THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your securities in Regal Hotels International Holdings Limited, you should at once hand this Circular and the accompanying proxy form to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

This Circular does not constitute an offer or invitation to acquire, purchase or subscribe for securities nor is it calculated to invite any such offer or invitation.

富豪酒店國際控股有限公司
Regal Hotels
International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF OF REGAL REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Financial Adviser to Regal Hotels International Holdings Limited

Merrill Lynch

Merrill Lynch Far East Limited

Independent Financial Adviser to the Independent Board Committee and the Shareholders

PLATINUM Securities

A letter from Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Shareholders, is set out on pages 53 to 85 of this Circular.

A notice convening the SGM to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, March 9, 2007 at 11:00 a.m. is set out in this Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding of the meeting (or any adjourned meeting). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish.

February 21, 2007

	2007
Despatch date of this Circular	Wednesday, February 21
Last day for dealing in Shares cum-entitlement to the Preferential Offering	Friday, March 2
First day for dealing in Shares ex-entitlement to the Preferential Offering	Monday, March 5
Latest time for lodging transfers of Shares cum-entitlement to the Preferential Offering	4:30 p.m. on Tuesday, March 6
Latest time for return of proxy forms in respect of the SGM	11:00 a.m. on Wednesday, March 7
Register of members of the Company closes	Wednesday, March 7 to Friday, March 9
Record Date for determining the entitlement to the Preferential Offering	Friday, March 9
SGM	11:00 a.m. on Friday, March 9
Register of members of the Company re-opens	Monday, March 12

All times refer to Hong Kong local time.

Please note that the above timetable is subject to change. If there are changes to the above timetable, the Company will publish an announcement as soon as possible.

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In this Circular, the following expressions have the following meanings unless the context requires otherwise:

"Adjusted GOP"	has the meaning ascribed to that term in paragraph 2 of the section headed "The Group's relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Adjustment Sum"	means the amount calculated as the difference between the Offer Price and the minimum offer price multiplied by the number of Units to be issued pursuant to the Separate Listing, and adjusted for the corresponding change in the commission amount payable to the underwriters
"AEP Agency Deed"	means the deed proposed to be entered into among the Lessors (other than Ricobem Limited), the AEP Agent and Regal pursuant to which the AEP Agent will be appointed as the agent for the purposes of entering into and managing AEP Contracts on the Lessors' behalf
"AEP Agent"	means Regal Contracting Agency Limited, a wholly-owned subsidiary of Regal
"AEP Contracts"	means all construction contracts and/or other contracts in relation to the carrying out of the Asset Enhancement Program proposed to be entered into by, or on behalf of, the Lessors and the relevant contractors and/or project consultants and/or other professional advisers whose services are from time to time engaged in connection with the execution of the Asset Enhancement Program
"AEP Units"	means, subject to the arrangements under the Distribution Deed, the Units to be subscribed and held by Great Prestige Investments Limited, a wholly-owned subsidiary of Regal, which is expected to be no more than 13% of the Units to be issued pursuant to the Separate Listing
"Application Form(s)"	means the **WHITE** application form(s), **YELLOW** application form(s) and **BLUE** application form(s), or where the context so requires, any of them
"Asset Enhancement Program" or "AEP"	means the extension and refurbishing program in relation to the Initial Hotel Properties, as more fully described under paragraph 3 of the section headed "Proposed Spin-off and Separate Listing" in the "Letter from the Board" in this Circular
"associate"	has the meaning ascribed to it under the SFO unless as otherwise stated in this Circular

"Assured Entitlement"	means the entitlement of Qualifying Shareholders to apply for Reserved Units under the Preferential Offering on the basis of an assured entitlement of one Reserved Unit for every whole multiple of 100 Shares held by each Qualifying Shareholder at the close of business on the Record Date. For the avoidance of doubt, a Qualifying Shareholder is not entitled to any Reserved Unit in respect of any holding of fewer than 100 Shares
"Authorization"	means the authorization of Regal REIT by the SFC under section 104 of the SFO
"average room rate"	means the total hotel room revenue divided by the total number of room nights sold in a given period
"Base Rent"	means the pre-determined rent payable by the Lessee to the Lessor pursuant to each Lease Agreement
"Board"	means the board of Directors
"BVI"	means British Virgin Islands
"CCASS"	means the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Operational Procedures"	means the operational procedures of HKSCC in relation to CCASS, containing the practices, procedures and administrative requirements relating to the operations and functions of CCASS, as from time to time in force
"Century City" or "CCIHL"	means Century City International Holdings Limited, a company incorporated in Bermuda with limited liability, whose ordinary shares and warrants are listed on the Main Board, and the holding company of Paliburg
"Century City Group"	means Century City and its subsidiaries
"Collective NPI Excess"	has the meaning ascribed to that term in paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Company" or "Regal"	means Regal Hotels International Holdings Limited, a company incorporated in Bermuda with limited liability, whose Shares and warrants are listed on the Main Board
"Controlling Shareholders"	means Paliburg and its associates (as defined in the Listing Rules) who together held approximately 45.4% of the issued ordinary share capital of the Company as at the Latest Practicable Date

"Deed of Non-Competition"	means the deed proposed to be entered into between Regal, the REIT Manager and the Trustee relating to, among others, certain non-compete undertakings and right of first refusal to be given by Regal
"Deed of Tax Indemnity"	means the deed proposed to be entered into between the Vendor and Regal in favour of the Trustee and Holding SPV relating to the indemnification of tax liabilities of Holding SPV and its subsidiaries in connection with the Sale and Purchase Agreement
"Deed of Trade Mark Licence"	means the deed proposed to be entered into between Regal International Limited, a wholly-owned subsidiary of Regal, the REIT Manager, the REIT Group Companies and the Lessors relating to certain trade marks and service marks licences
"Director(s)"	means director(s) of the Company
"Distributable Income Guarantee Deed"	means the deed proposed to be entered into between Regal, the Trustee and the REIT Manager pursuant to which Regal will guarantee to pay the Trustee the shortfall in the event that the Total Distributable Income for the period from the Listing Date to December 31, 2007, in aggregate, is less than a sum to be set out in the Offering Circular which is expected to be of an amount not exceeding HK$480 million, subject to the final determination of the Listing Date
"Distribution Deed"	means a deed proposed to be entered into by Regal and its wholly-owned subsidiary, Great Prestige Investments Limited, pursuant to which certain undertakings will be given relating to their rights to sell or receive distributions in respect of the AEP Units
"Distribution Period"	means a period in respect of which a distribution on the Units is declared
"Facility"	means the proposed secured credit facility for an aggregate amount of approximately HK$4.5 billion to be extended to the Finance Companies, comprising a term loan facility and a revolving credit facility
"FF&E Reserve"	means the funds to be maintained by Holding SPV pursuant to the Hotel Management Agreements for the replacement of furniture, fixtures and equipment at the Initial Hotel Properties
"Finance Companies"	means Bauhinia Hotels Limited and Rich Day Investments Limited

"Financing Agreement"	means the loan and revolving facilities agreement and, as relevant, the security and other agreements relating to the Facility
"Floor Rent"	means the sum of HK$400 million per annum in respect of all five Initial Hotel Properties
"General Rules of CCASS"	means the general rules of CCASS, as may be amended or modified from time to time
"Global Offering"	means the Hong Kong Public Offering and the International Offering, as more particularly set out in paragraph 1 of the section headed "Proposed Spin-off and Separate Listing" in the "Letter from the Board" in this Circular
"Government"	means the government of the Hong Kong Special Administrative Region
"Government Grant"	means, in respect of each Initial Hotel Property, the Government Conditions or Lease (as the case may be) and any variation or modification thereof under which the Initial Hotel Property is held from the Government
"Greater China"	means mainland China, Hong Kong, Macau and Taiwan
"Gross Operating Profit"	has the meaning ascribed to that term in paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Gross Revenue"	means all revenue derived from an Initial Hotel Property in a particular period, including Total Hotel Revenue, Total Rental Revenue in respect of lettable areas of such Initial Hotel Property, all subsidy payments, governmental allowances and awards, and any other form of incentive payments or awards which are attributable to the operation of the Initial Hotel Property or the management of the lettable areas of such Initial Hotel Property, but excluding (i) hotel accommodation tax or other similar government charges, (ii) income derived from securities and other property investments; (iii) receipts from expropriation awards or sales under the threat of expropriation, (iv) proceeds of any insurance other than business interruption, (v) rebates, discounts or credits of a similar nature, (vi) gratuities paid to hotel employees, (vii) payments received at such Initial Hotel Property for accommodation, goods or services to be provided at other hotels
"Group"	means the Company and its subsidiaries
"HK$" or "Hong Kong dollars"	means Hong Kong dollars, the lawful currency of Hong Kong

"HKFRS" or "Hong Kong Financial Reporting Standards"	means Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants, as amended, supplemented or otherwise modified for the time being
"HKSCC"	means Hong Kong Securities Clearing Company Limited
"Holding Companies"	means the respective holding companies of the Lessors, being (i) Fieldstar Investments Limited, in relation to Bauhinia Hotels Limited, (ii) Yield Rich Limited, in relation to Cityability Limited, (iii) Fit Result Investments Limited, in relation to Ricobem Limited, (iv) Chasehill Limited, in relation to Gala Hotels Limited and (v) Wide Lead Corporation, in relation to Regal Riverside Hotel Limited and "Holding Company" means any one of them
"Holding SPV"	means Regal Asset Holdings Limited, a company incorporated in Bermuda and the holding company of the Holding Companies immediately after the Restructuring, which will cease to be a subsidiary of Regal upon completion of the Proposed Spin-off
"Hong Kong" or "HK"	means The Hong Kong Special Administrative Region of the PRC
"Hong Kong Public Offering"	means the proposed offering of Units to the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions to be described in the Offering Circular and the Application Forms
"Hotel Management Agreement(s)"	means the hotel management agreement(s) proposed to be entered into among (i) the relevant Lessor (ii) the Lessee, (iii) the Hotel Manager, (iv) Holding SPV and (v) Regal relating to the provision of certain hotel management, lease management as well as marketing and marketing co-ordination services in respect of the relevant Initial Hotel Property
"Hotel Manager"	means Regal Hotels International Limited, a wholly-owned subsidiary of Regal
"Hotel Operating Expenses"	has the meaning ascribed to that term in paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Independent Board Committee"	means Ms. Alice Kan Lai Kuen, Mr. Ng Siu Chan and Mr. Wong Chi Keung, independent non-executive Directors who have been appointed as the members of the independent board committee of the Company to advise the Shareholders on how to vote on the resolution to approve the Proposed Spin-off and other matters related thereto

"Independent Property Valuer"	means CB Richard Ellis Limited, an independent property valuer
"Initial Hotel Properties"	means Regal Airport Hotel, Regal Hongkong Hotel, Regal Kowloon Hotel, Regal Oriental Hotel and Regal Riverside Hotel and "Initial Hotel Property" means any one of them
"International Offering"	means the proposed offering of Units for cash at the Offer Price to institutional, professional and other investors (including Preferential Offering), to be described in the Offering Circular
"Latest Practicable Date"	means February 13, 2007, being the latest practicable date for the purpose of ascertaining certain information contained in this Circular
"Lease Agreement(s)"	means the lease agreement(s) proposed to be entered into between the relevant Lessor and the Lessee relating to the relevant Initial Hotel Property
"Lease Guarantees"	means the lease guarantees proposed to be entered into among Regal as guarantor, the Lessor as owner of the relevant Initial Hotel Property and the Trustee, pursuant to which Regal will guarantee to pay all amounts from time to time owing by the Lessee to the Lessors under the Lease Agreements, and "Lease Guarantee" means any one of them
"Lessee"	means Favour Link International Limited, a wholly-owned subsidiary of Regal
"Lessors"	means the respective direct owners of the Initial Hotel Properties (being (i) Bauhinia Hotels Limited, in relation to Regal Airport Hotel, (ii) Cityability Limited, in relation to Regal Hongkong Hotel, (iii) Ricobem Limited, in relation to Regal Kowloon Hotel, (iv) Gala Hotels Limited, in relation to Regal Oriental Hotel and (v) Regal Riverside Hotel Limited, in relation to Regal Riverside Hotel) and "Lessor" means any one of them
"Listing Approval"	means the approval by the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Units on the Main Board of the Stock Exchange
"Listing Committee"	means the listing committee of the Stock Exchange
"Listing Date"	means the date on which the Units are first listed and from which dealings therein are permitted to take place on the Stock Exchange
"Listing Rules"	means the Rules Governing the Listing of Securities on the Stock Exchange

"Main Board"	means the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market operated by the Stock Exchange
"Merrill Lynch"	Merrill Lynch Far East Limited, the financial adviser to the Company and a corporation licensed to conduct types 1, 4 and 6 regulated activities under the SFO
"Net Property Income" or "NPI"	means, in relation to the results of operation of an Initial Hotel Property, an amount equal to Adjusted GOP less (i) hotel management base fee, (ii) hotel management incentive fee and (iii) certain non-operating hotel expenses, as more fully described in the Hotel Management Agreements, provided that, in relation to the calculation of the variable fee of the REIT Manager's Fees, "Net Property Income" or "NPI" means the income derived from owning, leasing or operating a particular piece of real estate asset and related other operating income less operating expenses, as more fully described in the Trust Deed, provided further that, in relation to the calculation of the variable fee of the REIT Manager's Fees referable to a particular piece of real estate leased under a lease agreement, it means the lease income in relation to such real estate
"Net Rental Income"	has the meaning ascribed to that term in paragraph 2 of this section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Offer Price"	means the final Hong Kong dollar price per Unit (exclusive of brokerage of 1%, Hong Kong Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.004%) at which the Units are to be issued and allotted pursuant to the Global Offering, to be further described in the Offering Circular
"Offering Circular"	means the offering circular proposed to be issued by the REIT Manager (as manager of Regal REIT) in relation to the Hong Kong Public Offering, if the Global Offering proceeds
"Over-allotment Option"	means the option proposed to be granted by Regal to the international underwriters pursuant to the international underwriting agreement to make available up to a certain number of Units, to be offered to investors as part of the International Offering solely to cover the over-allotment of Units (if any)

"Overseas Shareholders"	means the shareholders whose addresses on the register of members of the Company are outside Hong Kong at the close of business on the Record Date and who will be excluded from the Preferential Offering on account of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, which the Directors consider his/her/its exclusion to be necessary or expedient
"Paliburg" or "PHL"	means Paliburg Holdings Limited, a company incorporated in Bermuda with limited liability, whose ordinary shares are listed on the Main Board, and the controlling shareholder of Regal
"Platinum Securities"	means Platinum Securities Company Limited, a licensed corporation under the SFO to carry out type 1 and 6 regulated activities, and appointed as the independent financial adviser to the Independent Board Committee and the Shareholders
"PN15"	means Practice Note 15 to the Listing Rules
"PRC" or "mainland China"	means The People's Republic of China excluding, for the purposes of this Circular only, Hong Kong, Macau and Taiwan
"Preferential Offering"	means the proposed preferential offering to the Qualifying Shareholders for subscription of the Reserved Units at the Offer Price on and subject to the terms and conditions to be described in the Offering Circular and in the BLUE Application Form
"Promissory Notes"	means the promissory notes proposed to be issued by Holding SPV to the Vendor on the Listing Date pursuant to the Restructuring and, which will be assigned to the Trustee (as trustee for and on behalf of Regal REIT) pursuant to the Sale and Purchase Agreement
"Proposed Spin-off"	means the proposed spin-off of Regal REIT comprising the Global Offering and the Separate Listing
"Qualifying Shareholders"	means holders of Shares (other than the Overseas Shareholders and the Controlling Shareholders), whose names appeared on the register of members of the Company as at the close of business on the Record Date
"Record Date"	means March 9, 2007 (or such other date as the Board may determine), being the record date for ascertaining the Assured Entitlement and entitlement to vote at the SGM

"Regal REIT"	means Regal Real Estate Investment Trust, a collective investment scheme which has been constituted as a unit trust and is subject to authorization by the SFC under section 104 of the SFO and other applicable conditions from time to time
"Regal REIT Business"	means the business of Regal REIT after the Proposed Spin-off as more particularly described in paragraph 4 of the section headed "Proposed Spin-off and Separate Listing" in the "Letter from the Board" in this Circular
"Registrar"	means Computershare Hong Kong Investor Services Limited
"REIT"	means a real estate investment trust
"REIT Code"	means the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified from time to time
"REIT Group Companies"	means (i) Holding SPV; (ii) Holding Companies; (iii) the Lessors and (iv) Rich Day Investments Limited
"REIT Manager"	means Regal Portfolio Management Limited, a wholly-owned subsidiary of Regal
"REIT Manager's Fees"	has the meaning ascribed to that term in paragraph 1(e) of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular
"Remaining Business"	means the business of the Remaining Regal Group after the Proposed Spin-off as more particularly described in paragraph 4 of the section headed "Proposed Spin-off and Separate Listing" in the "Letter from the Board" in this Circular
"Remaining Regal Group"	means the Group after the Proposed Spin-off excluding the REIT Group Companies
"Rental Income"	means, in relation to a particular piece of real estate, the rental income derived from leasing such real estate
"Reserved Units"	means the Units to be offered pursuant to the Preferential Offering and which are to be allocated out of the Units being offered under the International Offering
"Restructuring"	means the proposed restructuring within the Group and pursuant to which Regal REIT, will upon completion of the Proposed Spin-off, acquire the entire issued share capital of Holding SPV
"RevPAR"	means revenue per available room, which is calculated by dividing total hotel room revenue by the total number of room nights available for sale in a given period, or by multiplying average room rate and occupancy rate in a given period

"room nights"	means the number of times a hotel room is used or available for use by a guest(s) for an overnight stay of up to 24 hours in a given period
"Sale and Purchase Agreement"	means the sale and purchase agreement proposed to be entered into between the Vendor, the Trustee, Regal, Holding SPV and the REIT Manager relating to the sale and purchase of (1) the entire issued share capital of Holding SPV and (2) the Promissory Notes, and the Asset Enhancement Program
"Separate Listing"	means the proposed separate listing of the Units on the Main Board
"SGM"	means the special general meeting of the Company to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, March 9, 2007 at 11:00 a.m., notice of which is set out on pages 214 to 216 of this Circular
"SFC"	means the Securities and Futures Commission of Hong Kong
"SFO"	means the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time and the rules thereunder
"Share(s)"	means ordinary share(s) of a nominal value of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	means holder(s) of the Shares
"Special Purpose Vehicle"	means an entity whose primary purpose is to hold or own real estate or arrange financing for Regal REIT
"sq.ft."	means square feet
"Stock Exchange" or "Hong Kong Stock Exchange"	means The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	means the Subscription Agreement proposed to be entered into between Regal, Complete Success Investments Limited, Great Prestige Investments Limited and the REIT Manager pursuant to which Regal will subscribe for Units at the Offer Price
"Total Distributable Income"	has the meaning given to it in the section headed "Distribution policy" in the "Letter from the Board" in this Circular
"Total Hotel Revenue"	has the meaning ascribed to that term in paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the "Letter from the Board" in this Circular

"Total Rental Revenue"	means rent and other charges paid by tenants under their lease agreements and license fees and other charges paid by licensees under their license arrangements for the lettable areas in the Initial Hotel Properties which will be more fully described in the Hotel Management Agreements
"Trust Deed"	means the trust deed entered into between the Trustee and the REIT Manager constituting Regal REIT on December 11, 2006
"Trustee"	means DB Trustees (Hong Kong) Limited, the trustee of Regal REIT which is independent from and not connected with any of the Directors, chief executive, substantial shareholders (as defined under the Listing Rules) or management shareholders (as defined under the Listing Rules) of the Company or any of their respective associates (as defined under the Listing Rules)
"Unit(s)"	means unit(s) of Regal REIT
"Unitholder"	means any person registered as the holder of Unit(s)
"US$"	means United States dollars, the lawful currency of the United States
"Valuation Report"	means the valuation report prepared by the Independent Property Valuer, as set out in Appendix I of this Circular
"Variable Rent"	means the variable rent payable by the Lessee pursuant to each Lease Agreement, being a 100%, 70%, 60% and 50% share of Collective NPI Excess for each year from 2007 to 2010, respectively
"Vendor"	means Regal International (BVI) Holdings Limited, a wholly-owned subsidiary of Regal
"%"	means per cent.

Unless otherwise specified in this Circular and for the purpose of illustration only, US$ is translated to HK$ at the rates of US$1.00 = HK$7.8. No representation is made that any amount in US$ has been or could be converted at the above rate or at any other rates or at all.

富豪酒店國際控股有限公司
Regal Hotels International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

Directors:
LO Yuk Sui (Chairman and Chief Executive Officer)
Francis CHOI Chee Ming, JP (Vice Chairman)#
Belinda YEUNG Bik Yiu (Chief Operating Officer)
Donald FAN Tung
Alice KAN Lai Kuen*
Jimmy LO Chun To
LO Po Man
Kenneth NG Kwai Kai
NG Siu Chan*
WONG Chi Keung*

Registered office:
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Head office and principal place of business:
11th Floor, 68 Yee Wo Street
Causeway Bay
Hong Kong

* *Independent Non-Executive Directors*
\# *Non-Executive Director*

February 21, 2007

To the shareholders of the Company, and for information only, to the holders of the warrants of the Company

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF OF REGAL REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

Reference is made to the joint announcement issued by the Company, Century City and Paliburg dated November 22, 2006, the announcements issued by the Company dated November 30, 2006 and January 25, 2007, and the circular issued by the Company to the Shareholders dated November 23, 2006 and the supplemental circular thereto dated December 2, 2006.

Pursuant to the joint announcement of the Company, Century City and Paliburg dated February 16, 2007, the Board announced that a formal application has been made to the SFC for the Authorization and an application has been made to the Stock Exchange for the Proposed Spin-off. Regal REIT intends to make a Global Offering of the Units, including the Hong Kong Public Offering and the International Offering (including the Preferential Offering).

The purposes of this Circular are: (1) to provide the shareholders of the Company with information on, the reasons for, and the benefits of, the Proposed Spin-off and information on the Restructuring, the Preferential Offering and other related matters; (2) to set out the recommendations of the Independent Board Committee to the Shareholders; (3) to set out the letter of advice from Platinum Securities containing its recommendation to the Independent Board Committee and the Shareholders as regards voting on the Proposed Spin-off and other matters related thereto; and (4) to give to the Shareholders notice of the SGM at which an ordinary resolution will be proposed to approve the Proposed Spin-off, the Preferential Offering and other related matters by way of poll.

The Proposed Spin-off is subject to, among other things, the Listing Approval being granted by the Listing Committee. Accordingly, Shareholders should note that the Proposed Spin-off is dependent on a number of factors and subject to a number of conditions, which may or may not be satisfied. Thus, there can be no assurance that the Proposed Spin-off will proceed. Accordingly, Shareholders or potential investors are reminded to exercise caution when dealing in the securities of the Company and are recommended to consult their professional advisers if they are in any doubt about their positions.

The Directors confirm that the proposal in respect of the Proposed Spin-off has been submitted to and approved by the Stock Exchange in accordance with PN15, and a waiver from strict compliance with paragraph 3(c) of PN15 has been applied for and granted by the Stock Exchange, subject to the conditions more particularly described in the section headed "Implications under the Listing Rules" below.

BACKGROUND

The Group is principally engaged in the business of hotel and property development, hotel ownership, hotel operation and management and other investments. In line with the international trend of separating ownership and operation of hotels to allow hotel owners to focus on capital enhancement and hotel acquisition opportunities, and hotel operators to focus on promoting brand name and management business, Regal REIT has been formed to become the owner of the Initial Hotel Properties pursuant to the Proposed Spin-off. The Remaining Regal Group will take up the lease of the Initial Hotel Properties from Regal REIT for the period from the Listing Date to December 31, 2015. Immediately after the Proposed Spin-off, the Remaining Regal Group will continue to be the hotel operator of the Initial Hotel Properties and other Regal hotels, in the manner as described in this Circular. Regal REIT will be managed by the REIT Manager, which is a wholly-owned subsidiary of the Group.

In connection with the Proposed Spin-off, the Group is proposing to implement the Restructuring which will involve a transfer to Regal REIT of the entire issued share capital of Holding SPV which (through the Lessors) will indirectly own the Initial Hotel Properties, as detailed in the paragraph headed "Restructuring" below.

It is proposed that new Units will be issued by Regal REIT pursuant to the Global Offering. As part of the Global Offering, the Assured Entitlement will be provided to each Qualifying Shareholder by way of the Preferential Offering.

It is presently contemplated that the Group will hold an interest from approximately 50% to approximately 72% (assuming that the Over-allotment Option is not exercised) or from approximately 45% to approximately 67% (assuming that the Over-allotment Option is 5% and is exercised in full) in Regal REIT upon completion of the Proposed Spin-off. The Proposed Spin-off will constitute a very substantial disposal for the Company under Rule 14.06 of the Listing Rules, which will be subject to the approval of the Shareholders under Rule 14.49 of the Listing Rules.

Any Shareholder who has a material interest in the Proposed Spin-off, and its associates (as defined under the Listing Rules), are required to abstain from voting on the resolution approving the Proposed Spin-off. As far as the Directors are aware, the interests in relation to the Proposed Spin-off, the Preferential Offering and other related matters of all Shareholders (including the Controlling Shareholders) are the same, hence all Shareholders are entitled to vote on the ordinary resolution at the SGM. In addition, and without limiting the generality of the foregoing, the Controlling Shareholders, who, as at the Latest Practicable Date, were together interested in approximately 45.4% of the Shares, have no material interest in the proposed transaction (for the purpose of Rule 2.16 of the Listing Rules) and thus, are entitled to vote on such resolution in connection with the Proposed Spin-off, the Preferential Offering and any related matters. **The SGM will be held on March 9, 2007 at 11:00 a.m. for Shareholders to approve the Proposed Spin-off and the revocation of the shareholders' resolution passed on December 18, 2006.**

INFORMATION ON REGAL REIT

1. Description of a REIT

A REIT is a collective investment scheme constituted as a unit trust that invests primarily in income-producing real estate assets and uses the income to provide returns to its unitholders. Purchasing a unit in a REIT allows investors to share the benefits and risks of owning the real estate assets held by the REIT. An investment in the units of a REIT in Hong Kong is governed primarily by the REIT Code.

2. Objectives of Regal REIT

Regal REIT's primary objectives will be to provide stable distributions to Unitholders and to achieve long-term capital growth in net asset value per Unit by way of (1) internal growth through asset enhancement opportunities and operational improvements, (2) external growth through potential acquisitions that meet the REIT Manager's investment criteria and (3) financing through an appropriate capital structure.

3. The REIT Manager

The REIT Manager is a wholly-owned subsidiary of Regal and was incorporated for the sole purpose of managing the assets of Regal REIT. Its main responsibility will be to manage the assets of Regal REIT for the benefit of Unitholders.

The REIT Manager will have general powers of management over the assets of Regal REIT including the Initial Hotel Properties. In particular, the REIT Manager will be responsible for monitoring the performance of the obligations of the Lessee under the Lease Agreements, the Hotel Manager under the Hotel Management Agreements, and the Finance Companies under the Financing Agreement. The REIT Manager will also be responsible for Regal REIT's investment and financing strategies and asset enhancement, acquisition and disposal policies.

The REIT Manager will be licensed by the SFC to conduct the regulated activity of asset management, as required by the REIT Code.

4. Implementation of the REIT Manager's Strategy

The REIT Manager aims to maintain and grow an investment portfolio of hotel properties in Hong Kong and, when suitable opportunities arise, extend Regal REIT's investment portfolio to include other cities in Greater China, subject to obtaining necessary regulatory and Unitholders' approvals. The REIT Manager intends to achieve its objectives over time through the implementation of the following strategies:

- ***Internal growth strategy***: The REIT Manager intends to engage in pro-active asset management in order to maintain and improve the quality and value of Regal REIT's hotel properties.

- ***External growth strategy***: The REIT Manager intends to selectively acquire additional properties that meet its investment criteria.

- ***Financing strategy***: The REIT Manager intends to employ an appropriate growth-oriented capital structure to maximize cash flow while maintaining flexibility in funding any future acquisition.

5. Distribution policy

The REIT Manager's current policy is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income (as defined below) for each financial year. Pursuant to the Trust Deed, Regal REIT will be required to distribute at least 90% of its Total Distributable Income for each financial year.

"**Total Distributable Income**" is the consolidated audited net profit after tax of Regal REIT and each company directly or indirectly owned by the Trustee on trust for and on behalf of Regal REIT for the relevant financial year adjusted for the Adjustments (as defined below). After making for the Adjustments, the Total Distributable Income may be different from the consolidated net profit recorded by Regal REIT for the relevant financial year.

"**Adjustments**" means:

(a) significant adjustments which are charged or credited to the income statement for the relevant financial year or the relevant Distribution Period (as the case may be), including: (i) unrealized property revaluation gains/losses, including impairment provisions and reversals of impairment provisions; (ii) impairment loss of goodwill/recognition of negative goodwill; (iii) differences between cash and accounting finance costs; (iv) realized gains on the disposal of properties; (v) deferred tax charges/credits in respect of property valuation movements, fair value changes on financial instruments and commercial building allowances/capital allowances and other tax losses or other deductions claimed; (vi) the portion of the REIT Manager's Fees that is paid in the form of Units; (vii) costs of any public offering of Units that are expensed through profit and loss statement but are funded by proceeds from the issuance of such Units; (viii) differences between cash and accounting Rental Income in respect of the Lease Agreements entered into in relation to the Separate Listing; and (ix) other material non-cash gains/losses; and

(b) the deduction of any amount set aside on account of the FF&E Reserve.

The sources of distributions to Unitholders include: (1) net profit after tax generated by each Special Purpose Vehicle which the Special Purpose Vehicle pays to Regal REIT by way of dividend; and (2) distributions of capital which is facilitated by the Special Purpose Vehicles repaying loans to Regal REIT.

The REIT Manager's initial distribution policy is that two distributions will be made in respect of each year for the six month periods ending June 30 and December 31. Distributions will be paid within five months from the end of the relevant six month period.

The Remaining Regal Group will not be entitled to distributions in respect of the AEP Units subscribed by it until a certain time after the corresponding portion of the Asset Enhancement Program has been completed pursuant to the Distribution Deed. Please refer to paragraph 8 of the section headed "Proposed Spin-off and Separate Listing" below for further details of the Distribution Deed.

The Company will enter into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which the Company will guarantee to pay the shortfall in the event that the Total Distributable Income from the Listing Date to December 31, 2007, in aggregate, is less than a sum to be set out in the Offering Circular which is expected to be of an amount not exceeding HK$480 million, subject to the final determination of the Listing Date. Please refer to paragraph 7 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" below for further details of the Distributable Income Guarantee Deed.

Distributions to Unitholders will be declared and paid in Hong Kong dollars. The REIT Manager may also adopt such rules as it considers appropriate for the reinvestment by Unitholders of any distributions to be made by Regal REIT in return for new Units but no Unitholder shall be obliged to receive Units in lieu of a cash distribution. It is understood that, under the Hong Kong Inland Revenue Department's current practice, no tax should be payable in Hong Kong in respect of distributions made by Regal REIT. Unitholders should seek advice from their own professional advisers as to their tax position.

Regal REIT's ability to make distributions is dependent on (among other things) the Trustee having available sufficient cash in Regal REIT to make the payments required. The REIT Code requires the REIT Manager and the Trustee to ensure that each company used to hold real estate and other assets for Regal REIT for the time being shall distribute to Regal REIT all of such company's income for each financial year as permitted by the laws and regulations of its relevant jurisdiction of incorporation.

PROPOSED SPIN-OFF AND SEPARATE LISTING

1. The Proposed Spin-off

The Proposed Spin-off will comprise the Global Offering and the Separate Listing. The Global Offering will comprise an offer for subscription by way of public offer in Hong Kong and an international placement to professional, institutional and other investors. As part of the Global Offering, there will be a Preferential Offering to the Qualifying Shareholders and Regal REIT may consider introducing strategic investors in contemplation of the Global Offering.

The Proposed Spin-off is conditional upon, among other things, (a) the Authorization of the SFC under the REIT Code and (b) the approval of the Stock Exchange for the listing of, and permission to deal in, all the Units on the Stock Exchange. If such conditions are not fulfilled, the Proposed Spin-off will not be implemented. Please refer to paragraph 10 of this section for further details of the conditions of the Proposed Spin-off.

Immediately following the completion of the Proposed Spin-off, it is expected that the Company will hold an interest from approximately 50% to approximately 72% (assuming that the Over-allotment Option is not exercised) or from approximately 45% to approximately 67% (assuming that the Over-allotment Option is 5% and is exercised in full) in Regal REIT.

2. Separate Listing of the Units

The listing of the Units on the Main Board is conditional upon the fulfillment of the conditions stated in paragraph 10 headed "Conditions" below in this section.

An application has been made to the SFC for the Authorization and an application has been made to the Stock Exchange for the listing of, and permission to deal in, the Units (including any Unit to be sold upon the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange.

Subject to the granting of the Authorization and the Listing Approval, and the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Shares will continue to be listed on the Stock Exchange after the implementation of the Proposed Spin-off.

3. Regal REIT's Business and the Initial Hotel Properties

Regal REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. Upon the completion of the Global Offering, Regal REIT will own the Initial Hotel Properties as described below. The Initial Hotel Properties are strategically located across different districts in Hong Kong and currently have an aggregate of 3,348 rooms and over 30 food and beverage outlets.

The following table sets forth certain information in relation to the Initial Hotel Properties as at the Latest Practicable Date (unless otherwise provided):

Initial Hotel Property	Location	HKTB Rating(1)	Opening Year	Number of Rooms	Number of Stories	Gross Floor Area(5) (sq.ft.)	Covered Floor Area(6) (sq.ft.)	Capital Values as at December 31, 2006(7)
Regal Airport Hotel	Hong Kong International Airport	High Tariff B	1999	1,104	14 (including one basement floor)	774,445	897,034	HK$5,290,000,000
Regal Hongkong Hotel	Causeway Bay	High Tariff A	1993	424	37 (including four basement floors)(2)	215,736	320,417	HK$3,220,000,000
Regal Kowloon Hotel	Tsimshatsui	High Tariff A	1982	600	20 (including four basement floors)	341,714	468,355	HK$3,310,000,000
Regal Oriental Hotel	Kowloon City	High Tariff B	1982	390	17 (including two basement floors)	243,167(3)	294,154(3)	HK$1,240,000,000
Regal Riverside Hotel	Shatin	High Tariff B	1986	830	17 (including two basement floors)(2)	519,046	662,123	HK$2,840,000,000
Total				3,348(4)		2,094,108	2,642,083	HK$15,900,000,000

Notes:

(1) The Hong Kong Tourism Board classifies hotels into High Tariff A, High Tariff B, Medium Tariff and unclassified, based on facilities, location, staff to room ratio, achieved room rate and business mix of the hotels.

