

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 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 106 to 182.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments during the year principally comprised 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 the Group's hotel 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 as well as the progress and prospects on the Regalia Bay development are contained in the Chairman's Report preceding this report.

Cash Flow and Capital Structure

During the year under review, net cash inflow from operating activities totalled HK\$481.5 million (2005 – HK\$455.9 million). Net interest payment for the year amounted to HK\$268.2 million (2005 – HK\$182.5 million). The increase in net interest payment was largely due to the increased interest rates.

Aggregate depreciation and amortisation provided for the year under review amounted to HK\$139.0 million (2005 – HK\$131.5 million). The amount of the depreciation on the hotel buildings and amortisation of the prepaid land lease payments charged to the income statement for the year of HK\$99.5 million (2005 – HK\$99.2 million) had no actual impact on the operating cash flows.

During the year under review, a total of 468.1 million new ordinary shares of the Company were allotted and issued to the holders of the 2007 Warrants of the Company who exercised the subscription rights in an aggregate amount of HK\$117.0 million attaching to certain 2007 Warrants at the subscription price of HK\$0.25 per ordinary share. As at the date of this report, a total of 587.0 million new ordinary shares of the Company have been allotted and issued upon exercise of the 2007 Warrants, and the aggregate amount of the 2007 Warrants remaining outstanding was HK\$61.8 million exercisable into 247.0 million new ordinary shares of the Company at the prevailing subscription price of HK\$0.25 per ordinary share (subject to adjustments).

During the year under review, 2% Guaranteed Convertible Bonds due 2007 (the "Bonds"), in an aggregate principal amount of HK\$75.0 million, (the "Firm Bonds") issued by Cheerview Limited, a wholly-owned subsidiary of the Company, were converted into 300.0 million new ordinary shares of the Company at the prevailing conversion price of HK\$0.25 per ordinary share (subject to adjustments). The optional Bonds of up to an additional aggregate principal amount of HK\$200.0 million (the "Optional Bonds") have not been subscribed for and issued. The outstanding HK\$125.0 million Firm Bonds and the Optional Bonds, if fully subscribed for and issued, are convertible into a total of 1,300 million new ordinary shares of the Company at the prevailing conversion price of HK\$0.25 per ordinary share (subject to adjustments).

Borrowings

As at 31st December, 2006, the Group's borrowings net of cash and bank balances amounted to HK\$4,375.0 million (2005 – HK\$4,367.5 million). The Group's gearing ratio based on total assets of HK\$7,078.4 million per financial statements herein presented (2005 – HK\$6,918.0 million) was 61.8% (2005 – 63.1%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 36 and 37, respectively, to the financial statements. As disclosed in note 36, most of the Group's assets have been pledged to secure general banking facilities granted to the Group. As at 31st December, 2006, the Company has contingent liabilities in the aggregate amount of HK\$4,493.7 million under the respective corporate guarantees given by the Company in respect of the outstanding syndicated loan facility of HK\$4,368.7 million granted to the Group and the Firm Bonds.

Details of the maturity profile of the Group's borrowings are set out in note 27 to the financial statements.

Following the successful completion of the spin-off of Regal REIT on 30th March, 2007, as described in further details under the section headed "Outlook" contained in the Chairman's Report preceding this report, the Group repaid all of its bank debts and, in addition, retained net cash proceeds of approximately of HK\$2,160 million.

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, on 30th March, 2007, the spin-off of Regal REIT from the Group was completed and the separate listing of the units of Regal REIT on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") commenced. Details of the transaction are disclosed in the Chairman's Report which precedes this 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. During the year under review, as the Group's borrowings were primarily denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to interbank offered rates, no hedging instruments for currency or interest rates purposes have been deployed.

Remuneration Policy

The Group employs approximately 1,770 staff in Hong Kong. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

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

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

DIVIDENDS

An interim dividend of HK0.25 cent per ordinary share (2005 - HK0.25 cent), absorbing a total amount of approximately HK\$21.1 million (2005 - HK\$21.1 million) was paid to holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK0.6 cent (2005 - HK0.55 cent) and a special cash dividend of HK1 cent (2005 - Nil), aggregating to HK1.6 cents (2005 - HK0.55 cent) per ordinary share in respect of the year ended 31st December, 2006, absorbing a total amount of approximately HK\$146.5 million (2005 - HK\$46.1 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.

