

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiaries are property development and investment, construction and building related businesses and other investments. Regal Hotels International Holdings Limited ("RHIHL"), the listed associate of the Company, and its subsidiaries (together, the "RHIHL Group") are engaged in the business activities of hotel ownership and management, property investment and other investments.

There have been no significant changes in these activities during the year.

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

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 103 to 180.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments during the year principally constituted its shareholding interest in RHIHL. The significant investments of RHIHL during the year comprised primarily its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of RHIHL and its operations during the year under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance of RHIHL as well as the progress and prospects on the Regalia Bay development are contained in the Chairman's Report which precedes this report.

A detailed review of the other business operations and outlook of the Group is also contained in the Chairman's Report.

Cash Flow and Capital Structure

Net cash inflow from operating activities during the year under review amounted to HK\$19.4 million (2005 - outflow of HK\$11.6 million). Net interest payment for the year amounted to HK\$4.9 million (2005 - HK\$30.8 million).

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

Borrowings

As at 31st December, 2006, the Group's gross borrowings net of cash and bank balances amounted to HK\$112.1 million (2005 - HK\$66.7 million). Gearing ratio based on total assets of HK\$3,958.0 million (2005 - HK\$3,523.4 million) was 2.8% (2005 - 1.9%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 37 and 38, respectively, to the financial statements.

Details of the maturity profile of the Group's borrowings are set out in note 30 to the financial statements.

Material Acquisitions or Disposals of Subsidiaries or Associates

During the year under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company. Subsequent to the balance sheet date, in January 2007, the Group entered into a sale and purchase agreement with an independent third party for the sale of the entire equity interests held by the Group in its wholly-owned subsidiary that beneficially owns certain properties at Rainbow Lodge in Yuen Long, New Territories. Details of such transaction are disclosed in the "Chairman's Report" and note 41 to the financial statements.

Save as otherwise disclosed in the Chairman's Report, the Group has no immediate plan for material investments or capital assets.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. Property development projects are financed partly by internal resources and partly by bank financing. Project financing is normally arranged in local currency to cover a part of the land cost and a major portion or the entire amount of the construction cost, with interest calculated by reference to the interbank offered rates and the loan maturity tied in to the estimated project completion date.

During the year under review, as the Group's borrowings were all denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest primarily determined with reference to interbank offered rates, no hedging instruments for currency or interest rates purposes have been deployed.

Remuneration Policy

The Group, together with the RHIHL group, employ approximately 1,850 staff in Hong Kong. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include a mandatory provident fund scheme as well as medical and life insurance.

With a view to providing long term incentives, the Company maintains a share option scheme named as "The Paliburg Holdings Limited Share Option Scheme" (the "Paliburg Share Option Scheme"), under which share options have been granted to selected eligible persons.

DIVIDENDS

An interim dividend of HK0.15 cent per ordinary share (2005 - Nil), absorbing an amount of approximately HK\$10.8 million (2005 - Nil) was paid to holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK0.3 cent per ordinary share for the year ended 31st December, 2006 (2005 - HK0.2 cent), absorbing an amount of approximately HK\$21.6 million (2005 - HK\$14.4 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 12th June, 2007. This recommendation has been incorporated in the financial statements.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Friday, 8th June, 2007 to Tuesday, 12th June, 2007, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant certificates, must be lodged with the Company's branch registrar in Hong Kong, Tengis Limited, not later than 4:00 p.m. on Thursday, 7th June, 2007. The relevant dividend warrants are expected to be despatched on or about 29th June, 2007.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Mr. Donald Fan Tung
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Ng Siu Chan
Hon Abraham Shek Lai Him, JP
Mr. Wong Chi Keung
Mr. Kenneth Wong Po Man

On 11th January, 2007, Mrs. Kitty Lo Lee Kit Tai resigned as a Non-Executive Director, and Miss Lo Po Man and Mr. Kenneth Wong Po Man were both appointed as Executive Directors.

In accordance with Bye-law 99 of the Bye-laws of the Company and for compliance with the Code on Corporate Governance Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), Mr. Kenneth Ng Kwai Kai, an Executive Director, and Mr. Ng Siu Chan, an Independent Non-Executive Director, will retire from office by rotation at the 2007 Annual General Meeting.