(2) The number of stories of Regal Hongkong Hotel and Regal Riverside Hotel will increase to 39 and 20, respectively, after completion of the Asset Enhancement Program.

(3) *The gross floor area includes 14,200 sq. ft. of Po Sing Court used as back-of-the-house area for Regal Oriental Hotel, which is owned by Gala Hotels Limited and represents 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel.*

(4) *Includes 12 house-use rooms (e.g. rooms for general managers of the hotels).*

(5) *The gross floor area has the meaning ascribed to it under the Building (Planning) Regulations. After completion of all the Asset Enhancement Programs, the gross floor area would increase to 2,269,120 sq.ft..*

(6) *The covered floor area means all floor area covered by the roofs of the property including gross floor area, and any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or similar services, and any area (above or below the level of the ground) which is exempted from the gross floor area calculation by the Building Authority but excluding bay window area. After completion of all the Asset Enhancement Programs, the covered floor area would increase to 2,747,042 sq.ft..*

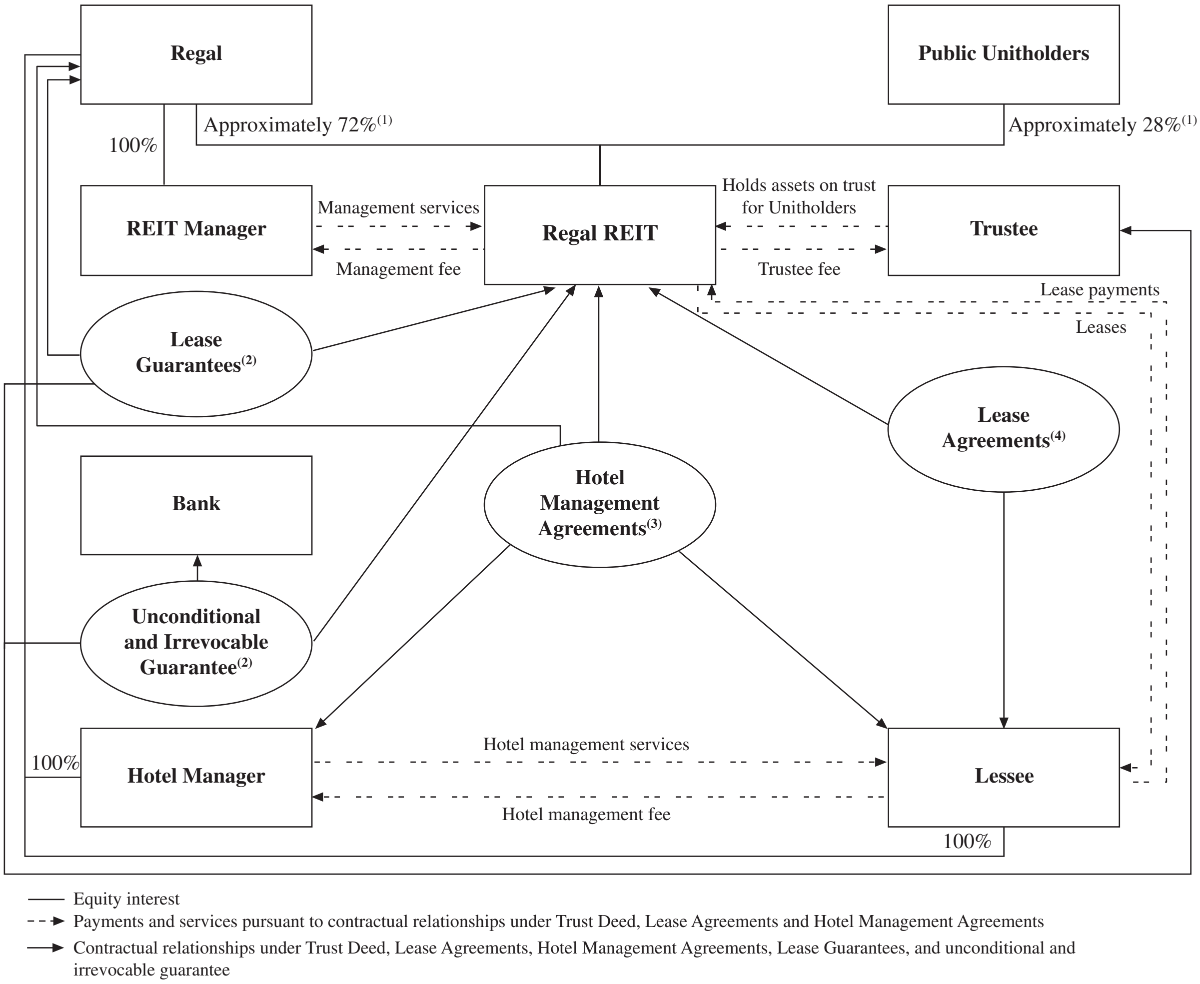
(7) *The Independent Property Valuer has taken into account the benefits of the AEP to the relevant capital values with the involved costs being excluded from capital expenditure in the valuations. Please refer to Appendix I of this Circular for further details on capital values of the Initial Hotel Properties.*

A property valuation report in respect of the Initial Hotel Properties prepared by the Independent Property Valuer is set out in Appendix I to this Circular.

The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant year from 2011 to 2015. Please refer to paragraph 2 of the section headed “The Group’s Relationship with Regal REIT after the Proposed Spin-off” below for further details of the Lease Agreements.

Regal will undertake to complete the Asset Enhancement Program at its own and full cost including any cost overruns and land premium that is required to be paid (which is applicable only in relation to Regal Riverside Hotel), whereby no less than 468 rooms are expected to be added to the Initial Hotel Properties, in stages, by the fourth quarter of 2008. The Remaining Regal Group will not be entitled to distributions in respect of its relevant AEP Units until a certain time after the corresponding portion of the Asset Enhancement Program is completed.

The following simplified diagram provides a general overview of the ownership structure of Regal REIT and the primary structural and contractual relationships among Regal REIT, the public Unitholders, the REIT Manager, the Trustee, the Lessee, the Hotel Manager and Regal, upon completion of the Global Offering.



Notes:

(1) Assuming the Over-allotment Option is not exercised and Regal will hold an interest of approximately 72% in Regal REIT.

(2) Regal will guarantee to pay all amounts from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements. In addition, Regal will procure an unconditional and irrevocable bank guarantee for HK$1 billion until June 30, 2011 in favour of the Lessors and the Trustee. For further details, please refer to paragraph 3 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" below.

(3) Regal REIT (through Holding SPV and the Lessors) will enter into separate Hotel Management Agreements with the Lessee, the Hotel Manager and Regal. For further details, please refer to paragraph 4 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" below.

(4) Regal REIT (through the Lessors) will enter into separate Lease Agreements with the Lessee. For further details, please refer to paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" below.

4. Delineation of businesses between the Remaining Regal Group and Regal REIT

The Group is principally engaged in the business of hotel and property development, hotel ownership, hotel operation and management, other investments and, following the Proposed Spin-off, REIT management services.

After the Proposed Spin-off, there will be a clear delineation of businesses between the Remaining Regal Group and Regal REIT. The Remaining Regal Group will focus on the Remaining Businesses and Regal REIT will focus on the Regal REIT Business as are more particularly described below:

Remaining Businesses of Remaining Regal Group	Regal REIT Business
• Hotel operation and management • Hotel and property development • Other investments • REIT management services	• Hotel properties ownership, including portfolio management such as asset enhancements, and hotel acquisitions and disposals

The major assets and operations of each of the Remaining Regal Group and Regal REIT immediately after the Proposed Spin-off are more particularly described in the table below:

Remaining Regal Group	Regal REIT
• Operating and managing the Initial Hotel Properties pursuant to the Lease Agreements and the Hotel Management Agreements • Apart from the Initial Hotel Properties, managing the two Regal hotels in Shanghai • Holding a 70% equity interest in a jointly controlled entity which holds 100% interest in Regalia Bay, a luxury residential development project in Stanley, Hong Kong • Developing, through a 50%-owned associated company which in turn holds a 59% interest in an investee company, a site in the Central Business District of Beijing (comprising office, residential, hotel, commercial properties and car parking spaces) • Through the REIT Manager, providing management services to Regal REIT	• Owning and leasing the Initial Hotel Properties

Immediately after the transfer of the Initial Hotel Properties to Regal REIT and the Proposed Spin-off:

(i) the Remaining Regal Group will not own any hotel property in Hong Kong but will continue to be engaged in hotel and property development, hotel operation and management and other investments; and

(ii) Regal REIT will not invest in vacant land, engage or participate in property development activities not allowed under the REIT Code, or acquire properties which do not fit into its investment strategy.

5. Reasons for and benefits of the Proposed Spin-off

The Directors believe that the Proposed Spin-off will bring about a number of benefits to both Regal and Regal REIT including the following:

(i) The delineation of the respective businesses carried on by each of the Remaining Regal Group and Regal REIT is expected to allow better business focus regarding their respective operational and financial performance. Specifically, Regal REIT will focus on capital enhancement and hotel acquisition opportunities while the Remaining Regal Group will focus on promoting brand name and management as well as hotel and property development businesses.

(ii) After the Proposed Spin-off, the Remaining Regal Group and Regal REIT will adopt different business and growth strategies, offering the Shareholders and other investors the opportunity and flexibility for investment in both the Remaining Regal Group and Regal REIT or either of them.

(iii) The Proposed Spin-off will allow Regal REIT to establish its own profile as a separate listed entity and will provide separate capital-raising platforms for the Remaining Regal Group and Regal REIT with respect to the growth of their respective future businesses and operations.

(iv) The estimated consideration under the Sale and Purchase Agreement for the disposal of the interest in Holding SPV, which indirectly owns the Initial Hotel Properties, to Regal REIT is expected to be not less than HK$12.5 billion. Based on the aggregate carrying value of the Initial Hotel Properties as at December 31, 2005 of approximately HK$4 billion, Regal is expected to derive a gain from the disposal of the Initial Hotel Properties of not less than HK$2 billion (after elimination of the unrealized gain attributable to the interest to be held by the Remaining Regal Group in Regal REIT, based on the maximum level of 72%).

(v) The Shareholders will benefit from the enhancement in the net asset value of the Remaining Regal Group as a result of the Proposed Spin-off. Assuming a consideration for the disposal of the Initial Hotel Properties of not less than HK$12.5 billion and Regal will subscribe and retain a maximum of 72% interest in Regal REIT and assuming Regal REIT will, upon the Proposed Spin-off, have an initial indebtedness of HK$4.35 billion (which is subject to finalization before the Proposed Spin-off), the book net asset value of the Remaining Regal Group is expected to increase from approximately HK$2 billion as at September 30, 2006 to not less than HK$4 billion immediately after the Proposed Spin-off. In addition, immediately after the Proposed Spin-off and assuming that the Over-allotment Option is not exercised, the disposal of the Initial Hotel Properties will generate surplus cash proceeds of not less than HK$2 billion after repayment of outstanding bank loans for the Remaining Regal Group's operations and new investment activities. For further details, please refer to the section headed "Financial Effects of the Proposed Spin-off" in this Circular.

(vi) Based on the audited figures of Regal for the nine months ended September 30, 2006, the ratio of net debt to total assets of Regal was 66.2%. After applying part of the consideration to be received from the sale of the interest in Holding SPV, which indirectly owns the Initial Hotel Properties, under the Proposed Spin-off to repay its outstanding bank loans above, the Remaining Regal Group is expected to become free from bank debt immediately after the Proposed Spin-off.

(vii) As the Remaining Regal Group intends to retain a holding of a significant interest in Regal REIT, it will continue to benefit from the business prospects of Regal REIT.

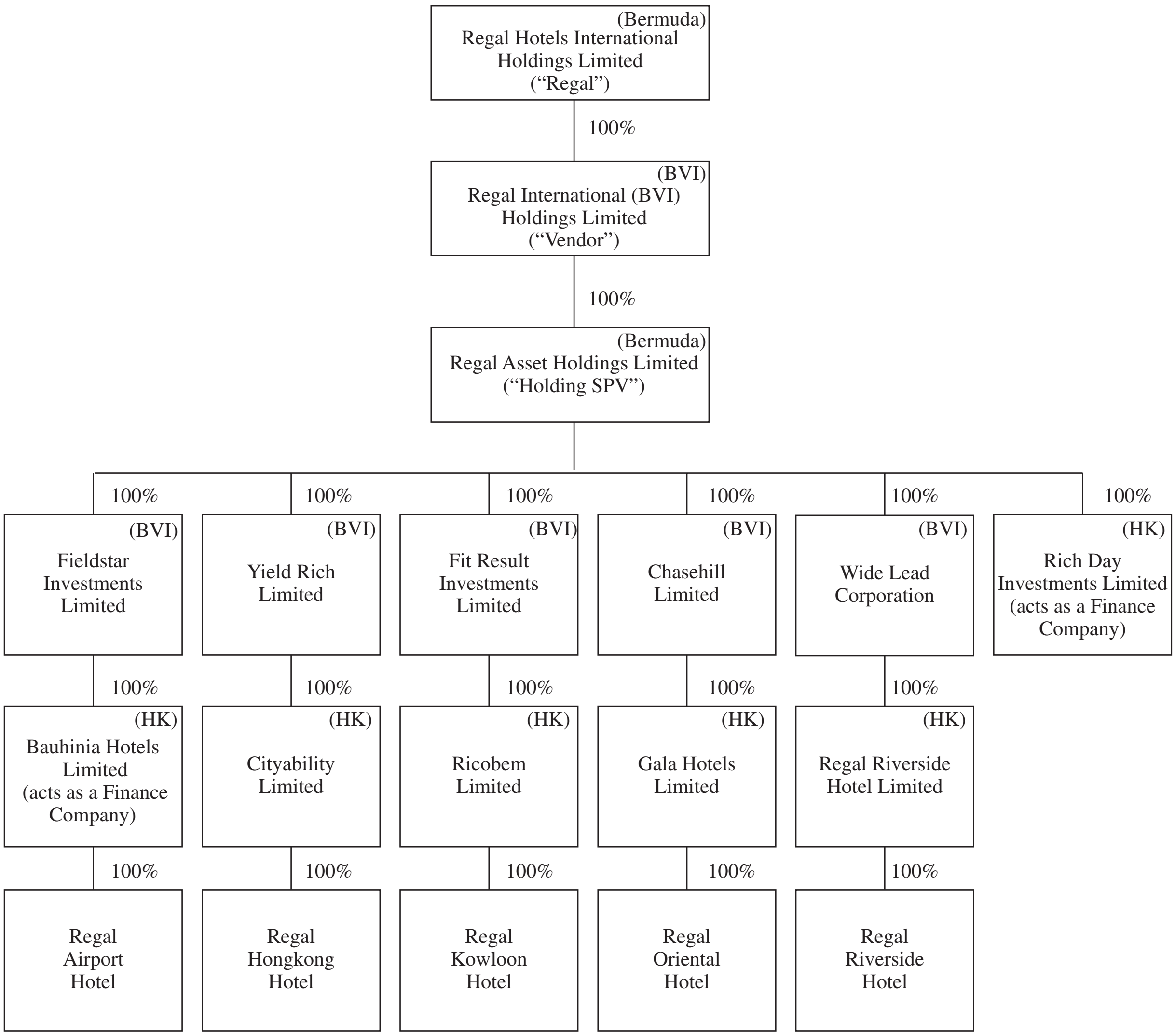
6. Intended use of proceeds

Based on a minimum consideration of HK$12.5 billion and assuming that Regal will subscribe and retain a maximum of 72% interest in Regal REIT and assuming Regal REIT will upon the Proposed Spin-off have an initial indebtedness of HK$4.35 billion (which is subject to finalization before the Proposed Spin-off), Regal will apply part of the proceeds to be received from the Sale and Purchase Agreement in the amount of approximately HK$6 billion for subscription of Units and an amount of approximately HK$4.3 billion to repay its outstanding bank loans. The balance of not less than HK$2 billion, after payment of the expenses associated with the Proposed Spin-off, will be retained for general working capital purposes.

7. Effects of the Proposed Spin-off

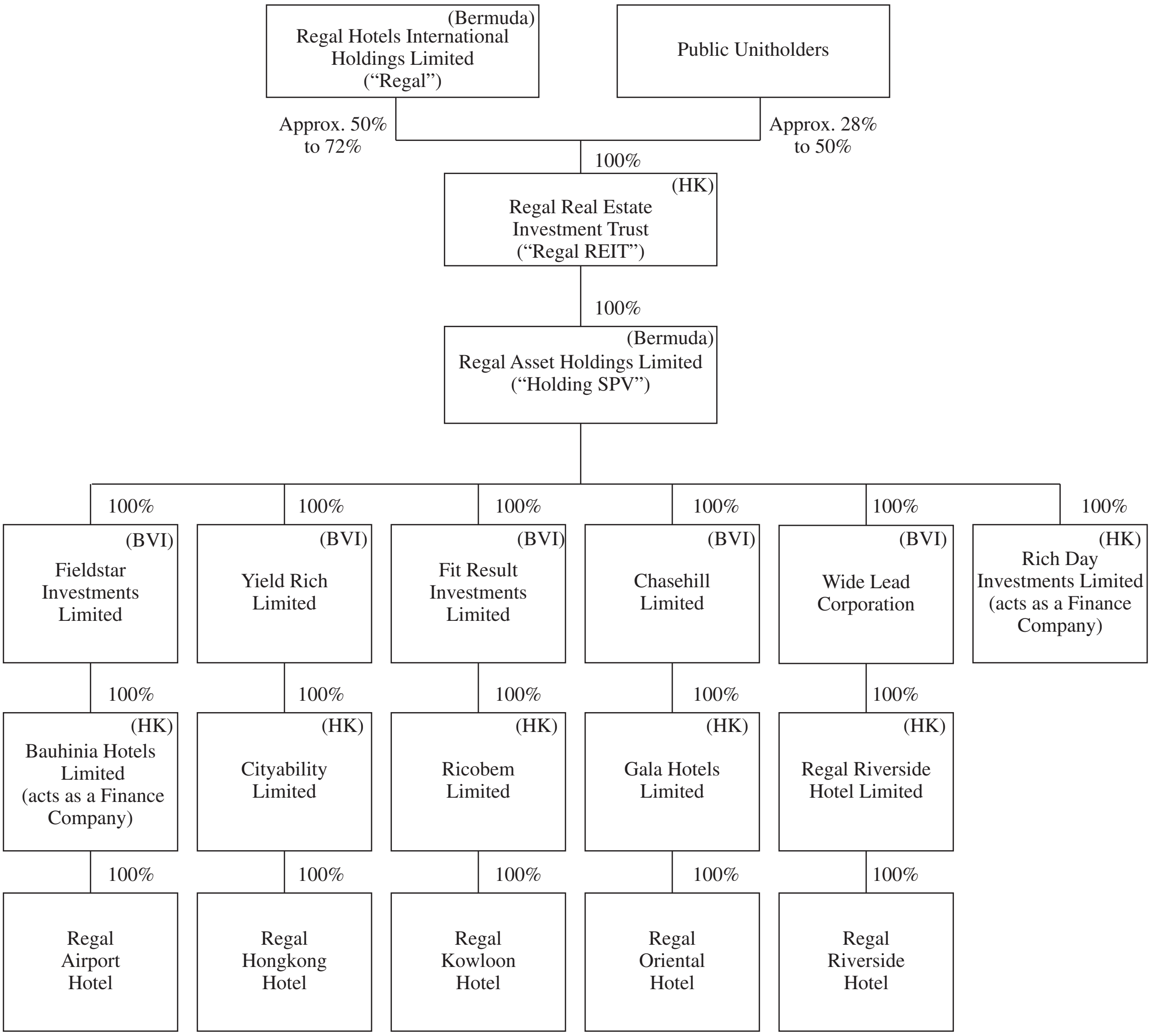
(a) Ownership structure of Regal REIT immediately after the Restructuring but prior to the Proposed Spin-off

The ownership structure of Regal REIT immediately after the Restructuring but prior to the Proposed Spin-off will be as follows:



(b) Ownership structure of Regal REIT upon completion of the Proposed Spin-off

The ownership structure of Regal REIT immediately following the completion of the Proposed Spin-off (assuming that the Over-allotment Option is not exercised) will be as follows:



(c) Profits tax

Regal REIT, as a collective investment scheme constituted as a unit trust and authorized under section 104 of the SFO, will be exempt from Hong Kong profits tax.

The respective direct owners of the Initial Hotel Properties will be subject to Hong Kong profits tax in respect of profits derived from leasing Initial Hotel Properties pursuant to the Lease Agreements or from operating the Initial Hotel Properties or from the letting of any real estate in Hong Kong, at the current rate of 17.5%. The respective direct owners of the Initial Hotel Properties will not be subject to Hong Kong profits tax on any capital gains derived from the disposal of the Initial Hotel Properties, provided the Initial Hotel Properties are not held for trading purposes as Hong Kong does not impose tax on capital gains.

Distributions made by Regal REIT to Unitholders will not be subject to any withholding tax in Hong Kong.

(d) Stamp duty

No Hong Kong stamp duty is payable by Regal REIT on the issue of new Units.

(e) General

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to tax implications of the holding or disposal of, or dealing in the Units. It is emphasised that none of the Company, its Directors or any other parties involved in the Proposed Spin-off accepts responsibility for any tax effects or liabilities of holders of the Units resulting from the holding or disposal of, or dealing in the Units.

8. Distribution Deed

The Company and its wholly-owned subsidiary, Great Prestige Investments Limited, will enter into the Distribution Deed in favour of the Trustee and the REIT Manager, pursuant to which the Company and Great Prestige Investments Limited will jointly and severally agree to irrevocably waive any distribution entitlement for the relevant AEP Units in respect of the period from the Listing Date until a certain specified date(s) after the completion of the relevant Asset Enhancement Program project.

No adjustment to the number of AEP Units will be made to take into account of any new Units issued (including, but not limited to, Units issued pursuant to the Over-allotment Option), whether dilutive or not, prior to the cessation of the arrangements in relation to the AEP Units, as contemplated under the Distribution Deed.

In addition, each of the Company and Great Prestige Investments Limited will undertake that it shall not, and shall procure that its subsidiaries (if any) shall not among others dispose of any AEP Units or any direct or indirect interest therein (including, without limitation, by granting or creating any option, mortgage, pledge, charge or other security interest) during the aforesaid periods, without the prior written consent of the REIT Manager and the Trustee (at the direction of the REIT Manager), whether conditionally or unconditionally.

9. Lock-up arrangement

In addition to the arrangements provided under the Distribution Deed as mentioned in paragraph 8 headed "Distribution Deed" above in this section, it is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions.

10. Conditions

The Proposed Spin-off will be conditional on, among other things, the following:

(a) Shareholders passing an ordinary resolution by way of poll at the SGM to approve the Proposed Spin-off and other related matters;

(b) the Listing Committee granting the Listing Approval;

(c) the obligations of the underwriters under the underwriting agreements to be entered into between, among others, the Company, the REIT Manager and the underwriters in respect of the Global Offering becoming and remaining unconditional and the underwriting agreements not being terminated in accordance with their respective terms or otherwise, on or before the dates and times to be specified therein, details of which will be set out in the Offering Circular;

(d) the conditions precedent to draw down of the term loan facility under the Financing Agreement being fulfilled or waived;

(e) the receipt of the Authorization;

(f) the Offer Price being duly determined;

(g) the underwriters being satisfied with respect to completion of the subscription obligations under the Subscription Agreement; and

(h) the Sale and Purchase Agreement becoming and remaining unconditional in accordance with its terms,

unless and to the extent any relevant condition is validly waived.

If the foregoing and any other applicable conditions are not fulfilled or waived prior to the dates and times to be specified in the Offering Circular, the Global Offering will lapse and a notice will be published by the Company and/or Regal REIT as soon as practicable following such lapse.

The Proposed Spin-off is subject to the foregoing and other applicable conditions and is dependent on a number of factors (including, but without limitation, the entering into of definitive underwriting agreements and other legal documentation in respect of the Global Offering as well as market conditions at the relevant time). Shareholders should note in particular that no underwriting agreement has been signed. Such underwriting agreements, if signed, will be subject to, inter alia, customary conditions precedent. There is, therefore, no assurance that the Proposed Spin-off will proceed.

LISTING AND DEALINGS

The Shares will continue to be listed on the Stock Exchange after the implementation of the Proposed Spin-off.

An application has been made to the SFC for the Authorization and an application has been made to the Stock Exchange for the listing of, and permission to deal in, the Units (including any Units to be sold upon the exercise of the Over-allotment Option) on the Main Board of the Stock Exchange.

Subject to the granting of the Listing Approval and the compliance with the stock admission requirements of HKSCC, the Units will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Units or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

PREFERENTIAL OFFERING

In accordance with the assured entitlement requirements under PN15, the Directors have given due regard to the interests of the Shareholders and will arrange for the REIT Manager to provide Qualifying Shareholders with Assured Entitlement to a certain number of Reserved Units by way of the Preferential Offering, if the REIT Manager decides to proceed with the Global Offering and the Separate Listing.

It is currently proposed that Qualifying Shareholders will be entitled to subscribe for one Reserved Unit for every whole multiple of 100 Shares (or such other number of Shares as will be stated in the Offering Circular) held by them at the close of business on the Record Date. Any Qualifying Shareholder holding less than 100 Shares (or such other number of Shares as will be stated in the Offering Circular) will not be entitled to apply for any Reserved Unit. Any Reserved Units not taken up by the Qualifying Shareholders will be allocated to the International Offering.

Based on the number of issued Shares as at the Latest Practicable Date and assuming that all of the Reserved Units are taken up under the Preferential Offering, the number of Units to be issued under the Preferential Offering is expected to represent not less than 2.5% of the Units offered in the Global Offering.

Shareholders should note that the entitlement to Reserved Units may represent Units not in a whole multiple of a full board lot of Units, and dealings in odd lot Units may be below their prevailing market price. Entitlements to Reserved Units are not transferable and there will be no trading in nil-paid entitlements on the Stock Exchange. Any Units to be issued pursuant to the Preferential Offering shall be fully paid, ranking *pari passu* in all respects with other Units to be issued pursuant to the Global Offering.

Any Qualifying Shareholder who holds the Shares as a nominee, trustee or registered holder in any other capacity will not be treated differently from any other registered holder. Any beneficial owner of the Shares whose Shares are registered in the name of a nominee, trustee or registered holder in any other capacity should make arrangements with such nominee, trustee or registered holder in relation to the Assured Entitlement. Any such person may consider whether it wishes to arrange for the registration of the relevant Shares in the name of the beneficial owner prior to the Record Date.

Overseas Shareholders will be notified by mail regarding their respective entitlements on the subscription of Units under the Preferential Offering.

CLOSURE OF REGISTER OF MEMBERS OF THE COMPANY

Based on the expected timetable, the register of members of the Company will be closed from Wednesday, March 7, 2007 to Friday, March 9, 2007 (both dates inclusive) for the purpose of determining the Assured Entitlement and entitlement to vote at the SGM. No transfer of the Shares may be registered during such book close period. In order to qualify for the Assured Entitlement and to vote at the SGM, all forms for transfers of Shares duly accompanied by the relevant share certificates must be lodged with the Registrar by no later than 4:30 p.m. on Tuesday, March 6, 2007, and all documents for exercise of any subscription rights attaching to the outstanding warrants of the Company duly accompanied by the relevant warrant certificates and subscription money must be lodged with the Registrar by no later than 4:00 p.m. on Tuesday, March 6, 2007.

The last day of dealing in the Shares cum Assured Entitlement is expected to be on Friday, March 2, 2007 and the Shares will then be traded ex Assured Entitlement as from Monday, March 5, 2007. However, if the Global Offering and the Separate Listing are postponed, the Board may then determine another date(s) for closure of the register of members of the Company for the purposes of determining the Assured Entitlement and entitlement to vote at the SGM and further announcement(s) will be made to inform the Shareholders and other investors in due course.

Shareholders should note that the implementation of the Preferential Offering is conditional upon the satisfaction of the conditions of the Proposed Spin-off as set out in paragraph 10 headed "Conditions" under the section headed "Proposed Spin-off and Separate Listing" above. If any of such conditions is not fulfilled by such time set out therein, the Preferential Offering will not be made and, in such case, no Qualifying Shareholders may subscribe for any Reserved Units thereunder.

Shareholders should further note that the actual total number of the Units to be distributed subject to the Preferential Offering will vary depending on the actual number of issued Shares as at the Record Date.

RESTRUCTURING

1. Establishment of Regal REIT

The REIT Manager and the Trustee have entered into the Trust Deed for the purpose of constituting and establishing Regal REIT.

2. Internal reorganization

In preparation for the transfer of the interest in Holding SPV to Regal REIT, Regal will reorganize its interests in the Initial Hotel Properties, the major steps of which will include:

(a) Asset transfer agreements will be entered into between the respective Lessor and the Lessee for the transfer of various assets including, but not limited to, cash and bank balances, accounts receivable, pre-payments, hotel inventories, and rental deposits received by the respective Lessor.

(b) Assignments of loans will be entered into between the Lessors (as debtors), two finance companies in the Group (as assignors), and Holding SPV and Rich Day Investments Limited, a wholly-owned subsidiary of Holding SPV (as assignees), for the assignment of various existing inter-company loans to Holding SPV and Rich Day Investments Limited (as the case may be).

(c) Transfers by the current holding companies of the Holding Companies in relation to the entire issued share capital of the Holding Companies to Holding SPV.

Upon completion of the above internal reorganization, Holding SPV will become the sole shareholder of the Holding Companies, which will, in turn, hold the owners of the Initial Hotel Properties and the Promissory Notes would have been issued by Holding SPV to the Vendor.

3. Transfer of Holding SPV to Regal REIT

(a) Sale and Purchase Agreement

On the Listing Date, the Trustee will acquire the entire issued share capital of Holding SPV and the Promissory Notes, which are non-interest bearing and will become an inter-company loan of Regal

REIT on the Listing Date, pursuant to the Sale and Purchase Agreement. After such acquisition, Holding SPV will cease to be a subsidiary of the Company, and Regal REIT will own the Initial Hotel Properties through the wholly-owned subsidiaries of Holding SPV.

Consideration and completion

The aggregate consideration for the acquisition of the entire issued share capital of Holding SPV and the Promissory Notes, subject to the Adjustment Sum, is expected to be not less than HK$12.5 billion. The Company will endeavour to achieve an overall consideration under the Sale and Purchase Agreement of over HK$12.5 billion. The purpose of including the Adjustment Sum is to reflect the actual consideration payable to the Vendor based on the Offer Price achieved in the Global Offering.

Completion of the Sale and Purchase Agreement is expected to take place on the Listing Date, and will be subject to the satisfaction of a number of conditions including, but not limited to:

(i) the Company obtaining Shareholders' approval of the Proposed Spin-off;

(ii) concurrent signing and delivery of the Lease Agreements, the Hotel Management Agreements and the Lease Guarantees, and the signing in escrow of an unconditional and irrevocable bank guarantee under the Lease Guarantees;

(iii) the Facility being in place at Completion and being available to be drawn down by the Finance Companies at Completion; and

(iv) the obligations of the underwriters under the underwriting agreements in relation to the Hong Kong Public Offering and the International Offering becoming unconditional and not being terminated in accordance with their respective terms.

Representations, warranties, indemnities and undertakings

The Sale and Purchase Agreement will contain representations, warranties and indemnities made or given by the Vendor and Regal in respect of Holding SPV (and its subsidiaries) and the Initial Hotel Properties, in line with customary market practice for arm's length transactions of this nature.

In addition, the Vendor will undertake to complete the Asset Enhancement Program at its own cost. The Sale and Purchase Agreement will specify target completion dates in 2007 and 2008, as applicable, by which the portions of the Asset Enhancement Program must be completed. If a target completion date is not met, liquidated damages will become payable up to the date of completion or until a specified long-stop date. If the Asset Enhancement Program is still not completed by the relevant pre-determined long stop date, the Trustee (at the direction of the REIT Manager) may accept the completed part, enter the uncompleted part, and demand from the Group cash compensation in an amount equal to the full appraised value of the relevant Asset Enhancement Program project (as determined in accordance with the Sale and Purchase Agreement).

Regal will guarantee the Vendor's obligations under the Sale and Purchase Agreement. Any claim against the Vendor in respect of any breach of warranties will be subject to an aggregate maximum liability of an amount equal to the aggregate consideration under the Sale and Purchase Agreement, a limitation period of three years from the Listing Date for all claims other than claims relating to taxation, and a limitation period of seven years from the Listing Date relating to taxation.

(b) Deed of Tax Indemnity

In connection with the Restructuring, it is proposed that a Deed of Tax Indemnity will be entered into by the Vendor and Regal in favour of the Trustee and Holding SPV (for itself or on behalf of its subsidiaries) in respect of, among other things, any liability for taxation resulting from or by reference to any event occurring on or before completion of the Restructuring or in respect of any gross receipts, income, profits or gains earned, accrued or received by Holding SPV (and its subsidiaries, where applicable) on or before completion of the Restructuring. A claim can be made on or prior to the seventh anniversary of the Deed of Tax Indemnity.

(c) AEP Agency Deed

To facilitate the carrying out of the Asset Enhancement Program, (a) the Lessors (other than Ricobem Limited), (b) the AEP Agent and (c) Regal will enter into the AEP Agency Deed, whereby each of the Lessors will appoint the AEP Agent to enter into and/or manage the AEP Contracts on its behalf. However, unless the relevant Lessor has given its prior written consent, the AEP Agent shall not have any power to commit any Lessor to (i) assume any liability whatsoever, other than liability to pay contract sums which, in aggregate, do not amount to more than the estimated cost of the Asset Enhancement Program for its Initial Hotel Property together with cost overruns limited to 30% of such estimated costs, in respect of AEP Contracts; or (ii) encumber any of its assets or discharge any other obligation.