During the year, the fixed cumulative preference share dividend in respect of the twelve month period ended 13th December, 2006 amounted to HK\$6.8 million and was paid to the holders of the 5¼% Convertible Cumulative Redeemable Preference Shares of the Company in December 2006.

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 and special cash dividends, all transfers of ordinary shares, duly accompanied by the relevant share certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Thursday, 7th June, 2007, and all documents for subscriptions of the outstanding 2007 warrants, duly accompanied by the relevant warrant certificates together with the relevant subscription moneys, must be lodged with the Company's branch registrar no 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
Dr. Francis Choi Chee Ming, JP
Ms. Belinda Yeung Bik Yiu
Mr. Donald Fan Tung
Ms. Alice Kan Lai Kuen
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Ng Siu Chan
Mr. Wong Chi Keung

On 22nd November, 2006, Mr. Kai Ole Ringenson resigned as a Non-Executive Director.

In accordance with Bye-law 109(A) of the Company's Bye-laws and for compliance with the Code on Corporate Governance Practices under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Dr. Francis Choi Chee Ming (Vice Chairman and Non-Executive Director), Ms. Alice Kan Lai Kuen (Independent Non-Executive Director) and Miss Lo Po Man (Executive Director) will retire from office by rotation at the forthcoming Annual General Meeting (the "AGM").

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, 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 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 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 under the share option scheme of the Company named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Share Option Scheme"), under which options have been granted to certain Directors.

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

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") in the Listing Rules, were as follows:

		Number of Shares Held				Total (Approximate percentage of the Issued Shares as at 31st December, 2006)		
	Name of Director	Class of Shares Held	Personal Interests	Corporate Interests	Family/ Other Interests			
1.	The Company	Mr. Lo Yuk Sui ("Mr. Lo")	Ordinary (i) issued	220,000	4,153,067,610 (Note a(i))	—	4,153,287,610	
			(ii) unissued (Notes a(iii) & (v))	200,022,000	69,805,453 (Notes a(ii) to (iv))	—	269,827,453	
						Total (i) & (ii):	4,423,115,063 (48.40%)	
				Preference (issued)	—	3,440 (Note a(iv))	—	3,440 (20.54%)
		Dr. Francis Choi Chee Ming	Ordinary (i) issued	2,400,000	—	—	—	2,400,000
			(ii) unissued	—	800,000,000 (Note b)	—	—	800,000,000
						Total (i) & (ii):	802,400,000 (8.78%)	
		Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	30,000,000 (Note f)	—	—	—	30,000,000 (0.33%)
		Mr. Donald Fan Tung	Ordinary (unissued)	20,000,000 (Note c)	—	—	—	20,000,000 (0.22%)
		Mr. Jimmy Lo Chun To	Ordinary (unissued)	15,000,000 (Note d)	—	—	—	15,000,000 (0.16%)
		Miss Lo Po Man	Ordinary (i) issued	3,000,000	—	2,503,898 (Note e)	—	5,503,898
			(ii) unissued (Note f)	30,000,000	—	187,792 (Note e)	—	30,187,792
				Total (i) & (ii):	35,691,690 (0.39%)			
Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 (Note c)	—	—	—	20,000,000 (0.22%)		

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	Corporate Interests	Family/ Other Interests	
2. 8D International (BVI) Limited	Mr. Lo	Ordinary (issued)	—	1,000 (Note g)	—	1,000 (100%)

Notes:

- (a) (i) The issued ordinary shares of the Company were held through companies wholly owned by Paliburg Holdings Limited ("PHL"), in which Century City International Holdings Limited ("CCIHL") held 53.0% shareholding interests.
- (ii) The interests in 69,805,453 unissued ordinary shares of the Company were held through companies wholly owned by PHL, in which CCIHL held 53.0% shareholding interests.
- (iii) The interests in 22,000 and 54,197,026 unissued ordinary shares of the Company related to the interests in the warrants of the Company (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 the Company 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 the Company related to the interests in 3,440 Preference Shares of the Company carrying rights to convert into 15,608,427 new ordinary shares of the Company, 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 the Company were held through the interests in the options under the Share Option Scheme of the Company, entitling the holder thereof to subscribe for a total of 200,000,000 new ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options became effective on 21st July, 2005 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:

Exercise period	Number of ordinary shares of the Company under vested options
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

(b) The interests in 800,000,000 unissued ordinary shares of the Company were held by Clovering Enterprise Limited ("Clovering Enterprise"), which is a company controlled by Dr. Francis Choi Chee Ming, through its interests in and rights to subscribe for the 2% Guaranteed Convertible Bonds due 2007 (the "Bonds"), guaranteed by, and convertible into new ordinary shares of the Company, for an aggregate principal amount of HK\$200,000,000 issued and to be issued by Cheerview Limited ("Cheerview"), a wholly owned subsidiary of the Company, pursuant to a conditional subscription agreement dated 3rd June, 2004 between Cheerview, the Company and Clovering Enterprise (the "Subscription Agreement"). Such HK\$200,000,000 Bonds comprise the issued firm bonds of an aggregate principal amount of HK\$100,000,000 (the "Firm Bonds") and the optional bonds of up to an aggregate principal amount of HK\$100,000,000 which Clovering Enterprise may subscribe for pursuant to the Subscription Agreement (the "Optional Bonds"). The Firm Bonds are, and the Optional Bonds (when in issue) will be, convertible into a total number of 800,000,000 new ordinary shares of the Company at the initial conversion price of HK\$0.25 per share (subject to adjustments).

(c) The interests in 20,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme of the Company, 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\$0.75 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 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

(d) The interests in 15,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme of the Company, entitling the holder thereof to subscribe for a total of 15,000,000 new ordinary shares of the Company 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 the Company 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

(e) The interests in 2,503,898 issued ordinary shares of the Company and the interests in 187,792 unissued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust. The interests in 187,792 unissued ordinary shares related to the interests in the 2007 Warrants carrying subscription rights in an aggregate amount of HK\$46,948.00, which are exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 187,792 new ordinary shares of the Company at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustments).

- (f) The interests in 30,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme of the Company, entitling the holder thereof to subscribe for a total of 30,000,000 new ordinary shares of the Company 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 the Company under vested options</u>
25th July, 2007 to 24th July, 2011	12,000,000
25th July, 2008 to 24th July, 2011	6,000,000
25th July, 2009 to 24th July, 2011	6,000,000
25th July, 2010 to 24th July, 2011	6,000,000

- (g) 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.

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 to be notified to the Company and the Stock Exchange.

Save as disclosed in note 31 to the 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 Share Option Scheme of the Company and no option granted to such persons under the Share Option Scheme of the Company 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 Share Option Scheme of the Company 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 Share Option Scheme of the Company.

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	Number of Underlying Ordinary Shares (Unissued) Held	Total number of Ordinary Shares (Issued and Unissued) Held	Approximate percentage of the Issued Ordinary Shares as at 31st December, 2006
CCIHL (Note i)	4,153,067,610	69,805,453	4,222,873,063	46.21%
Century City BVI Holdings Limited (Note ii)	4,153,067,610	69,805,453	4,222,873,063	46.21%
Almighty International Limited (Note ii)	4,153,067,610	69,805,453	4,222,873,063	46.21%
PHL (Note iii)	4,153,067,610	69,805,453	4,222,873,063	46.21%
Paliburg Development BVI Holdings Limited (Note iv)	4,153,067,610	69,805,453	4,222,873,063	46.21%
Guo Yui Investments Limited (Note iv)	1,058,123,577	14,307,089	1,072,430,666	11.73%
Paliburg International Holdings Limited (Note iv)	2,591,590,810	37,841,291	2,629,432,101	28.77%
Paliburg BVI Holdings Limited (Note iv)	2,591,590,810	37,841,291	2,629,432,101	28.77%
Taylor Investments Ltd. (Note iv)	1,504,510,765	37,812,292	1,542,323,057	16.88%
Glaser Holdings Limited (Note iv)	586,828,314	-	586,828,314	6.42%
Clovering Enterprise Limited ("CEL") (Note v)	-	800,000,000	800,000,000	8.75%