In accordance with Bye-law 102 of the Bye-laws of the Company, Miss Lo Po Man and Mr. Kenneth Wong Po Man, who were appointed as Executive Directors of the Company subsequent to the last annual general meeting of the Company held on 16th June, 2006, shall both hold office until the 2007 Annual General Meeting.

All of the above retiring Directors, being eligible, have offered themselves for re-election at the AGM. Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Listing Rules, are set out in the circular of the Company, sent to shareholders together with the 2006 Annual Report, relating to, inter alia, the re-election of Directors.

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

At no time during the year was the Company or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than the Paliburg Share Option Scheme and the share option scheme of Century City International Holdings Limited ("CCIHL"), the ultimate listed holding company of the Company, named as "The Century City International Holdings Limited Share Option Scheme" (the "Century Share Option Scheme") (together, the "Schemes"), under which options have been granted to certain Directors.

During the year, no options was granted to any Directors under the Schemes, and none of such Directors exercised options to subscribe for shares under the Schemes.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

| | Name of Director | Class of Shares held | Number of Shares Held | | | Total (Approximate percentage of the Issued Shares as at 31st December, 2006) |
|----------------|---|----------------------|-----------------------------|------------------|------------------------------|---|
| | | | Personal Interests | Family Interests | Corporate Interests | |
| 1. The Company | Mr. Lo Yuk Sui | Ordinary (i) issued | 124,242,765 | - | 4,126,974,001 (Note c(i)) | 4,251,216,766 |
| | | (ii) unissued | 180,000,000 (Note c(ii)) | - | | 180,000,000 |
| | | | | | Total (i) & (ii): | 4,431,216,766 (61.47%) |
| | Mr. Donald Fan Tung | Ordinary (i) issued | 2,718 | - | - | 2,718 |
| | | (ii) unissued | 20,000,000 (Note d) | - | - | 20,000,000 |
| | | | | | Total (i) & (ii): | 20,002,718 (0.28%) |
| | Mrs. Kitty Lo Lee Kit Tai (Note (k)) | Ordinary (issued) | 100,000 | - | - | 100,000 (0.0014%) |
| | Mr. Jimmy Lo Chun To | Ordinary (i) issued | 284,000 | - | - | 284,000 |
| | | (ii) unissued | 20,000,000 (Note d) | - | - | 20,000,000 |
| | | | | | Total (i) & (ii): | 20,284,000 (0.28%) |
| | Mr. Kenneth Ng Kwai Kai | Ordinary (unissued) | 20,000,000 (Note d) | - | - | 20,000,000 (0.28%) |
| | Mr. Ng Siu Chan | Ordinary (issued) | - | 536,500 | - | 536,500 (0.0074%) |

| Name of Associated Corporation | Name of Director | Class of Shares held | Number of Shares Held | | | Total (Approximate percentage of the Issued Shares as at 31st December, 2006) |
|--|---|----------------------|--------------------------------------|----------------------------|--------------------------------|---|
| | | | Personal Interests | Family Interests | Corporate Interests | |
| 2. Century City International Holdings Limited ("CCIHL") | Mr. Lo Yuk Sui | Ordinary (i) issued | 294,516,903 | - | 11,664,822,186 (Note a(ii)) | 11,959,339,089 |
| | | (ii) unissued | 408,903,380 (Notes a(ii) & (iii)) | - | 2,332,964,436 (Note a(iv)) | 2,741,867,816 |
| | | | | | Total (i) & (ii): | 14,701,206,905 (85.42%) |
| | Mrs. Kitty Lo Lee Kit Tai (Note (k)) | Ordinary (i) issued | 2,510,000 | - | - | 2,510,000 |
| | | (ii) unissued | 502,000 (Note b(i)) | - | - | 502,000 |
| | | | | | Total (i) & (ii): | 3,012,000 (0.018%) |
| | Mr. Jimmy Lo Chun To | Ordinary (i) issued | 1,659,800 | - | - | 1,659,800 |
| | | (ii) unissued | 331,960 (Note b(ii)) | - | - | 331,960 |
| | | | | | Total (i) & (ii): | 1,991,760 (0.012%) |
| | Mr. Ng Siu Chan | Ordinary (i) issued | - | 15,453,000 | - | 15,453,000 |
| | | (ii) unissued | - | 3,090,600 (Note b(iii)) | - | 3,090,600 |
| | | | | | Total (i) & (ii): | 18,543,600 (0.108%) |