The AEP Agent will be required to coordinate and ensure the carrying out and completion of the Asset Enhancement Program by the main contractors, sub-contractors, project managers and advisers in accordance with the terms of the Sale and Purchase Agreement. Regal will guarantee the AEP Agent's obligations under the AEP Agency Deed. The Group will undertake to indemnify the Lessors from and against all costs, losses and liabilities arising from the AEP Contracts, to settle all payments on behalf of the Lessors when due or payable and to procure that project managers, consultants and other professional advisers discharge their duties under the AEP Contracts.

4. Subscription of Units

Regal and its wholly-owned subsidiaries, Complete Success Investments Limited and Great Prestige Investments Limited, will enter into the Subscription Agreement with the REIT Manager to subscribe for Units (including a certain number of AEP Units) at the Offer Price. The consideration for the Units to be subscribed by Regal will be satisfied by the issuance of a promissory note by the Vendor to Regal REIT, and such promissory note will then be applied by Regal REIT to satisfy part of the consideration payable by the Trustee to the Vendor for the acquisition of Holding SPV as described in paragraph 3 of this section.

THE GROUP'S RELATIONSHIP WITH REGAL REIT AFTER THE PROPOSED SPIN-OFF

The Remaining Regal Group and Regal REIT will be managed by separate management teams. The REIT Manager is a wholly-owned subsidiary of the Company, while the Trustee is a professional trustee independent of the Group.

1. REIT Manager

The REIT Manager is incorporated in Hong Kong for the sole purpose of managing the assets of Regal REIT. Although the REIT Manager is a wholly-owned subsidiary of the Company, it will operate independently of the Company.

(a) Board and management of the REIT Manager

The board of directors of the REIT Manager is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals. It has established a framework for the management of Regal REIT, including a system of internal control and business risk management processes.

The board of directors of the REIT Manager comprises seven directors, three of whom are independent non-executive directors. The sole executive director will be licensed by the SFC as a responsible officer of the REIT Manager for the purposes of the SFO.

The three Directors who are also directors of the REIT Manager do not constitute a majority of the board of directors of the REIT Manager. Upon the Proposed Spin-off, the Board of the Company and the board of directors of the REIT Manager will have three common directors but no common executive directors. These three common directors are all executive directors of the Company, but are all non-executive directors of the REIT Manager. None of the Directors or the directors of the REIT Manager will participate, at the same time, in the day-to-day management of both the Remaining Regal Group and the REIT Manager. Accordingly, despite the said common non-executive directorships, the day-to-day executive management responsibilities of the Remaining Regal Group will remain distinct from those of the REIT Manager.

Immediately after the Proposed Spin-off, none of the three common directors of the Company and the REIT Manager will hold any interest in the Units of Regal REIT (other than indirectly through the Company as a result of the Company's holdings in Regal REIT).

(b) Directors of the REIT Manager

Non-executive directors

Mr. Lo Yuk Sui — Mr. Lo is the chairman and one of the three non-executive directors of the REIT Manager. Mr. Lo is the chairman and chief executive officer of each of Century City, Paliburg and Regal, and will continue to act in such capacities after the Proposed Spin-off.

Mr. Donald Fan Tung — Mr. Fan is one of the three non-executive directors of the REIT Manager. Mr. Fan is an executive director of each of Century City, Paliburg and Regal, and the chief operating officer of Paliburg. After the Proposed Spin-off, he will continue to act in such capacities.

Mr. Jimmy Lo Chun To — Mr. Lo is one of the three non-executive directors of the REIT Manager. Mr. Lo is an executive director of each of Century City, Paliburg and Regal. After the Proposed Spin-off, he will continue to serve on the board of directors of each of Century City, Paliburg and Regal as an executive director.

Executive director

Mr. Kai Ole Ringenson — Mr. Ringenson is the sole executive director, the chief executive officer and will be one of the three licensed responsible officers of the REIT Manager. He has recently resigned as a non-executive director of Regal and will work for the REIT Manager on a full time basis.

Independent non-executive directors

Hon Abraham Shek Lai Him, J.P. — Mr. Shek is one of the three independent non-executive directors of the REIT Manager. Mr. Shek is an independent non-executive director of Paliburg. After the Proposed Spin-off, he will continue to serve on the board of Paliburg as an independent non-executive director.

Mr. Alvin Lam Kwing Wai — Mr. Lam is one of the three independent non-executive directors of the REIT Manager. Mr. Lam has no prior engagement with the Group as a director.

Mr. John William Crawford, J.P. — Mr. Crawford is one of the three independent non-executive directors of the REIT Manager. Mr. Crawford has no prior engagement with the Group as a director.

(c) Sharing of non-management functions

On the operational level, the REIT Manager will have its own team of staff to manage the business of the REIT Manager. Only some administrative and support functions (such as back-office support) will be shared between the REIT Manager and the Remaining Regal Group.

The Board confirms that, other than disclosed above, all essential managerial functions would be carried out by Regal REIT without requiring the support of the Remaining Regal Group.

(d) REIT Manager's Fees

The REIT Manager will be remunerated by way of:

(i) a base fee, which is intended to be 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of all the gross assets of Regal REIT, including the Initial Hotel Properties, held in its portfolio, payable monthly in arrears;

(ii) a variable fee, which is intended to be 3% per annum, subject to a maximum cap of 5% per annum, of the Net Property Income, payable annually;

(iii) an acquisition fee, which is intended to be 1% of the purchase price of property acquired by Regal REIT (other than the acquisition described in paragraph 3(a) of the section headed "Restructuring" above); and

(iv) a divestment fee, which is intended to be 0.5% of the sale price of property divested by Regal REIT

(collectively, the "**REIT Manager's Fees**").

The REIT Manager's Fees will be in the form of cash and/or Units pursuant to the terms of the Trust Deed.

2. Lease Agreements

Each of the Lessors is expected to enter into a separate Lease Agreement in respect of the Initial Hotel Properties with the Lessee, a wholly-owned subsidiary of Regal for a term from the Listing Date to December 31, 2015.

For the years from 2007 to 2010, the Lessee will be required to pay an annual aggregate Base Rent of HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until December 31, 2007) and HK$700 million, HK$750 million and HK$780 million for the second, third and fourth fiscal years, respectively. In addition, during each of the first to fourth fiscal years, the Lessee will be required to pay a Variable Rent for each such year, a sum which represents 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010, respectively. In the event the aggregate of the Variable Rent paid by the Lessee from the Listing Date to December 31, 2010 shall be less than HK$220 million, the Lessee will be required to pay the shortfall, subject to certain downward adjustments as provided under the Lease Agreements.

For the purpose of this section:

●	Gross Operating Profit	=	Total Hotel Revenue[1] - Hotel Operating Expenses[2]
●	Adjusted GOP	=	Gross Operating Profit + Net Rental Income[3]
●	Net Property Income	=	Adjusted GOP - hotel management base fee[4] - hotel management incentive fee[4] - certain non-operating hotel expenses as provided under the Lease Agreements
●	Collective NPI Excess	=	the excess of the aggregate Net Property Income of all the Initial Hotel Properties over the aggregate annual Base Rent of all the Initial Hotel Properties for any relevant period, taking into account any negative Net Property Income

1 means revenue derived for any period of time from (a) the Initial Hotel Properties in relation to (i) rooms rented; (ii) food and beverage sales; (iii) catering operations conducted outside of the Initial Hotel Properties; (iii) miscellaneous banquet and meeting room income; (iv) parking services rendered; (v) laundry and dry cleaning services rendered and (vi) health center, swimming pool, spa and gym services; (b) other miscellaneous operated departments in the Initial Hotel Properties on all hotel room revenue and food and beverage revenue (excluding in-hotel-room mini-bar revenue), which will be more fully described in the Hotel Management Agreements.

2 an operating expense in accordance with the 9th edition (or such later edition) of the Uniform System of Accounts for the Lodging Industry published by the American Hotel & Lodging Association.

3 means the total rental revenue in respect of lettable areas of the Initial Hotel Properties less attributable expenses including but not limited to government rent and rates, leasing expenses, air-conditioning charges, energy and utility expenses, repair and maintenance and other expenses (administration and sundry expenses), which will be more fully described in the Hotel Management Agreements.

4 Please refer to the section headed "Hotel Management Agreements" for further details.

Shareholders should note that, after the Proposed Spin-off, the entire amount of the Net Property Income for the period from the Listing Date to December 31, 2007 will be transferred from the Remaining Regal Group to the Lessors (i.e. the direct owners of the Initial Hotel Properties under Regal REIT, in which the Remaining Regal Group will hold an approximate 50% to 72% interest (assuming that the Over-allotment Option is not exercised)), in the form of Base Rent and Variable Rent pursuant to the Lease Agreements. As such, the said arrangement may have an adverse impact on the profitability of the Remaining Regal Group during the aforesaid period.

For each of the five years from 2011 to 2015, the Lessee shall pay the higher of HK$400 million and the market level rent to be determined on an annual basis by a jointly appointed independent professional property valuer under the rent review process pursuant to the Lease Agreements.

For Regal Hongkong Hotel, there will be an additional pre-determined monthly rent payable by the Lessee for the use of certain areas for the mechanical, electrical, back-of-house and other minor hotel facilities for the operation of Regal Hongkong Hotel.

The Lessee will also be required from the Listing Date until December 31, 2010 to contribute on a monthly basis 2% of the Total Hotel Revenue towards the FF&E Reserve owned and maintained by Regal REIT. Thereafter, the percentage contribution by the Lessee will be determined as part of the annual rent review.

Each of the Lessee and the relevant Lessor will be entitled to terminate their respective Lease Agreement by serving a written notice of termination with different notice period requirements depending on the nature of the termination event.

The Regal Airport Hotel is held under a sub-lease from the Airport Authority Hong Kong ("**AA**") and consent has been obtained from AA for the entering into of, among others, the relevant Lease Agreement. In this connection, Regal has agreed to indemnify AA for any costs, expenses, penalty and liabilities which may arise out of the application for and grant of the consent, or any breach of the relevant Government Grant as a result of the entering into of the said arrangements. Legal advice has been obtained confirming that the entering into of the said Lease Agreement would not amount to a breach of the relevant Government Grant.

3. Lease Guarantees

Regal is expected to give guarantees to the Lessor and the Trustee in respect of the Lessee's payment obligations under the Lease Agreements, and to procure and maintain from time to time, at its sole cost and expense, an unconditional and irrevocable bank guarantee in the amount of HK$1 billion in favour of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Unless the Lease Agreements are early terminated, the same shall, at the sole cost and expense of Regal, remain in place and effective at all times until June 30, 2016 upon the same terms and for an amount which is the highest of (i) the amount which a jointly appointed independent professional property valuer determines to be the market rate of the security deposit, (ii) 50% of the annual base rent as determined by such valuer and (iii) 50% of the Floor Rent (i.e. HK$200 million for the Initial Hotel Properties).

Regal is also expected to undertake to ensure and procure that for so long as any part of the guaranteed liabilities remains outstanding, the Consolidated Tangible Net Worth of Regal shall not be less than HK$4 billion.

"**Consolidated Tangible Net Worth**" means the total assets of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited), or, as the case may be, as at December 31 (audited) minus:

(a) total liabilities (excluding any deferred tax liabilities) of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited) or, as the case may be, as at December 31 (audited);

(b) any declared dividend or other distributions to Regal's shareholders, to the extent that such dividend or other distribution is not provided for in such balance sheet;

(c) amounts attributable to minority interests in Regal's subsidiaries; and

(d) any intangible assets of Regal, as shown in its most recent consolidated balance sheet as at June 30 (unaudited), or, as the case may be, as at December 31 (audited);

and after restating Regal's interest in Regal REIT to its market value based on the last traded price of the units of Regal REIT as at the relevant balance sheet date.

In determining the "**total assets of Regal**" as shown in the most recent consolidated balance sheet, where the book carrying values of the hotel properties and other real estate properties which may be held by the Group as shown in Regal's then most recent consolidated balance sheet are adversely affected due to a change in Hong Kong Financial Reporting Standards and/or adoption of other relevant accounting policy, an adjustment shall be required to state such carrying values at their open market values by reference to an independent professional valuation to be carried out on December 31 each year, such adjustment to be certified by the external auditors and added to such total asset value.

4. Hotel Management Agreements

Regal REIT (through Holding SPV and the Lessors) is expected to enter into the Hotel Management Agreements with the Lessee, the Hotel Manager and Regal in respect of the Initial Hotel Properties. The Hotel Manager, a wholly-owned subsidiary of Regal, is expected to be engaged as the exclusive operator and manager of the Initial Hotel Properties for a term of 20 years from the Listing Date. The Hotel Manager will supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties solely under the "Regal" brand name and to act in good faith, to exercise due care and diligence and with full control and discretion, to operate, manage, and promote the business of each Initial Hotel Property, to provide all services lawfully or properly provided by a hotel of comparable standard as the Initial Hotel Property and to act in the best interests of the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) with a view to optimizing profit of the Initial Hotel Property.

The Hotel Manager is expected to receive payment by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) of a hotel management fee comprising of:

(a) a hotel management base fee which is equal to:

  (i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and

  (ii) in any other case during the term of the Hotel Management Agreement, an amount equal to 2% of Gross Revenues; and

(b) a hotel management incentive fee which is equal to:

(i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) certain non-operating hotel expenses; and

(ii) in any other case during the term of the Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) certain non-operating hotel expenses.

Under each Hotel Management Agreement, the obligation of the Lessee to pay the hotel management fees to the Hotel Manager will be subordinated to the obligation of the Lessee to pay all rent due by it under the relevant Lease Agreement.

The Hotel Manager is also expected to charge a marketing fee of not more than 1% of the Total Hotel Revenue for each fiscal year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved in the operating budget.

If the Hotel Manager fails to achieve at least 80% of the Gross Operating Profit approved by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) (the "**Owner**") for two consecutive fiscal years (unless, inter alia, where any such fiscal year is adversely affected by certain force majeure events to be stipulated in the Hotel Management Agreement), the Owner and any other non-defaulting party shall have the right to terminate the Hotel Management Agreement by giving at least 3 months' written notice. The Hotel Manager however has one chance to cure the non-performance by paying to the Owner an amount equal to the difference between (a) the actual Gross Operating Profit of each of the two fiscal years and (b) 80% of the Gross Operating Profit in the approved operating budgets for each of the corresponding fiscal years.

The Lessor will be entitled to terminate the Hotel Management Agreement by written notice if notice to terminate the related Lease Agreement is served by the Lessor as a result of default by the Lessee thereunder, subject to liquidated damages being payable to the Hotel Manager in such circumstances. Each of the parties thereto will be entitled to terminate the relevant Hotel Management Agreement by serving a written notice of termination with different notice period requirements depending on the nature of the termination event.

Regal is expected to indemnify each Lessor against all damages, losses, costs and expenses, claims and demands made by any third party by reason of any failure by the Hotel Manager to perform its obligations under the relevant Hotel Management Agreement.

Further details of the Hotel Management Agreements will be set out in the Offering Circular.

5. Deed of Trade Mark Licence

Regal International Limited, a wholly-owned subsidiary of Regal, is expected to enter into a Deed of Trade Mark Licence with the REIT Manager, the REIT Group Companies and the Lessors (collectively the "**Licensees**"), whereby Regal International Limited will grant, free of royalty to each of the Licensees a non-exclusive and non-transferable right and licence to use its trade marks or service marks registered as at the date of Deed of Trade Mark Licence, for the purpose of describing the ownership of any Initial Hotel Property and/or use in connection with the business of each Initial Hotel Property.

Regal International Limited will not object to the use by any of the Licensees in any jurisdiction of (a) such trade marks or service marks for the purpose of describing the ownership of any Initial Hotel Property and/or in connection with the business of each Initial Hotel Property; (b) such trade marks or service marks as part of its corporate, business and domain names(s); and (c) any intellectual property right that Regal International Limited may have in relation to any other marks, logos or styles used in connection with the Initial Hotel Properties.

Each licence is expected to commence on the Listing Date and is expected to continue in full force until termination of, in respect of the licence granted to each Lessor, the relevant Hotel Management Agreement and, in respect of the licence granted to each of the REIT Manager and the REIT Group Companies all the Hotel Management Agreements. Notwithstanding the earlier termination of the licence granted to the REIT Manager and the REIT Group Companies, Regal International Limited shall not object to (a) the REIT Manager's use of the trade marks or service marks as part of the corporate, business or domain name(s) of Regal REIT (b) or use by any of the REIT Group Companies of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager determine to change such name(s).

Regal International Limited shall indemnify each Licensee in full for any claim, demand, liability, loss and damage suffered due to a claim by any third party that its use of the marks under licence infringes such third party's rights. Each Licensee shall indemnify Regal International Limited in full for any claim, demand, liability, loss and damage suffered due to a breach by any terms of the Deed of Trade Mark Licence.

6. Deed of Non-Competition

The Company, the REIT Manager and the Trustee as the trustee of Regal REIT will enter into the Deed of Non-Competition, which shall remain in effect for an initial term of 10 years commencing from the Listing Date, and thereafter shall remain in full force until the earlier of the Units ceasing to be listed on the Stock Exchange and the Group ceasing to beneficially own and control 30% or more of the outstanding Units. The key terms of the Deed of Non-Competition include:

(a) Regal will grant to Regal REIT a right of first opportunity to acquire new hotels in Greater China (i.e. mainland China, Hong Kong, Macau and Taiwan) of which the Remaining Regal Group is aware of.

(b) Regal will grant to Regal REIT a right of first refusal to purchase any of the Remaining Regal Group's hotel interests in Greater China that it may intend to dispose of in the future.

(c) The Remaining Regal Group will undertake to Regal REIT not to manage, or grant a licence to or authorize any other person or company to manage, any hotels under the "Regal" brand in Hong Kong or within a radius of eight kilometers of any Regal REIT hotel property in the rest of Greater China (excluding Hong Kong) for so long as the Remaining Regal Group (or in the event that any other member of the Remaining Regal Group becomes listed on the Stock Exchange and Regal retains not less than 30% equity interest in such listed company, any member of such listed group) is a hotel manager of any Regal REIT hotel under the "Regal" brand name in Greater China.

(d) The Remaining Regal Group may manage hotels under other brands in the abovementioned areas if, to the satisfaction of the REIT Manager, there is a segregation of hotel management functions and reservation systems between those hotels in question and Regal REIT's hotel properties, and the Remaining Regal Group has notified the REIT Manager prior to entering into a management agreement in connection with the management of a hotel under such other brands.

(e) The Remaining Regal Group will be obliged to promote the "Regal" brand and ensure the standard of "Regal" hotels are maintained. Regal REIT will not take any action that may invalidate, prejudice or impair any of the Remaining Regal Group's intellectual property rights in the "Regal" brand, or use the "Regal" name or the "R" logo unless as otherwise permitted under the Hotel Management Agreements or the Deed of Trade Mark Licence.

The following arrangements will also be adopted to address potential conflicts of interests between the Group and Regal REIT:

(a) The REIT Manager will be a dedicated manager to Regal REIT and is expected to function and be operated independently of Regal. The day-to-day executive management responsibilities of the Remaining Regal Group will remain distinct from that of the REIT Manager. Please refer to paragraph 1 headed "REIT Manager" above in this section for further details.

(b) On the operational level, the REIT Manager will have its own team of staff to manage the business of the REIT Manager. Only some administrative and supporting functions (such as back-office support) will be shared between the REIT Manager and the Remaining Regal Group. All essential managerial functions will be carried out by REIT Manager's own management team.

(c) Regal REIT is expected to arrange financing for its own operations. None of the debt or facilities of Regal REIT will be guaranteed by the Remaining Regal Group upon the Proposed Spin-off.

(d) All on-going transactions between the REIT Manager (acting on behalf of Regal REIT) and members of the Group (on the other hand) will be on an arm's length basis and on normal commercial terms. The Directors confirmed that Regal will comply with the requirements of the Listing Rules regarding connected transactions in the future and make appropriate disclosure as and when required.

(e) In compliance with Rule 13.44 and paragraph A.1.8 of the Code on Corporate Governance Practice of the Listing Rules, any Director with a material interest in a transaction will have to abstain from voting on any relevant board resolution, and the other non-interested Directors present in such board meeting will be called upon to decide on any conflicting issue if circumstances arise.

(f) The Group is also expected to enter into a Deed of Trademark Licence more particularly described in paragraph 5 headed "Deed of Trademark Licence" of this section.

Upon completion of the Proposed Spin-off, the Company is expected to be interested in approximately 50% to approximately 72% of the Units (assuming the Over-allotment Option is not exercised). As mentioned in the section headed "Financial Effects of the Proposed Spin-off", Regal REIT will not become a subsidiary of the Company and its accounts will not be consolidated into the Company's accounts. Since Regal REIT is not a connected person of the Company within the meaning of the Listing Rules following the completion of the Proposed Spin-off, transactions entered into between the Company and Regal REIT will not constitute connected transactions for the Company under the Listing Rules.

In light of the clear delineation of business as described in paragraph 4 of the section headed "Proposed Spin-off and Separate Listing" above, and the arrangements described above, the Directors do not foresee any potential competing business between the Remaining Businesses of the Remaining Regal Group and the Regal REIT Business immediately after the Proposed Spin-off.

7. Distributable Income Guarantee Deed

The Company will enter into the Distributable Income Guarantee Deed with the Trustee and the REIT Manager pursuant to which the Company will guarantee that it shall, in the event that the Total Distributable Income (in respect of all Distribution Periods commencing on and after the Listing Date and ending on or before December 31, 2007), in aggregate, is less than a sum to be set out in the Offering Circular which is expected to be of an amount not exceeding HK$480 million, subject to the final determination of the Listing Date, pay to the Trustee an amount which represents the shortfall (the "**Shortfall**").

The Shortfall shall be due and payable by the Company to the Trustee no later than the fourteenth business day prior to the distribution date for the Distribution Period ending December 31, 2007.

The REIT Manager will undertake to Regal that it shall, in the event of the occurrence of a Shortfall, engage external auditors to review the calculation of the Shortfall, and the external auditors' determination (or confirmation, as the case may be) of the Shortfall shall be final and binding on the parties, save in the case of fraud or manifest error.

The Distributable Income Guarantee Deed will automatically terminate if certain provisions of the Trust Deed relating to the calculation of distributions by Regal REIT are amended provided the Company can reasonably demonstrate to the REIT Manager and the Trustee that the amendment has, or will have, a material adverse effect on its interests as a guarantor.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The interim results of the Group for the nine months ended September 30, 2006 are set out in Appendix II to this Circular. The Group achieved an audited consolidated profit attributable to Shareholders of HK$315.1 million, as compared with the unaudited consolidated profit of HK$304.1 million for the corresponding period in 2005.

Since 2003, the Initial Hotel Properties have achieved year-on-year growth in RevPAR, benefiting from the increasing demand for hotel rooms in Hong Kong, especially after the introduction of the "Individual Visit Scheme". In addition, extensive renovation and upgrading works have been carried out progressively at the Initial Hotel Properties in recent years to enhance their quality and facilities, and these have enabled them to achieve increasing room rates without affecting market competitiveness. The net profits attributable to the Initial Hotel Properties were HK$143.1 million and HK$265.4 million, respectively, for the two financial years ended December 31, 2004 and 2005.

The Asset Enhancement Program planned at four of the Initial Hotel Properties (other than Regal Kowloon Hotel) will add, in stages, an aggregate of 468 additional hotel rooms, boasting the total room count of the hotels owned by the Group in Hong Kong to over 3,800.

With regard to the Group's 70% interest in the Regalia Bay development in Stanley, Hong Kong, although the volume of transactions in the high-end luxury residential market in Hong Kong has slowed down recently, the Group remains optimistic of the future of this segment of the property market. Pending the revival of an active market, certain house units have in the meanwhile been leased out at satisfactory rental yield.

Overall, the Group is confident of the growing prospects of the tourist industry in Hong Kong and the Group's hotels are well poised to benefit from the resultant increase in the market demands in the local hotel sector. Apart from the internal expansion through the Asset Enhancement Program, the Group is looking to further develop its hotel network, both in hotel ownership as well as in hotel management contracts.

FINANCIAL EFFECTS OF THE PROPOSED SPIN-OFF

As a result of the Proposed Spin-off, the Remaining Regal Group will hold an interest from approximately 50% to approximately 72% (assuming that the Over-allotment Option is not exercised) or from approximately 45% to approximately 67% (assuming that the Over-allotment Option is 5% and is exercised in full) in Regal REIT. While the gross assets (excluding cash) of the Remaining Regal Group are expected to decrease due to the disposal of the Initial Hotel Properties pursuant to the Proposed Spin-off, the Remaining Regal Group will become free from any bank debt and, in addition, will have net surplus cash proceeds of not less than HK$2 billion, which is expected to be received under the Proposed Spin-off.

For accounting purposes, the Proposed Spin-off will be treated as a disposal of the Group's interest in the subsidiaries owning the Initial Hotel Properties. Accordingly, forthwith upon completion of the Proposed Spin-off, the Remaining Regal Group will recognize a gain on the said disposal, the quantum of which will depend on, among other things, the Offer Price of the Units and the number of the Units to be subscribed by Regal. Such gain is the difference between (a) the implied disposal value of the Initial Hotel Properties achieved under the Proposed Spin-off and (b) the aggregate of (i) the net asset value of the Holding SPV and its subsidiaries and (ii) the estimated cost of the Asset Enhancement Program; and further adjusted by the elimination of the unrealized portion of the gain due to the holding of the Units by the Remaining Regal Group and deduction of estimated expenses relating to the Proposed Spin-off to be borne by the Remaining Regal Group. Assuming that the implied disposal value will not be less than HK$12.5 billion and the Remaining Regal Group will retain a 72% interest in Regal REIT, the Company will recognize a gain of not less than HK$2 billion on the said disposal.

Pursuant to the Trust Deed, the manager of Regal REIT (the "Manager") is considered to have the power to govern the financial and operating policies of Regal REIT. Despite the fact that immediately upon the Proposed Spin-off the Remaining Regal Group is expected to hold an interest of approximately 45% to 72% of the units in Regal REIT and the REIT Manager is a wholly-owned subsidiary company of the Remaining Regal Group, the Company will not have unilateral power to retain or remove the Manager. Accordingly, the Company is considered not to have unilateral power to govern the financial and operating policies of Regal REIT and therefore the financial statements of Regal REIT should not be consolidated into those of the Company. However, the Remaining Regal Group is considered to have significant influence over Regal REIT, and therefore will account for its investment in Regal REIT using the equity method in accordance with Hong Kong Accounting Standard 28.

MANAGEMENT DISCUSSION AND ANALYSIS ON THE REMAINING REGAL GROUP

Revenue from hotel operations and management services increased from HK$737.8 million for the nine months ended September 30, 2005 to HK$820.4 million for the nine months ended September 30, 2006, an increase of 11.2%. The increase was primarily due to an increase in the average room rate for the Initial Hotel Properties as a result of improved mix of business/leisure travelers. The combined average room occupancy for the Initial Hotel Properties during the first nine months of 2006 reached about 81% and the combined average room rate has improved by 12% year-on-year. While the Regal Airport Hotel is continuing to catch up on its room occupancy, the other four Regal Hotels in Hong Kong are operating steadily at a level of about 90%.

The RevPAR achieved by the Initial Hotel Properties for the first nine months of 2006 was approximately HK$600, representing a year-on-year increase of approximately 12%. The improved performance of the Initial Hotel Properties reflected the continuous strong demand for hotel rooms in Hong Kong and the Group's various strategies in capturing such demand.

During the first nine months of 2006, the jointly controlled entity of the Remaining Regal Group that owns the Regalia Bay development in Stanley, Hong Kong contributed a profit of HK$206.9 million to the Group from a write back of provision.

Borrowings

As at September 30, 2006, the Group's borrowing net of cash and bank balances amounted to HK$4,529.2 million. The Group's gearing ratio based on the carrying value of the total assets of HK$6,839.1 million was about 66.2%.

As at September 30, 2006, certain of the Group's interest in a jointly controlled entity, hotel properties (including land element, hotel buildings and the related hotel furniture, fixtures and equipment), construction in progress included in property, plant and equipment, bank deposits and cash, inventories and receivables with a total carrying value of HK$6,060.8 million and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

Capital commitments in respect of the renovation of, improvements or extensions to the Initial Hotel Properties amounted to HK$374.5 million of which HK$90.8 million had been contracted for as at September 30, 2006.

Immediately after the Proposed Spin-off, it is expected that the bank debts of the Remaining Regal Group will be fully repaid. The Remaining Regal Group is not expected to have any capital commitments immediately after the Proposed Spin-off except for the undertaking in respect of the completion and delivery of the Asset Enhancement Program pursuant to the Sale and Purchase Agreement.

FUTURE PROSPECTS OF THE REMAINING REGAL GROUP

As explained above, it has been the trend in recent years for major international hotel groups to achieve growth through the segregation of hotel ownership with hotel operation. This will allow the hotel ownership arm to focus on capital enhancement and hotel acquisition opportunities, while the hotel operating arm will focus on the expansion of the management businesses as well as the promotion of the brand name.

Pursuant to the Proposed Spin-off for the separate listing of Regal REIT, the Company will sell its interests in the Initial Hotel Properties to Regal REIT at a consideration expected to be not less than HK$12.5 billion.

Despite the sale of the ownership interests, the Remaining Regal Group will continue to operate and manage the Initial Hotel Properties through the Lease Agreements with the Lessee and the Hotel Management Agreements with the Hotel Manager. In this respect, the interests of the Remaining Regal Group and Regal REIT in the future operating performance of the Initial Hotel Properties will continue to be closely aligned.

Immediately following the Proposed Spin-off, the Remaining Regal Group is expected to become free of any bank debt and, in addition, will have surplus cash proceeds of not less than HK$2 billion. It is the intention of the Remaining Regal Group to continue to expand its hotel operation and management as well as its property and hotel development businesses.

Hotel Operation and Management Businesses

The Hotel Manager has over 20 years of proven track record and has been the hotel manager of each of the Initial Hotel Properties since its opening. The Hotel Manager is also presently managing two high class hotels in Shanghai, PRC under the Regal brand name.

With the experience and expertise readily available within its hotel management team, the Remaining Regal Group will actively seek expansion opportunities in major international gateway cities with a view to broadening its hotel management network. Capitalizing on its familiarity with the market, initial focus may be placed on key cities in China, having regard to its strong economic growth and rising tourism.

Property and Hotel Development Businesses

In Hong Kong, the Remaining Regal Group has a 70% interest in the Regalia Bay development in Stanley. The Regalia Bay development comprises a total of 139 high-end luxury residential houses with a total saleable floor area of about 487,640 sq.ft. and the project was lead managed by Regal. While certain of the remaining houses in Regalia Bay are being leased out at satisfactory rental yield, they will be relaunched for sale when market activities for high-end luxury residential properties revive.

In China, the Remaining Regal Group and Paliburg each beneficially owns a 50% equity interest in a company which, in turn, holds a 59% interest in an investee company established in the PRC. The investee company has entered into the Land Grant Contracts for the Phase I land sites comprised in a comprehensive development project located at Chao Yang Men Wai Da Jie in the Central Business District of Beijing and the related land premium payable under the Land Grant Contracts has been fully settled. The overall development project (including the Phase II land sites to be secured) entails total permissible gross floor area of about 4,630,000 sq.ft., planned to comprise office, residential, hotel, commercial and car parking accommodations. The project is planned to be developed in stages and, on its full completion, is expected to become one of the major landmarks in this capital city.

In January 2007, the Remaining Regal Group signed a letter of intent with a listed company in Hong Kong to participate in a large scale development project in Shenyang City, Liaoning Province, the PRC, involving the development of hotels, service apartments, shopping, exhibition, entertainment and recreational facilities (the "Hotel and related Project"), pursuant to which the Remaining Regal Group will act as the consultant to prepare feasibility and market studies and schematic designs on the Hotel and related Project. It will also have the right of first refusal to invest in 55% interest (or such other percentage as may be mutually agreed) in the Hotel and related Project, subject to such listed company having entered into a legally binding agreement with the relevant government authorities.

Following the completion of the Proposed Spin-off, the Remaining Regal Group plans to further expand its investments in property and hotel developments.

The Remaining Regal Group will continue to explore and identify further investment opportunities in hotel and other property development in key cities in the PRC.

The undertaking by the Remaining Regal Group of new hotel developments will facilitate the planned expansion of its hotel management network and potentially for Regal REIT, as Regal REIT will be offered a right of first refusal under the Deed of Non-Competition if the Remaining Regal Group should decide to dispose of any of its developed hotels.

Overall, the Directors believe that the Proposed Spin-off is beneficial to the Group and will facilitate the continuing growth of the Remaining Regal Group with diversified businesses in hotel operations and management, property and hotel developments, and hotel ownership through its holding in Regal REIT.

Shareholders should however note that, due to the revised structure of the Group following the Proposed Spin-off, the past financial performance of the Group as referred to above or in Appendix II to this Circular should not be regarded as an indication as to the financial performance of the Remaining Regal Group in the future.

IMPLICATIONS UNDER THE LISTING RULES

The Proposed Spin-off will involve a disposal by the Company of its entire interest in Holding SPV to the Trustee. The Proposed Spin-off will constitute a very substantial disposal for the Company under the Listing Rules, and will be subject to the approval of the Shareholders under Rule 14.49 of the Listing Rules. Approval from the Shareholders for the Proposed Spin-off is also required under PN15.

The Directors confirm that the proposal in respect of the Proposed Spin-off has been submitted to and approved by the Stock Exchange in accordance with PN15, on the conditions that the Proposed Spin-off is approved by the Shareholders according to the requirements under the Listing Rules, and an unequivocal statement from the independent financial adviser that the Proposed Spin-off is fair and reasonable is included in this Circular (please refer to the "Letter of advice from Platinum Securities" in this Circular).

The Stock Exchange considered that the Remaining Regal Group was not able to meet the minimum profit requirement of Rule 8.05(1)(a) of the Listing Rules. In this connection, a waiver from the strict compliance with paragraph 3(c) of PN15 has been applied for and granted by the Stock Exchange subject to the conditions that this Circular should include:

(i) prominent disclosure of details of the lease arrangements between the Remaining Regal Group and Regal REIT, including the mechanism in determining the Base Rent and Variable Rent payable by the Remaining Regal Group (please refer to pages 35 to 37 of the Circular for details);

(ii) disclosure of the impact of the said lease arrangement to the profitability of the Remaining Regal Group, in particular, the transfer of the entire net property income for the Initial Hotel Properties to Regal REIT from the Listing Date to December 31, 2007 (please refer to page 36 of the Circular for details); and

(iii) a reference to the confirmation provided by Merrill Lynch, as the financial adviser to the Company as described in the paragraph below.