Notes:

- (i) The interests in ordinary shares held by CCIHL were included in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.
- (ii) These companies are wholly owned subsidiaries of CCIHL and their interests in the ordinary shares of the Company are included in the interests held by CCIHL.
- (iii) PHL is a listed subsidiary of CCIHL, which held 53.0% shareholding interests in PHL, and PHL's interests in the ordinary shares of the Company are included in the interests held by CCIHL.
- (iv) These companies are wholly owned subsidiaries of PHL and their interests in the ordinary shares of the Company are included in the interests held by PHL.
- (v) The interests in unissued ordinary shares held by CEL were duplicated in the corporate interests of Dr. Francis Choi Chee Ming in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.

Save as disclosed herein, there is no person who, 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) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of CCIHL and all the above-named companies which are controlled by CCIHL.
- (2) Mr. Jimmy Lo Chun To is a director of CCIHL and PHL.

CONNECTED TRANSACTIONS

Unless otherwise stated, capitalised terms referred to in this sub-section shall have the same meanings as those defined below in this sub-section.

The respective transactions under the RAH Main Contract and the ROH Main Contract as well as the Appointments (collectively, the "Relevant Transactions") each constituted a connected transaction for the Company pursuant to Rule 14A.13(1)(a) of the Listing Rules. These transactions were aggregated and treated as one transaction pursuant to Rule 14A.25 of the Listing Rules. The transactions under the Relevant Transactions, as aggregated, were subject only to the reporting and announcement requirements and exempted from the requirement of obtaining the independent shareholders' approval pursuant to Rule 14A.32(1) of the Listing Rules. Details of the Relevant Transactions were disclosed in an announcement of the Company dated 8th February, 2007. Certain relevant details, which are required to be disclosed in this report pursuant to Rule 14A.45 of the Listing Rules, are set out below.

The RAH Letter of Intent

On 8th February, 2007, Bauhinia, formerly a wholly owned subsidiary of the Company, as the employer and Chatwin, a wholly owned subsidiary of Paliburg (which indirectly held approximately 45.4% shareholding interests in the ordinary share capital of the Company), as the main contractor entered into the RAH Letter of Intent. In order to maximize the utilisation of its hotel property, Bauhinia decided to embark on an asset enhancement programme for the Regal Airport Hotel. The RAH Letter of Intent essentially entailed the conversion of certain unutilised area on 2/F. and 9/F. of the Regal Airport Hotel for the construction of a total of 64 additional guest rooms and 7 additional meeting rooms. The RAH Letter of Intent for the RAH Main Contract was awarded to Chatwin through a selective tender process by invitation to selected competitive contractors. The works under the RAH Main Contract are scheduled to be completed by the third quarter of 2007.

The contract sum for the construction and alteration works under the RAH Main Contract is HK\$28,756,870. The contract sum was determined after commercial negotiations between the parties to the RAH Letter of Intent on an arm's length basis through a selective tender process and in consultation with an appointed quantity surveyor. The award of the RAH Main Contract at the contract sum of HK\$28,756,870 was finalised and determined after assessment of the relevant tenders received and subsequent negotiations with the short-listed contractors on the final tender price, which was to constitute the contract sum. The contract sum is payable in stages according to the progress of the construction and alteration works under the RAH Main Contract. The Group expects that the payment of the contract sum under the RAH Main Contract will be financed by its internal resources.

The ROH Letter of Intent I

On 8th February, 2007, Gala, formerly a wholly owned subsidiary of the Company, as the employer and Chatwin as the main contractor entered into the ROH Letter of Intent I. In order to maximize the utilisation of its hotel property, Gala decided to embark on an asset enhancement programme for the Regal Oriental Hotel. The ROH Letter of Intent I essentially entailed the conversion of certain unutilised area on 3/F. of the Regal Oriental Hotel for the construction of 49 additional guest rooms and a lounge area. The ROH Letter of Intent I for the ROH Main Contract I was awarded to Chatwin through a selective tender process by invitation to selected competitive contractors. The works under the ROH Main Contract I are scheduled to be completed by the third quarter of 2007.