Report of the Directors (Cont'd)

| Name of Associated Corporation | Name of Director | Class of Shares held | Number of Shares Held | | | Total (Approximate percentage of the Issued Shares as at 31st December, 2006) |
|--|---|----------------------|-------------------------------------|-------------------|------------------------------------|---|
| | | | Personal Interests | Family Interests | Corporate Interests | |
| 3. Regal Hotels International Holdings Limited ("RHIHL") | Mr. Lo Yuk Sui | Ordinary (i) issued | 220,000 | - | 4,153,067,610 (Note e(i)) | 4,153,287,610 |
| | | (ii) unissued | 200,022,000 (Notes e(iii) & (v)) | - | 69,805,453 (Note e(ii) to (iv)) | 269,827,453 |
| | | | | | Total (i) & (ii): | 4,423,115,063 (48.40%) |
| | | Preference (issued) | - | - | 3,440 (Note e(iv)) | 3,440 (20.54%) |
| | Mr. Donald Fan Tung | Ordinary (unissued) | 20,000,000 (Note f) | - | - | 20,000,000 (0.22%) |
| | Mrs. Kitty Lo Lee Kit Tai (Note (k)) | Ordinary (i) issued | 2,370,000 | - | - | 2,370,000 |
| (ii) unissued | | 237,000 (Note g) | - | - | 237,000 | |
| | | | | Total (i) & (ii): | 2,607,000 (0.029%) | |
| | Mr. Jimmy Lo Chun To | Ordinary (unissued) | 15,000,000 (Note h) | - | - | 15,000,000 (0.16%) |
| | Mr. Kenneth Ng Kwai Kai | Ordinary (unissued) | 20,000,000 (Note f) | - | - | 20,000,000 (0.22%) |
| 4. 8D International (BVI) Limited | Mr. Lo Yuk Sui | Ordinary (issued) | - | - | 1,000 (Note i) | 1,000 (100%) |
| 5. Network Sky Limited | Mrs. Kitty Lo Lee Kit Tai (Note (k)) | Ordinary (issued) | - | - | 50,000 (Note j) | 50,000 (25%) |

Notes:

- (a) (i) The interests in 914,822,186 issued ordinary shares of CCIHL were held through companies wholly owned by Mr. Lo Yuk Sui ("Mr. Lo") and a company, namely Master City Limited, 99.96% owned by Mr. Lo.

The interests in 10,750,000,000 issued ordinary shares of CCIHL were held through corporations controlled by Mr. Lo as detailed below:

| (a) Name of corporation | Controlled by | % of control |
|--|-----------------------------------|--------------|
| CCIHL | Mr. Lo | 69.49 |
| Century City BVI Holdings Limited | CCIHL | 100.00 |
| 8D International (BVI) Limited | Century City BVI Holdings Limited | 40.00 |
| Task Master Technology Limited | 8D International (BVI) Limited | 100.00 |
| Net Community Limited | Task Master Technology Limited | 33.33 |
| Century Digital Holdings Limited | Net Community Limited | 100.00 |
| Grand Modern Investments Limited ("Grand Modern") | Century Digital Holdings Limited | 100.00 |

| (b) Name of corporation | Controlled by | % of control |
|----------------------------------|----------------------------------|--------------|
| Manyways Technology Limited | Mr. Lo | 100.00 |
| Secure Way Technology Limited | Mr. Lo | 92.50 |
| 8D International (BVI) Limited | Manyways Technology Limited | 60.00 |
| Task Master Technology Limited | 8D International (BVI) Limited | 100.00 |
| Net Community Limited | Secure Way Technology Limited | 66.67 |
| Net Community Limited | Task Master Technology Limited | 33.33 |
| Century Digital Holdings Limited | Net Community Limited | 100.00 |
| Grand Modern | Century Digital Holdings Limited | 100.00 |