Platinum Securities has been retained to advise the Shareholders and the Independent Board Committee in connection with the Proposed Spin-off. Merrill Lynch is acting as the financial adviser to the Company and has been requested by the Directors to carry out certain specific procedures to consider the reasonableness of the assumptions used by the Directors in arriving at certain internal projections of the net property income of the Initial Hotel Properties, which were prepared by the Directors for their own internal use based on assumptions which the Directors believed were reasonable in the circumstances. Based on the review and procedures performed, Merrill Lynch has confirmed to the Directors that it considers the assumptions used by the Directors in arriving at the said projections of the net property income for the Initial Hotel Properties during the period from the Listing Date to December 31, 2010 reasonable and based on the said projections of the net property income, the Company would be able to meet its rental payment obligations under the Lease Agreements during the lease period from Listing Date to December 31, 2010. For the avoidance of doubt, Merrill Lynch is not advising the Shareholders or the Independent Board Committee with respect to the Proposed Spin-off.

As far as the Directors are aware, the interests in relation to the Proposed Spin-off and other related matters of all Shareholders (including the Controlling Shareholders) are the same and the Controlling Shareholders, who were together interested in approximately 45.4% of the issued share capital of the Company as at the Latest Practicable Date, do not have any material interest in the Proposed Spin-off for the purpose of paragraph 3(e)(2) of PN15 and Rule 2.16 of the Listing Rules, hence all Shareholders are entitled to vote on the ordinary resolution at the SGM.

Rule 4.06(1)(a) requires that the results of the Group in respect of each of the three financial years immediately preceding the issue of this Circular be included in this document.

In connection with this requirement, an application for a waiver has been made by the Company to the Stock Exchange for excluding the audited results of the Group in respect of the financial year ended December 31, 2006 in this Circular for reasons that: (1) the exemption would not prejudice the interest of the Shareholders; (2) the preparation of the accountants' report for the year ended December 31, 2006 cannot be completed within a short period of time; and (3) it would be unduly burdensome on the Company and that there would be a significant delay in the proposed timetable of the Proposed Spin-off if the audited results for the year ended December 31, 2006 are to be included in this Circular.

The Stock Exchange has granted the waiver to the Company subject to the conditions that this Circular will be despatched on or before February 21, 2007 and that the SGM will be held no later than March 9, 2007. Furthermore, as conditions to the grant of this waiver, the Directors have performed sufficient due diligence and confirmed that there is no material adverse change in the financial position or prospect of the Group since September 30, 2006 and that no event has occurred which would have a material adverse effect on the financial position of the Group since September 30, 2006.

SGM

At the SGM, an ordinary resolution will be proposed to approve the Proposed Spin-off and other related matters by way of poll. A notice convening the SGM to be held at Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, March 9, 2007 at 11:00 a.m. is set out on pages 214 to 216 of this Circular.

A form of proxy for use at the SGM is enclosed with this Circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the SGM, or any adjournments thereof. Completion and return of the respective form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

RECOMMENDATIONS

The Directors (including the independent non-executive Directors) are of the view that the Restructuring and the Proposed Spin-off are in the interests of the Company and the Shareholders and accordingly recommend the Shareholders to vote in favour of the ordinary resolution to approve the Restructuring, the Proposed Spin-off and other matters related thereto at the SGM as set out in the notice of SGM on pages 214 to 216 of this Circular.

The Independent Board Committee and Platinum Securities, the independent financial adviser to the Independent Board Committee, consider that the terms of the Proposed Spin-off are fair and reasonable in so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee and Platinum Securities recommend the Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Proposed Spin-off. The full text of the letter from Platinum Securities containing its advice and the principal factors and reasons taken into account as regards, among other things, the Proposed Spin-off is set out on pages 53 to 85 of this Circular.

ADDITIONAL INFORMATION

This Circular is being distributed to the Shareholders (and the holders of the warrants of the Company for information purpose only). This Circular does not constitute and offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. Neither this Circular nor anything contained herein shall form the basis of any contract or commitment whatsoever.

In connection with the Global Offering, the price of the Units may be stabalised in accordance with the SFO. Details of any intended stabalisation and how it will be regulated under the SFO will be contained in Offering Circular.

Your attention is drawn to the letter from the Independent Board Committee and the letter from Platinum Securities contained in this Circular and the additional information set out in the appendices to this Circular.

Yours faithfully,
By Order of the Board
Lo Yuk Sui
Chairman

富豪酒店國際控股有限公司
Regal Hotels
International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

February 21, 2007

To the shareholders of the Company, and for information only,
to the holders of the warrants of the Company

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL IN RELATION TO
THE PROPOSED SPIN-OFF OF
REGAL REAL ESTATE INVESTMENT TRUST
ON THE MAIN BOARD OF
THE STOCK EXCHANGE OF HONG KONG LIMITED**

We refer to the circular to the Shareholders dated February 21, 2007 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, terms used in this letter shall have the same meanings given to them in the definition section of the Circular.

In compliance of the Listing Rules, we have been appointed by the Board to advise the Shareholders in relation to the Proposed Spin-off which constitutes a very substantial disposal by the Company under the Listing Rules. In this connection, Platinum Securities has been appointed as an independent financial adviser to advise on whether the terms and conditions of (among other things) the Restructuring, the Proposed Spin-off and other matters related thereto are fair and reasonable so far as the Company and the Shareholders are concerned, and whether they are in the interests of the Company and the Shareholders as a whole. Details of, and the reasons for the Restructuring, the Proposed Spin-off and other matters related thereto together with the actions to be taken by the Shareholders are contained in the Letter from the Board set out on pages 12 to 50 of this Circular of which this letter forms part.

As the members of the Independent Board Committee, we have discussed with management of the Company the reasons for the Restructuring, the Preferential Offering, the Proposed Spin-off and other matters related thereto. We also wish to draw your attention to the letter of advice from Platinum Securities set out on pages 53 to 85 of this Circular. We have also discussed with Platinum Securities the basis upon which its advice has been given to us. We have also noted the letter and the advice contained therein and have considered, amongst others, the various factors contained in such letter. In our opinion, the terms of the Proposed Spin-off are fair and reasonable so far as the Company and the

Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, as the members of the Independent Board Committee, we recommend the Shareholders to vote in favour of the ordinary resolution which will be proposed at the SGM to approve the Proposed Spin-off by way of poll.

Yours faithfully,
Independent Board Committee of
Regal Hotels International Holdings Limited

Ms. Alice Kan Lai Kuen	**Mr. Ng Siu Chan**	**Mr. Wong Chi Keung**
Independent Non-executive Director	*Independent Non-executive Director*	*Independent Non-executive Director*

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee and the Shareholders for the purpose of incorporation into this circular.

PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building
4 Des Voeux Road Central
Hong Kong
Telephone (852) 2841 7000
Facsimile (852) 2522 2700

February 21, 2007

To the Independent Board Committee and the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF OF REGAL REAL ESTATE INVESTMENT TRUST ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the terms and conditions of the Proposed Spin-off. Details of the Proposed Spin-off are contained in the letter from the Board as set out in the circular of the Company dated February 21, 2007 (the "Circular"). Terms used in this letter shall have the same meanings as defined in the Circular dated February 21, 2007 unless the context requires otherwise.

In our capacity as the independent financial adviser, our role is to make recommendations to the Independent Board Committee and the Shareholders as to whether the terms and conditions of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off are in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote on the resolution to approve the Proposed Spin-off at the SGM.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the annual reports and accounts of the Group for the three financial years ended December 31, 2005 and the Interim Results (as defined in the letter from the Board in the Circular); (ii) the Valuation Report prepared by the Independent Property Valuer; and (iii) the unaudited pro forma financial statements of the Group as set out in Appendix III of the Circular. We have also discussed with management of the Company about their plans and the business prospects of the Company.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that they take full responsibility for the contents of the Circular, and have made all reasonable enquiries that no material facts have been omitted from the information supplied to us.

We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy or completeness of the information of all facts as set out in the Circular and of the information and representations provided to us by the Company. Furthermore, we have no reasons to suspect the reasonableness of the opinions and representations expressed by the Company and/or the Directors which have been provided to us. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Company. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the terms and conditions of the Proposed Spin-off.

We are independent from, and are not associated with, the Company nor another party to the Proposed Spin-off, or their respective substantial shareholders or connected person(s), as defined under the Listing Rules and, accordingly, are considered eligible to give independent advice on the Proposed Spin-off. We will receive a fee from the Company for our role as the independent financial adviser to the Independent Board Committee and the Shareholders in relation to the Proposed Spin-off. Apart from this normal professional fee payable to us in connection with this appointment, no arrangements exist whereby we will receive any fees or benefits from the Company and another party to the Proposed Spin-off or their respective substantial shareholders or connected person(s), as defined under the Listing Rules.

As stated in the letter from the Board in the Circular, an Independent Board Committee, comprising Ms. Alice Kan Lai Kuen, Mr. Ng Siu Chan and Mr. Wong Chi Keung, has been established to advise the Shareholders in relation to the Proposed Spin-off.

A. PRINCIPAL FACTORS AND REASONS CONSIDERED FOR THE PROPOSED SPIN-OFF

In formulating our opinion in relation to the Proposed Spin-off and giving our independent financial advice to the Independent Board Committee and the Shareholders, we have considered the following principal factors:

1. Background of the Proposed Spin-off

Reference is made to the joint announcement issued by Century City, Paliburg and the Company dated November 22, 2006, the announcements issued by the Company dated November 30, 2006 and January 25, 2007, and the circular issued by the Company to the Shareholders dated November 23, 2006 and the supplemental circular thereto dated December 2, 2006.

Pursuant to the joint announcement of Century City, Paliburg and the Company dated February 16, 2007, the Board announced that a formal application has been made to the SFC for the Authorization and an application has been made to the Stock Exchange for the Proposed Spin-off. Regal REIT intends to make a Global Offering of the Units, including the Hong Kong Public Offering and the International Offering (including the Preferential Offering).

Regal REIT's primary objectives will be to provide stable distributions to Unitholders and to achieve long-term capital growth in net asset value per Unit by way of (1) internal growth through asset enhancement opportunities and operational improvements, (2) external growth through potential acquisitions that meet the REIT Manager's investment criteria and (3) financing through an appropriate capital structure.

In connection with the Proposed Spin-off, the Group is proposing to implement the Restructuring which will involve a transfer to Regal REIT of the entire issued share capital of Holding SPV which (through the Lessors) will indirectly own the Initial Hotel Properties.

(a) Regal REIT's Business and the Initial Hotel Properties

Regal REIT has been formed to own an investment portfolio of hotel properties initially in Hong Kong. Upon the completion of the Global Offering, Regal REIT will own the Initial Hotel Properties as described below. The Initial Hotel Properties are strategically located across different districts in Hong Kong and currently have an aggregate of 3,348 rooms and over 30 food and beverage outlets. Table 1 below sets forth certain information in relation to the Initial Hotel Properties as at the Latest Practicable Date.

Table 1: Summary of the Initial Hotel Properties

Initial Hotel Properties	Location	HKTB Rating[(1)]	Opening Year	Number of Rooms	Number of Stories	Gross Floor Area[(5)] (sq.ft.)	Covered Floor Area[(6)] (sq.ft.)	Capital Values as at December 31, 2006[(7)] (HK$)
Regal Airport Hotel	Hong Kong International Airport	High Tariff B	1999	1,104	14 (including one basement floor)	774,445	897,034	5,290,000,000
Regal Hongkong Hotel	Causeway Bay	High Tariff A	1993	424	37 (including four basement floors)[(2)]	215,736	320,417	3,220,000,000
Regal Kowloon Hotel	Tsimshatsui	High Tariff A	1982	600	20 (including four basement floors)	341,714	468,355	3,310,000,000
Regal Oriental Hotel	Kowloon City	High Tariff B	1982	390	17 (including two basement floors)	243,167[(3)]	294,154[(3)]	1,240,000,000
Regal Riverside Hotel	Shatin	High Tariff B	1986	830	17 (including two basement floors)[(2)]	519,046	662,123	2,840,000,000
Total				3,348[(4)]		2,094,108	2,642,083	15,900,000,000

Notes:

(1) The Hong Kong Tourism Board classifies hotels into High Tariff A, High Tariff B, Medium Tariff and unclassified, based on facilities, location, staff-to-room ratio, achieved room rate and business mix of the hotels.

(2) The number of stories of Regal Hongkong Hotel and Regal Riverside Hotel will increase to 39 and 20, respectively, after completion of the Asset Enhancement Program.

(3) The gross floor area includes 14,200 sq. ft. of Po Sing Court used as back-of-the-house area for Regal Oriental Hotel, which is owned by Gala Hotels Limited and represents 41 equal undivided shares out of a total of 180 shares. Po Sing Court is a building adjacent to Regal Oriental Hotel.

(4) Includes 12 house-use rooms (e.g. rooms for general managers of the hotels).

(5) The gross floor area has the meaning ascribed to it under the Building (Planning) Regulations. After completion of all the Asset Enhancement Programs, the gross floor area would increase to 2,269,120 sq. ft.

(6) The covered floor area means all floor area covered by the roofs of the property including gross floor area, and any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or similar services, and any area (above or below the level of the ground) which is exempted from the gross floor area calculation by the Building Authority but excluding bay window area. After completion of all the Asset Enhancement Programs, the covered floor area would increase to 2,747,042 sq. ft.

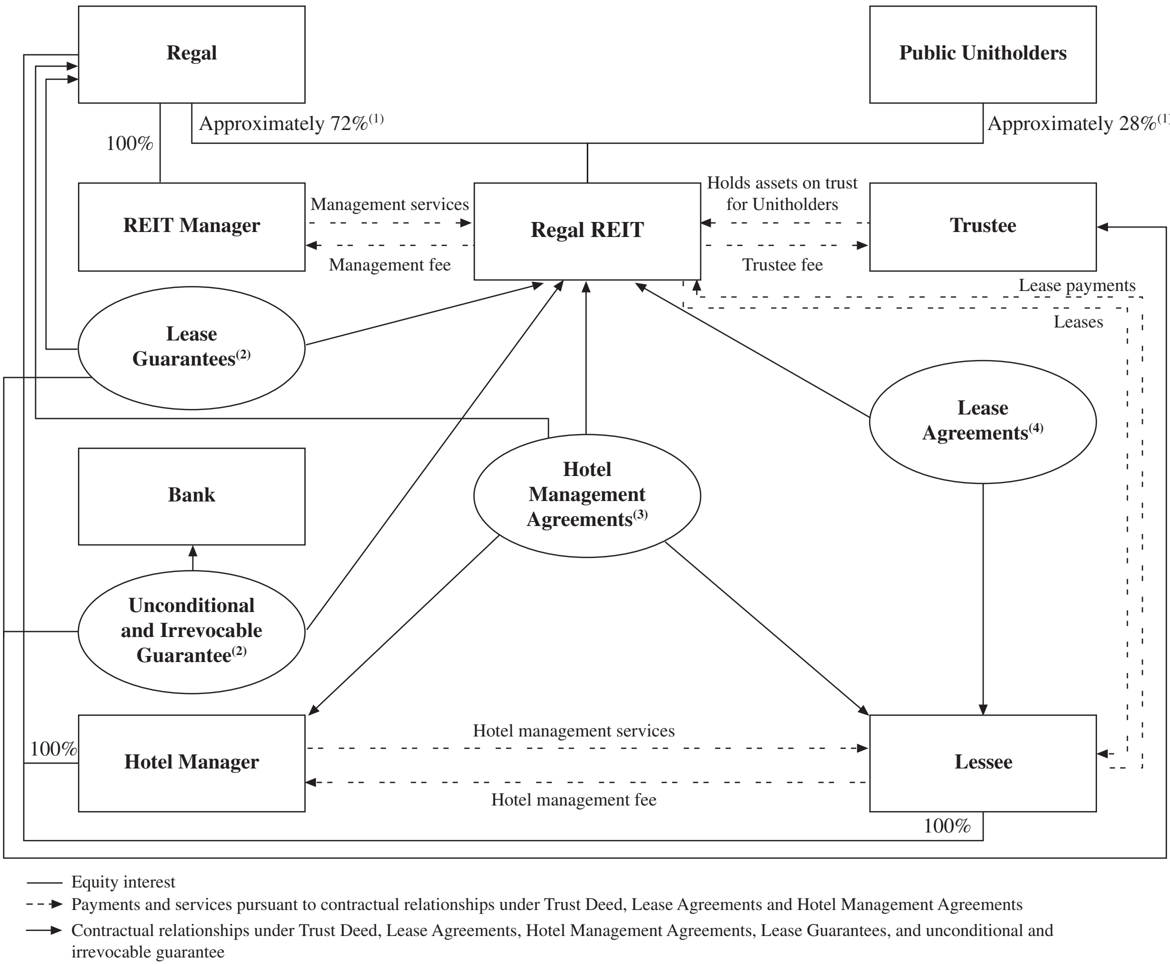
(7) The Independent Property Valuer has taken into account the benefits of the AEP to the relevant capital values with the involved costs being excluded from capital expenditure in the valuations. Please refer to Appendix I of the Circular for further details on capital values of the Initial Hotel Properties.

The Initial Hotel Properties will be leased to the Lessee, a wholly-owned subsidiary of Regal, pursuant to the Lease Agreements with a term which expires on December 31, 2015. The rents payable for the period from the Listing Date to December 31, 2010 consist of escalating Base Rents and Variable Rents. A rent review by a jointly appointed independent professional property valuer will take place in each of the years from 2010 to 2014 to determine the market rental package for the relevant year from 2011 to 2015.

(b) Structure of Regal REIT

Chart 1 below illustrates the overall structure of Regal REIT:

Chart 1: Overall structure of Regal REIT



Notes:

(1) *Assuming the Over-allotment Option is not exercised and Regal will hold an interest of approximately 72% in Regal REIT.*

(2) *Regal will guarantee to pay all amounts from time to time owing or payable by the Lessee to the Lessors under the Lease Agreements. In addition, Regal will procure an unconditional and irrevocable bank guarantee for HK$1 billion until June 30, 2011 in favor of the Lessors and the Trustee. For further details, please refer to paragraph 3 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.*

(3) *Regal REIT (through Holding SPV and the Lessors) will enter into separate Hotel Management Agreements with the Lessee, the Hotel Manager and Regal. For further details, please refer to paragraph 4 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.*

(4) *Regal REIT (through the Lessors) will enter into separate Lease Agreements with the Lessee. For further details, please refer to paragraph 2 of the section headed "The Group's Relationship with Regal REIT after the Proposed Spin-off" in the letter from the Board in the Circular.*

(i) The REIT Manager

The REIT Manager is a wholly-owned subsidiary of Regal and was incorporated for the sole purpose of managing the assets of Regal REIT. Its main responsibility will be to manage the assets of Regal REIT for the benefit of Unitholders.

The REIT Manager will have general powers of management over the assets of Regal REIT including the Initial Hotel Properties. In particular, the REIT Manager will be responsible for monitoring the performance of the obligations of the Lessee under the Lease Agreements, the Hotel Manager under the Hotel Management Agreements, and the Finance Companies under the Financing Agreement. The REIT Manager will also be responsible for Regal REIT's investment and financing strategies and asset enhancement, acquisition and disposal policies.

The REIT Manager will be licenced by the SFC to conduct the regulated activity of asset management, as required by the REIT Code.

As stated in the letter from the Board in the Circular, all on-going transactions between the REIT Manager and members of the Group will be on an arm's length basis and on normal commercial terms.

(ii) The Hotel Manager

The Hotel Manager, a wholly-owned subsidiary of Regal, is expected to be engaged as the exclusive operator and manager of the Initial Hotel Properties for a term of 20 years from the Listing Date. The Hotel Manager will supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties solely under the "Regal" brand name and to act in good faith, to exercise due care and diligence and with full control and discretion, to operate, manage, and promote the business of each Initial Hotel Property, to provide all services lawfully or properly provided by a hotel of comparable standard as the Initial Hotel Property and to act in the best interests of the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) with a view to optimizing profit of the Initial Hotel Property.

(c) Intended use of proceeds

Based on a minimum consideration of HK$12.5 billion and assuming that Regal will subscribe and retain a maximum of approximately 72% interest in Regal REIT and assuming Regal REIT will upon the Proposed Spin-off have an initial indebtedness of HK$4.35 billion (which is subject to finalization before the Proposed Spin-off), Regal will apply part of the proceeds to be received from the Sale and Purchase Agreement in the amount of approximately HK$6 billion for subscription of Units and an amount of approximately HK$4.3 billion to repay its outstanding bank loans. The balance of not less than HK$2 billion, after payment of the expenses associated with the Proposed Spin-off, will be retained for general working capital purposes.

2. Business of the Group

The Group is principally engaged in the business of hotel and property development, hotel ownership, hotel operation and management and other investments. As stated in the letter from the Board in the Circular, in line with the international trend of separating ownership and operation of hotels to allow hotel owners to focus on capital enhancement and hotel acquisition opportunities and hotel operators to focus on promoting brand name and management business, Regal REIT has been formed to become the owner of the Initial Hotel Properties pursuant to the Proposed Spin-off. The Remaining Regal Group will take up the lease of the Initial Hotel Properties from Regal REIT for the period from the Listing Date to December 31, 2015. Immediately after the Proposed Spin-off, the Remaining Regal Group will continue to be the hotel operator of the Initial Hotel Properties and other Regal hotels, in the manner as described in the Circular.

Table 2 below illustrates the breakdown of the revenue of the Group by business segment for the three financial years ended December 31, 2005:

Table 2: Revenue breakdown of the Group by business segments

	For the year ended December 31,					
	2003		**2004**		**2005**	
	Revenue	**Percentage of revenue**	**Revenue**	**Percentage of revenue**	**Revenue**	**Percentage of revenue**
	HK$ million	*%*	*HK$ million*	*%*	*HK$ million*	*%*
Hotel ownership and management	747.2	96.4	995.2	94.8	1,082.7	94.9
Property development and investment	—	—	6.6	0.6	1.6	0.1
Others	27.7	3.6	48.8	4.6	56.8	5.0
Total	774.9	100.0	1,050.6	100.0	1,141.1	100.0

Source: Annual reports and audited accounts of the Group

As illustrated in Table 2 above, during the three financial years ended December 31, 2005, the revenue of the Group was streaming from three divisions, namely: (i) hotel ownership and management; (ii) property development and investment; and (iii) others. We note that the revenue of the Group was mainly generated by the hotel ownership and management division, which accounted for approximately 96.4%, 94.8% and 94.9% of the total revenue of the Group for the three financial years ended December 31, 2003, 2004 and 2005, respectively. Upon completion of the Proposed Spin-off, the Remaining Regal Group will not own any hotel property in Hong Kong but will continue to be engaged in hotel and property development, hotel operation and management and other investments. Pursuant to the Lease Agreements which will take effect upon the Proposed Spin-off, the Lessors will lease the Initial Hotel Properties to the Lessee for hotel business, and hence the Initial

Hotel Properties will continue to be operated by the Remaining Regal Group and, therefore, it is expected the Proposed Spin-off will not affect the revenue of the Remaining Regal Group except the fee payable by Regal REIT to the REIT Manager which will become a new source of income of the Remaining Regal Group, but with lease payment as a new expense item.

3. Reasons for and benefits of the Proposed Spin-off

As stated in the letter from the Board in the Circular, the Directors believe that the Proposed Spin-off will bring about a number of benefits to both Regal and Regal REIT including the following:

(i) The delineation of the respective businesses carried on by each of the Remaining Regal Group and Regal REIT is expected to allow better business focus regarding their respective operational and financial performance. Specifically, Regal REIT will focus on capital enhancement and hotel acquisition opportunities while the Remaining Regal Group will focus on promoting brand name and management as well as hotel and property development businesses.

(ii) After the Proposed Spin-off, the Remaining Regal Group and Regal REIT will adopt different business and growth strategies, offering the Shareholders and other investors the opportunity and flexibility for investment in both the Remaining Regal Group and Regal REIT or either of them.

(iii) The Proposed Spin-off will allow Regal REIT to establish its own profile as a separate listed entity and will provide separate capital-raising platforms for the Remaining Regal Group and Regal REIT with respect to the growth of their respective future businesses and operations.

(iv) The estimated consideration under the Sale and Purchase Agreement for the disposal of the interest in Holding SPV, which indirectly owns the Initial Hotel Properties, to Regal REIT is expected to be not less than HK$12.5 billion. Based on the aggregate carrying value of the Initial Hotel Properties as at December 31, 2005 of approximately HK$4 billion, Regal is expected to derive a gain from the disposal of the Initial Hotel Properties of not less than HK$2 billion (after elimination of the unrealized gain attributable to the interest to be held by the Remaining Regal Group in Regal REIT, based on the maximum level of approximately 72%).

(v) The Shareholders will benefit from the enhancement in the net asset value of the Remaining Regal Group as a result of the Proposed Spin-off. Assuming a consideration for the disposal of the Initial Hotel Properties of not less than HK$12.5 billion and Regal will subscribe and retain a maximum of approximately 72% interest in Regal REIT and assuming Regal REIT will, upon the Proposed Spin-off, have an initial indebtedness of HK$4.35 billion (which is subject to finalization before the Proposed Spin-off), the book net asset value of the Remaining Regal Group is expected to increase from approximately HK$2 billion as at September 30, 2006 to not less than HK$4 billion immediately after the Proposed Spin-off. In addition, immediately after the Proposed Spin-off and assuming that the Over-allotment Option is not exercised, the disposal of the Initial Hotel Properties will generate surplus cash proceeds of not less than HK$2 billion after repayment of outstanding bank loans for the Remaining Regal Group's operations and new investment activities. For further details, please refer to the section headed "Financial Effects of the Proposed Spin-off" in the letter from the Board in the Circular.

(vi) Based on the audited figures of Regal for the nine months ended September 30, 2006, the ratio of net debt to total assets of Regal was 66.2%. After applying part of the consideration to be received from the sale of the interest in Holding SPV, which indirectly owns the Initial Hotel Properties, under the Proposed Spin-off to repay its outstanding bank loans above, the Remaining Regal Group is expected to become free from bank debt immediately after the Proposed Spin-off.

(vii) As the Remaining Regal Group intends to retain a holding of a significant interest in Regal REIT, it will continue to benefit from the business prospects of Regal REIT.

4. Relationship between Regal REIT and the Group

(a) Delineation of businesses between the Remaining Regal Group and Regal REIT

As stated in the letter from the Board in the Circular, after the Proposed Spin-off, there will be a clear delineation of businesses between the Remaining Regal Group and Regal REIT. The Remaining Regal Group will focus on the Remaining Businesses and Regal REIT will focus on the Regal REIT Business as are more particularly described in Table 3 below:

Table 3: Business of the Remaining Regal Group and Regal REIT upon the Proposed Spin-off

Remaining Businesses of Remaining Regal Group	Regal REIT Business
(i) Hotel operation and management	(i) Hotel properties ownership, including portfolio management such as asset enhancements, and hotel acquisitions and disposals
(ii) Hotel and property development	
(iii) Other investments	
(iv) REIT management services	

The major assets and operations of each of the Remaining Regal Group and Regal REIT immediately after the Proposed Spin-off are more particularly described in Table 4 below:

Table 4: Major assets and operations of each of the Remaining Regal Group and Regal REIT upon the Proposed Spin-off

Remaining Regal Group	Regal REIT
(i) Operating and managing the Initial Hotel Properties pursuant to the Lease Agreements and the Hotel Management Agreements	(i) Owning and leasing the Initial Hotel Properties
(ii) Apart from the Initial Hotel Properties, managing the two Regal hotels in Shanghai	
(iii) Holding a 70% equity interest in a jointly controlled entity which holds 100% interest in Regalia Bay, a luxury residential development project in Stanley, Hong Kong	
(iv) Developing, through a 50%-owned associated company which in turn holds a 59% interest in an investee company, a site in the Central Business District of Beijing (comprising office, residential, hotel, commercial properties and car parking spaces)	
(v) Through the REIT Manager, providing management services to Regal REIT	

Immediately after the transfer of the Initial Hotel Properties to Regal REIT and the Proposed Spin-off,

(i) the Remaining Regal Group will not own any hotel property in Hong Kong but will continue to be engaged in hotel and property development, hotel operation and management and other investments; and

(ii) Regal REIT will not invest in vacant land, engage or participate in property development activities not allowed under the REIT Code, or acquire properties which do not fit into its investment strategy.

(b) Deed of Non-Competition

As stated in the letter from the Board in the Circular, the Company, the REIT Manager and the Trustee as the trustee of Regal REIT will enter into the Deed of Non-Competition, which shall remain in effect for an initial term of 10 years commencing from the Listing Date, and thereafter shall remain in full force until the earlier of the Units ceasing to be listed on the Stock Exchange and the Group ceasing to beneficially own and control 30% or more of the outstanding Units. The key terms of the Deed of Non-Competition include:

(i) Regal will grant to Regal REIT a right of first opportunity to acquire new hotels in Greater China (i.e. mainland China, Hong Kong, Macau and Taiwan) of which the Remaining Regal Group is aware of.

(ii) Regal will grant to Regal REIT a right of first refusal to purchase any of the Remaining Regal Group's hotel interests in Greater China that it may intend to dispose of in the future.

(iii) The Remaining Regal Group will undertake to Regal REIT not to manage, or grant a licence to or authorize any other person or company to manage, any hotels under the "Regal" brand in Hong Kong or within a radius of eight kilometers of any Regal REIT hotel property in the rest of Greater China (excluding Hong Kong) for so long as the Remaining Regal Group (or in the event that any other member of the Remaining Regal Group becomes listed on the Stock Exchange and Regal retains not less than 30% equity interest in such listed company, any member of such listed group) is a hotel manager of any Regal REIT hotel under the "Regal" brand name in Greater China.

(iv) The Remaining Regal Group may manage hotels under other brands in the abovementioned areas if, to the satisfaction of the REIT Manager, there is a segregation of hotel management functions and reservation systems between those hotels in question and Regal REIT's hotel properties, and the Remaining Regal Group has notified the REIT Manager prior to entering into a management agreement in connection with the management of a hotel under such other brands.

(v) The Remaining Regal Group will be obliged to promote the "Regal" brand and ensure the standard of "Regal" hotels are maintained. Regal REIT will not take any action that may invalidate, prejudice or impair any of the Remaining Regal Group's intellectual property rights in the "Regal" brand, or use the "Regal" name or the "R" logo unless as otherwise permitted under the Hotel Management Agreements or the Deed of Trade Mark Licence.

Based on our discussions with management of the Company, upon completion of the Proposed Spin-off, the Remaining Regal Group and Regal REIT would respectively focus on the different businesses as set out in Table 3 above, which are distinct from each other. Furthermore, the Deed of Non-Competition would minimize the potential business conflicts and competition between the Remaining Regal Group and Regal REIT. As such, we are of the view that the delineation in the businesses of the Remaining Regal Group and Regal REIT is clear.

(c) Functional independence between the Remaining Regal Group and Regal REIT

As stated in the letter from the Board in the Circular, subsequent to the Proposed Spin-off, the underlying assets of Regal REIT will be held by the Trustee, whereas the Hotel Manager will supervise, direct and control the management, operation and promotion of the business of the Initial Hotel Properties solely under the "Regal" brand name.

(d) Independence of directorship and the management

In accordance with the letter from the Board in the Circular, the board of directors of the REIT Manager comprises seven directors, three of whom are independent non-executive directors. The three Directors who are also directors of the REIT Manager do not constitute a majority of the board of directors of the REIT Manager. Upon the Proposed Spin-off, the Board of the Company and the board of directors of the REIT Manager will have three common directors but no common executive directors. These three common directors are all executive directors of the Company, but are all non-executive directors of the REIT Manager. None of the Directors or the directors of the REIT Manager will participate, at the same time, in the day-to-day management of both the Remaining Regal Group and the REIT Manager. Accordingly, despite the said common non-executive directorships, the day-to-day executive management responsibilities of the Remaining Regal Group will remain distinct from those of the REIT Manager. As such, we are of the view that the board of directors and the management of the REIT Manager are independent from the Remaining Regal Group upon the Proposed Spin-off.

Immediately after the Proposed Spin-off, none of the three common directors of the Company and the REIT Manager will hold any interest in the Units of Regal REIT (other than indirectly through the Company as a result of the Company's holdings in Regal REIT).

In light of the above, we consider that Regal REIT would function independently from the Remaining Regal Group.

5. The Restructuring

(a) Establishment of Regal REIT

The REIT Manager and the Trustee have entered into the Trust Deed for the purpose of constituting and establishing Regal REIT.

(b) Internal reorganization

In preparation for the transfer of the interest in Holding SPV to Regal REIT, Regal will reorganize its interests in the Initial Hotel Properties, the major steps of which will include:

(i) Asset transfer agreements will be entered into between the respective Lessor and the Lessee for the transfer of various assets including, but not limited to, cash and bank balances, accounts receivable, pre-payments, hotel inventories, and rental deposits received by the respective Lessor.

(ii) Assignments of loans will be entered into between the Lessors (as debtors), two finance companies in the Group (as assignors), and Holding SPV and Rich Day Investments Limited, a wholly-owned subsidiary of Holding SPV (as assignees), for the assignment of various existing inter-company loans to Holding SPV and Rich Day Investments Limited (as the case may be).

(iii) Transfers by the current holding companies of the Holding Companies in relation to the entire issued share capital of the Holding Companies to Holding SPV.

Upon completion of the above internal reorganization, Holding SPV will become the sole shareholder of the Holding Companies, which will, in turn, hold the owners of the Initial Hotel Properties and the Promissory Notes would have been issued by Holding SPV to the Vendor.

6. Transfer of Holding SPV to Regal REIT

(a) The Sale and Purchase Agreement

On the Listing Date, the Trustee will acquire the entire issued share capital of Holding SPV and the Promissory Notes, which are non-interest bearing and will become an inter-company loan of Regal REIT on the Listing Date, pursuant to the Sale and Purchase Agreement. After such acquisition, Holding SPV will cease to be a subsidiary of the Company, and Regal REIT will own the Initial Hotel Properties through the wholly-owned subsidiaries of Holding SPV.

The aggregate consideration for the acquisition of the entire issued share capital of Holding SPV and the Promissory Notes, subject to the Adjustment Sum, is expected to be not less than HK$12.5 billion. The Company will endeavor to achieve an overall consideration under the Sale and Purchase Agreement of over HK$12.5 billion. The purpose of including the Adjustment Sum is to reflect the actual consideration payable to the Vendor based on the Offer Price achieved in the Global Offering.