The contract sum for the construction and alteration works under the ROH Main Contract I is HK\$19,380,000. The contract sum was determined after commercial negotiations between the parties to the ROH Letter of Intent I on an arm's length basis through a selective tender process and in consultation with an appointed quantity surveyor. The award of the ROH Main Contract I at the contract sum of HK\$19,380,000 was finalised and determined after assessment of the relevant tenders received and subsequent negotiations with the short-listed contractors on the final tender price, which was to constitute the contract sum. The contract sum is payable in stages according to the progress of the construction and alteration works under the ROH Main Contract I. The Group expects that the payment of the contract sum under the ROH Main Contract I will be financed by its internal resources.

The ROH Letter of Intent II

On 8th February, 2007, Gala as the employer and Chatwin as the main contractor entered into the ROH Letter of Intent II. As part of the asset enhancement programme for the Regal Oriental Hotel, the ROH Letter of Intent II essentially entailed the renovation of guest rooms on 5/F. and 6/F. of the Regal Oriental Hotel. The ROH Letter of Intent II for the ROH Main Contract II was awarded to Chatwin through a selective tender process by invitation to selected competitive contractors. The works under the ROH Main Contract II are scheduled to be completed by the second quarter of 2007.

The contract sum for the renovation works under the ROH Main Contract II is HK\$1,000,000. The contract sum was determined after commercial negotiations between the parties to the ROH Letter of Intent II on an arm's length basis through a selective tender process and in consultation with an appointed quantity surveyor. The award of the ROH Main Contract II at the contract sum of HK\$1,000,000 was finalised and determined after assessment of the relevant tenders received and subsequent negotiations with the short-listed contractors on the final tender price, which was to constitute the contract sum. The contract sum is payable in stages according to the progress of the renovation works under the ROH Main Contract II. The Group expects that the payment of the contract sum under the ROH Main Contract II will be financed by its internal resources.

The RAH Appointment Letter

On 8th February, 2007, Bauhinia as the employer and PDCL, a wholly owned subsidiary of Paliburg, as the development consultant entered into the RAH Appointment Letter. Under the RAH Appointment Letter and in conjunction with its asset enhancement programme, Bauhinia appointed PDCL as the development consultant to provide architectural and interior consultancy, project management, contract administration and site supervision services for the RAH Main Contract Works. The term of the appointment under the RAH Appointment Letter will, unless early determined, be until final completion of the RAH Main Contract Works. The appointment of PDCL as the development consultant for the RAH Main Contract Works was determined through negotiation and after taking into account the previous involvement of PDCL as the architect and development consultant for the development of the Regal Airport Hotel, which would contribute savings of time, efforts and costs in the implementation of the project.

The consultancy fee will be (i) 6% of the total construction cost (excluding professional fees) of the RAH Main Contract Works or (ii) HK\$1,680,000, whichever is the lower. Based on the contracted construction cost of the RAH Main Contract Works of HK\$28,756,870, the consultancy fee would be HK\$1,725,412. The consultancy fee will be payable in stages according to the progress of the RAH Main Contract Works. The consultancy fee was determined after commercial negotiations between the parties to the RAH Appointment Letter on an arm's length basis, after taking into account the architectural design, complexity, duration and construction costs of the construction works of the relevant asset enhancement programme and with reference to the market professional fee scale. The Group expects that the payment of the consultancy fee under the RAH Appointment Letter will be financed by its internal resources.

The ROH Appointment Letter

On 8th February, 2007, Gala as the employer and PDCL as the development consultant entered into the ROH Appointment Letter. Under the ROH Appointment Letter and in conjunction with its asset enhancement programme, Gala appointed PDCL as the development consultant to provide architectural and interior consultancy, project management, contract administration and site supervision services for the ROH Main Contract Works I. The term of the appointment under the ROH Appointment Letter will, unless early determined, be until final completion of the ROH Main Contract Works I. The appointment of PDCL as the development consultant for the ROH Main Contract Works I was determined through negotiation and after taking into account the previous involvement of PDCL as the architect and development consultant for certain hotels developed by the Group, which would contribute savings of time, efforts and costs in the implementation of the project.