- (ii) The interests in 350,000,000 unissued ordinary shares of CCIHL were held through the interests in the options granted under the Century Share Option Scheme, entitling the holder thereof to subscribe for a total of 350,000,000 new ordinary shares of CCIHL at an exercise price of HK\$0.12 per ordinary share (subject to adjustments). The options became effective on 21st July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of CCIHL under vested options</u> |
|----------------------------------|--|
| 12th May, 2007 to 11th May, 2011 | 140,000,000 |
| 12th May, 2008 to 11th May, 2011 | 70,000,000 |
| 12th May, 2009 to 11th May, 2011 | 70,000,000 |
| 12th May, 2010 to 11th May, 2011 | 70,000,000 |

- (iii) The interests in 58,903,380 unissued ordinary shares of CCIHL related to the interests in the warrants of CCIHL (the "2011 Warrants") carrying subscription rights in an aggregate amount of HK\$5,890,338.00, which are exercisable during the period from 18th April, 2006 to 11th January, 2011 to subscribe for new ordinary shares of CCIHL at an initial subscription price of HK\$0.10 per ordinary share (subject to adjustment).
- (iv) The interests in 2,332,964,436 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$233,296,443.60, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (b) (i) The interests in 502,000 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$50,200.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (ii) The interests in 331,960 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$33,196.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (iii) The interests in 3,090,600 unissued ordinary shares of CCIHL related to the interests in the 2011 Warrants carrying subscription rights in an aggregate amount of HK\$309,060.00, which are exercisable to subscribe for new ordinary shares of CCIHL upon the terms as set out in note (a)(iii) above.
- (c) (i) The interests in 3,820,218,001 issued ordinary shares of the Company were held through companies wholly owned by CCIHL, in which Mr. Lo held 69.49% shareholding interests.

The interests in 306,756,000 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

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

The interests in 200,000,000 issued ordinary shares of the Company were held through corporations controlled by Mr. Lo as detailed below:

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

- (ii) The interests in 180,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Paliburg Share Option Scheme, entitling the holder thereof to subscribe for a total of 180,000,000 new ordinary shares of the Company at an exercise price of HK\$0.22 per ordinary share (subject to adjustments). The options became effective on 21st July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of the Company under vested options</u> |
|----------------------------------|--|
| 12th May, 2007 to 11th May, 2011 | 72,000,000 |
| 12th May, 2008 to 11th May, 2011 | 36,000,000 |
| 12th May, 2009 to 11th May, 2011 | 36,000,000 |
| 12th May, 2010 to 11th May, 2011 | 36,000,000 |

- (d) The interests in 20,000,000 unissued ordinary shares share option of the Company were held through the interests in the options granted under the Paliburg Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of the Company at an exercise price of HK\$0.22 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of the Company under vested options</u> |
|------------------------------------|--|
| 25th July, 2007 to 24th July, 2011 | 8,000,000 |
| 25th July, 2008 to 24th July, 2011 | 4,000,000 |
| 25th July, 2009 to 24th July, 2011 | 4,000,000 |
| 25th July, 2010 to 24th July, 2011 | 4,000,000 |

- (e) (i) The issued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 53.0% shareholding interests.
- (ii) The interests in 69,805,453 unissued ordinary shares of RHIHL were held through companies wholly owned by the Company, in which CCIHL held 53.0% shareholding interests.
- (iii) The interests in 22,000 and 54,197,026 unissued ordinary shares of RHIHL related to the interests in the warrants of RHIHL (the "2007 Warrants") carrying subscription rights in an aggregate amount of HK\$13,554,756.50, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 54,219,026 new ordinary shares of RHIHL at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustment).
- (iv) The interests in 15,608,427 unissued ordinary shares of RHIHL related to the interests in 3,440 convertible cumulative preference shares of RHIHL carrying rights to convert into 15,608,427 new ordinary shares of RHIHL, based on the conversion price of HK\$1.7037 per ordinary share and on a reference amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00, during the period from 5th December, 1993 to 5th December, 2008.