Completion of the Sale and Purchase Agreement is expected to take place on the Listing Date, and will be subject to the satisfaction of a number of conditions including, but not limited to:

(i) the Company obtaining Shareholders' approval of the Proposed Spin-off;

(ii) concurrent signing and delivery of the Lease Agreements, the Hotel Management Agreements and the Lease Guarantees, and the signing in escrow of an unconditional and irrevocable bank guarantee under the Lease Guarantees;

(iii) the Facility being in place at Completion and being available to be drawn down by the Finance Companies at Completion; and

(iv) the obligations of the underwriters under the underwriting agreements in relation to the Hong Kong Public Offering and the International Offering becoming unconditional and not being terminated in accordance with their respective terms.

(b) Basis of the Consideration of the proposed disposal

As stated in the letter from the Board in the Circular, the aggregate carrying value of the Initial Hotel Properties as at December 31, 2005 and the appraised value of the Initial Hotel Properties as at December 31, 2006 were approximately HK$4 billion and HK$15.9 billion respectively. The aggregate consideration is expected to be not less than HK$12.5 billion, which represents a discount of approximately 21.4% to the appraised value of the Initial Hotel Properties given by the Valuation Report and a premium of approximately 213% to the aggregate carrying value of the Initial Hotel Properties as at December 31, 2005. The Company will endeavor to achieve an overall consideration under the Sale and Purchase Agreement of over HK$12.5 billion. Accordingly, the price-to-book ratio ("PBR") at which the Initial Hotel Properties to be transferred to Regal REIT will not be less than approximately 0.79 times, subject to the Adjustment Sum based on the Offer Price achieved in the Global Offering.

In order to assess the fairness and reasonableness of the proposed consideration for the Initial Hotel Properties (the "Consideration"), we have considered the following:

(1) Comparable hotel REITs

For the purpose of our analysis, we have attempted to identify comparable REITs (the "Comparable Hotel REITs") based on the following selection criteria:

(i) currently listed on the Stock Exchange or respective stock exchanges of Singapore, the United States and Japan which we consider are of similar market conditions with Hong Kong;

(ii) ownership of hotels or hospitality-related properties as their underlying assets;

(iii) market capitalization of at least US$500 million; and

(iv) over 90% of their respective total turnover being generated from hotel businesses.

Based on the above selection criteria, we have identified, to our best endeavor, the list of the Comparable Hotel REITs that are listed on the Stock Exchange and the stock exchanges of Singapore, the United States and Japan, as specified in Table 5 below.

We have reviewed commonly used valuation parameters, including (i) the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of the Comparable Hotel REITs; and (ii) PBRs of the Comparable Hotel REITs, given by their corresponding unit closing prices as at the Latest Practicable Date.

However, we note and would like to point out that the Initial Hotel Properties are all located in Hong Kong whereas the underlying properties of the Comparable Hotel REITs are situated in such other geographical locations as Singapore, the United States and Japan. As such, we consider that the Comparable Hotel REITs might not provide appropriate evaluation parameters for the purpose of our analysis. Accordingly, the relevant data of the Comparable Hotel REITs as set out in Table 5 below are intended for illustration and reference purpose only.

Table 5: Premium/discount to the valuation and PBR of the Comparable Hotel REITs

REIT	Valuation of the underlying properties (Note 1)	Consideration	Premium/ (discount) to the valuation (Note 4)	PBR as at the Latest Practicable Date
	HK$ million	*HK$ million*	*%*	*Times*
Singapore				
Ascott Residence Trust (Note 2)	4,339	4,073 (Note 3)	(6.1)	1.39
CDL Hospitality Trusts (Note 2)	4,291	4,291	0.0	1.82
Simple average for Singapore			**(3.1)**	**1.61**
Maximum for Singapore			**0.0**	**1.82**
Minimum for Singapore			**(6.1)**	**1.39**
The United States				
Ashford Hospitality Trust	—	—	—	1.45
DiamondRock Hospitality	—	—	—	1.92
Equity Inns	—	—	—	2.97
FelCor Lodging Trust	—	—	—	2.67
Highland Hospitality	—	—	—	1.95
Hospitality Properties Trust	—	—	—	1.96
Host Hotels & Resorts	—	—	—	2.91
Innkeepers USA Trust	—	—	—	2.01
LaSalle Hotel Properties	—	—	—	1.83
Strategic Hotels & Resorts	—	—	—	1.65
Sunstone Hotel Investors	—	—	—	1.97
Simple average for the United States			**—**	**2.12**
Maximum for the United States			**—**	**2.97**
Minimum for the United States			**—**	**1.45**
Japan				
Japan Hotel And Resort	—	—	—	1.35

Source: Bloomberg and corresponding offering circulars of the Comparable Hotel REITs

Notes:

(1) Based on the date of valuation given by corresponding valuation reports.

(2) The exchange rate of Singaporean dollar ("SGD") to HK$ as at the Latest Practicable Date was approximately SGD 1.00 to HK$5.07.

(3) Based on the aggregate acquisition value of underlying properties and the issue of units at offer price.

(4) The premium/discount represents the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of the Comparable Hotel REITs.

As shown in Table 5 above, the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of the Comparable Hotel REITs listed on the stock exchange of Singapore range from a discount of approximately 6.1% to zero premium/discount. The PBRs of the Comparable Hotel REITs: (i) listed on the stock exchange of Singapore range from approximately 1.39 times to approximately 1.82 times with an average of approximately 1.61 times; and (ii) listed on the stock exchange of the United States range from approximately 1.45 times to approximately 2.97 times with an average of approximately 2.12 times. The relevant PBR of the Comparable Hotel REIT listed on the stock exchange of Japan is approximately 1.35 times.

As discussed earlier, there are significant differences in the geographical locations of the underlying properties of Regal REIT and that of the Comparable Hotel REITs. As such, we consider that the PBRs of the Comparable Hotel REITs might not be an appropriate evaluation parameter for our analysis. Therefore, the above-mentioned PBR analysis is for reference purpose only.

Given the significant differences in the geographical locations of the underlying properties of Regal REIT, we have therefore also analyzed comparable REITs listed in Hong Kong as outlined in section (2) below.

(2) Comparable Hong Kong REITs

In order to provide a more comprehensive and meaningful evaluation of the Consideration, taking into consideration that (i) the Initial Hotel Properties are all located in Hong Kong; (ii) the Initial Hotel Properties generate their entire income in Hong Kong; and (iii) Regal REIT is seeking a listing on the Stock Exchange under the Proposed Spin-off, we have considered the REITs currently listed on the Stock Exchange. For the purpose of our analysis, we have summarized relevant data of all the REITs currently listed in Hong Kong (the “Comparable Hong Kong REITs”) in Table 6 below.

We have selected the (i) premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates; and (ii) PBRs, given by the corresponding unit closing prices as at the Latest Practicable Date, of the Comparable Hong Kong REITs as our valuation parameters, details of which are illustrated in Table 6 below.

Table 6: Premium/discount to the valuation and PBR of Regal REIT and the Comparable Hong Kong REITs

REIT	Valuation of the underlying properties	Consideration	Premium/ (discount) to the valuation (Note 3)	PBR as at the Latest Practicable Date
	HK$ million	*HK$ million*	*%*	*Times*
Champion	22,670	19,301 (Note 1)	(14.9)	0.75
GZI	4,005	4,089 (Note 2)	2.1	1.01
Link	33,802	34,185 (Note 2)	1.1	1.67
Prosperity	4,538	4,193 (Note 2)	(7.6)	0.75
Sunlight	9,090	7,275 (Note 2)	(20.0)	0.63
Simple average			**(7.9)**	**0.96**
Maximum			**2.1**	**1.67**
Minimum			**(20.0)**	**0.63**
Regal REIT	**15,900**	**12,500**	**(21.4)**	**0.79** (Note 4)

Source: Bloomberg and corresponding offering circulars of the Comparable Hong Kong REITs

Notes:

(1) The consideration of Champion REIT is estimated based on the offer price prorata to the minimum and maximum offer price.

(2) The consideration of each of these Comparable Hong Kong REITs is extracted based on the offer price of the respective Comparable Hong Kong REITs.

(3) The premium/discount represents the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of Regal REIT and the Comparable Hong Kong REITs.

(4) PBR as at the Latest Practicable Date of Regal REIT is calculated by dividing the Consideration by the appraised value of the Initial Hotel Properties as at December 31, 2006.

Premium/discount to the valuation

From Table 6 above, the premium/discount of the consideration to the valuation of the respective underlying properties as at the respective initial listing dates of the Comparable Hong Kong REITs range from a discount of approximately 20.0% to a premium of approximately 2.1%. As discussed above, we note that the Consideration, which represents a discount of approximately 21.4% (based on the expected minimum purchase price) to the appraised value of HK$15.9 billion in accordance with the Valuation Report does not fall within the range of the Comparable Hong Kong REITs.

Although the discount of approximately 21.4% is higher than the average premium/discount of the consideration to the valuation of the respective underlying properties of the Comparable Hong Kong REITs (which has an average discount of approximately 7.9%), the Proposed Spin-off will provide a number of benefits to the Group and significantly strengthen its financial position by:

(i) generating net cash inflow of not less than HK$12.5 billion from the Proposed Spin-off; and

(ii) realizing net cash surplus proceed of not less than HK$2 billion after fully repaying bank debts of the Remaining Regal Group.

On that basis, we consider that a slightly higher discount is appropriate.

PBR

As shown in Table 6 above, the average PBR as represented by the Comparable Hong Kong REITs is approximately 0.96 times with a range from approximately 0.63 times to approximately 1.67 times. As discussed above, we note that the PBR at which the Initial Hotel Properties to be transferred to Regal REIT will not be less than approximately 0.79 times, which falls within the range of the PBRs of the Comparable Hong Kong REITs.

In light of the above, in particular:

(i) the discount of approximately 21.4% is appropriate in light of the significant financial benefits that will accrue to the Group; and

(ii) the PBR of approximately 0.79 times falls within the range of PBR of the Comparable Hong Kong REITs,

we consider that the Consideration for the Proposed Spin-off is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

7. The Lease Agreements and the Lease Guarantees

(a) The Lease Agreements

As stated in the letter from the Board in the Circular, each of the Lessors is expected to enter into a separate Lease Agreement in respect of the Initial Hotel Properties with the Lessee, a wholly-owned subsidiary of Regal, for a term from the Listing Date to December 31, 2015.

For the years from 2007 to 2010, the Lessee will be required to pay an annual aggregate Base Rent of HK$630 million in the first fiscal year (which shall be pro-rated from the Listing Date until

December 31, 2007) and HK$700 million, HK$750 million and HK$780 million for the second, third and fourth fiscal years, respectively. In addition, during each of the first to fourth fiscal years, the Lessee will be required to pay a Variable Rent for each such year, a sum which represents 100%, 70%, 60% and 50% of the Collective NPI Excess for each year from 2007 to 2010, respectively.

In the event the aggregate of the Variable Rent paid by the Lessee from the Listing Date to December 31, 2010 shall be less than HK$220 million, the Lessee will be required to pay the shortfall, subject to certain downward adjustments as provided under the Lease Agreements.

For each of the five years from 2011 to 2015, the Lessee shall pay the higher of HK$400 million and the market level rent to be determined on an annual basis by a jointly appointed independent professional property valuer under the rent review process pursuant to the Lease Agreements.

For Regal Hongkong Hotel, there will be an additional pre-determined monthly rent payable by the Lessee for the use of certain areas for the mechanical, electrical, back-of-house and other minor hotel facilities for the operation of Regal Hongkong Hotel.

The Lessee will also be required from the Listing Date until December 31, 2010 to contribute on a monthly basis 2% of the Total Hotel Revenue towards the FF&E Reserve owned and maintained by Regal REIT. Thereafter, the percentage contribution by the Lessee will be determined as part of the annual rent review.

Based on our discussions with management of the Company, we understand that the annual aggregate Base Rent and the Variable Rent for the years from 2007 to 2010 are determined based on the projected NPIs of the Initial Hotel Properties after arm's length negotiation. We also understand from management of the Company that the NPIs of the Initial Hotel Properties during the period of 2007 and 2010 are projected based on the estimated occupancy rates and the estimated average room rates of the Initial Hotel Properties after taking into considerations: (i) the district that each of the Initial Hotel Property is located in; (ii) anticipated growth in tourist arrivals; (iii) change in the average room rates of the Initial Hotel Properties; (iv) competition to be faced by each of the Initial Hotel Property; (v) business campaigns; and (vi) additional room revenues to be brought by the new rooms upon completion and delivery of the Asset Enhancement Program. In addition, based on our discussions with the Independent Property Valuer, we understand that the Independent Property Valuer has reviewed the projections of the NPI and has confirmed that the basis in determining the Base Rent and the Variable Rent by referencing to the NPI projections is in line with common market practice, and that the NPIs for the period from the Listing Date to December 2010 are projected based on fair and reasonable assumptions.

Moreover, we have conducted due diligence work during our review of the NPI projections, in particular, we have held discussions with management of the Company, the Hotel Manager and the REIT Manager on the assumptions and bases regarding the NPI projections for the years from 2007 to 2010 and their detailed strategies and business plans to achieve such projections; and we have also had several telephone conferences with the Independent Property Valuer to assess the reasonableness of the assumptions used in the NPI projections. In conclusion, we are of the view that the bases of the NPI projections is fair and reasonable.

In light of the above, in particular: (i) the Base Rent and the Variable Rent are determined after arm's length negotiation; (ii) the basis in determining the Base Rent and the Variable Rent by referencing to the NPI projections is in line with common market practice; and (iii) the NPIs for the period from the Listing Date to December 2010 are projected based on fair and reasonable assumptions, we consider the Base Rent and the Variable Rent contemplated under the Lease Agreements, determined on the bases of the NPI projections, are fair and reasonable.

Based on our discussions with management of the Company, we understand the Directors consider that the term of the Lease Agreements is appropriate and is a commercial decision which is in line with market practice. Due to the fact that there is currently no hotel REITs listed on the Stock Exchange, we have identified a total of six hotel REITs within the Comparable Hotel REITs with similar leasing arrangements for comparison purpose. The durations of the lease agreements of such Comparable Hotel REITs are set out in Table 7 below:

Table 7: Durations of the lease agreements of Regal REIT and certain Comparable Hotel REITs

REIT	Duration of the lease agreement
Singapore	
CDL Hospitality Trusts	20 years
The United States	
Ashford Hospitality Trust	5 years
DiamondRock Hospitality	5 to 6 years
Highland Hospitality	10 years
Strategic Hotel & Resort	5 years
Sunstone Hotel Investors	5 years
Regal REIT	**From the Listing Date to December 31, 2015 (approximately 9 years)**

Source: Corresponding offering circulars of certain Comparable Hotel REITs

As shown in Table 7 above, we note that the durations of the lease agreements of the above Comparable Hotel REITs range from 5 years to 20 years. As such, we are of the view that the term of the Lease Agreements, which is from the Listing Date to December 31, 2015 (approximately 9 years), is within the range of durations of the lease agreements given by the above Comparable Hotel REITs and is appropriate.

(b) The Lease Guarantees

As stated in the letter from the Board in the Circular, Regal is expected to give guarantees to the Lessor and the Trustee in respect of the Lessee's payment obligations under the Lease Agreements and to procure and maintain from time to time, at its sole cost and expense, an unconditional and irrevocable bank guarantee in the amount of HK$1 billion in favor of the Lessors and the Trustee in the form of a letter of credit to cover its payment obligations and that of the Lessee for the period up to June 30, 2011. Unless the Lease Agreements are early terminated, the same shall, at the sole cost and expense of Regal, remain in place and effective at all times until June 30, 2016 upon the same terms and for an amount which is the highest of (1) the amount which a jointly appointed independent professional property valuer determines to be the market rate of the security deposit, (2) 50% of the annual base rent as determined by such valuer and (3) 50% of the Floor Rent (i.e. HK$200 million for the Initial Hotel Properties).

Regal is also expected to undertake to ensure and procure that for so long as any part of the guaranteed liabilities remains outstanding, the Consolidated Tangible Net Worth (as defined in the letter from the Board in the Circular) of Regal shall not be less than HK$4 billion.

Based on our discussions with management of the Company, we understand that it is not uncommon for the Company to provide guarantees for the payment obligations of its wholly-owned subsidiaries under commercial agreements. We note that the relevant guarantees to be provided by the Company under the Lease Guarantees in favor of the Lessors and the Trustee under the Lease Agreements are in respect of the payment obligations of the Lessee, which is a wholly-owned subsidiary of the Company. We also note that similar leasing of hotel assets exists in the CDL Hospitality Trusts whereby there is a similar lease guarantee arrangement provided by the parent company of lessee under such lease. Furthermore, it has also been taken into considerations: (i) the term of the Lease Agreements for the five Initial Hotel Properties would subsist until 2015; (ii) the amount of contractual rental payable by the Lessee to the Lessors; and (iii) the Lessee is a newly established single purpose vehicle. Based on the above, we concur with the Directors' view on the basis in determining the Lease Guarantees and consider the relevant guarantees to be provided by the Company under the Lease Guarantees are not uncommon.

(c) Hotel Management Agreements

As stated in the letter from the Board in the Circular, Regal REIT (through Holding SPV and the Lessors) is expected to enter into the Hotel Management Agreements with the Lessee, the Hotel Manager and Regal in respect of the Initial Hotel Properties. Pursuant to the Hotel Management Agreements, the Hotel Manager is expected to receive payment by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) of a hotel management fee comprising of:

(1) a hotel management base fee which is equal to:

   (i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and

(ii) in any other case during the term of the Hotel Management Agreement, an amount equal to 2% of Gross Revenues; and

(2) a hotel management incentive fee which is equal to:

(i) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) certain non-operating hotel expenses; and

(ii) in any other case during the term of the Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over (1) the hotel management base fee and (2) certain non-operating hotel expenses.

Under each of the Hotel Management Agreements, the obligation of the Lessee to pay the hotel management fees to the Hotel Manager will be subordinated to the obligation of the Lessee to pay all rent due by it under the relevant Lease Agreement.

The Hotel Manager is also expected to charge a marketing fee of not more than 1% of the Total Hotel Revenue for each fiscal year for the purposes of participating in national and international advertising and mandatory corporate marketing programs approved in the operating budget.

In order to assess whether the hotel management fee payable by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) is reasonable, we have made our comparison with the Comparable Hong Kong REITs and certain Comparable Hotel REITs (due to the unavailability of information on the hotel management fees for the Comparable Hotel REITs listed on the respective stock exchanges of the United States and Japan), details of which are shown in Table 8 below:

Table 8: Property/hotel management fees of Regal REIT, the Comparable Hong Kong REITs and certain Comparable Hotel REITs

REIT	Property/hotel management fee
Hong Kong	
Champion	(i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a licence for a duration of less than 12 months
GZI	(i) 4% per annum of the rental fee income from three of its property projects (ii) 3% per annum of the rental fee income from one of its property projects

REIT	Property/hotel management fee
Link	Not Applicable
Prosperity	(i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a licence for a duration of less than 12 months
Sunlight	(i) 3% per annum of gross property revenue (ii) variable marketing services fee (one or one-half month's base rent depending on the period and the nature of tenancy) (iii) 10% of the total licence fee for securing a licence for a duration of less than 12 months
Singapore	
Ascott Residence Trust	(i) 2%-3% per annum of total property revenue (ii) Incentive management fee of 5% to 10% per annum of gross operating profit of each property
CDL Hospitality Trusts	(i) 10% of profit before interest and tax
Regal REIT	**(i) Hotel management base fee which is equal to:** **(a) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of Gross Revenues; and** **(b) in any other case during the term of the Hotel Management Agreement, an amount equal to 2% of Gross Revenues.** **(ii) Hotel management incentive fee which is equal to:** **(a) for so long as the Lease Agreement for the relevant Initial Hotel Property is in subsistence, an amount equal to 1% of the excess of the Adjusted GOP over:** **(1) the hotel management base fee; and** **(2) certain non-operating hotel expenses; and** **(b) in any other case during the term of the Hotel Management Agreement, an amount equal to 5% of the excess of the Adjusted GOP over:** **(1) the hotel management base fee; and** **(2) certain non-operating hotel expenses.**

Source: Corresponding offering circulars of the Comparable Hong Kong REITs and certain Comparable Hotel REITs

Note: Please refer to the respective offering circulars of the Comparable Hong Kong REITs and certain Comparable Hotel REITs for further details.

As illustrated in Table 8 above, we note that the hotel management fee of Regal REIT is variable depending on the subsistence of the Lease Agreements for the Initial Hotel Properties. Based on our discussions with management of the Company, we understand that a lower amount of hotel management base fee and hotel management incentive fee will be charged by the Hotel Manager to the Lessee (both are wholly-owned subsidiaries of the Company) while a higher amount of hotel management base fee and hotel management incentive fee in any other case during the term of the Hotel Management Agreements will be charged. We are of the view that the hotel management services to be provided by the Hotel Manager to the Lessee, during the subsistence of the Lease Agreements, is in the nature of intra-group transactions, and there will not be any impact on the revenue and profit of the Remaining Regal Group as a whole. The proposed remuneration to the Hotel Manager, in any other case during the term of the Hotel Management Agreements, is in line with market level and the Hotel Manager would not be under-remunerated.

In light of the above, we are of the view that the hotel management fee payable by the Lessee (or the applicable Lessor after the expiration or earlier termination of the Lease Agreements) to the Hotel Manager is fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(d) Relationship between the Lease Agreements, Lease Guarantees and Hotel Management Agreements

We note that pursuant to the Sale and Purchase Agreement, the completion is conditional upon, inter alia, the concurrent signing and delivery of the Lease Agreements, the Hotel Management Agreements and the Lease Guarantees, and the signing in escrow of an unconditional and irrevocable bank guarantee under the Lease Guarantees. This fact may seem to suggest that the Lease Agreements, Lease Guarantees and Hotel Management Agreements are co-dependent on each other.

Regarding the Lease Agreements and Lease Guarantees, we are of the view that they are co-dependent on each other because the Lease Guarantees only serve to provide certain guarantees to the Lessors and the Trustee in respect of the Lessee's payment obligations under the Lease Agreements.

In respect of the Hotel Management Agreements and the Lease Agreements, we are of the view that they could be regarded as independent from each other because, besides the difference in nature between services contracts and property lease agreements, the operations to be carried out pursuant to these two agreements represent two different, though complimentary, lines of businesses, i.e. the Lessee will take up the Lease Agreements for hotel operations and the Remaining Regal Group will undertake the hotel management. In addition, we observe that the term of the Lease Agreements which expires on December 31, 2015 is shorter in duration than the term of the Hotel Management Agreements which is 20 years, hence the Hotel Management Agreements may continue to be effective after the expiration of the Lease Agreements and will not affect the effectiveness of the Hotel Management Agreements, nor the obligations of the Hotel Manager to carry out its objective and management duties contemplated under the Hotel Management Agreements.

Moreover, pursuant to the terms and conditions of the Hotel Management Agreements, the hotel management base fee payable to the Hotel Manager set forth under the Hotel Management Agreements will be increased from 1% to 2% of Gross Revenues in the event that the Lease Agreements are no longer in subsistence. As such, we consider that the expiration of Lease Agreements will not adversely affect the earnings of the Hotel Manager under the Hotel Management Agreements.

8. The Subscription Agreement

Regal and its wholly-owned subsidiaries, Complete Success Investments Limited and Great Prestige Investments Limited, will enter into the Subscription Agreement with the REIT Manager to subscribe for Units (including a certain number of AEP Units) at the Offer Price. The consideration for the Units to be subscribed by Regal will be satisfied by the issuance of a promissory note by the Vendor to Regal REIT, and such promissory note will then be applied by Regal REIT to satisfy part of the consideration payable by the Trustee to the Vendor for the acquisition of Holding SPV.

9. Terms of Regal REIT

(a) REIT Manager's Fees (as defined in the letter from the Board in the Circular) payable by Regal REIT to the REIT Manager

As stated in the letter from the Board in the Circular, the REIT Manager will be remunerated by way of:

(1) a base fee, which is intended to be 0.3% per annum, subject to a maximum cap of 0.5% per annum, of the value of all the gross assets of Regal REIT, including the Initial Hotel Properties, held in its portfolio, payable monthly in arrears;

(2) a variable fee, which is intended to be 3% per annum, subject to a maximum cap of 5% per annum, of the Net Property Income, payable annually;

(3) an acquisition fee, which is intended to be 1% of the purchase price of property acquired by Regal REIT (other than the acquisition described in paragraph 3(a) of the section headed "Restructuring" in the letter from the Board in the Circular); and

(4) a divestment fee, which is intended to be 0.5% of the sale price of property divested by Regal REIT.

The REIT Manager's Fees will be in the form of cash and/or Units pursuant to the terms of the Trust Deed.

In order to assess whether the REIT Manager's Fees payable by Regal REIT to the REIT Manager, a wholly-owned subsidiary of the Company, is reasonable, we have compared it with the REIT manager's fees of the Comparable Hong Kong REITs and certain Comparable Hotel REITs, details of which are shown in Table 9 below:

Table 9: REIT manager's fees of Regal REIT, the Comparable Hong Kong REITs and certain Comparable Hotel REITs

REIT	Base fee	Performance/ variable fee	Acquisition fee	Divestment fee
Hong Kong				
Champion	N/A	12.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
GZI	0.3% per annum of the value of the deposited property	3.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Link	N/A	An amount equal to the costs and expenses reasonably incurred by the manager in managing Link, subject to a minimum of HK$15 million per month	N/A	N/A
Prosperity	0.4% per annum of the property values (maximum 0.4% per annum of the property values)	3.0% per annum of net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Sunlight	0.4% per annum of the property values (maximum 0.4% per annum of the property values)	3.0% per annum of net property income (before deduction therefrom of the variable fee)	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Singapore				
Ascott Residence Trust	0.3% per annum of the property values	4.0% per annum of gross profit	1.0% of the acquisition price of property acquired, 0.5% if payment is made to third party agents or brokers	0.5% of the sale price of property divested

REIT	Base fee	Performance/ variable fee	Acquisition fee	Divestment fee
CDL Hospitality Trusts	0.25% per annum of the value of the deposited property	5.0% per annum of the net property income	1.0% of the acquisition price of property acquired	0.5% of the sale price of property divested
Regal REIT	**0.3% per annum, subject to a maximum cap of 0.5% per annum of the value of all the gross assets of Regal REIT**	**3.0% per annum, subject to a maximum cap of 5.0% per annum of the Net Property Income**	**1.0% of the purchase price of property acquired by Regal REIT**	**0.5% of the sale price of property divested by Regal REIT**

Source: Corresponding offering circulars of the Comparable Hong Kong REITs and certain Comparable Hotel REITs

Note: Please refer to the respective offering circulars of the Comparable Hong Kong REITs and certain Comparable Hotel REITs for further details.

As illustrated in Table 9 above, the REIT Manager's Fees, in terms of the base fee, the performance/variable fee, the acquisition fee and the divestment fee, are all within the range of the fees charged by the corresponding REIT managers of the above comparable REITs. We consider that the REIT Manager's Fees are in line with market level and the REIT Manager would not be under-remunerated.

In light of the above, we are of the view that the REIT Manager's Fees are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

(b) Lock-up arrangement

As stated in the letter from the Board in the Circular, in addition to the arrangements provided under the Distribution Deed as mentioned in paragraph 8 headed "Distribution Deed" in the letter from the Board in the Circular, it is proposed that the Group will enter into a lock-up arrangement with the underwriters of the Global Offering for a period of 180 days from and including the Listing Date subject to certain exceptions.

We note that the lock-up period of 180 days is no more than what must be abided by controlling shareholders of all new listing applicants on the Stock Exchange. Furthermore, if there is no lock-up arrangement, the prospective investors of Regal REIT may be concerned about the selling pressure from the Group immediately after the completion of the Global Offering, which could suppress the net proceeds from the Global Offering or even jeopardize it.

In light of the above, we are of the view that the lock-up arrangement to be entered into between the Group and the underwriters of the Global Offering is in compliance with the Listing Rules and is also a common arrangement between underwriters and listed issuers in the case of an initial public offering, which is appropriate.

(c) Deed of Trade Mark Licence

As stated in the letter from the Board in the Circular, Regal International Limited, a wholly-owned subsidiary of Regal, is expected to enter into a Deed of Trade Mark Licence with the REIT Manager, the REIT Group Companies and the Lessors (collectively "the Licencees"), whereby Regal International Limited will grant, free of royalty to each of the Licensees a non-exclusive and non-transferable right and licence to use its trade marks or service marks registered as at the date of Deed of Trade Mark Licence, for the purpose of describing the ownership of any Initial Hotel Property and/or use in connection with the business of each Initial Hotel Property.

Regal International Limited will not object to the use by any of the Licencees in any jurisdiction of (a) such trade marks or service marks for the purpose of describing the ownership of any Initial Hotel Property and/or in connection with the business of each Initial Hotel Property; (b) such trade marks or service marks as part of its corporate, business and domain names(s); and (c) any intellectual property right that Regal International Limited may have in relation to any other marks, logos or styles used in connection with the Initial Hotel Properties.

Each licence is expected to commence on the Listing Date and is expected to continue in full force until termination of, in respect of the licence granted to each Lessor, the relevant Hotel Management Agreement and, in respect of the licence granted to each of the REIT Manager and the REIT Group Companies all the Hotel Management Agreements. Notwithstanding the earlier termination of the licence granted to the REIT Manager and the REIT Group Companies, Regal International Limited shall not object to (a) the REIT Manager's use of the trade marks or service marks as part of the corporate, business or domain name(s) of Regal REIT; or (b) use by any of the REIT Group Companies of the trade marks or service marks as part of their respective corporate, business or domain name(s) until such date as the REIT Manager determine to change such name(s).

Regal International Limited shall indemnify each Licencee in full for any claim, demand, liability, loss and damage suffered due to a claim by any third party that its use of the marks under licence infringes such third party's rights. Each Licencee shall indemnify Regal International Limited in full for any claim, demand, liability, loss and damage suffered due to a breach by any terms of the Deed of Trade Mark Licence.

Based on our discussions with management of the Company, we understand that the entering into of the Deed of Trade Mark Licence is consistent with the Hotel Management Agreements, where the Hotel Manager will be responsible for the management of the Initial Hotel Properties. Upon the Deed of Trade Mark Licence becoming effective, the use of trade marks or service marks of the Company by any of the Licencees is clearly stipulated and the Company's trade marks or service marks will be duly protected. We consider the entering into of the Deed of Trade Mark Licence is appropriate.

10. Financial impacts of the Proposed Spin-off and Separate Listing of Regal REIT

(a) Effect on net asset value (the "NAV")

Based on our discussions with management of the Company, we understand that the aggregate carrying value of the Initial Hotel Properties as at December 31, 2005 was approximately HK$4 billion, which was stated based on historical costs net of accumulated depreciation. Pursuant to the Sale and Purchase Agreement, the aggregate consideration for the acquisition of Holding SPV and the assignment of the Promissory Notes is expected to be not less than HK$12.5 billion.

Based on the unaudited pro forma consolidated balance sheet of the Remaining Regal Group as set out in Appendix III of the Circular, the NAV of the Remaining Regal Group, assuming that it will retain approximately 72% interest in Regal REIT, would increase from approximately HK$2,021.5 million to approximately HK$4,180.9 million as at September 30, 2006, which represents an increase of approximately 107%.

In light of the above, we are of the view that completion of the Proposed Spin-off will have a positive effect on the NAV of the Group.

(b) Effect on earnings

The effects of the Proposed Spin-off on the earnings of the Remaining Regal Group, assuming that it will retain approximately 72% interest in Regal REIT, based on the unaudited pro forma consolidated income statement as set out in Appendix III of the Circular are summarized in Table 10 below:

Table 10: Effects on the earnings of the Remaining Regal Group

	For the nine months ended September 30, 2006		
	Before the Proposed Spin-off	**Unaudited pro forma consolidated income statement assuming the Proposed Spin-off took place on January 1, 2006**	**Percentage change**
Revenue *(HK$ million)*	901.5	947.0	5%
Cost of sales *(HK$ million)*	(500.2)	(1,028.5)	106%
Profit attributable to the Shareholders *(HK$ million)*	315.1	2,530.3	703%
Total number of issued Shares as at the Latest Practicable Date	9,143,786,348	9,143,786,348	
Basic EPS attributable to the Shareholders *(HK cents)*	3.446 *(Note 1)*	27.672 *(Note 1)*	703%

Source: Unaudited pro forma consolidated income statement of the Remaining Regal Group and the Company

Note:

(1) Basic EPS attributable to the Shareholders is calculated by dividing profit attributable to the Shareholders by the total number of issued Shares as at the Latest Practicable Date.

As shown in Table 10 above, based on the unaudited pro forma consolidated income statement of the Remaining Regal Group as set out in Appendix III of the Circular, the gross profit of the Remaining Regal Group will decrease assuming the Proposed Spin-off was completed at the beginning of the financial year. Based on our discussions with auditors of the Company, we understand that the negative gross profit of the Remaining Regal Group is attributable to the escalating structure of the Base Rent for the lease term till 2010. In accordance with Hong Kong Accounting Standard 17 regarding lease of property, the cost of sales of the Remaining Regal Group is a simple average of the actual cash Base Rent receivables by Regal REIT for the lease term till 2010 in the preparation of the pro forma income statement. As such, the cost of sales for the year 2007 would be greater than the actual cost of sales due to the escalating structure of the Base Rent.

Based on the unaudited pro forma consolidated income statement of the Remaining Regal Group as set out in Appendix III of the Circular, the profit attributable to the Shareholders of the Remaining Regal Group, assuming that it will retain approximately 72% interest in Regal REIT, would increase from approximately HK$315.1 million to approximately HK$2,530.3 million for the nine months ended September 30, 2006 assuming the Proposed Spin-off was completed at January 1, 2006, representing an increase of approximately 703% as compared to the audited consolidated accounts of the Group for the nine months ended September 30, 2006.

Such increase is mainly due to a gain resulted from the Proposed Spin-off of approximately HK$2,171.0 million (assuming that the Remaining Regal Group will retain approximately 72% interest in Regal REIT and after deduction of expenses in connection with the Proposed Spin-off assuming at approximately HK$27.8 million), which is a one-off item. Furthermore, as stated in the letter from the Board in the Circular, it is the present intention of the Directors to use part of the anticipated net cash proceeds to be received by the Company from the Proposed Spin-off for repaying its outstanding bank loans hence reducing interest expenses of the Group, the deposit of the excess amount of cash proceeds would also contribute interest income to the Remaining Regal Group. In addition, the Remaining Regal Group will receive the REIT Manager's Fees payable by Regal REIT to the REIT Manager and share of profit from Regal REIT. On the other hand, the Remaining Regal Group will also receive the hotel management fee payable by Regal REIT to the Hotel Manager.