The consultancy fee will be (i) 8% of the total construction cost (excluding professional fees) of the ROH Main Contract Works I or (ii) HK\$1,350,000, whichever is the lower. Based on the contracted construction cost of the ROH Main Contract Works I of HK\$19,380,000, the consultancy fee would be HK\$1,550,400. The consultancy fee will be payable in stages according to the progress of the ROH Main Contract Works I. The consultancy fee was determined after commercial negotiations between the parties to the ROH Appointment Letter on an arm's length basis, after taking into account the architectural design, complexity, duration and construction costs of the construction works of the relevant asset enhancement programme and with reference to the market professional fee scale. The Group expects that the payment of the consultancy fee under the ROH Appointment Letter will be financed by its internal resources.

The RRH Appointment Letter

On 8th February, 2007, RRHL as the employer and PDCL as the development consultant entered into the RRH Appointment Letter. Under the RRH Appointment Letter, RRHL appointed PDCL as the development consultant to provide architectural and interior consultancy, project management, contract administration and site supervision services for its asset enhancement programme involving the addition, in stages, of a total of 302 guest rooms at the Regal Riverside Hotel. The term of the appointment under the RRH Appointment Letter will, unless early determined, be until final completion of all construction works under the asset enhancement programme. The appointment of PDCL as the development consultant for the construction works of the relevant asset enhancement programme of the Regal Riverside Hotel was determined through negotiation and after taking into account the previous involvement of PDCL as the architect and development consultant for certain hotels developed by the Group, which would contribute savings of time, efforts and costs in the implementation of the project.

The consultancy fee will be (i) 5% of the total construction cost (excluding professional fees) of the construction works under the asset enhancement programme of the Regal Riverside Hotel or (ii) HK\$4,800,000, whichever is the lower. The consultancy fee will be payable in stages according to the progress of the asset enhancement programme. The consultancy fee was determined after commercial negotiations between the parties to the RRH Appointment Letter on an arm's length basis, after taking into account the architectural design, complexity, duration and construction costs of the construction works of the relevant asset enhancement programme and with reference to the market professional fee scale. The Group expects that the payment of the consultancy fee under the RRH Appointment Letter will be financed by its internal resources.

The Directors (including the Independent Non-Executive Directors) considered that each of the Relevant Transactions were entered into on normal commercial terms that were fair and reasonable and in the interests of the Group and the shareholders of the Company as a whole.

Definitions

"Appointments"	the appointment of PDCL as the development consultant pursuant to the RAH Appointment Letter, the ROH Appointment Letter and the RRH Appointment Letter, respectively
"Bauhinia"	Bauhinia Hotels Limited, formerly a wholly owned subsidiary of the Company, being the owner of the Regal Airport Hotel
"Chatwin"	Chatwin Engineering Limited, a wholly owned subsidiary of Paliburg
"Gala"	Gala Hotels Limited, formerly a wholly owned subsidiary of the Company, being the owner of the Regal Oriental Hotel
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Paliburg"	Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, the ordinary shares of which are listed on the Stock Exchange
"PDCL"	Paliburg Development Consultants Limited, a wholly owned subsidiary of Paliburg