- (v) The interests in 200,000,000 unissued ordinary shares of RHIHL were held through the interests in the options granted under the share option scheme of RHIHL named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Regal Share Option Scheme"), entitling the holder thereof to subscribe for a total of 200,000,000 new ordinary shares of RHIHL at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 21st July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of RHIHL under vested options</u> |
|----------------------------------|--|
| 12th May, 2007 to 11th May, 2011 | 80,000,000 |
| 12th May, 2008 to 11th May, 2011 | 40,000,000 |
| 12th May, 2009 to 11th May, 2011 | 40,000,000 |
| 12th May, 2010 to 11th May, 2011 | 40,000,000 |

- (f) The interests in 20,000,000 unissued ordinary shares of RHIHL were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of RHIHL at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of RHIHL under vested options</u> |
|------------------------------------|--|
| 25th July, 2007 to 24th July, 2011 | 8,000,000 |
| 25th July, 2008 to 24th July, 2011 | 4,000,000 |
| 25th July, 2009 to 24th July, 2011 | 4,000,000 |
| 25th July, 2010 to 24th July, 2011 | 4,000,000 |

- (g) The interests in 237,000 unissued ordinary shares of RHIHL related to the interests in the 2007 Warrants carrying subscription rights in an aggregate amount of HK\$59,250.00, which are exercisable to subscribe for such new ordinary shares of RHIHL upon the terms as set out in note (e)(iii) above.

- (h) The interests in 15,000,000 unissued ordinary shares of RHIHL were held through the interests in the options granted under the Regal Share Option Scheme, entitling the holder thereof to subscribe for a total of 15,000,000 new ordinary shares of RHIHL at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 28th July, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise period</u> | <u>Number of ordinary shares of RHIHL under vested options</u> |
|------------------------------------|--|
| 25th July, 2007 to 24th July, 2011 | 6,000,000 |
| 25th July, 2008 to 24th July, 2011 | 3,000,000 |
| 25th July, 2009 to 24th July, 2011 | 3,000,000 |
| 25th July, 2010 to 24th July, 2011 | 3,000,000 |

- (i) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 69.49% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.
- (j) The shares were held through a company wholly owned by Mrs. Kitty Lo Lee Kit Tai.
- (k) Mrs. Kitty Lo Lee Kit Tai resigned as a Director of the Company on 11th January, 2007.

Save as disclosed herein, as at 31st December, 2006, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code in the Listing Rules to be notified to the Company and the Stock Exchange.

Save as disclosed in note 32 to the consolidated financial statements, during the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the Paliburg Share Option Scheme and no option granted to such persons under the Paliburg Share Option Scheme has been cancelled and lapsed:

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2006, the following substantial shareholders (as defined in the Listing Rules) (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

| Name of substantial shareholder | Number of issued ordinary shares held | Approximate percentage of the issued ordinary shares as at 31st December, 2006 |
|---|---------------------------------------|--|
| CCIHL (Notes i and ii) | 3,820,218,001 | 53.00% |
| Century City BVI Holdings Limited ("CCBVI") (Note ii) | 3,820,218,001 | 53.00% |
| Almighty International Limited ("Almighty") (Note ii) | 1,909,853,045 | 26.49% |
| Cleerview Investments Limited ("Cleerview") (Note ii) | 1,185,026,955 | 16.44% |

Notes:

- (i) Mr. Lo Yuk Sui directly and indirectly held 69.49% shareholding interests in CCIHL and the interests in these ordinary shares of the Company held by CCIHL through its wholly owned subsidiary companies were included in the corporate interests of Mr. Lo Yuk Sui in the ordinary shares of the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) These companies are wholly owned by CCIHL and their interests in the ordinary shares of the Company were included in the interests held by CCIHL.

Save as disclosed herein, there is no person who being a substantial shareholder (as defined in the Listing Rules), as at 31st December, 2006, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO.

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

- (1) Mr. Lo Yuk Sui, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man and Mr. Kenneth Ng Kwai Kai are directors of CCIHL.
- (2) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of CCBVI, Almighty and Cleerview.

