Share premium account HK$'m	Capital redemption reserve HK$'m	Share option reserve HK$'m	Contributed surplus HK$'m	Retained profits/ (Accumulated losses) HK$'m	Total HK$'m
At 1st January, 2005		574.0	–	–	2,683.5	(2,052.7)	1,204.8
Final 2004 dividend declared		–	–	–	–	(0.3)	(0.3)
Issue of new shares upon exercise of warrants	31	28.5	–	–	–	–	28.5
Repurchase and cancellation of ordinary shares	31	(43.2)	0.9	–	–	(0.9)	(43.2)
Transfer to retained profits		–	–	–	(2,683.5)	2,683.5	–
Equity-settled share option arrangements		–	–	5.7	–	–	5.7
Profit for the year		–	–	–	–	509.8	509.8
Interim 2005 dividend	12	–	–	–	–	(21.1)	(21.1)
Proposed final 2005 dividend	12	–	–	–	–	(46.1)	(46.1)
At 31st December, 2005 and at 1st January, 2006		559.3	0.9	5.7	–	1,072.2	1,638.1
Final 2005 dividend declared		–	–	–	–	(0.3)	(0.3)
Issue of new shares upon exercise of warrants	31	112.3	–	–	–	–	112.3
Issue of new shares upon conversion of convertible bonds	31	79.2	–	–	–	–	79.2
Equity-settled share option arrangements		–	–	15.0	–	–	15.0
Profit for the year		–	–	–	–	303.3	303.3
Interim 2006 dividend	12	–	–	–	–	(21.1)	(21.1)
Proposed final and special 2006 dividends	12	–	–	–	–	(146.5)	(146.5)
At 31st December, 2006		750.8	0.9	20.7	–	1,207.6	1,980.0

Contributed Surplus

The contributed surplus as at 1st January, 2005 represented the aggregate of (i) the balance of the reserve originally arising from the Group reorganisation in 1989 representing the difference between the nominal value of the Company's shares allotted under the reorganisation scheme and the then consolidated net asset value of the acquired subsidiaries; and (ii) the reserve arising from the Company's capital reorganisation in 2002.

Under the Companies Act 1981 of Bermuda, the Company's contributed surplus was distributable to shareholders under certain circumstances.

33. INTERESTS IN SUBSIDIARIES

	COMPANY	
	2006 HK$'million	**2005 HK$'million**
Unlisted shares, at cost	**5,552.2**	5,552.2
Amount due from a subsidiary	**2,208.6**	2,074.6
	7,760.8	7,626.8
Provision for impairment	**(5,411.9)**	(5,723.9)
	2,348.9	1,902.9

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

Details of the principal subsidiaries are as follows:

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Bauhinia Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK$2	100	100	Property investment
Cheerview Limited	Hong Kong	HK$1	100	100	Financing
Cityability Limited	Hong Kong	HK$10,000	100	100	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK$2	100	100	Financing
Fortune Nice Investment Limited	Hong Kong	HK$2	100	100	Financing
Gala Hotels Limited	Hong Kong	HK$2	100	100	Hotel ownership
Harvest Charm Investment Limited	Hong Kong	HK$2	100	100	Financing
HK 168 Limited	Republic of Liberia	US$1	100	100	Securities investment
Honrich Investment Limited	Hong Kong	HK$2	100	100	Financing
Regal Century Investment Limited	Hong Kong	HK$2	100	100	Investment holding and management services
Regal Estate Agents Limited	Hong Kong	HK$2	100	100	Estate agents
Regal Estate Management Limited	Hong Kong	HK$2	100	100	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK$1,151,598,638	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK$100,000	100	100	Hotel management