"RAH Appointment Letter"	the Letter of Appointment dated 8th February, 2007 issued by PDCL to Bauhinia and accepted by Bauhinia on 8th February, 2007 relating to the appointment of PDCL as the development consultant for the RAH Main Contract upon the terms and conditions as set out therein
"RAH Letter of Intent"	the Letter of Intent dated 8th February, 2007 issued by Bauhinia as the employer to Chatwin and accepted by Chatwin on 8th February, 2007 relating to the award of the RAH Main Contract to Chatwin upon the principal terms as stipulated therein
"RAH Main Contract"	the RAH Letter of Intent and the main contract for the RAH Main Contract Works to be entered into between Bauhinia and Chatwin pursuant to the RAH Letter of Intent, setting out the detailed terms and conditions of the employment of Chatwin as the main contractor
"RAH Main Contract Works"	the main contract works under the RAH Main Contract with respect to the construction and alteration works for the conversion of certain unutilised area on 2/F. and 9/F. of the Regal Airport Hotel for the construction of a total of 64 additional guest rooms and 7 additional meeting rooms
"Regal Airport Hotel"	the Regal Airport Hotel located at 9 Cheong Tat Road, Chek Lap Kok, New Territories, Hong Kong
"Regal Hongkong Hotel"	the Regal Hongkong Hotel located at 88 Yee Wo Street, Causeway Bay, Hong Kong
"Regal Oriental Hotel"	the Regal Oriental Hotel located at 30-38 Sa Po Road, Kowloon City, Kowloon, Hong Kong
"Regal Riverside Hotel"	the Regal Riverside Hotel located at 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong
"ROH Appointment Letter"	the Letter of Appointment dated 8th February, 2007 issued by PDCL to Gala and accepted by Gala on 8th February, 2007 relating to the appointment of PDCL as the development consultant for the ROH Main Contract I upon the terms and conditions as set out therein
"ROH Letter of Intent I"	the Letter of Intent dated 8th February, 2007 issued by Gala as the employer to Chatwin and accepted by Chatwin on 8th February, 2007 relating to the award of the ROH Main Contract I to Chatwin upon the principal terms as stipulated therein

"ROH Letter of Intent II"	the Letter of Intent dated 8th February, 2007 issued by Gala as the employer to Chatwin and accepted by Chatwin on 8th February, 2007 relating to the award of the ROH Main Contract II to Chatwin upon the principal terms as stipulated therein
"ROH Main Contract"	the ROH Main Contract I and the ROH Main Contract II
"ROH Main Contract I"	the ROH Letter of Intent I and the main contract for the ROH Main Contract Works I to be entered into between Gala and Chatwin pursuant to the ROH Letter of Intent I setting out the detailed terms and conditions of the employment of Chatwin as the main contractor
"ROH Main Contract II"	the ROH Letter of Intent II and the main contract for the ROH Main Contract Works II to be entered into between Gala and Chatwin pursuant to the ROH Letter of Intent II setting out the detailed terms and conditions of the employment of Chatwin as the main contractor
"ROH Main Contract Works I"	the main contract works under the ROH Main Contract I with respect to the construction and alteration works for the conversion of certain unutilised area on 3/F. of the Regal Oriental Hotel for the construction of 49 additional guest rooms and a lounge area
"ROH Main Contract Works II"	the main contract works under the ROH Main Contract II with respect to the renovation works for the guest rooms at 5/F. and 6/F. of the Regal Oriental Hotel
"RRH Appointment Letter"	the Letter of Appointment dated 8th February, 2007 issued by PDCL to RRHL and accepted by RRHL on 8th February, 2007 relating to the appointment of PDCL as the development consultant for the asset enhancement programme at the Regal Riverside Hotel upon the terms and conditions as set out therein
"RRHL"	Regal Riverside Hotel Limited, formerly a wholly owned subsidiary of Regal, being the owner of the Regal Riverside Hotel
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

DISCLOSURE PURSUANT TO RULES 13.13 AND 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 Rules 13.13 and 13.16 of Chapter 13 of the Listing Rules:

Advances to an Entity (Rule 13.13 of Chapter 13)

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by the Company and 30% by China Overseas Land & Investment Limited, 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), by the Company and its subsidiaries (the "Group") as at 31st December, 2006 are set out below:

Advances	Group (HK\$'million)
(A) Principal Amount of Advances	2,984.6
(B) Interest Receivable	379.2
Total:(A)+(B)	<u>3,363.8</u>

The above advances to Chest Gain in an aggregate sum of HK\$3,363.8 million included an amount of HK\$1,701.1 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from PHL in 2002 as detailed in the audited consolidated financial statements for the year ended 31st December, 2002. Such contributions of funds to Chest Gain are provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, interest bearing at prime rate per annum (but related interest had only been accrued up to 31st December, 1998). The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of the "Regalia Bay" luxury residential project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Regalia Bay Development"). The site for the Regalia Bay Development was acquired by Chest Gain at the government land auction held on 3rd June, 1997.