**DISCLOSURE PURSUANT TO RULE 13.16 OF CHAPTER 13
OF THE LISTING RULES**

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

**Financial Assistance provided to Affiliated Companies
(Rule 13.16 of Chapter 13)**

Details of the financial assistance provided to affiliated companies by the Group as at 31st December, 2006 are set out below:

| Name of Affiliated Companies | Principal Amount of Advances (HK\$'million) |
|-------------------------------------|--|
| Cheerjoy Development Limited | 155.2 |
| Network Sky Limited | 0.8 |
| Smart Tactic Limited | 0.4 |
| Hang Fok Properties Limited | 222.2 |
| | <hr/> |
| | 378.6 |
| | <hr/> <hr/> |

Cheerjoy Development Limited ("Cheerjoy") was a wholly-owned subsidiary of the Company and became a 30% owned associate of the Company during 1999. Cheerjoy owns the development property at Ap Lei Chau Inland Lot No.129, Ap Lei Chau East, Hong Kong. The remaining 70% shareholding interest in Cheerjoy is owned by a third party, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances were provided by the PHL Group in the form of shareholder's loans and, according to the terms of the shareholders' agreement in respect of this joint venture, would not be in proportion to the Company's shareholding interest in Cheerjoy. The advances were provided for the purpose of funding the working capital requirements of Cheerjoy, are unsecured, interest-free and have no fixed terms of repayment.

Network Sky Limited ("Network Sky") is a 25% owned associate of the Company, which through its wholly-owned subsidiary was engaged in the carrying on of a light refreshment operation. The other shareholding interests in Network Sky are owned as to 25% indirectly by RHIHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, a director of the Company till January 2007, through her associate (as defined in the Listing Rules) and 25% directly by a third party which is independent of, and not connected with the Company, the directors, chief

executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances to Network Sky were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Network Sky, for the purpose of financing the working capital of Network Sky. The advances are unsecured, interest-free and have no fixed terms of repayment.

Smart Tactic Limited ("Smart Tactic"), a 30% owned associate of the Company, is engaged in carrying on business in sourcing, trading and distributing biometric security products primarily in the People's Republic of China (the "PRC"). The remaining 70% shareholding interest in Smart Tactic is owned by a third party, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances to Smart Tactic were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Smart Tactic, for the purpose of funding the working capital requirements of Smart Tactic. The advances to Smart Tactic are unsecured, interest-free and have no fixed terms of repayment.

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

Calculated on the basis shown above, as at 31st December, 2006, the aggregate amount of financial assistance provided to affiliated companies by the Group in the sum of HK\$378.6 million represented 9.6% of the consolidated total assets of the Group of HK\$3,958.0 million by reference to its latest audited financial statements for the year ended 31st December, 2006.

Save as disclosed above, there were no other financial assistance provided to affiliated companies by the Group as at 31st December, 2006, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

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

| | Pro-forma combined balance sheet (HK\$'million) | The Group's attributable interest (HK\$'million) |
|-------------------------|--|---|
| Non-current assets | 5,324.7 | 1,678.0 |
| Current assets | 644.6 | 322.1 |
| Current liabilities | (103.2) | (51.6) |
| Non-current liabilities | (5,202.3) | (1,648.0) |
| | 663.8 | 300.5 |
| Net assets | 663.8 | 300.5 |

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the listed securities of the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

PROPERTY, PLANT AND EQUIPMENT

The details of movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

The details of movements in investment properties during the year are set out in note 16 to the financial statements.

PROPERTY UNDER DEVELOPMENT

The details of movements in property under development during the year are set out in note 18 to the financial statements.

PROPERTY HELD FOR FUTURE DEVELOPMENT

The details of movements in property held for future development during the year are set out in note 19 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 30 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company, together with reasons therefor, during the year are set out in note 32 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 32 to the financial statements.

SPECIAL RESERVE

The details of movements in the special reserve account during the year are presented in the consolidated statement of changes in equity of the financial statements.

REVALUATION RESERVES

The details of movements in the revaluation reserves account during the year are presented in the consolidated statement of changes in equity of the financial statements.

EXCHANGE EQUALISATION RESERVE

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

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 34 to the financial statements.

ASSOCIATES

Particulars of the Group's interests in its associates are set out in note 20 to the financial statements.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 33(b) to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2006, the Company's reserves available for distribution calculated in accordance with The Companies Act 1981 of Bermuda amounted to HK\$2,387.7 million, of which HK\$21.6 million has been proposed as final dividend for the year.

The Company's share premium may be distributed in the form of fully paid bonus shares.

INTEREST CAPITALISED

No interest expense was capitalised during the year in respect of the Group's property development projects.

POST BALANCE SHEET EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 41 to the financial statements.

AUDITORS

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

On behalf of the Board

LO YUK SUI

Chairman

Hong Kong
19th April, 2007