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity interest attributable to the Company 2006	2005	Principal activities
Regal Hotels Management (BVI) Limited	British Virgin Islands	US$1	100	100	Hotel management
Regal International Limited	British Virgin Islands	US$20	100	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK$10.1	100	100	Investment holding
Regal Portfolio Management Limited	Hong Kong	HK$8,811,937	100	—	Asset management
Regal Riverside Hotel Limited	Hong Kong	HK$2	100	100	Hotel ownership
Regal Supplies Limited	Hong Kong	HK$2	100	100	Bakery operation
Regala Health and Beauty Limited	Hong Kong	HK$2	100	100	Health products operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Richtech Holdings Limited	Hong Kong	HK$2	100	100	Investment holding
Ricobem Limited	Hong Kong	HK$100,000	100	100	Hotel ownership

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

All of the above subsidiaries operate in the place of their incorporation, except for Regal Hotels Management (BVI) Limited, which operates in the PRC.

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

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'million	2005 HK$'million
Profit before tax	**355.2**	426.8
Adjustments for:		
Finance costs	**265.8**	199.8
Share of profits and losses of a jointly controlled entity and associates	**(206.5)**	(212.3)
Interest income	**(8.2)**	(8.5)
Depreciation	**116.8**	109.3
Recognition of prepaid land lease payments	**22.2**	22.2
Excess over the cost of an associate	**–**	(6.7)
Dividend income from listed investments	**(3.1)**	(1.7)
Profit on disposal of equity investments at fair value through profit or loss, net	**(67.5)**	(1.0)
Gain on disposal of overseas subsidiaries	**–**	(0.7)
Fair value gains on equity investments at fair value through profit or loss, net	**(6.1)**	(62.3)
Impairment of trade debtors	**0.2**	–
Fair value gain on derivative financial instrument	**(4.8)**	(9.0)
Equity-settled share option expenses	**15.0**	5.7
	479.0	461.6
Increase in debtors, deposits and prepayments	**(28.1)**	(41.8)
Increase in hotel and other inventories	**(1.5)**	(5.0)
Increase in creditors and accruals	**32.2**	41.4
Cash generated from operations	**481.6**	456.2
Overseas taxes paid	**(0.1)**	(0.2)
Hong Kong taxes paid	**–**	(0.1)
Net cash inflow from operating activities	**481.5**	455.9

(b) Major non-cash transaction

In the prior year, a promissory note payable of HK$145.0 million was issued to a subsidiary of Paliburg Holdings Limited in settlement of the consideration in respect of the acquisition of 50% equity interest in Hang Fok (note 17). The balance was fully repaid on 10th April, 2006.

(c) Disposal of overseas subsidiaries

	2006 HK$'million	2005 HK$'million
Net assets disposed of:		
Property, plant and equipment	–	39.0
Inventories	–	23.1
Debtors, deposits and prepayments	–	6.8
Cash and bank balances	–	2.1
Creditors and accruals	–	(45.4)
Interest bearing bank and other borrowings	–	(22.6)
	–	3.0
Exchange equalisation reserve released on disposal	–	(0.7)
Gain on disposal	–	0.7
	–	3.0
Satisfied by:		
Other receivable included in debtors, deposits and prepayment	–	3.0

An analysis of the outflow of cash and cash equivalents in respect of the disposal of overseas subsidiaries is as follows:

	2006 HK$'million	2005 HK$'million
Cash and bank balances disposed of and outflow of cash and cash equivalents in respect of the disposal of overseas subsidiaries	–	(2.1)

The overseas subsidiaries disposed of in the prior year contributed HK$29.1 million to revenue and loss of HK$4.6 million to the consolidated profit after tax and before minority interests for the year ended 31st December, 2005.

35. CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2006 HK$'million	2005 HK$'million
A substantial shareholder:			
Management fees	(i)	**11.8**	11.8
Wholly-owned subsidiaries of a substantial shareholder, Paliburg Holdings Limited ("PHL"):			
Development consultancy fees	(ii)	**1.1**	12.4
Service fees in respect of security systems and products and other software	(iii)	**1.4**	3.0
Repairs and maintenace fees and construction fees	(iv)	**23.8**	7.1
An associate:			
Advertising and promotion fees (including cost reimbursements)	(v)	**23.3**	9.6
Hotel room revenue	(vi)	**19.9**	–
A jointly controlled entity:			
Estate agency fee income	(vii)	**–**	0.6
Rental expense in respect of land and buildings	(viii)	**1.4**	–

Notes:

(i) The management costs included rentals and other overheads allocated from Century City International Holdings Limited ("CCIHL"), an indirect substantial shareholder of the Company, either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, PHL and the Company based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.