Calculated on the basis shown above, the aggregate of advances as at 31st December, 2006 provided by the Group to Chest Gain in the sum of HK\$3,363.8 million represented 47.5% of the consolidated total assets of the Company of HK\$7,078.4 million (the "Regal TA"), by reference to its latest audited consolidated financial statements for the year ended 31st December, 2006.

Financial Assistance provided to and Guarantees given for Affiliated Companies (Rule 13.16 of Chapter 13)

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

Name of Affiliated Companies	Principal Amount of Advances (HK\$'million)	Interest Receivable (HK\$'million)	Total (HK\$'million)
Chest Gain	2,984.6	379.2	3,363.8
8D International (BVI) Limited	29.0	–	29.0
8D Matrix Limited	1.3	–	1.3
Bright Future (HK) Limited	5.6	–	5.6
Network Sky Limited	0.9	–	0.9
Hang Fok Properties Limited	215.4	–	215.4
	<u>3,236.8</u>	<u>379.2</u>	<u>3,616.0</u>

Relevant details in respect of the financial assistance provided to Chest Gain are disclosed above under Rule 13.13 of Chapter 13 of the Listing Rules.

8D International (BVI) Limited ("8D-BVI") is a 30% owned associate of the Company, which is now principally involved in the development and distribution of technologically advanced security and building related systems and software development and promotions businesses. The remaining shareholding interests in 8D-BVI are indirectly owned as to 10% by CCIHL and 60% by Mr. Lo. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D-BVI, for the purpose of financing the working capital of 8D-BVI. The advances are unsecured, interest-free and have no fixed term of repayment.

8D Matrix Limited ("8D Matrix") is a 30% owned associate of the Company (the Company also holds an additional 6% attributable interest through its holding in 8D-BVI), which is involved in promotions businesses. The remaining shareholding interests in 8D Matrix are owned as to 10% indirectly by CCIHL and 60% indirectly by Mr. Lo through his associates (as defined in the Listing Rules), including 8D-BVI. The advances were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in 8D Matrix, for the purpose of financing the working capital of 8D Matrix. The advances are unsecured, interest-free and have no fixed term of repayment.

Bright Future (HK) Limited ("Bright Future"), a 50% owned associate of the Company, owns a 90% effective equity interest in a foreign enterprise engaged in the operation of a hotel in Qinghai in the People's Republic of China. The remaining 50% shareholding interest in Bright Future and the remaining 10% equity interest in the aforesaid foreign enterprise are owned by third parties respectively, 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 Bright Future were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Bright Future, for the purpose of funding the working capital requirements of Bright Future. The advances to Bright Future are unsecured, interest-free and have no fixed term 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 PHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, a director of PHL 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 term 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 PHL. 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 term 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\$3,616.0 million represented 51.1% of the Regal TA.

Save as disclosed above, there were no other financial assistance provided to and guarantees given for 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	454.7	219.8
Current assets	3,665.5	2,399.5
Current liabilities	(158.2)	(81.7)
Non-current liabilities	(5,358.9)	(3,619.4)
	<hr/>	<hr/>
Net liabilities	(1,396.9)	(1,081.8)
	<hr/> <hr/>	<hr/> <hr/>

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

PROPERTY, PLANT AND EQUIPMENT

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

PREPAID LAND LEASE PAYMENTS

The details of movements in the prepaid land lease payments accounts are set out in note 15 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 27 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

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

SHARE PREMIUM ACCOUNT

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

SHARE OPTION RESERVE

The details of movements in the share option reserve account during the year are set out in consolidated statement of changes in equity.

CAPITAL REDEMPTION RESERVE

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

SPECIAL RESERVE

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

REVALUATION RESERVES

The details of movements in the revaluation reserves account during the year are set out in consolidated statement of changes in equity.

EXCHANGE EQUALISATION RESERVE

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

SUBSIDIARIES

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

JOINTLY CONTROLLED ENTITY AND ASSOCIATES

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

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 31(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\$1,354.1 million, of which HK\$146.5 million has been proposed as final and special dividends for the year.

In addition, the Company's share premium account, in the amount of HK\$750.8 million, may be distributed in the form of fully paid bonus shares.

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