

## INTERIM DIVIDEND

The Directors have resolved not to declare the payment of an interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2005 (2004 - Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Highlights

The Group's significant investments principally constitute its shareholding interest in Regal, the listed associate of the Company. The significant investments of Regal comprise primarily its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. The performance of Regal and its operations during the period under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance of Regal as well as the progress and prospects on the Regalia Bay development are contained in the sections above headed "Review of Operations" and "Outlook". In the corresponding period in 2004, Regal was accounted for as a subsidiary of the Company as the Group then held over 50% of the ordinary shares of Regal. Regal ceased to be a subsidiary of the Company on 31st July, 2004 and has since been equity accounted for as an associate of the Group.

A detailed review of the other business operations and outlook of the Group is also contained in the sections headed "Review of Operations" and "Outlook" above.

### Cash Flow and Capital Structure

Net cash outflow from operating activities during the period under review amounted to HK\$12.2 million (2004 - inflow of HK\$135.9 million). Net interest payment for the period amounted to HK\$25.8 million (2004 - HK\$51.1 million).

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

### Assets Value

Prior to 1st January, 2005, it was the policy of Regal, in accordance with the relevant accounting standards previously applicable, to state the value of its owned and operated hotel properties at their open market valuations for existing use appraised annually and not depreciated. Upon the adoption by Regal of the new accounting standards, Regal's five hotel properties in Hong Kong are now stated at cost less accumulated depreciation and amortisation on the hotel land and buildings. However, adjustments have been made retrospectively to the interests of the Group held in Regal to reflect the fair value of Regal's hotel properties in 1993 when the Group initially acquired Regal as a subsidiary.



In order to fully reflect the underlying economic values of Regal's hotel properties in Hong Kong, the Group considers it appropriate also to present to shareholders, as set out below, supplementary information on the Group's statement of net assets on a proforma basis that Regal were to continue to state its five hotel properties in Hong Kong at their open market valuations as at 31st December, 2004 and not depreciated.

### Statement of Proforma Net Assets

	30th June, 2005 (Unaudited)	31st December, 2004 (Unaudited)
	HK\$'million	HK\$'million
NON-CURRENT ASSETS		
Interests in associates	2,241.2	2,061.6
Add: Attributable revaluation surplus relating to hotel properties of Regal*	<u>1,240.6</u>	<u>1,221.2</u>
	3,481.8	3,282.8
Other non-current assets	<u>362.2</u>	<u>329.4</u>
	<u>3,844.0</u>	<u>3,612.2</u>
CURRENT ASSETS	506.1	461.6
CURRENT LIABILITIES	<u>(163.1)</u>	<u>(281.0)</u>
NET CURRENT ASSETS	<u>343.0</u>	<u>180.6</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	4,187.0	3,792.8
NON-CURRENT LIABILITIES	<u>(183.6)</u>	<u>(34.4)</u>
MINORITY INTERESTS	<u>(0.1)</u>	<u>(0.2)</u>
PROFORMA NET ASSETS	<u>4,003.3</u>	<u>3,758.2</u>
Proforma net assets per ordinary share	<u>HK\$0.56</u>	<u>HK\$0.52</u>

\* Based on open market valuations as at 31st December, 2004 less fair value adjustment already taken into account by the Group in its interests in associates



## **Borrowings**

As at 30th June, 2005, the Group's gross borrowings net of cash and bank balances amounted to HK\$45.0 million (31st December, 2004 - HK\$10.3 million). Gearing ratio based on total assets of HK\$3,109.5 million (31st December, 2004 - HK\$2,852.6 million, as restated) was 1.4% (31st December, 2004 - 0.4%, as restated). However, based on the proforma total assets of HK\$4,350.1 million as at 30th June, 2005 (31st December, 2004 - HK\$4,073.8 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 1.0% (31st December, 2004 - 0.3%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 14 and 15, respectively, to the condensed consolidated financial statements.

During the period under review, the Group refinanced one of its outstanding bank borrowings with a long term bank loan. Save as aforesaid, information in relation to the maturity profile of the borrowings of the Group as of 30th June, 2005 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2004.

## **Material Acquisitions or Disposals of Subsidiary Companies or Associates**

During the period under review, there were no material acquisitions or disposals of subsidiary companies or associates of the Company.

Subsequent to the period end, on 8th July, 2005, the Group completed the disposal of a 50% equity interest in Hang Fok Properties Limited, a then wholly owned subsidiary of the Company. Details of such transaction are disclosed in the section above headed "Review of Operations" and notes 10 and 18 to the condensed consolidated financial statements.

Save as otherwise disclosed in the section above headed "Review of Operations", the Group has no immediate plan for material investments or capital assets.

## **Funding and Treasury Policy**

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

As the Group's borrowings are all denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest primarily determined with reference to interbank offered rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.





### **Remuneration Policy**

The Group, together with the Regal group, employ approximately 1,750 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 adopted in June 2005 a new share option scheme named as "The Paliburg Holdings Limited Share Option Scheme", under which share options have been granted to selected eligible persons. Subsequent to the period under review, all of the outstanding share options granted under the Executive Share Option Scheme of the Company adopted in 1993 and terminated in 2003 have been surrendered and cancelled.