(ii) The development consultancy fees were paid to a subsidiary of PHL for various services provided, which include advisory, supervisory, architectural and design services in connection with the Group's room extension and other renovation projects of its hotels. The fees were charged at rates ranging from 4.0% to 10.0% of the estimated cost of individual projects. In addition, in the prior year, a consultancy fee was also paid to the same company for architectural and design services rendered in connection with the Group's proposed hotel development project in Macau.

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

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

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

(vi) The hotel room revenue was earned from an associate acting as a travel agency, at rates agreed between the associate and individual hotels.

(vii) The estate agency fee income was charged in respect of estate agency service provided in relation to the properties held for sale of the jointly controlled entity.

(viii) The rental expense was charged by the jointly controlled entity for providing a quarter for the chairman of RHIHL at a monthly rent of HK0.23 million with effect from 1st July, 2006.

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

(b) Other transaction with related party:

In July 2005, the Group entered into a sale and purchase agreement with a subsidiary of PHL to acquire a 50% equity interest in Hang Fok at a consideration of HK$145.0 million. As a result, Hang Fok became an associate of the Group thereafter. The consideration was satisfied by the issuance of a promissory note by the Group, bearing interest at a rate of 3% per annum (note 25). During the year, the promissory note was fully settled by the Group.

(c) Outstanding balances with related parties:

	Notes	2006 HK$'million	2005 HK$'million
Due from the jointly controlled entity	(i)	**366.7**	366.7
Due from an associate	(ii)	**10.3**	–
Due from related companies	(ii)	**10.5**	10.2
Due to an associate	(iii)	**(11.3)**	(4.8)
Due to related companies	(iv)	**(9.5)**	(19.2)
Loans to the jointly controlled entity	(i)	**2,984.5**	2,960.3
Loans to/Amounts due from associates	(v)	**252.2**	36.7
Promissory note payable	(vi)	**–**	(145.0)

Notes:

(i) Details of an amount due from and loans to the jointly controlled entity are included in interest in a jointly controlled entity in note 16 to the financial statements.

(ii) Details of an amount due from an associate and the amounts due from related companies are included in debtors, deposits and prepayments in note 21 to the financial statements.

(iii) Details of the amount due to an associate are included in creditors and accruals in note 24 to the financial statements.

(iv) Details of the amounts due to related companies are included in creditors and accruals in note 24 to the financial statements.

(v) Details of loans to/amounts due from associates are included in interests in associates in note 17 to the financial statements.

(vi) Details of the promissory note payable are included in note 25 to the financial statements.

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

	2006 HK$'million	2005 HK$'million
Short term employee benefits	**13.0**	12.4
Share-based payments	**13.2**	5.3
Total compensation paid to key management personnel	**26.2**	17.7

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

The related party transactions set out in notes 35(a)(i) to (viii) above also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules to the Company. Such transactions are exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval pursuant to rules 14A.31(8), 14A.31(2)(a) and 14A.33(3)(a) of the Listing Rules. The related party transaction set out in note 35(b) constituted a connected transaction to the Company and relevant disclosures requirements in accordance with the Listing Rules had been made. Related details of the related party transaction set out in note 35(b) are disclosed in the Directors' Report of the Company for the financial year ended 31st December, 2005.

Relevant disclosures and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to the related party transactions during the prior year set out in note 35(a) had been made or met or otherwise exempted. Related details of such transactions (where required) were disclosed in the annual report of the Company for the financial year ended 31st December, 2005.