In accordance with the letter from the Board in the Circular, the REIT Manager's current policy is to distribute to Unitholders an amount equal to 100% of Regal REIT's Total Distributable Income for each financial year (at least 90% of Regal REIT's Total Distributable Income pursuant to the Trust Deed). As such, the Remaining Regal Group will receive dividend distributions from its holding of the Units subsequent to the Proposed Spin-off. However, the future dividend distributions cannot be determined at this stage.

On the other hand, pursuant to the Lease Agreements, the Group will be required to pay the Base Rent and the Variable Rent for leasing the Initial Hotel Properties from Regal REIT, which is an additional rental expense to the Remaining Regal Group. Furthermore, we note that the Variable Rent of 100% of the NPI Excess for the year 2007, which will increase the cost of sales of the Remaining Regal Group, may possibly have a negative impact on the earnings of the Remaining Regal Group.

We understand that the negative gross profit of the Remaining Regal Group was a result of the Proposed Spin-off. Moreover, as the bottom line of the Remaining Regal Group is expected to enjoy growth after the Proposed Spin-off, we, on balance, consider that there is no material negative impact to the Remaining Regal Group due to the Proposed Spin-off.

In consideration of the above, we are of the view that, apart from the one-off gain resulted from the Proposed Spin-off, it will have a balanced effect on the earnings of the Remaining Regal Group while the gain resulted from the Proposed Spin-off will have a positive effect on the earnings of the Group, which is non-recurrent. As such, the Proposed Spin-off will have an overall positive effect on the earnings of the Remaining Regal Group.

(c) Effect on gearing

The gearing ratio of the Group (being the borrowing net of cash and bank balances and time deposits divided by carrying amount of total assets) was approximately 66.2% as at September 30, 2006. As stated in the letter from the Board in the Circular, it is expected that, immediately after the Proposed Spin-off, the bank debts of the Remaining Regal Group will be fully repaid. Based on our discussions with management of the Company, with reference to unaudited pro forma consolidated balance sheet of the Remaining Regal Group as set out in Appendix III of the Circular, the gearing ratio of the Remaining Regal Group immediately after the Proposed Spin-off would be reduced to zero. As such, we are of the view that the gearing ratio of the Remaining Regal Group will be improved substantially.

We consider that the improvement in the gearing ratio of the Remaining Regal Group is favorable and in the interests of the Company and the Shareholders as a whole.

(d) Effect on working capital

Subsequent to the Proposed Spin-off, the current liabilities would decrease as a result of the repayment of the bank loan and there will be surplus of the net cash proceeds to be received by the Company. Based on the unaudited pro forma consolidated balance sheet as set out in Appendix III of the Circular, the Group will receive gross cash proceeds of approximately HK$12.5 billion from the Proposed Spin-off. Assuming the Remaining Regal Group will retain approximately 72% interest in Regal REIT, the net cash proceeds to be received by the Company from the Proposed Spin-off are expected to be approximately HK$2,163.1 million after deducting: (i) repayment of bank loan of approximately HK$4,318.7 million; (ii) total subscription price of approximately HK$5,990.4 million for the Units; and (iii) estimated expenses in relation to the Proposed Spin-off. As a result, the cash and bank balances (including time deposits) of the Remaining Regal Group will increase from approximately HK$92.8 million to approximately HK$2,255.9 million based on the unaudited pro forma consolidated balance sheet as set out in Appendix III of the Circular. Based on our discussions with management of the Company, the net cash proceeds to be received by the Company from the Proposed Spin-off will be used as the working capital of the Group. As such, the working capital of the Remaining Regal Group will improve after the Proposed Spin-off.

In view of:

(i) the positive effect on the NAV of the Remaining Regal Group;

(ii) the overall positive effect on the earnings of the Remaining Regal Group;

(iii) the improvement in the gearing ratio of the Remaining Regal Group; and

(iv) the improvement in the working capital of the Remaining Regal Group,

we are of the view that the Proposed Spin-off would have an overall positive financial effect to the Group and the Proposed Spin-off is in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

We have considered the above principal factors and reasons and, in particular, have taken into account the following factors in arriving at our opinion:

(i) the benefits to be brought by the Proposed Spin-off to the Group;

(ii) the clear delineation of businesses between the Remaining Regal Group and Regal REIT;

(iii) the Consideration is fair and reasonable;

(iv) the Base Rent and the Variable Rent contemplated under the Lease Agreements are appropriate, based on the projections made by the Independent Property Valuer, are fair and reasonable;

(v) the relevant guarantees to be provided by the Company under the Lease Guarantees are not uncommon;

(vi) the hotel management fee receivable by the Hotel Manager under the Hotel Management Agreements is fair and reasonable;

(vii) the REIT Manager's Fees payable by Regal REIT are fair and reasonable;

(viii) the terms of Regal REIT are fair and reasonable; and

(ix) the overall positive financial effect to the Group.

Having considered the above, we are of the view that the terms and conditions of the Proposed Spin-off are fair and reasonable in so far as the Company and the Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Shareholders to vote in favor of the resolution to be proposed at the SGM. We also recommend the Shareholders to vote in favor of the resolution in approving the Proposed Spin-off at the SGM.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited

Liu Chee Ming
Managing Director

Ross Cheung
Director

CBRE
CB RICHARD ELLIS
世邦魏理仕

CB Richard Ellis Limited

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地產代理（公司）牌照號碼
Estate Agent's Licence No: C-004065

21 February 2007

Regal Hotels International Holdings Limited
11/F, 68 Yee Wo Street,
Causeway Bay, Hong Kong

Dear Sirs,

RE: VALUATION OF REGAL AIRPORT HOTEL, REGAL HONGKONG HOTEL, REGAL KOWLOON HOTEL, REGAL ORIENTAL HOTEL AND REGAL RIVERSIDE HOTEL IN HONG KONG (COLLECTIVELY "HOTEL PROPERTIES" OR INDIVIDUALLY "HOTEL PROPERTY")

We refer to the recent instruction from Regal Hotels International Holdings Limited (the "Regal Holdings") to CB Richard Ellis Limited (hereinafter refers to "we" or "CBRE") to carry out valuations of the Hotel Properties (as detailed in the attached summary of values). We confirm that we have made relevant investigations and enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of the market values of the leasehold interests of the Hotel Properties as at 31 December 2006 (the "date of valuation").

Valuation Principles

Our valuations are prepared in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" and meet the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities (the "Exchange Listing Rules") issued by The Stock Exchange of Hong Kong Limited.

Our valuations are made on the basis of Market Value which is defined by the HKIS to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

We have applied the definition of Market Value to each Hotel Property interest independently.

In view of the nature of the Hotel Properties, our valuations have been made inclusive of land, buildings, furniture, trade fixtures and fittings, and operating equipment.

Gross Floor Area expressed in our valuation reports has the same meaning as that defined in the Building (Planning) Regulations. Except where such area has been exempted as constituting gross floor area under the Building (Planning) Regulations of the Buildings Ordinance, Cap. 123 of the Laws of Hong Kong, in general, Gross Floor Area of a building shall be the area contained within the external walls of the building measured at each floor level (including any floor below the level of the ground) and the thickness of the external walls of the building but may disregard any floor space that is constructed solely for parking motor vehicles, loading or unloading of motor vehicles, refuse related facilities and other mechanical and electrical services. Covered Floor Area, on the other hand, means all floor area covered under the roofs of the property including Gross Floor Area, and any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, material recovery chambers, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or similar services, and any area (above or below the level of the ground) which is exempted from the Gross Floor Area calculation by the Building Authority but excluding bay window area.

In the course of our valuations, we have made reference to the title descriptions provided by the legal advisor, namely Johnson Stokes & Master. We are not aware of any title defects, easements or rights of way affecting the Hotel Properties and our valuations assume that none exists, except only where otherwise stated.

We have assumed that the Hotel Properties have been constructed, occupied and used in full compliance with, and without contravention of, all ordinances, except only where otherwise stated. We have further assumed that, for any use of the Hotel Properties upon which the attached reports are based, any and all required licences, permits, certificates, and authorizations have been obtained, except only where otherwise stated.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Hotel Properties nor for any expenses or taxation which may be incurred in effecting sale. Unless otherwise stated, it is assumed that the Hotel Properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of this report.

We understand Asset Enhancement Program ("AEP") has been launched and/or is about to be launched in four of the Hotel Properties. The total construction costs are approximately HK$320 million (not including land premium which is only required for Regal Riverside Hotel), with the amount involved for each of the relevant Hotel Properties stated in the relevant section of the valuation report. Regal International (BVI) Holdings Limited ("the Vendor") has undertaken to pay the full construction costs and land premium. In assessing the values, we have taken into account of the benefits of the AEP to the property values with the involved costs being excluded from capital expenditure in our valuations. We further assume that the AEP will be completed according to the target completion dates as stated in the certificate. We have taken into account any short-term impact on hotel operations during the implementation of the AEP in our valuations. Besides, we were informed that seventeen guest rooms are currently subject to internal use and will be available for business in early 2007 and thereafter. However, we were informed that the conversion costs for these guest rooms will not exceed HK$500,000 and will be borne by the Vendor.

Valuation Methods

We have adopted Direct Comparison Method and Income Approach in assessing the Market Values of each Hotel Property. Adjustments are made to reflect the differences in date of sale, location, property quality, market positioning, room configuration and distribution, provision of retail and other facilities, the land lease term, the government rents and other factors affecting the values. No profit forecast elements have been used under the Income Approach.

Inspection

We have inspected the Hotel Properties to such extent as is necessary for the purpose of the valuations. In the course of our inspection, we did not notice any serious defects, except where stated otherwise. However, we have not carried out any structural survey nor any tests were made on the building services.

Reliance On This Letter

CBRE has provided the addressees of this letter with a valuation certificate for each Hotel Property. The valuations must be read in conjunction with the following:

- The conclusions as to the estimated values of each Hotel Property are based upon the factual information set forth in the respective reports. Whilst CBRE has endeavoured to assure the accuracy of the factual information, it has not independently verified all information provided to us (primarily copies of leases and financial information with respect to each Hotel Property as well as statistical information relating to market conditions and demographics).

- When we adopted the information from others in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

- We have no reason to doubt the truth and accuracy of the information provided to us and we also have no reason to believe that the information is not fair and reasonable. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

- The reports were undertaken based upon information available to us as in December 2006. CBRE accepts no responsibility for subsequent changes in information as to income, expenses or market conditions. No obligation is assumed to revise the valuations to reflect events or conditions which may occur subsequent to the date thereof.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully,
For and on behalf of
CB Richard Ellis Limited
Harry Chan MHKIS MRICS RPS (GP)
Senior Director
Valuation & Advisory Services

Note:

Mr Chan is a Registered Professional Surveyor (General Practice), a member of the Hong Kong Institute of Surveyors, a member of Royal Institution of Chartered Surveyors. He has over 14 years experience in hotel valuation in Hong Kong, Macau as well as the People's Republic of China.

Encl.

SUMMARY OF VALUES

	Property interests	Capital values as at 31 December 2006
1.	Regal Airport Hotel 9 Cheong Tat Road Hong Kong International Airport, Chek Lap Kok, Lantau Island, New Territories Hong Kong[1]	HK$5,290,000,000
2.	Regal Hongkong Hotel 88 Yee Wo Street Causeway Bay Hong Kong[1]	HK$3,220,000,000
3.	Regal Kowloon Hotel 71 Mody Road Tsimshatsui East, Kowloon Hong Kong	HK$3,310,000,000
4.	Regal Oriental Hotel, 30-38 Sa Po Road; And Shops 3-11 on G/F including Cockloft of Shops 5-7 and Whole 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road, Kowloon City, Kowloon Hong Kong[1]	HK$1,240,000,000
5.	Regal Riverside Hotel 34-36 Tai Chung Kiu Road Shatin, New Territories Hong Kong[2]	HK$2,840,000,000[3]
		HK$15,900,000,000

1 The AEP of Regal Airport Hotel, Regal Hongkong Hotel and Regal Oriental Hotel is expected to be completed by 30 September 2007.

2 The AEP of Regal Riverside Hotel is expected to be completed by 31 December 2008.

3 Inclusive of the land premium involved for the AEP.

VALUATION CERTIFICATE

	Property	Description and tenure	Details of occupancy	Capital values as at 31 December 2006
1.	Regal Airport Hotel, 9 Cheong Tat Road, Hong Kong International Airport, Chek Lap Kok, Lantau Island, New Territories, Hong Kong Portion of the Remaining Portion of Chek Lap Kok Lot No. 1 and the Extension thereto	Regal Airport Hotel, opened in 1999, is a 14-storey (including one basement floor) High Tariff B hotel with 1,104 rooms. It also comprises meeting and banquet facilities, a coffee shop, a Western restaurant, a Japanese restaurant, two Chinese restaurants, a lounge, a business centre, one outdoor and one indoor swimming pool, a health club with gymnasium, massage and spa facilities and shopping areas. The AEP consists of conversion of certain unutilized spaces into additional rooms. The number of rooms will become 1,171 after the AEP which is scheduled to be completed by 30 September 2007. Before the AEP, Gross Floor Area of the property is 774,445 sq ft (71,947.65 sq m) or a Covered Floor Area of 897,034 sq ft (83,336.49 sq m). After the AEP, Gross Floor Area will be 775,000 sq ft (71,999.27 sq m) or a Covered Floor Area of 897,545 sq ft (83,383.99 sq m). The property is held under a sub-lease from the Airport Authority for a term of 25 years from 31 December 2003. The annual government rent payable on the property is equivalent to 3% of the rateable value of the property for the time being.	The hotel is currently operated by the Regal Holdings. The retail portion of the property is let under various tenancies for terms of 6 months to 3 years with the latest expiry date on 10 November 2009. The current occupancy rate of the retail portion is 25.5%. The total monthly rental generated is HK$428,980 exclusive of rates, management and air-conditioning charges. Various mobile phone base stations and antennae and signage space and poster stand(s) are leased under 8 licences and generate a monthly licence fee of HK$240,000. The latest expiry date is on 31 March 2007.	HK$5,290,000,000 (HONG KONG DOLLARS FIVE BILLION TWO HUNDRED NINETY MILLION)

Notes:

1. The registered owner of the property is Bauhinia Hotels Limited. As advised, the owner is a 100% owned subsidiary of the Regal Holdings.
2. The property is subject to the following encumbrances:
   a) A sub-lease from the Airport Authority for a term of 25 years from 31 December 2003 via Memorial No. IS342341 dated 12 August 2004; and

b) Mortgage and Assignment of Rights re Portion by Bauhinia Hotels Limited in favour of The Hongkong and Shanghai Banking Corporation Limited via Memorial No. IS344084 dated 31 December 2004.

3. The cost involved for the AEP will be payable by the Vendor and is estimated to be about HK$38 million.

4. The results come from Direct Comparison Method and Income Approach are HK$5,260 million and HK$5,320 million respectively and the average of both has been adopted as our valuation conclusion.

5. The property is situated in an area designated as "Commercial" under the current Chek Lap Kok Outline Zoning Plan No. S/I-CLK/10 dated 9 May 2006.

	Property	Description and tenure	Details of occupancy	Capital values as at 31 December 2006
2.	Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong Sections C, D, E, F, G, H, I, J, L, M and the Remaining Portion of Inland Lot No. 1408	Regal Hongkong Hotel, opened in 1993, is a 37-storey (including four basement floors) High Tariff A hotel with 424 rooms. It also comprises meeting and banquet facilities, a coffee shop, a Chinese restaurant, an Italian restaurant, a bar, a cake shop, a lobby lounge, a business centre, a health centre with gymnasium and massage services and an outdoor swimming pool. The AEP consists of addition of new floor areas on the top portion of the existing building and conversion of certain existing spaces. The number of rooms will become 474 after the AEP which is scheduled to be completed by 30 September 2007. Before the AEP, the Gross Floor Area of the property is 215,736 sq ft (20,042.37 sq m) or a Covered Floor Area of 320,417 sq ft (29,767.45 sq m). After the AEP, Gross Floor Area will be 269,911 sq ft (25,075 sq m) or a Covered Floor Area of 343,864 sq ft (31,945.74 sq m). In addition, the current owner has also rented some spaces on G/F to 3/F of 68 Yee Wo Street by two tenancies. The first tenancy is related to the ancillary uses to the daily hotel operation. Expiring on 1 March 2010 with an option to renew for 12 years, involves a lettable area of 10,510 sq ft at a rent of HK$182,000 per month. The second one is a shorter tenancy expiring on 28 March 2008 involving a lettable area of 3,437 sq ft at a rent of HK$70,800 per month. The property is held under Government Lease for a term of 999 years commencing from 25 December 1884 at an annual rent of HK$8 for the whole lot.	The hotel is currently operated by the Regal Holdings. Various mobile phone base stations and antennae are leased under 4 licences and generate a monthly licence fee of HK$81,200. The latest expiry date is on 30 June 2008.	HK$3,220,000,000 (HONG KONG DOLLARS THREE BILLION TWO HUNDRED TWENTY MILLION)

Notes:

1. The registered owner of the property is Cityability Limited. As advised, the owner is a 100% owned subsidiary of the Regal Holdings.

2. The property is subject to the following encumbrances:

   a) Deed of Restrictive Covenant via Memorial No. UB5287070 dated 13 May 1992;

   b) Deed of Covenant and Grant of Right of Way and Easements and Management Agreement via Memorial No. UB5287071 dated 13 May 1992;

   c) Statutory Declaration as to Loss of Title Deeds via Memorial No. UB8033163 dated 21 March 2000; and

   d) Mortgage in favour of the Hongkong and Shanghai Banking Corporation Limited via Memorial No. UB9455774 dated 31 December 2004.

3. The cost involved for the AEP will be payable by the Vendor and is estimated to be about HK$90 million.

4. The results come from Direct Comparison Method and Income Approach are HK$3,170 million and HK$3,270 million respectively and the average of both has been adopted as our valuation conclusion.

5. The property is situated in an area designated as "Commercial/ Residential" under the current Causeway Bay Outline Zoning Plan No. S/H6/14 dated 13 September 2005.

	Property	Description and tenure	Details of occupancy	Capital values as at 31 December 2006
3.	Regal Kowloon Hotel, 71 Mody Road, Tsimshatsui East, Kowloon, Hong Kong Kowloon Inland Lot No. 10474	Regal Kowloon Hotel, opened in 1982, is a 20-storey (including four basement floors) High Tariff A hotel with 600 rooms. It also comprises meeting and banquet facilities, a coffee shop, two Western restaurants, a bar, a cake shop, a lobby lounge, a business centre, a fitness room and a shopping arcade. Gross Floor Area of the property is 341,714 sq ft (31,746 sq m) or a Covered Floor Area of 468,355 sq ft (43,511.22 sq m). The property is held under Conditions of Sale No. 10983 for a term of 75 years renewable for another 75 years commencing from 28 December 1976 at an annual rent of HK$1,000.	The hotel is currently operated by the Regal Holdings. One Chinese restaurant, one Japanese restaurant, one sauna and two karaoke clubs have been leased out and operated by third parties. The retail portion of the property is let under various tenancies for terms of 1 year to 3 years with the latest expiry date on 21 November 2009. The current occupancy rate of the retail portion is 96.0%. The total monthly rental generated is HK$1,196,302.60 exclusive of rates, management and air-conditioning charges. Various mobile phone base stations and antennae, various lightboxes and signage space and various spaces are leased under 9 licenses and generate a total monthly licence fee of HK$46,700. The latest expiry date is on 30 November 2008.	HK$3,310,000,000 (HONG KONG DOLLARS THREE BILLION THREE HUNDRED TEN MILLION)

Notes:

1. The registered owner of the property is Ricobem Limited. As advised, the owner is a 100% owned subsidiary of the Regal Holdings.

2. The property is subject to the following encumbrances:

   a) Letter of Compliance from District Lands Office Kowloon West, Kowloon Government Offices, to Paliburg Project Management Limited via Memorial No. UB3990407 dated 6 July 1982;

   b) Statutory Declaration as to Loss of Title Deeds via Memorial No. UB8033162 dated 21 March 2000; and

   c) Mortgage in favour of the Hongkong and Shanghai Banking Corporation Limited via Memorial No. UB9455776 dated 31 December 2004.

3. The results come from Direct Comparison Method and Income Approach are HK$3,270 million and HK$3,350 million respectively and the average of both has been adopted as our valuation conclusion.

4. The property is situated in an area designated as "Commercial" under the current Tsim Sha Tsui Outline Zoning Plan No. S/K1/22 dated 17 October 2006.

	Property	Description and tenure	Details of occupancy	Capital values as at 31 December 2006
4.	Regal Oriental Hotel, 30-38 Sa Po Road and Shops 3-11 on G/F including Cockloft of Shops 5-7 and Whole 1/F, Po Sing Court, 21-25 Shek Ku Lung Road, 40-42 Sa Po Road, 15-29 Carpenter Road, Kowloon City, Kowloon, Hong Kong Whole of New Kowloon Inland Lot No. 5754 and 41/180 undivided shares of and in New Kowloon Inland Lot No. 4917	Regal Oriental Hotel, opened in 1982, is a 17-storey (including two basement floors) High Tariff B hotel with 390 rooms. It also comprises meeting and banquet facilities, a Chinese restaurant, a Western restaurant, a coffee shop, two bars, a cake shop a karaoke bar, a business centre and shopping areas. The property also comprises part of the Ground and 1st Floors in an adjacent 14-storey building (Po Sing Court) completed in 1967 mainly for back-of-the-house uses. The AEP consists of conversion of certain unutilized space on 3/F of the hotel building and refurbishment of 4/F to 8/F. The number of rooms will become 439 after the AEP which is scheduled to be completed by 30 September 2007. Before the AEP, Gross Floor Area of the hotel building is 228,967 sq ft (21,271.54 sq m) plus two floors in Po Sing Court of 14,200 sq ft (1,319.21 sq m), totally 243,167 sq ft (22,590.75 sq m) or a total Covered Floor Area of 294,154 sq ft (27,327.57 sq m). After the AEP, Gross Floor Area will be 229,003 sq ft (21,274.94 sq m) plus 14,200 sq ft (1,319.21 sq m) in Po Sing Court, totally 243,203 sq ft (22,594.15 sq m) or a total Covered Floor Area of 294,154 sq ft (27,327.57 sq m). The property is held under Conditions of Sale No. 11240 for a term commencing from 1 July 1898 and expiring on 30 June 2047. The annual government rent is equivalent to 3% of the rateable value of the property for the time being.	The hotel is currently operated by the Regal Holdings. A retail unit of the property is let for a term of 2 years with the date of expiry on 14 November 2006. The tenant has an option to renew for one year but the new tenancy has not yet been committed. The current occupancy rate of the retail portion is 5.5%. The monthly rental generated is HK$18,000 exclusive of rates, management and air-conditioning charges. A mobile phone base station and antennae are leased under a license, which generates a monthly license fee of HK$18,000. The expiry date is on 31 December 2007.	HK$1,240,000,000 (HONG KONG DOLLARS ONE BILLION TWO HUNDRED FORTY MILLION)

Notes:

1. The registered owner of the property is Gala Hotels Limited. As advised, the owner is a 100% owned subsidiary of the Regal Holdings.
2. The property is subject to the following encumbrances:

   New Kowloon Inland Lot No. 5754

   a) Deed of Grant of Easement via Memorial No. UB2111189 dated 23 June 1981;

   b) Modification Letter via Memorial No. UB2144106 dated 26 August 1981;

   c) Letter of Compliance from District Lands Office Kowloon West, Kowloon Government Offices to Paliburg Project Management Ltd. via Memorial No. UB3990406 dated 27 July 1982;

   d) Statutory Declaration as to Loss of Title Deeds via Memorial No. UB8033164 dated 21 March 2000;

   e) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited "The Security Agent" via Memorial No. UB9455775 dated 31 December 2004; and

   f) Demolition of pedestrian footbridge connecting Regal Oriental Hotel and the former Hong Kong International Airport Terminal as required by the Lands Department.
   (Note: we were advised that the cost for the demolition work will be borne by the Vendor)

   Shop Nos. 3-11 including Cocklofts of Shop Nos. 5, 6, 7 on Ground Floor and Whole of First Floor of Po Sing Court on New Kowloon Inland Lot No. 4917

   a) Management Agreement in favour of The Hong Kong Building and Loan Agency Limited (Agency) and National Investment Company Limited (Manager) via Memorial No. UB604982 dated 28 November 1967;

   b) Deed of Mutual Covenant via Memorial No. UB607737 dated 12 December 1967;

   c) Order No. DR03344/K/03/TCW/TE under S.28(3) of the Buildings Ordinance by the Building Authority (re: Common Parts) via Memorial No. UB9218581 dated 16 April 2004;
   (Note: we were advised that the cost for relevant rectification works in relation to the order above will be paid by the Vendor) and

   d) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited "The Security Agent" via Memorial No. UB9455775 dated 31 December 2004.
3. The cost involved for the AEP will be payable by the Vendor and is estimated to be about HK$30 million.
4. The results come from Direct Comparison Method and Income Approach are HK$1,220 million and HK$1,260 million respectively and the average of both has been adopted as our valuation conclusion.
5. The property is situated in an area designated as "Commercial" under the current Ma Tau Kok Outline Zoning Plan No. S/K10/18 dated 8 June 2004.

	Property	Description and tenure	Details of occupancy	Capital values as at 31 December 2006
5.	Regal Riverside Hotel, 34-36 Tai Chung Kiu Road, Shatin, New Territories, Hong Kong Sha Tin Town Lot No. 160	Regal Riverside Hotel, opened in 1986, is a 17-storey (including two basement floors) High Tariff B hotel with 830 rooms. It also comprises meeting and banquet facilities, a Japanese restaurant, two Chinese restaurants, an Italian restaurant, a Western restaurant, two bars, a cake shop, a business centre, a health club with gymnasium and massage services, an outdoor swimming pool and shopping areas. The AEP consists of conversion of existing 27 suites into 55 rooms as well as construction of three additional stories on the top of the building. The number of rooms will become 1,132 after the AEP which is scheduled to be completed in full by 31 December 2008. Before the AEP, Gross Floor Area of the property is 519,046 sq ft (48,220.59 sq m) or a Covered Floor Area of 662,123 sq ft (61,512.73 sq m). After the AEP, Gross Floor Area will be 639,292 sq ft (59,391.65 sq m) or a Covered Floor Area of 743,124 sq ft (69,037.90 sq m). The property is held under New Grant No. 11571 for a term of 99 years commencing from 1 July 1898 and has been automatically extended to 30 June 2047 at an annual rent equivalent to 3% of the rateable value of the property for the time being.	The hotel is currently operated by the Regal Holdings. The retail portion of the property is let under various tenancy for terms of 6 months to 3 years with the latest date of expiry on 14 November 2009. The current occupancy rate of the retail portion is 62.6%. The total monthly rental generated is HK$582,746 exclusive of rates, management and air-conditioning charges. Various mobile phone base stations and antennae and some arcade spaces are leased under 5 licences and generate a monthly licence fee of HK$76,500. The latest expiry date is on 30 April 2008.	HK$2,840,000,000 (HONG KONG DOLLARS TWO BILLION EIGHT HUNDRED FORTY MILLION)

Notes:

1. The registered owner of the property is Regal Riverside Hotel Limited. As advised, the owner is a 100% owned subsidiary of the Regal Holdings.
2. The property is subject to the following encumbrances:
   a) Modification Letter via Memorial No. ST211142 dated 29 April 1982;
   b) Modification Letter via Memorial No. ST353344 dated 28 August 1986; and

c) Mortgage in favour of The Hongkong and Shanghai Banking Corporation Limited via Memorial No. ST1399530 dated 31 December 2004.

3. The costs involved for the AEP will be payable by the Vendor. The construction cost is estimated to be about HK$162 million excluding the land premium.

4. The results come from Direct Comparison Method and Income Approach are HK$2,890 million and HK$2,790 million respectively and the average of both has been adopted as our valuation conclusion.

5. The property is situated in an area designated as “Commercial” under the current Sha Tin Outline Zoning Plan No. S/ST/22 dated 22 September 2006.

1. ACCOUNTANTS' REPORT OF THE GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

February 21, 2007

The Directors
Regal Hotels International Holdings Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information regarding Regal Hotels International Holdings Limited (the "Company") and its subsidiary companies (hereinafter collectively referred to as the "Group") (the "Financial Information"), prepared on the basis set out in note 1 of Section (II) below, for inclusion in the circular of the Company dated February 21, 2007 in connection with the very substantial disposal in relation to the proposed spin-off of Regal Real Estate Investment Trust on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Bermuda with limited liability on April 10, 1989 and is engaged in investment holding.

As at the date of this report, the Company had direct and indirect interests in the principal subsidiary companies set out in note 34 of Section (II) below.

We have acted as auditors of the Group for each of the three years ended December 31, 2003, 2004 and 2005 and for the nine months ended September 30, 2006 (the "Relevant Periods"). Audited consolidated financial statements for each of the Relevant Periods have been prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the Financial Information for the Relevant Periods, which has been prepared based on the audited consolidated financial statements, in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

For the purpose of this report, we have performed a review and carried out procedures as we considered necessary on the Financial Information for the nine months ended September 30, 2005, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of Group management and applying analytical procedures to the Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Financial Information for the nine months ended September 30, 2005.

The Directors of the Company are responsible for the preparation of the Financial Information. It is our responsibility to form an independent opinion and a review conclusion, based on our examination on the Financial Information for the Relevant Periods and our review on the Financial Information for the nine months ended September 30, 2005, and to report an opinion and a review conclusion thereon respectively.

Opinion in respect of the Financial Information for the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at December 31, 2003, 2004 and 2005 and September 30, 2006, and of the consolidated results and cash flows of the Group for the Relevant Periods.

Review conclusion in respect of the Financial Information for the nine months ended September 30, 2005

On the basis of our review, which does not constitute an audit, we are not aware of any material modification that should be made to the Financial Information for the nine months ended September 30, 2005.

(I) FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

The following is the consolidated results of the Group for the Relevant Periods prepared on the basis set out in Section (II) below:

	Notes	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2005	Nine months ended September 30, 2006
		HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
REVENUE	5	774.9	1,050.6	1,141.1	788.8	901.5
Cost of sales		(563.8)	(615.3)	(638.0)	(457.3)	(500.1)
Gross profit		211.1	435.3	503.1	331.5	401.4
Other income and gains	5	7.5	3.5	112.3	91.2	74.6
Administrative expenses		(46.8)	(47.5)	(69.6)	(38.4)	(59.5)
Other operating expenses	6	(9.1)	(40.8)	—	—	—
Gain on disposal of overseas subsidiary companies attributable to discontinued operation	12	19.7	—	—	—	—
Write-back of impairment of a long term investment		—	7.8	—	—	—
Write-back of impairment of a hotel property	15	—	30.0	—	—	—
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION		182.4	388.3	545.8	384.3	416.5
Depreciation and amortization		(139.5)	(130.4)	(131.5)	(96.9)	(102.9)
OPERATING PROFIT		42.9	257.9	414.3	287.4	313.6
Finance costs	8	(151.6)	(150.3)	(199.8)	(133.9)	(199.8)
Share of profits and losses of:						
Jointly controlled entity		206.6	219.7	128.5	137.0	206.9
Associates		(2.1)	0.9	83.8	(3.1)	(1.8)
PROFIT BEFORE TAX	7	95.8	328.2	426.8	287.4	318.9
Tax	11	50.2	39.7	101.7	16.8	(3.8)
PROFIT FOR THE YEAR/PERIOD		146.0	367.9	528.5	304.2	315.1
Attributable to:						
Equity holders of the parent		146.0	367.9	528.4	304.1	315.1
Minority interests		—	—	0.1	0.1	—
		146.0	367.9	528.5	304.2	315.1

	Notes	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2005	Nine months ended September 30, 2006
		HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
DIVIDENDS	13					
Interim		—	—	21.1	21.1	21.1
Proposed final		—	41.7	46.1	—	—
		—	41.7	67.2	21.1	21.1
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14					
Basic		HK2.1 cents	HK4.5 cents	HK6.3 cents	HK3.6 cents	HK3.7 cents
Diluted		HK1.8 cents	HK4.1 cents	HK5.2 cents	HK3.0 cents	HK3.1 cents

CONSOLIDATED BALANCE SHEETS

The following is the consolidated balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Section (II) below:

		At December 31,			At September 30,
	Notes	2003	2004	2005	2006
		HK$'million (Restated)	HK$'million	HK$'million	HK$'million
NON-CURRENT ASSETS					
Property, plant and equipment	15	3,016.9	2,990.7	2,920.2	2,896.2
Prepaid land lease payments	16	1,132.4	1,110.2	1,088.0	1,071.3
Interest in a jointly controlled entity	17	1,226.5	1,844.6	1,804.7	2,021.7
Interests in associates	18	20.5	22.3	260.7	398.7
Equity investments at fair value through profit or loss/Long term investments	19	42.9	78.6	140.8	—
Other loan	20	78.0	78.0	62.1	64.7
Deferred expenditure		38.7	45.0	—	—
Deferred tax assets	30	3.9	14.3	98.1	93.7
Total non-current assets		5,559.8	6,183.7	6,374.6	6,546.3
CURRENT ASSETS					
Hotel and other inventories	21	21.4	34.4	16.3	15.8
Debtors, deposits and prepayments	22	123.8	98.4	134.0	170.4
Equity investments at fair value through profit or loss	23	—	—	9.7	13.7
Pledged time deposits		25.9	5.0	—	—
Time deposits		14.8	348.3	356.5	69.4
Cash and bank balances		8.4	22.2	26.9	23.5
Total current assets		194.3	508.3	543.4	292.8
CURRENT LIABILITIES					
Creditors and accruals	24	198.9	183.3	224.6	150.5
Promissory note payable	25	—	—	145.0	—
Derivative financial instrument	26	9.4	9.4	5.4	1.3
Interest bearing bank and other borrowings	27	903.9	122.6	1,668.7	1,668.7
Convertible bonds	28	—	—	—	195.0
Tax payable		10.1	5.6	1.0	2.5
Dividend payable		—	—	—	21.1
Total current liabilities		1,122.3	320.9	2,044.7	2,039.1
NET CURRENT ASSETS/(LIABILITIES)		(928.0)	187.4	(1,501.3)	(1,746.3)

	Notes	At December 31, 2003	At December 31, 2004	At December 31, 2005	At September 30, 2006
		HK$'million (Restated)	HK$'million	HK$'million	HK$'million
TOTAL ASSETS LESS CURRENT LIABILITIES		4,631.8	6,371.1	4,873.3	4,800.0
NON-CURRENT LIABILITIES					
Convertible bonds	28	—	(183.0)	(188.4)	—
Convertible preference shares	29	(159.4)	(166.9)	(126.9)	(132.6)
Interest bearing bank and other borrowings	27	(3,546.7)	(4,650.0)	(2,766.9)	(2,625.8)
Deferred tax liabilities	30	(48.5)	(35.5)	(21.9)	(20.1)
Other payable	31	(28.7)	—	—	—
Total non-current liabilities		(3,783.3)	(5,035.4)	(3,104.1)	(2,778.5)
Net assets		848.5	1,335.7	1,769.2	2,021.5
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	32	75.2	83.4	83.7	84.6
Equity component of convertible bonds	28	—	21.8	21.8	21.8
Reserves	33	773.2	1,188.0	1,616.3	1,913.8
Proposed final dividend	13	—	41.7	46.1	—
		848.4	1,334.9	1,767.9	2,020.2
Minority interests		0.1	0.8	1.3	1.3
Total equity		848.5	1,335.7	1,769.2	2,021.5

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The following is the consolidated statements of changes in equity of the Group for the Relevant Periods prepared on the basis set out in Section (II) below:

	Notes	Attributable to equity holders of the parent												
		Issued share capital	Share premium account	Equity component of convertible bonds	Share option reserve	Capital reserve	Special reserve	Hotel property revaluation reserve	Investment revaluation reserve	Exchange equalization reserve	Retained profits/ (Accumulated losses)	Total	Minority interests	Total equity
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At January 1, 2003														
As previously reported		64.2	467.1	—	—	71.9	1,062.3	1,575.8	(12.2)	(14.3)	(102.2)	3,112.6	—	3,112.6
Prior year adjustments	2.3(b)	(1.3)	—	—	—	—	—	(1,575.8)	—	—	(849.0)	(2,426.1)	—	(2,426.1)
As restated		62.9	467.1	—	—	71.9	1,062.3	—	(12.2)	(14.3)	(951.2)	686.5	—	686.5
Change in fair value of long term investments		—	—	—	—	—	—	—	13.4	—	—	13.4	—	13.4
Disposal of other investments		—	—	—	—	—	—	—	0.3	—	—	0.3	—	0.3
Disposal of overseas subsidiary companies	35(c)	—	—	—	—	(71.9)	—	—	—	7.9	—	(64.0)	—	(64.0)
Exchange realignments		—	—	—	—	—	—	—	—	7.8	—	7.8	—	7.8
Total income and expense recognized directly in equity		—	—	—	—	(71.9)	—	—	13.7	15.7	—	(42.5)	—	(42.5)
Profit for the year (as restated)		—	—	—	—	—	—	—	—	—	146.0	146.0	—	146.0
Total income and expense for the year		—	—	—	—	(71.9)	—	—	13.7	15.7	146.0	103.5	—	103.5
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	—	0.1	0.1
Issue of new shares	32	3.9	14.8	—	—	—	—	—	—	—	—	18.7	—	18.7
Issue of new shares upon conversion of convertible bonds	32	8.4	31.6	—	—	—	—	—	—	—	—	40.0	—	40.0
Share issue expenses	32	—	(0.3)	—	—	—	—	—	—	—	—	(0.3)	—	(0.3)
At December 31, 2003		75.2	513.2	—	—	—	1,062.3	—	1.5	1.4	(805.2)	848.4	0.1	848.5

		Attributable to equity holders of the parent												
	Notes	Issued share capital	Share premium account	Equity component of convertible bonds	Share option reserve	Special reserve	Hotel property revaluation reserve	Investment revaluation reserve	Exchange equalization reserve	Retained profits/ (Accumulated losses)	Proposed final/ interim dividend	Total	Minority interests	Total equity
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At January 1, 2004		75.2	513.2	—	—	1,062.3	—	1.5	1.4	(805.2)	—	848.4	0.1	848.5
Change in fair value of long term investments		—	—	—	—	—	—	27.9	—	—	—	27.9	—	27.9
Exchange realignments		—	—	—	—	—	—	—	(0.1)	—	—	(0.1)	—	(0.1)
Total income and expense recognized directly in equity		—	—	—	—	—	—	27.9	(0.1)	—	—	27.8	—	27.8
Profit for the year		—	—	—	—	—	—	—	—	367.9	—	367.9	—	367.9
Total income and expense for the year		—	—	—	—	—	—	27.9	(0.1)	367.9	—	395.7	—	395.7
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	—	0.7	0.7
Issue of new shares upon conversion of convertible bonds	32	6.2	23.8	—	—	—	—	—	—	—	—	30.0	—	30.0
Issue of new shares in settlement of termination fee payable	32	2.0	37.0	—	—	—	—	—	—	—	—	39.0	—	39.0
Issue of convertible bonds	28	—	—	21.8	—	—	—	—	—	—	—	21.8	—	21.8
Proposed final 2004 dividend	13	—	—	—	—	—	—	—	—	(41.7)	41.7	—	—	—
At December 31, 2004		83.4	574.0	21.8	—	1,062.3	—	29.4	1.3	(479.0)	41.7	1,334.9	0.8	1,335.7

	Notes	Issued share capital	Share premium account	Equity component of convertible bonds	Share option reserve	Capital redemption reserve	Special reserve	Investment revaluation reserve	Exchange equalization reserve	Retained profits/ (Accumulated losses)	Proposed final/ interim dividend	Total	Minority interests	Total equity
		Attributable to equity holders of the parent												
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At January 1, 2005														
Before opening adjustment		83.4	574.0	21.8	—	—	1,062.3	29.4	1.3	(479.0)	41.7	1,334.9	0.8	1,335.7
Opening adjustments		—	—	—	—	—	—	—	—	(22.9)	—	(22.9)	—	(22.9)
As restated		83.4	574.0	21.8	—	—	1,062.3	29.4	1.3	(501.9)	41.7	1,312.0	0.8	1,312.8
Profit for the year		—	—	—	—	—	—	—	—	528.4	—	528.4	0.1	528.5
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	—	0.4	0.4
Final 2004 dividend declared		—	—	—	—	—	—	—	—	(0.3)	(41.7)	(42.0)	—	(42.0)
Issue of new shares upon exercise of warrants	32	1.2	28.5	—	—	—	—	—	—	—	—	29.7	—	29.7
Repurchase and cancellation of ordinary shares	32	(0.9)	(43.2)	—	—	0.9	—	—	—	(0.9)	—	(44.1)	—	(44.1)
Equity-settled share option arrangements		—	—	—	5.7	—	—	—	—	—	—	5.7	—	5.7
Release on disposal of subsidiary companies	35(c)	—	—	—	—	—	—	—	(0.7)	—	—	(0.7)	—	(0.7)
Interim 2005 dividend	13	—	—	—	—	—	—	—	—	(21.1)	—	(21.1)	—	(21.1)
Proposed final 2005 dividend	13	—	—	—	—	—	—	—	—	(46.1)	46.1	—	—	—
Transfer to retained earnings		—	—	—	—	—	(1,062.3)	—	—	1,062.3	—	—	—	—
At December 31, 2005 and January 1, 2006		83.7	559.3	21.8	5.7	0.9	—	29.4	0.6	1,020.4	46.1	1,767.9	1.3	1,769.2
Profit for the period		—	—	—	—	—	—	—	—	315.1	—	315.1	—	315.1
Final 2005 dividend declared		—	—	—	—	—	—	—	—	(0.3)	(46.1)	(46.4)	—	(46.4)
Release on disposal of financial assets at fair value through profit or loss classified as long term investments prior to year 2005		—	—	—	—	—	—	(29.4)	—	—	—	(29.4)	—	(29.4)
Issue of new shares upon exercise of warrants	32	0.9	22.0	—	—	—	—	—	—	—	—	22.9	—	22.9
Equity-settled share option arrangements		—	—	—	11.2	—	—	—	—	—	—	11.2	—	11.2
Interim 2006 dividend	13	—	—	—	—	—	—	—	—	(21.1)	—	(21.1)	—	(21.1)
At September 30, 2006		84.6	581.3	21.8	16.9	0.9	—	—	0.6	1,314.1	—	2,020.2	1.3	2,021.5

	Note	Issued share capital	Share premium account	Equity component of convertible bonds	Share option reserve	Special reserve	Investment revaluation reserve	Exchange equalization reserve	Retained profits/ (Accumulated losses)	Interim dividend	Total	Minority interests	Total equity
		Attributable to equity holders of the parent											
		HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
At January 1, 2005													
Before opening adjustment		83.4	574.0	21.8	—	1,062.3	29.4	1.3	(479.0)	41.7	1,334.9	0.8	1,335.7
Opening adjustments		—	—	—	—	—	—	—	(22.9)	—	(22.9)	—	(22.9)
As restated		83.4	574.0	21.8	—	1,062.3	29.4	1.3	(501.9)	41.7	1,312.0	0.8	1,312.8
Profit for the period		—	—	—	—	—	—	—	304.1	—	304.1	0.1	304.2
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	0.3	0.3
Final 2004 dividend declared		—	—	—	—	—	—	—	(0.3)	(41.7)	(42.0)	—	(42.0)
Issue of new shares		1.2	28.5	—	—	—	—	—	—	—	29.7	—	29.7
Equity-settled share option arrangements		—	—	—	2.9	—	—	—	—	—	2.9	—	2.9
Release on disposal of subsidiary companies		—	—	—	—	—	—	(0.7)	—	—	(0.7)	—	(0.7)
Interim 2005 dividend	13	—	—	—	—	—	—	—	(21.1)	21.1	—	—	—
Transfer to retained earnings		—	—	—	—	(1,062.3)	—	—	1,062.3	—	—	—	—
At September 30, 2005		84.6	602.5	21.8	2.9	—	29.4	0.6	843.1	21.1	1,606.0	1.2	1,607.2

CONSOLIDATED CASH FLOW STATEMENTS

The following is the consolidated cash flow statements of the Group for the Relevant Periods prepared on the basis set out in Section (II) below:

		Year ended December 31,			Nine months ended September 30,	
	Notes	2003	2004	2005	2005	2006
		HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Net cash inflow from operating activities	35(a)	148.3	409.2	455.9	273.3	281.2
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from disposal of items of property, plant and equipment		5.8	—	—	—	—
Proceeds from disposal of long term investments		0.1	0.2	—	—	—
Net proceeds on disposal of properties held for sale		28.0	—	—	—	—
Proceeds from disposal of equity investments at fair value through profit or loss		—	—	24.6	1.8	224.5
Proceeds on settlement of deferred consideration in respect of the Group's disposal of its hotel interests in the United States of America in prior year		380.6	—	—	—	—
Disposal of subsidiary companies	35(c)	(2.5)	—	(2.1)	(2.1)	—
Purchases of items of property, plant and equipment		(21.0)	(51.1)	(70.5)	(40.0)	(68.3)
Purchases of equity investments at fair value through profit or loss		—	—	(30.9)	(5.7)	(53.9)
Acquisition of an associate		—	—	(0.2)	(0.2)	—
Advance to associates		(1.1)	(0.7)	(0.1)	—	(139.8)
Repayment from/(Advance to) a jointly controlled entity		(37.6)	(407.1)	168.4	175.5	(10.0)
Interest received		0.2	0.4	3.9	3.1	3.6
Dividends received from listed investments		—	—	4.0	3.2	3.1
Repayment of a promissory note payable for investment in an associate		—	—	—	—	(145.0)
Decrease in pledged time deposits		17.9	20.9	5.0	5.0	—
Net cash inflow/(outflow) from investing activities		370.4	(437.4)	102.1	140.6	(185.8)

	Notes	Year ended December 31, 2003	Year ended December 31, 2004	Year ended December 31, 2005	Nine months ended September 30, 2005	Nine months ended September 30, 2006
		HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of share capital	32	18.7	—	—	—	—
Proceeds from exercise of warrants	32	—	—	29.7	29.7	22.9
Share issue expenses	32	(0.3)	—	—	—	—
Repurchase and cancellation of ordinary shares	32	—	—	(44.1)	—	—
Proceeds from issue of convertible bonds		20.0	230.0	—	—	—
Repurchase of convertible bonds		(30.0)	—	—	—	—
Drawdown of a new loan		1.9	4,750.0	780.0	400.0	540.0
Repayments of bank loans and other loans		(392.4)	(4,428.0)	(1,061.3)	(961.3)	(690.0)
Advance from a minority shareholder of a subsidiary company		0.1	0.2	0.8	0.3	—
Interest paid		(135.8)	(101.2)	(187.1)	(142.3)	(212.4)
Payment of deferred expenditure		—	(75.4)	—	—	—
Dividends paid		—	—	(63.1)	(42.0)	(46.4)
Net cash inflow/(outflow) from financing activities		(517.8)	375.6	(545.1)	(715.6)	(385.9)
Net increase/(decrease) in cash and cash equivalents		0.9	347.4	12.9	(301.7)	(290.5)
Cash and cash equivalents at beginning of year/period		21.3	23.2	370.5	370.5	383.4
Effect of foreign exchange rate changes, net		1.0	(0.1)	—	—	—
Cash and cash equivalents at end of year/period		23.2	370.5	383.4	68.8	92.9
Analysis of balances of cash and cash equivalents						
Cash and bank balances		8.4	22.2	26.9	14.4	23.5
Non-pledged time deposits with original maturity of less than three months when acquired		14.8	348.3	356.5	54.4	69.4
		23.2	370.5	383.4	68.8	92.9

(II) NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The Financial Information for the Relevant Periods and the nine months ended September 30, 2005 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the derivative financial instrument and equity instruments, which have been measured at fair value. These Financial Information are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary companies for the Relevant Periods. The results of subsidiary companies are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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

2.1 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted for the first time, the following new and revised HKFRSs in its financial information for the year ended December 31, 2005:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement

HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases - Determination of the Length of Lease Term in respect of Hong Kong Land Leases

Except for HKASs 1, 16, 17, 24, 32 and 39, and HKFRSs 2 and 3, the adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's financial information.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, prior to January 1, 2005, the Group's share of tax attributable to associates and jointly controlled entity was presented as a component of the Group's total tax credit in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates and jointly controlled entity is presented net of the Group's share of tax attributable to associates and jointly controlled entity.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarized as follows:

(a) HKAS 16 — Property, Plant and Equipment
HKAS 17 — Leases

Prior to January 1, 2005, the Group's hotel properties were stated at their open market values for existing use on the basis of annual professional valuations. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant.

Upon the adoption of HKAS 16, the Group's leasehold interest in the hotel buildings is stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in hotel land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortized on the straight-line basis over the lease term.

The effects of the above changes are summarized in note 2.3. The change has been adopted retrospectively from the earliest period presented and comparative amounts in the consolidated balance sheets as at December 31, 2003 and 2004 have been restated.

(b) **HKAS 32 and HKAS 39 — Financial Instruments**

(i) *Equity securities*

Prior to January 1, 2005, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at their fair values on an individual basis with gains and losses recognized as movements in the investment revaluation reserve.

Upon the adoption of HKAS 39, these securities held by the Group at January 1, 2005 in the amount of HK$78.6 million are designated as equity investments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognized in the income statement.

Upon the adoption of HKAS 39, the investments in equity securities for trading purposes held by the Group at December 31, 2005 in the amount of HK$9.7 million are designated as equity investments at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognized in the income statement.

The effects of the above changes are summarized in note 2.3. In accordance with the transitional provisions of HKAS 39, comparative amount in the consolidated balance sheets as at December 31, 2003 and 2004 have not been restated.

(ii) *Convertible bonds*

Prior to January 1, 2005, convertible bonds were stated at cost. Upon the adoption of HKAS 32, convertible bonds are split into liability and equity components.

The effects of the above changes are summarized in note 2.3. In accordance with HKAS 32, comparative amounts in the consolidated balance sheet as at December 31, 2004 have been restated.

(iii) *Convertible preference shares*

Prior to January 1, 2005, convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the Group's accumulated losses in a capital reorganization in 2002. Upon the adoption of HKAS 32, the convertible preference shares include a liability component and the conversion option of the convertible preference shares denominated in foreign currency is recognized as derivative financial instrument. In accordance with HKAS 32, comparative amounts of the liability component of the convertible preference shares in the consolidated balance sheets as at December 31, 2003 and 2004 have been restated. The conversion option of the convertible preference shares recognized as derivative financial instrument is stated at fair value. In accordance with the transitional provisions of HKAS 39, comparative amounts of the derivative financial instrument in the consolidated balance sheets as at December 31, 2003 and 2004 have not been restated.

The effects of the above changes are summarized in note 2.3.

(c) **HKFRS 2 — Share-based Payment**

Prior to January 1, 2005, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 2.4 "Summary of significant accounting policies" below.

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to the options granted to employees on or before November 7, 2002.

The adoption of HKFRS 2 has had no impact on the retained profits as at December 31, 2003 and 2004. The Group has recognized the cost of options which were granted during the year ended December 31, 2005 in the income statements of that year and the nine months ended September 30, 2006 in accordance with HKFRS 2.

The effects of adopting HKFRS 2 are summarized in note 2.3.

(d) **HKFRS 3 — Business Combinations**

Prior to January 1, 2005, goodwill and negative goodwill arising on acquisitions prior to January 1, 2001 were eliminated against the consolidated capital reserves in the year of acquisition and were not recognized in the income statement until disposal or impairment of the acquired businesses.

The adoption of HKFRS 3 has no impact on the carrying amount of consolidated capital reserve as the previously recognized goodwill was fully impaired at December 31, 2003 and 2004.

HKFRS 3 requires that any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiary companies and associates (previously referred to as negative goodwill), after reassessment, is recognized immediately in the consolidated income statement. Upon the adoption of HKFRS 3, the negative goodwill in the interests in associates was derecognized as at January 1, 2005 against the opening balance of accumulated losses.

The effects of the above changes are summarized in note 2.3. In accordance with the transitional provisions of HKFRS 3, comparative amounts in the consolidated balance sheets as at December 31, 2003 and 2004 have not been restated.

The following new and revised HKFRSs affected the Group and were adopted for the first time in the Group's financial information for the nine months ended September 30, 2006.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The adoption of the above HKFRSs has had no material impact on the accounting policies of the Group and the methods of computation in the Group's financial information.

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

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

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

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

HKFRS 7 shall be applied for annual periods beginning on or after January 1, 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

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

Except as stated above, the Group expects that the adoption of the pronouncements listed above will not have any significant impact on the Group's financial information in the period of initial application.

2.3 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting				
At December 31, 2003	**HKAS 16#**	**HKAS 17#**	**HKASs 16 and 17#**	**HKASs 32# and 39***	
Effect of new policies (Increase/(Decrease))	**Hotel properties**	**Amortization of prepaid land lease payments**	**Change in classification of property, plant and equipment**	**Convertible preference shares**	**Total**
	HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
Assets					
Property, plant and equipment	(2,840.1)	—	(1,325.0)	—	(4,165.1)
Prepaid land lease payments	—	(192.6)	1,325.0	—	1,132.4
Deferred tax assets	(6.5)	—	—	—	(6.5)
					(3,039.2)
Liabilities/Equity					
Derivative financial instrument	—	—	—	9.4	9.4
Convertible preference shares	—	—	—	159.4	159.4
Deferred tax liabilities	(15.9)	—	—	—	(15.9)
Issued capital	—	—	—	(1.3)	(1.3)
Hotel property revaluation reserve	(2,280.0)	—	—	—	(2,280.0)
Increase in accumulated losses	(550.7)	(192.6)	—	(167.5)	(910.8)
					(3,039.2)

* Adjustments taken effect prospectively from January 1, 2005

Adjustments/Presentation taken effect retrospectively

At January 1, 2005	HKAS 16#	HKAS 17#	HKASs 16 and 17#	HKASs 32# and 39*	HKAS 39*	HKASs 32# and 39*	HKASs 32# and 39*	HKASs 32# and 39*	HKFRS 3*	
	Effect of adopting									
Effect of new policies (Increase/(Decrease))	**Hotel properties**	**Amortization of prepaid land lease payments**	**Change in classification of property, plant and equipment**	**Change in classification of equity investments**	**Cumulative loss in fair value of financial asset**	**Convertible bonds**	**Convertible preference shares**	**Interest bearing bank borrowings**	**Derecognition of negative goodwill**	**Total**
	HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
Assets										
Property, plant and equipment	(5,528.9)	—	(1,325.0)	—	—	—	—	—	—	(6,853.9)
Prepaid land lease payments	—	(214.8)	1,325.0	—	—	—	—	—	—	1,110.2
Interests in associates	—	—	—	—	—	—	—	—	2.6	2.6
Long term investments	—	—	—	(78.6)	—	—	—	—	—	(78.6)
Equity investments at fair value through profit or loss	—	—	—	78.6	—	—	—	—	—	78.6
Other loan	—	—	—	—	(20.5)	—	—	—	—	(20.5)
Deferred expenditure	—	—	—	—	—	—	—	(45.0)	—	(45.0)
Deferred tax assets	2.3	—	—	—	—	—	—	—	—	2.3
										(5,804.3)
Liabilities/Equity										
Creditors and accruals	—	—	—	—	—	(1.8)	—	—	—	(1.8)
Derivative financial instrument	—	—	—	—	—	—	14.4	—	—	14.4
Convertible bonds	—	—	—	—	—	(17.0)	—	—	—	(17.0)
Convertible preference shares	—	—	—	—	—	—	166.9	—	—	166.9
Deferred tax liabilities	(21.5)	—	—	—	—	—	—	—	—	(21.5)
Interest bearing bank and other borrowings	—	—	—	—	—	—	—	(45.0)	—	(45.0)
Issued capital	—	—	—	—	—	—	(1.3)	—	—	(1.3)
Equity component of convertible bonds	—	—	—	—	—	21.8	—	—	—	21.8
Hotel property revaluation reserve	(4,752.1)	—	—	—	—	—	—	—	—	(4,752.1)
Decrease/(Increase) in accumulated losses	(753.0)	(214.8)	—	—	(20.5)	(3.0)	(138.9)	—	2.6	(1,127.6)
Proposed final dividend	—	—	—	—	—	—	(41.1)	—	—	(41.1)
										(5,804.3)

* Adjustments taken effect prospectively from January 1, 2005

\# Adjustments/Presentation taken effect retrospectively

At December 31, 2005	Effect of adopting										
	HKAS 16	HKAS 17	HKASs 16 and 17	HKAS 39	HKASs 32 and 39	HKASs 32 and 39	HKASs 32 and 39	HKASs 32 and 39	HKFRS 3	HKFRS 2	
Effect of new policies (Increase/(Decrease))	**Hotel properties**	**Amortization of prepaid land lease payments**	**Change in classification of property, plant and equipment**	**Cumulative loss in fair value of financial asset**	**Change in classification of equity investments**	**Convertible bonds**	**Convertible preference shares**	**Interest bearing bank borrowings**	**Derecognition of negative goodwill**	**Equity-settled share option arrangements**	**Total**
	HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
Assets											
Property, plant and equipment	(5,605.9)	—	(1,325.0)	—	—	—	—	—	—	—	(6,930.9)
Prepaid land lease payments	—	(237.0)	1,325.0	—	—	—	—	—	—	—	1,088.0
Interests in associates	—	—	—	—	—	—	—	—	2.4	—	2.4
Short term investments	—	—	—	—	(9.7)	—	—	—	—	—	(9.7)
Long term investments	—	—	—	—	(140.8)	—	—	—	—	—	(140.8)
Equity investments at fair value through profit or loss	—	—	—	—	150.5	—	—	—	—	—	150.5
Other loan	—	—	—	(15.9)	—	—	—	—	—	—	(15.9)
Deferred expenditure	—	—	—	—	—	—	—	(33.1)	—	—	(33.1)
Deferred tax assets	39.2	—	—	—	—	—	—	—	—	—	39.2
											(5,850.3)
Liabilities/Equity											
Derivative financial instrument	—	—	—	—	—	—	5.4	—	—	—	5.4
Convertible bonds	—	—	—	—	—	(11.6)	—	—	—	—	(11.6)
Convertible preference shares	—	—	—	—	—	—	126.9	—	—	—	126.9
Deferred tax liabilities	1.2	—	—	—	—	—	—	—	—	—	1.2
Interest bearing bank and other borrowings	—	—	—	—	—	—	—	(33.1)	—	—	(33.1)
Issued capital	—	—	—	—	—	—	(1.3)	—	—	—	(1.3)
Equity component of convertible bonds	—	—	—	—	—	21.8	—	—	—	—	21.8
Share option reserve	—	—	—	—	—	—	—	—	—	5.7	5.7
Hotel property revaluation reserve	(4,752.1)	—	—	—	(62.2)	—	—	—	—	—	(4,814.3)
Increase/(Decrease) in retained profits	(815.8)	(237.0)	—	(15.9)	62.2	(10.2)	(124.1)	—	2.4	(5.7)	(1,144.1)
Proposed final dividend	—	—	—	—	—	—	(6.9)	—	—	—	(6.9)
											(5,850.3)

(b) Effect on the balances of equity at January 1, 2003, 2004 and 2005

	Effect of adopting						
	HKAS 16	HKAS 17	HKAS 39	HKASs 32 and 39	HKASs 32 and 39	HKFRS 3	
Effect of new policies (Increase/(Decrease))	Hotel properties	Amortization of prepaid land lease payments	Cumulative loss in fair value of financial asset	Convertible bonds	Convertible preference shares	Derecognition of negative goodwill	Total
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
January 1, 2003							
Issued capital	—	—	—	—	(1.3)	—	(1.3)
Hotel property revaluation reserve	(1,575.8)	—	—	—	—	—	(1,575.8)
Retained profits	(518.6)	(170.4)	—	—	(160.0)	—	(849.0)
							(2,426.1)
January 1, 2004							
Issued capital	—	—	—	—	(1.3)	—	(1.3)
Hotel property revaluation reserve	(2,280.0)	—	—	—	—	—	(2,280.0)
Retained profits	(550.7)	(192.6)	—	—	(167.5)	—	(910.8)
							(3,192.1)
January 1, 2005							
Issued capital	—	—	—	—	(1.3)	—	(1.3)
Equity component of convertible bonds	—	—	—	21.8	—	—	21.8
Hotel property revaluation reserve	(4,752.1)	—	—	—	—	—	(4,752.1)
Retained profits	(753.0)	(214.8)	(20.5)	(3.0)	(180.0)	2.6	(1,168.7)
							(5,900.3)

(c) Effect on the consolidated income statement for the years ended December 31, 2003, 2004 and 2005

	Effect of adopting							
	HKAS 1	HKAS 16	HKAS 17	HKASs 16 and 17	HKASs 16 and 17	HKASs 32 and 39	HKASs 32 and 39	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Depreciation of hotel properties**	**Amortization of prepaid land lease payments**	**Deferred tax**	**Write-back of impairment loss**	**Convertible bonds**	**Convertible preference shares**	**Total**
	HK$'m	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**	**HK$'m**
Year ended December 31, 2003								
Decrease in write-back of impairment of a hotel property	—	—	—	—	(11.4)	—	—	(11.4)
Increase in depreciation and amortization	—	(77.1)	(22.2)	—	—	—	—	(99.3)
Decrease in loss on disposal of subsidiary companies	—	54.1	—	—	—	—	—	54.1
Increase in finance costs	—	—	—	—	—	—	(7.5)	(7.5)
Increase in share of profits and losses of associates	(0.1)	—	—	—	—	—	—	(0.1)
Increase in tax	0.1	—	—	2.3	—	—	—	2.4
Total increase/(decrease) in profit	—	(23.0)	(22.2)	2.3	(11.4)	—	(7.5)	(61.8)
Increase/(Decrease) in basic earnings per share (HK cents)	—	(0.34)	(0.32)	0.03	(0.17)	—	(0.11)	(0.91)
Increase/(Decrease) in diluted earnings per share (HK cents)	—	(0.29)	(0.28)	0.03	(0.14)	—	(0.09)	(0.77)

	Effect of adopting							
	HKAS 1	HKAS 16	HKAS 17	HKASs 16 and 17	HKASs 16 and 17	HKASs 32 and 39	HKASs 32 and 39	
Effect of new policies	**Share of post-tax profits and losses of associates**	**Depreciation of hotel properties**	**Amortization of prepaid land lease payments**	**Deferred tax**	**Write-back of impairment loss**	**Convertible bonds**	**Convertible preference shares**	**Total**
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Year ended December 31, 2004								
Decrease in write-back of impairment of a hotel property	—	—	—	—	(140.5)	—	—	(140.5)
Increase in depreciation and amortization	—	(76.2)	(22.2)	—	—	—	—	(98.4)
Increase in finance costs	—	—	—	—	—	(3.0)	(7.5)	(10.5)
Decrease in share of profits and losses of associates	(0.1)	—	—	—	—	—	—	(0.1)
Increase in tax	0.1	—	—	14.4	—	—	—	14.5
Total increase/(decrease) in profit	—	(76.2)	(22.2)	14.4	(140.5)	(3.0)	(7.5)	(235.0)
Increase/(Decrease) in basic earnings per share (HK cents)	—	(0.94)	(0.27)	0.18	(1.74)	(0.04)	(0.09)	(2.90)
Increase/(Decrease) in diluted earnings per share (HK cents)	—	(0.84)	(0.25)	0.16	(1.56)	(0.03)	(0.08)	(2.60)

	Effect of adopting										
	HKAS 1	HKAS 16	HKAS 17	HKASs 16 and 17	HKAS 39	HKASs 32 and 39	HKASs 32 and 39	HKASs 32 and 39	HKFRS 2	HKFRS 3	
Effect of new policies	Share of post-tax profits and losses of associates	Depreciation of hotel properties	Amortization of prepaid land lease payments	Deferred tax	Equity investment at fair value through profit or loss	Other loan	Convertible bonds	Convertible preference shares	Equity-settled share option arrangements	Derecognition of negative goodwill	Total
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m
Year ended December 31, 2005											
Increase/(Decrease) in other income and gains	—	—	—	—	62.2	4.6	—	9.0	—	(0.2)	75.6
Increase in administrative expenses	—	—	—	—	—	—	—	—	(5.7)	—	(5.7)
Increase in depreciation and amortization	—	(77.0)	(22.2)	—	—	—	—	—	—	—	(99.2)
Increase in finance costs	—	—	—	—	—	—	(7.2)	(7.6)	—	—	(14.8)
Decrease in share of profits and losses of associates	(0.1)	—	—	—	—	—	—	—	—	—	(0.1)
Increase in tax	0.1	—	—	14.2	—	—	—	—	—	—	14.3
Total increase/(decrease) in profit	—	(77.0)	(22.2)	14.2	62.2	4.6	(7.2)	1.4	(5.7)	(0.2)	(29.9)
Increase/(Decrease) in basic earnings per share (HK cents)	—	(0.92)	(0.26)	0.17	0.74	0.05	(0.09)	0.02	(0.07)	—	(0.36)
Increase/(Decrease) in diluted earnings per share (HK cents)	—	(0.74)	(0.21)	0.14	0.59	0.04	(0.07)	0.01	(0.05)	—	(0.29)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Subsidiary companies**

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

Upon the disposal of interests in subsidiary companies, any gain or loss arising thereon, including the realization of the attributable reserves, is included in the income statement.

(b) **Joint venture**

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

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

A joint venture is treated as:

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

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

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

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

(c) **Jointly controlled entity**

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

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

(d) **Associates**

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

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Negative goodwill arising from the acquisition of associates, which was not previously eliminated or recognized in the consolidated reserves, is included as part of the Group's interests in associates. Upon the adoption of HKFRS 3, the negative goodwill was derecognized at January 1, 2005 against the opening balance of the accumulated losses.

(e) **Excess over the cost of business combinations (applicable to business combinations for which the agreement date is on or after January 1, 2005)**

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

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

(f) **Impairment of non-financial assets**

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

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

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

(g) **Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

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

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

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

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

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

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

(h) **Investments and other financial assets**

Applicable to each of the years ended December 31, 2003 and 2004:

The Group classified its equity investments, other than subsidiary companies, associates and jointly controlled entity, as long term investments.

Long term investments

Long term investments are non-trading investments in listed equity securities intended to be held on a long term basis.

Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis.

The gains or losses arising from changes in the fair value of a security are dealt with as movements in the investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognized in the investment revaluation reserve, together with the amount of any further impairment, is charged to the income statement in the period in which the impairment arises.

Applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Upon the adoption of HKAS 39, the Group's non-trading listed equity investments are designated as investments at fair value through profit or loss at January 1, 2005. Gains or losses on these investments are recognized in the income statement.

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

Loans and receivables

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

Fair value

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

(i) Impairment of financial assets (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)

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

Assets carried at amortized cost

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

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

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

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

(j) Derecognition of financial assets (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

(k) **Financial liabilities at amortized cost (interest bearing loans and borrowings) (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)**

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

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

(l) **Convertible bonds (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)**

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

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

(m) **Convertible preference shares (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)**

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

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

(n) **Derecognition of financial liabilities (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)**

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

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

(o) **Inventories**

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

(p) **Revenue recognition**

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

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

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

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

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

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

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

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

(q) **Foreign currencies (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)**

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

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

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

(r) **Income tax**

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

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

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

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

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiary companies, associates and jointly controlled entity, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiary companies, associates and jointly controlled entity, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

(s) **Leases**

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

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

(t) **Employee benefits**

Share-based payment transactions (applicable to the year ended December 31, 2005 and the nine months ended September 30, 2006)

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an option pricing model, further details of which are given in note 32 to the financial information. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

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

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

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

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

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

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

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

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group and are eligible for long service payments under the Hong Kong Employment Ordinance (the "Employment Ordinance") in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment falls within the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as certain current employees have achieved the required number of years of service to the Group at the balance sheet date, entitling them to long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Staff retirement scheme

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

The employees of the Group's subsidiary companies which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiary companies are required to contribute 29% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

(u) **Related parties**

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

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

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

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

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

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

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

(v) **Cash and cash equivalents**

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

(w) **Dividends**

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) **Judgements**

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

Operating lease commitment — Group as lessor

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

(b) **Estimation uncertainty**

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

Assessment of impairment of assets

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

Recognition of deferred tax

Deferred tax assets are recognized for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the carryforward of unused tax losses can be utilized. Recognition of deferred tax primarily involves judgement and estimates regarding the future performance of the Group. A variety of other factors is also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realized, such as tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred tax assets and the related taxable profits projection are reviewed at each balance sheet date.