36. PLEDGE OF ASSETS

In addition to the balances set out elsewhere in the notes to the financial statements, at the balance sheet date, the Group's interest in a jointly controlled entity, prepaid land lease payments, hotel properties, leasehold properties and certain of its furniture, fixtures, and equipment, bank deposits and cash, inventories and receivables with a total carrying value of HK$6,085.4 million (2005 - HK$5,945.3 million) and the shares in certain subsidiaries were pledged to secure general banking facilities granted to the Group.

37. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had the following contingent liabilities:

	GROUP		COMPANY	
	2006 HK$'million	2005 HK$'million	2006 HK$'million	2005 HK$'million
Corporate guarantees provided in respect of:				
Outstanding bank borrowings of subsidiaries	**–**	–	**4,368.7**	4,468.7
Outstanding convertible bonds issued by a subsidiary	**–**	–	**125.0**	200.0
	–	–	**4,493.7**	4,668.7

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 6 months to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 31st December, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2006 HK$'million	2005 HK$'million
Within one year	**21.1**	21.0
In the second to fifth years, inclusive	**14.7**	7.8
	35.8	28.8

(b) As lessee

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms from 1 year to 2 years, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Lease for office equipment in respect of the Group is negotiated for a term of 3 to 5 years.

At 31st December, 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Land and buildings:		
Within one year	**5.8**	2.4
In the second to fifth years, inclusive	**5.3**	6.9
	11.1	9.3
Other equipment:		
Within one year	**0.1**	0.1
In the second to fifth years, inclusive	**0.2**	0.3
	0.3	0.4
	11.4	9.7

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

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2006 HK$'million	**2005 HK$'million**
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:		
Authorised and contracted for	**58.4**	8.1
Authorised, but not contracted for	**291.7**	294.3
	350.1	302.4

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

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, convertible bonds, convertible preference shares, promissory note payable, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 27 to the financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and equity investments at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Liquidity risk

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

41. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group had the following significant post balance sheet events:

(i) In January 2007, the Group entered into a letter of intent with Cosmopolitan International Holdings Limited ("Cosmopolitan"), a listed company in Hong Kong, to participate in a large scale development project in Shenyang City, Liaoning Province, PRC.

Under the letter of intent, the Group will provide consultancy services to Cosmopolitan with respect to the hotel and related project, in which the Group will also have the right of first refusal to invest in 55% interest (or such other percentage as may be mutually agreed), subject to Cosmopolitan having entered into a legally binding agreement with the relevant government authorities.

(ii) At the special general meeting of the Company held on 9th March, 2007, an ordinary resolution was passed by the shareholders to approve the spin-off of Regal Real Estate Investment Trust ("Regal REIT") (the "Spin-off"). The Spin-off comprised the global offering and separate listing of the units in Regal REIT on the Stock Exchange, and all incidental arrangements which primarily involved the disposal of the Group's five hotel properties in Hong Kong to Regal REIT, a real estate investment trust constituted by a trust deed between Regal Portfolio Management Limited, a wholly owned subsidiary of the Group, as the manager of Regal REIT and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT. Further details of the Spin-off were set out in the circular dated 21st February, 2007.

On 30th March, 2007, the Spin-off was completed and cash proceeds of approximately HK$2,159.4 million (after repayment of all bank loans and subscription of 72% interest in Regal REIT) was realised by the Group upon the listing of Regal REIT.

(iii) On 10th April, 2007, the Group together with other independent investors entered into a conditional subscription agreement with Cosmopolitan, pursuant to which the Group has agreed to subscribe for new convertible bonds in a principal amount of HK$102.5 million proposed to be issued by Cosmopolitan group, which will be convertible into new ordinary shares of Cosmopolitan at an initial conversion price of HK$0.205 per share and, if not converted, will be redeemable on the third anniversary of the date of issue of the convertible bonds at a yield to maturity of 5% per annum.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19th April, 2007.