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

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

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

Measurement of convertible bonds

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

Estimation of fair value of other loan

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

Measurement of fair value of equity-settled transactions

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

(a) **Business segments**

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006.

GROUP

	Continuing operations					Discontinued operation	
	Hotel ownership and management in Hong Kong and the Mainland China	Property development and investment	Others	Eliminations	Total	Hotel ownership and management in Canada	Consolidated
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2003							
Segment revenue:							
Sales to external customers	715.0	—	27.7	—	742.7	32.2	774.9
Intersegment sales	—	0.4	9.2	(9.6)	—	—	—
Total	715.0	0.4	36.9	(9.6)	742.7	32.2	774.9
Segment results before depreciation and amortization	208.9	(0.1)	2.6	—	211.4	(7.0)	204.4
Depreciation and amortization	(131.7)	(0.1)	(5.0)	—	(136.8)	(2.7)	(139.5)
Segment operating results	77.2	(0.2)	(2.4)	—	74.6	(9.7)	64.9
Interest income and unallocated non-operating and corporate gains					2.2	—	2.2
Unallocated non-operating and corporate expenses, net					(24.2)	—	(24.2)
Operating profit/(loss)					52.6	(9.7)	42.9
Finance costs					(147.4)	(4.2)	(151.6)
Share of profits and losses of:							
Jointly controlled entity	—	206.6	—	—	206.6	—	206.6
Associates	(0.1)	—	(2.0)	—	(2.1)	—	(2.1)
Profit/(loss) before tax					109.7	(13.9)	95.8
Tax					50.2	—	50.2
Profit/(loss) for the year					159.9	(13.9)	146.0
Attributable to:							
Equity holders of the parent					159.9	(13.9)	146.0
Minority interests					—	—	—
					159.9	(13.9)	146.0
Segment assets	4,208.7	4.1	93.1	(0.5)	4,305.4	—	4,305.4
Interests in associates	5.1	—	15.4	—	20.5	—	20.5
Interest in a jointly controlled entity	—	1,226.5	—	—	1,226.5	—	1,226.5
Cash and unallocated assets					201.7		201.7
Total assets					5,754.1		5,754.1
Segment liabilities	(116.8)	—	(20.7)	0.5	(137.0)	—	(137.0)
Bank and other borrowings and unallocated liabilities					(4,768.6)		(4,768.6)
Total liabilities					(4,905.6)		(4,905.6)
Other segment information:							
Capital expenditure	14.8	—	0.8			0.3	
Other non-cash expenses	2.5	—	—			—	

GROUP

	Hotel ownership and management	Property development and investment	Others	Eliminations	Consolidated
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2004					
Segment revenue:					
Sales to external customers	995.2	6.6	48.8	—	1,050.6
Intersegment sales	2.4	0.3	10.1	(12.8)	—
Total	997.6	6.9	58.9	(12.8)	1,050.6
Segment results before depreciation and amortization	389.9	2.7	10.6	—	403.2
Depreciation and amortization	(125.0)	(0.1)	(5.3)	—	(130.4)
Segment operating results	264.9	2.6	5.3	—	272.8
Interest income and unallocated non-operating and corporate gains					1.2
Unallocated non-operating and corporate expenses, net					(16.1)
Operating profit					257.9
Finance costs					(150.3)
Share of profits and losses of:					
Jointly controlled entity	—	219.7	—	—	219.7
Associates	(0.4)	—	1.3	—	0.9
Profit before tax					328.2
Tax					39.7
Profit for the year					367.9
Attributable to:					
Equity holders of the parent					367.9
Minority interests					—
					367.9
Segment assets	4,157.8	3.7	145.2	(0.5)	4,306.2
Interests in associates	4.8	—	17.5	—	22.3
Interest in a jointly controlled entity	—	1,844.6	—	—	1,844.6
Cash and unallocated assets					518.9
Total assets					6,692.0
Segment liabilities	(136.0)	(0.4)	(41.0)	0.5	(176.9)
Bank and other borrowings and unallocated liabilities					(5,179.4)
Total liabilities					(5,356.3)
Other segment information:					
Write-back of impairment losses recognized in the income statement	(30.0)	—	(7.8)		
Capital expenditure	44.2	—	7.8		
Other non-cash expenses	0.1	—	—		

GROUP

	Hotel ownership and management	Property development and investment	Others	Eliminations	Consolidated
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2005					
Segment revenue:					
Sales to external customers	1,082.7	1.6	56.8	—	1,141.1
Intersegment sales	2.4	0.3	8.9	(11.6)	—
Total	1,085.1	1.9	65.7	(11.6)	1,141.1
Segment results before depreciation and amortization	484.8	0.2	63.5	—	548.5
Depreciation and amortization	(128.7)	(0.1)	(2.7)	—	(131.5)
Segment operating results	356.1	0.1	60.8	—	417.0
Interest income and unallocated non-operating and corporate gains					25.9
Unallocated non-operating and corporate expenses, net					(28.6)
Operating profit					414.3
Finance costs					(199.8)
Share of profits and losses of:					
Jointly controlled entity	—	128.5	—	—	128.5
Associates	(0.4)	87.9	(3.7)	—	83.8
Profit before tax					426.8
Tax					101.7
Profit for the year					528.5
Attributable to:					
Equity holders of the parent					528.4
Minority interests					0.1
					528.5
Segment assets	4,142.1	3.6	152.7	(0.7)	4,297.7
Interests in associates	7.1	239.8	13.8	—	260.7
Interest in a jointly controlled entity	—	1,804.7	—	—	1,804.7
Cash and unallocated assets					554.9
Total assets					6,918.0
Segment liabilities	(179.4)	(0.4)	(3.6)	0.7	(182.7)
Bank and other borrowings and unallocated liabilities					(4,966.1)
Total liabilities					(5,148.8)
Other segment information:					
Capital expenditure	76.4	—	1.4		
Other non-cash expenses	—	—	0.1		

GROUP

	Hotel ownership and management	Property development and investment	Others	Eliminations	Consolidated
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Nine months ended September 30, 2005 (Unaudited)					
Segment revenue:					
Sales to external customers	754.6	1.3	32.9	—	788.8
Intersegment sales	1.8	0.2	6.6	(8.6)	—
Total	756.4	1.5	39.5	(8.6)	788.8
Segment results before depreciation and amortization	330.1	0.3	57.6	—	388.0
Depreciation and amortization	(94.1)	(0.1)	(2.7)	—	(96.9)
Segment operating results	236.0	0.2	54.9	—	291.1
Interest income and unallocated non-operating and corporate gains					10.9
Unallocated non-operating and corporate expenses, net					(14.6)
Operating profit					287.4
Finance costs					(133.9)
Share of profits and losses of:					
Jointly controlled entity	—	137.0	—	—	137.0
Associates	(0.2)	—	(2.9)	—	(3.1)
Profit before tax					287.4
Tax					16.8
Profit for the period					304.2
Attributable to:					
Equity holders of the parent					304.1
Minority interests					0.1
					304.2

GROUP

	Hotel ownership and management	Property development and investment	Others	Eliminations	Consolidated
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Nine months ended September 30, 2006					
Segment revenue:					
Sales to external customers	843.7	0.6	57.2	—	901.5
Intersegment sales	1.1	0.2	1.9	(3.2)	—
Total	844.8	0.8	59.1	(3.2)	901.5
Segment results before depreciation and amortization	362.5	0.3	59.0	—	421.8
Depreciation and amortization	(102.7)	(0.1)	(0.1)	—	(102.9)
Segment operating results	259.8	0.2	58.9	—	318.9
Interest income and unallocated non-operating and corporate gains					10.4
Unallocated non-operating and corporate expenses, net					(15.7)
Operating profit					313.6
Finance costs					(199.8)
Share of profits and losses of:					
Jointly controlled entity	—	206.9	—	—	206.9
Associates	(0.2)	(1.0)	(0.6)	—	(1.8)
Profit before tax					318.9
Tax					(3.8)
Profit for the period					315.1
Attributable to:					
Equity holders of the parent					315.1
Minority interests					—
					315.1
Segment assets	4,111.8	3.4	25.6	(0.2)	4,140.6
Interests in associates	6.9	377.9	13.9	—	398.7
Interest in a jointly controlled entity	—	2,021.6	—	—	2,021.6
Cash and unallocated assets					278.2
Total assets					6,839.1
Segment liabilities	(136.0)	—	(3.7)	0.2	(139.5)
Bank and other borrowings and unallocated liabilities					(4,678.1)
Total liabilities					(4,817.6)
Other segment information:					
Capital expenditure	62.2	—	—		

(b) **Geographical segments**

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments, for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006.

GROUP

	Hong Kong					Canada					Mainland China					Consolidated				
	Year ended December 31,			Nine months ended September 30,		Year ended December 31,			Nine months ended September 30,		Year ended December 31,			Nine months ended September 30,		Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006	2003	2004	2005	2005	2006
	HK$'m	HK$'m	HK$'m	HK$'m (Unaudited)	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m (Unaudited)	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m (Unaudited)	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m (Unaudited)	HK$'m
Segment revenue:																				
Sales to external customers	717.9	1,000.2	1,104.1	756.5	898.2	32.2	—	—	—	—	24.8	50.4	37.0	32.3	3.3	774.9	1,050.6	1,141.1	788.8	901.5
Other segment information:																				
Segment assets	4,251.0	4,234.8	4,278.9	4,264.1	4,122.0	—	—	—	—	—	54.4	71.4	18.8	12.1	18.6	4,305.4	4,306.2	4,297.7	4,276.2	4,140.6
Capital expenditure	14.8	44.2	76.4	36.1	62.2	0.3	—	—	—	—	0.8	7.8	1.4	1.3	—					

5. REVENUE, OTHER INCOME AND GAINS

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

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Revenue					
Hotel operations and management services	724.2	974.3	1,058.7	737.8	820.4
Other operations, including estate management, estate agency, laundry services, brewery and bakery operations	27.7	55.4	33.8	32.3	7.3
Rental income from hotel properties	23.0	20.9	24.0	16.9	23.3
Proceeds from sale of equity investments at fair value through profit or loss	—	—	24.6	1.8	50.5
	774.9	1,050.6	1,141.1	788.8	901.5
Other income					
Bank interest income	0.2	0.4	3.9	3.1	3.6
Interest income from other loan	—	—	4.6	3.4	2.6
Dividend income from listed investments	—	2.3	1.7	0.9	3.1
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	—	—	20.9	20.9	—
Others	1.9	0.8	9.2	2.2	0.1
	2.1	3.5	40.3	30.5	9.4
Gains					
Fair value gains/(losses) on equity investments at fair value through profit or loss, net	—	—	62.3	57.0	(2.0)
Fair value gain on derivative financial instrument	—	—	9.0	3.0	4.1
Gain on disposal of items of property, plant and equipment	5.4	—	—	—	—
Gain on disposal on equity investment at fair value through profit or loss	—	—	—	—	63.1
Gain on disposal of subsidiary companies	—	—	0.7	0.7	—
	5.4	—	72.0	60.7	65.2
	7.5	3.5	112.3	91.2	74.6

6. OTHER OPERATING EXPENSES

Other operating expenses include the following items:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Loss on disposal of long term investments	0.5	—	—	—	—
Termination fee in respect of cancellation of the disposal of a hotel property	—	39.0	—	—	—

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Cost of sales#	563.8	615.3	638.0	457.3	500.1
Cost of inventories sold and services provided	394.1	405.3	405.0	300.2	302.4
Depreciation	117.3	108.2	109.3	80.2	86.2
Recognition of prepaid land lease payments	22.2	22.2	22.2	16.7	16.7
Impairment of trade debtors	2.5	0.1	—	—	—
Employee benefits expense (exclusive of directors' remuneration disclosed in note 9):					
Wages and salaries*	269.0	286.1	291.9	209.8	211.9
Equity-settled share option expense	—	—	0.4	0.2	1.3
Staff retirement scheme contributions	14.3	14.1	13.3	9.5	10.7
Less: Forfeited contributions	(0.8)	(0.7)	(0.6)	(0.4)	(0.2)
Net staff retirement scheme contributions	13.5	13.4	12.7	9.1	10.5
	282.5	299.5	305.0	219.1	223.7
Auditors' remuneration	3.3	3.2	3.4	2.3	2.5
Minimum lease payments under operating leases on:					
Land and buildings	8.4	4.3	4.3	3.9	4.5
Other equipment	0.5	—	—	—	0.1
	8.9	4.3	4.3	3.9	4.6
Gross rental income	(23.0)	(20.9)	(24.0)	(16.9)	(23.3)
Less: Outgoings	5.4	5.4	6.3	4.1	5.0
Net rental income	(17.6)	(15.5)	(17.7)	(12.8)	(18.3)

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

* Inclusive of an amount of HK$263.8 million, HK$276.9 million, HK$280.1 million, HK$204.2 million and HK$201.2 million for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006 respectively, classified under cost of inventories sold and services provided.

8. FINANCE COSTS

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Interest on bank loans, convertible bonds, convertible preference shares and other loans, wholly repayable within five years	145.9	109.9	197.7	132.9	198.6
Interest on a promissory note payable	—	—	2.1	1.0	1.2
Amortization of deferred expenditure	5.7	10.3	—	—	—
Write off of deferred expenditure	—	28.4	—	—	—
Other	—	1.7	—	—	—
Total finance costs	151.6	150.3	199.8	133.9	199.8

9. DIRECTORS' REMUNERATION

Directors' remuneration for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Fees	1.2	1.3	1.4	1.0	1.0
Other emoluments:					
Salaries and other allowances	8.7	8.1	9.1	6.6	7.2
Performance related/discretionary bonuses	0.7	1.7	2.0	—	—
Employee share option benefits	—	—	5.3	2.7	9.9
Staff retirement scheme contributions	0.5	0.5	0.6	0.5	0.5
	11.1	11.6	18.4	10.8	18.6

During the year ended December 31, 2005, certain Directors were granted share options, in respect of their services to the Group under the share option schemes of the Company, further details of which are set out in note 32. The fair value of such options, which has been recognized to the income statements over the vesting period, was determined as at the date of grant and the amounts included in the Financial Information were included in the above Directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006 were as follows:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Ms. Alice Kan Lai Kuen	—	0.04	0.15	0.11	0.11
Mr. Dominic Lai	0.15	0.11	—	—	—
Mr. Ng Siu Chan	—	—	0.12	0.08	0.11
Mr. Thomas Ng Wai Hung	0.13	0.09	—	—	—
Mr. Wong Chi Keung	—	0.04	0.19	0.14	0.15
Dr. Alex Wu Shu Chih*	—	0.14	—	—	—
	0.28	0.42	0.46	0.33	0.37

There were no other emoluments payable to the independent non-executive directors during the years/periods.

* Passed away in January 2005

(b) Executive directors and non-executive directors

	Fees	Salaries and other allowances	Performance related/ discretionary bonuses	Employee share option benefits	Staff retirement scheme contributions	Total remuneration
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2003						
Executive directors:						
Mr. Lo Yuk Sui	0.10	3.86	0.18	—	0.19	4.33
Mr. Donald Fan Tung	0.10	0.46	0.17	—	0.05	0.78
Mr. Tommy Lam Chi Chung	0.10	0.61	0.01	—	0.05	0.77
Mr. Jimmy Lo Chun To	0.10	0.12	0.01	—	0.01	0.24
Mr. Kai Ole Ringenson	0.10	1.75	—	—	—	1.85
Mr. Kenneth Ng Kwai Kai	0.10	1.04	0.18	—	0.08	1.40
Ms. Belinda Yeung Bik Yiu	0.10	0.89	0.12	—	0.10	1.21
	0.70	8.73	0.67	—	0.48	10.58
Non-executive directors:						
Mr. Daniel Bong Shu Yin	0.13	—	—	—	—	0.13
Mrs. Kitty Lo Lee Kit Tai	0.10	—	—	—	—	0.10
	0.93	8.73	0.67	—	0.48	10.81

	Fees	Salaries and other allowances	Performance related/ discretionary bonuses	Employee share option benefits	Staff retirement scheme contributions	Total remuneration
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Year ended December 31, 2004						
Executive directors:						
Mr. Lo Yuk Sui	0.10	4.21	0.36	—	0.22	4.89
Mr. Donald Fan Tung	0.10	0.52	0.16	—	0.05	0.83
Mr. Tommy Lam Chi Chung	0.10	0.60	0.06	—	0.05	0.81
Mr. Jimmy Lo Chun To	0.10	0.14	0.02	—	0.01	0.27
Miss Lo Po Man	0.04	0.38	0.47	—	0.03	0.92
Mr. Kenneth Ng Kwai Kai	0.10	1.08	0.23	—	0.08	1.49
Ms. Belinda Yeung Bik Yiu	0.10	1.18	0.40	—	0.12	1.80
	0.64	8.11	1.70	—	0.56	11.01
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.05	—	—	—	—	0.05
Mrs. Kitty Lo Lee Kit Tai	0.06	—	—	—	—	0.06
Mr. Kai Ole Ringenson	0.10	—	—	—	—	0.10
	0.85	8.11	1.70	—	0.56	11.22
Year ended December 31, 2005						
Executive directors:						
Mr. Lo Yuk Sui	0.10	4.82	0.49	3.96	0.28	9.65
Mr. Donald Fan Tung	0.10	0.48	0.16	0.23	0.05	1.02
Mr. Tommy Lam Chi Chung	0.07	0.41	0.03	—	0.03	0.54
Mr. Jimmy Lo Chun To	0.10	0.15	0.05	0.17	0.01	0.48
Miss Lo Po Man	0.10	0.93	0.46	0.34	0.07	1.90
Mr. Kenneth Ng Kwai Kai	0.10	1.17	0.28	0.23	0.09	1.87
Ms. Belinda Yeung Bik Yiu	0.10	1.20	0.50	0.34	0.12	2.26
	0.67	9.16	1.97	5.27	0.65	17.72
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.15	—	—	—	—	0.15
Mr. Kai Ole Ringenson	0.10	—	—	—	—	0.10
	0.92	9.16	1.97	5.27	0.65	17.97

	Fees	Salaries and other allowances	Performance related/ discretionary bonuses	Employee share option benefits	Staff retirement scheme contributions	Total remuneration
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Nine months ended September 30, 2005 (Unaudited)						
Executive directors:						
Mr. Lo Yuk Sui	0.075	3.159	—	2.130	0.161	5.525
Mr. Donald Fan Tung	0.075	0.396	—	0.094	0.040	0.605
Mr. Tommy Lam Chi Chung	0.075	0.454	—	0.070	0.034	0.633
Mr. Jimmy Lo Chun To	0.075	0.144	—	0.070	0.011	0.300
Miss Lo Po Man	0.075	0.774	—	0.141	0.058	1.048
Mr. Kenneth Ng Kwai Kai	0.075	0.810	—	0.094	0.059	1.038
Ms. Belinda Yeung Bik Yiu	0.075	0.900	—	0.141	0.090	1.206
	0.525	6.637	—	2.740	0.453	10.355
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.112	—	—	—	—	0.112
Mr. Kai Ole Ringenson	0.075	—	—	—	—	0.075
	0.712	6.637	—	2.740	0.453	10.542
Nine months ended September 30, 2006						
Executive directors:						
Mr. Lo Yuk Sui	0.075	3.995	—	5.435	0.216	9.721
Mr. Donald Fan Tung	0.075	0.414	—	0.772	0.041	1.302
Mr. Jimmy Lo Chun To	0.075	0.146	—	0.579	0.011	0.811
Miss Lo Po Man	0.075	0.721	—	1.158	0.054	2.008
Mr. Kenneth Ng Kwai Kai	0.075	0.924	—	0.772	0.069	1.840
Ms. Belinda Yeung Bik Yiu	0.075	1.035	—	1.158	0.104	2.372
	0.450	7.235	—	9.874	0.495	18.054
Non-executive directors:						
Dr. Francis Choi Chee Ming	0.112	—	—	—	—	0.112
Mr. Kai Ole Ringenson	0.075	—	—	—	—	0.075
	0.637	7.235	—	9.874	0.495	18.241

The independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.28 million, HK$0.42 million, HK$0.46 million, HK$0.33 million and HK$0.37 million as Directors' fees, including the fees entitled by those independent Non-Executive Directors for serving as audit committee members, for the years ended December 31, 2003, 2004 and the 2005 and the nine months ended September 30, 2005 and 2006.

In addition, during the year ended December 31, 2005 and the nine months ended September 30, 2006, a consultancy fee of HK$1.00 million was paid to Dr. Francis Choi Chee Ming for each of the respective year/period for services rendered on the business development of the Group.

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

During the year ended December 31, 2005, share options were granted to the Directors in respect of their services to the Group. Further details of the share option schemes of the Company are set out in note 32.

10. SENIOR EXECUTIVES' EMOLUMENTS

During the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005, the five highest-paid individuals included four directors. For the nine months ended September 30, 2006, the five highest-paid individuals included five directors. Details of the directors' remuneration are disclosed in note 9. The emoluments of the remaining one individual, who was not a Director, are as follows:

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Salaries and other emoluments	0.9	0.8	0.9	0.7	—
Performance related/discretionary bonuses	0.1	0.3	0.3	—	—
Employee share option benefits	—	—	0.1	—	—
Staff retirement scheme contributions	0.1	0.1	0.1	0.1	—
	1.1	1.2	1.4	0.8	—

The emoluments of the non-director, highest paid individual during the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 fell within the band of HK$1,000,001 to HK$1,500,000.

During the year ended December 31, 2005, 9 million share options were granted to the non-director, highest-paid individual in respect of his service to the Group. Further details of the Company's share option scheme are set out in note 32. The fair value of such options, which has been recognized to the income statements over the vesting period, was determined as at the date of grant and the amounts included in the Financial Information were included in the above non-director, highest paid employee's remuneration disclosures.

11. TAX

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Group:					
Current - Hong Kong					
Provision for tax in respect of profits for the years/periods	—	0.1	0.1	—	—
Prior year overprovision	—	—	(5.0)	(5.0)	—
Current - Overseas					
Provision for tax in respect of profits for the years/periods	0.3	0.3	0.6	0.3	0.4
Prior year underprovision/ (overprovision)	—	(16.7)	—	—	0.8
Deferred tax (note 30)	(50.5)	(23.4)	(97.4)	(12.1)	2.6
Total tax charge/(credit) for the years/periods	(50.2)	(39.7)	(101.7)	(16.8)	3.8

The provisions for Hong Kong profits tax for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006 have been calculated by applying the applicable tax rate of 17.5% to the estimated assessable profits which were earned in or derived from Hong Kong during the years/periods.

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

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiary companies are domiciled to the tax income at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	Year ended December 31,						Nine months ended September 30,			
	2003		2004		2005		2005		2006	
	HK$'million (Restated)	%	HK$'million	%	HK$'million	%	HK$'million (Unaudited)	%	HK$'million	%
Profit before tax	95.8		328.2		426.8		287.4		318.9	
Tax at the statutory tax rate	16.8	17.5	57.4	17.5	74.7	17.5	50.3	17.5	55.8	17.5
Effect on opening deferred tax of increase in tax rates	8.9	9.3	—	—	—	—	—	—	—	—
Adjustment in respect of current tax of previous years	—	—	(16.7)	(5.1)	(5.0)	(1.2)	(5.0)	(1.7)	0.8	0.3
Profits and losses attributable to a jointly controlled entity and associates	(35.8)	(37.4)	(38.6)	(11.8)	(37.2)	(8.7)	(23.4)	(8.1)	(35.9)	(11.3)
Higher/(Lower) tax rates of other countries	(0.8)	(0.8)	0.1	—	0.3	0.1	0.1	—	0.2	0.1
Income not subject to tax	(5.1)	(5.3)	(7.9)	(2.4)	(16.8)	(4.0)	(12.4)	(4.3)	(13.8)	(4.3)
Expenses not deductible for tax	21.9	22.9	27.3	8.3	15.6	3.7	12.7	4.4	8.0	2.5
Tax losses utilized from previous years	(2.6)	(2.7)	(29.6)	(9.0)	(27.8)	(6.5)	(20.2)	(7.0)	(22.7)	(7.1)
Increase/(Decrease) in deferred tax assets not recognized during the year/period	(53.8)	(56.2)	(31.3)	(9.5)	(105.0)	(24.6)	(19.2)	(6.7)	11.2	3.5
Others	0.3	0.3	(0.4)	(0.1)	(0.5)	(0.1)	0.3	0.1	0.2	—
Tax charge/(credit) at the Group's effective rate	(50.2)	(52.4)	(39.7)	(12.1)	(101.7)	(23.8)	(16.8)	(5.8)	3.8	1.2

No provision for tax is required for the jointly controlled entity as no assessable profits were earned by the jointly controlled entity for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006.

The share of tax attributable to associates amounting to HK$0.1 million, HK$0.1 million and HK$0.1 million for the years ended December 31 2003, 2004 and 2005, respectively, is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. DISCONTINUED OPERATION

On September 3, 2002, the Group entered into a sale and purchase agreement with a purchaser (the "CH Purchaser") to dispose of its 100% interest in a hotel property in Canada. Based on the expected amount recoverable from the disposal, an impairment loss relating to the hotel property amounting to HK$448.8 million was included in the financial statements for the year ended December 31, 2002. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on June 25, 2003, the Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a gain on disposal of HK$19.7 million was accounted for in the income statement for the year ended December 31, 2003. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK$195.8 million) have no recourse against the Group.

The revenue, expenses and loss attributable to the discontinued operation for the period from January 1, 2003 to June 25, 2003 (date of completion of disposal of the Canadian hotel operation) are as follows:

	HK$'million
Revenue	32.2
Cost of sales	(37.3)
Gross loss	(5.1)
Administrative expenses	(1.9)
OPERATING LOSS BEFORE DEPRECIATION AND AMORTIZATION	(7.0)
Depreciation and amortization	(2.7)
OPERATING LOSS	(9.7)
Finance costs	(4.2)
LOSS FOR THE PERIOD	(13.9)
The net cash flows attributable to the discontinued operation are as follows:	
Operating activities	0.1
Investing activities	(0.3)
Financing activities	(5.4)
Net cash outflows	(5.6)

13. DIVIDENDS

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Interim	—	—	21.1	21.1	21.1
Proposed final	—	41.7	46.1	—	—
	—	41.7	67.2	21.1	21.1

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

(a) **Basic earnings per ordinary share**

The calculation of basic earnings per ordinary share is based on the profit for the years/periods attributable to equity holders of the parent, and on the weighted average number of ordinary shares of the Company in issue during the years/periods.

(b) **Diluted earnings per ordinary share**

The calculation of diluted earnings per ordinary share is based on the adjusted profit for the years/periods attributable to equity holders of the parent, as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average number of ordinary shares of the Company that would have been in issue during the respective years/periods assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the respective years/periods or their respective dates of issue, whichever was later. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the respective years/periods. In addition, the exercise price of the share options of the Company outstanding during the respective years/periods are higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

The calculations of basic and diluted earnings per share are based on:

	Year ended December 31,			Nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'million (Restated)	**HK$'million**	**HK$'million**	**HK$'million (Unaudited)**	**HK$'million**
Earnings					
Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation:					
From continuing operations	159.9	367.9	528.4	304.1	315.1
From a discontinued operation	(13.9)	—	—	—	—
	146.0	367.9	528.4	304.1	315.1
Increase in profit for deemed conversion on convertible bonds	0.4	4.8	11.2	8.3	8.6
Profit attributable to ordinary equity holders of the parent, used in the diluted earnings per share calculation	146.4	372.7	539.6	312.4	323.7
Attributable to:					
Continuing operations	160.3	372.7	539.6	312.4	323.7
Discontinued operation	(13.9)	—	—	—	—

	Number of shares				
	Year ended December 31,			Nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	Million	**Million**	**Million**	**Million**	**Million**
Shares					
Weighted average number of ordinary shares in issue during the year/period used in the basic earnings per share calculation	6,847.4	8,091.2	8,387.6	8,383.1	8,415.7
Effect of dilution - weighted average number of ordinary shares:					
Convertible bonds	1,152.3	882.7	1,600.0	1,600.0	1,600.0
Warrants	—	59.6	472.0	497.4	403.3
Weighted average number of ordinary shares in issue during the year/period used in the diluted earnings per share calculation	7,999.7	9,033.5	10,459.6	10,480.5	10,419.0

15. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Hotel buildings	Leasehold properties	Other furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million (Restated)
December 31, 2003						
At December 31, 2002 and January 1, 2003:						
Cost	3,798.5	40.9	483.3	2.8	28.4	4,353.9
Accumulated depreciation and impairment	(669.8)	(7.3)	(306.7)	(2.7)	(28.4)	(1,014.9)
Net carrying amount	3,128.7	33.6	176.6	0.1	—	3,339.0
At January 1, 2003, net of accumulated depreciation and impairment	3,128.7	33.6	176.6	0.1	—	3,339.0
Additions	0.8	—	15.0	0.1	—	15.9
Disposals	—	—	(0.8)	(0.4)	(19.8)	(21.0)
Arising from disposal of subsidiary companies (note 35(c))	(312.8)	—	—	(0.2)	—	(313.0)
Write back of depreciation arising from disposal	—	—	0.4	0.4	19.8	20.6
Write back of depreciation arising from disposal of subsidiary companies (note 35(c))	54.9	—	—	0.2	—	55.1
Depreciation provided during the year	(78.0)	(1.0)	(38.1)	(0.2)	—	(117.3)
Exchange realignment	37.6	—	—	—	—	37.6
At December 31, 2003, net of accumulated depreciation and impairment	2,831.2	32.6	153.1	—	—	3,016.9
At December 31, 2003:						
Cost	3,531.7	40.9	497.5	2.3	8.6	4,081.0
Accumulated depreciation and impairment	(700.5)	(8.3)	(344.4)	(2.3)	(8.6)	(1,064.1)
Net carrying amount	2,831.2	32.6	153.1	—	—	3,016.9

	Hotel buildings	Leasehold properties	Other furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
December 31, 2004						
At December 31, 2003 and January 1, 2004:						
Cost	3,531.7	40.9	497.5	2.3	8.6	4,081.0
Accumulated depreciation and impairment	(700.5)	(8.3)	(344.4)	(2.3)	(8.6)	(1,064.1)
Net carrying amount	2,831.2	32.6	153.1	—	—	3,016.9
At January 1, 2004, net of accumulated depreciation	2,831.2	32.6	153.1	—	—	3,016.9
Additions	19.2	0.1	32.3	0.4	—	52.0
Disposals	—	—	—	(0.1)	—	(0.1)
Write-back of depreciation upon disposal	—	—	—	0.1	—	0.1
Write-back of impairment of a hotel property	30.0	—	—	—	—	30.0
Depreciation provided during the year	(76.2)	(1.3)	(30.6)	(0.1)	—	(108.2)
At December 31, 2004, net of accumulated depreciation and impairment	2,804.2	31.4	154.8	0.3	—	2,990.7
At December 31, 2004:						
Cost	3,580.9	41.0	529.8	2.6	8.6	4,162.9
Accumulated depreciation and impairment	(776.7)	(9.6)	(375.0)	(2.3)	(8.6)	(1,172.2)
Net carrying amount	2,804.2	31.4	154.8	0.3	—	2,990.7

	Hotel buildings	Leasehold properties	Leasehold improvements	Other furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
December 31, 2005							
At December 31, 2004 and January 1, 2005:							
Cost	3,580.9	41.0	—	529.8	2.6	8.6	4,162.9
Accumulated depreciation and impairment	(776.7)	(9.6)	—	(375.0)	(2.3)	(8.6)	(1,172.2)
Net carrying amount	2,804.2	31.4	—	154.8	0.3	—	2,990.7
At January 1, 2005, net of accumulated depreciation	2,804.2	31.4	—	154.8	0.3	—	2,990.7
Additions	7.3	0.2	4.2	66.0	0.1	—	77.8
Arising from disposal of subsidiary companies (note 35(c))	—	(35.9)	—	(59.3)	(2.3)	(8.6)	(106.1)
Write-back of depreciation arising from disposal of subsidiary companies (note 35(c))	—	8.5	—	47.9	2.1	8.6	67.1
Depreciation provided during the year	(77.1)	(0.7)	(0.2)	(31.3)	—	—	(109.3)
At December 31, 2005, net of accumulated depreciation	2,734.4	3.5	4.0	178.1	0.2	—	2,920.2
At December 31, 2005:							
Cost	3,588.2	5.3	4.2	536.5	0.4	—	4,134.6
Accumulated depreciation	(853.8)	(1.8)	(0.2)	(358.4)	(0.2)	—	(1,214.4)
Net carrying amount	2,734.4	3.5	4.0	178.1	0.2	—	2,920.2
September 30, 2006							
At December 31, 2005 and January 1, 2006:							
Cost	3,588.2	5.3	4.2	536.5	0.4	—	4,134.6
Accumulated depreciation	(853.8)	(1.8)	(0.2)	(358.4)	(0.2)	—	(1,214.4)
Net carrying amount	2,734.4	3.5	4.0	178.1	0.2	—	2,920.2
At January 1, 2006, net of accumulated depreciation	2,734.4	3.5	4.0	178.1	0.2	—	2,920.2
Additions	8.0	—	1.7	41.8	0.3	10.4	62.2
Depreciation provided during the period	(57.9)	(0.1)	(1.2)	(26.9)	(0.1)	—	(86.2)
At September 30, 2006, net of accumulated depreciation	2,684.5	3.4	4.5	193.0	0.4	10.4	2,896.2
At September 30, 2006:							
Cost	3,596.2	5.3	5.9	578.3	0.7	10.4	4,196.8
Accumulated depreciation	(911.7)	(1.9)	(1.4)	(385.3)	(0.3)	—	(1,300.6)
Net carrying amount	2,684.5	3.4	4.5	193.0	0.4	10.4	2,896.2

Analysis of carrying value by geographical location:

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Properties situated in Hong Kong:				
Medium term leasehold properties	3.7	3.6	3.5	3.4
Properties situated in Mainland China:				
Medium term leasehold properties	28.9	27.8	—	—
	32.6	31.4	3.5	3.4

A sale and purchase agreement (the "SP Agreement") was entered into by the Group in 2003 for the disposal of the Regal Oriental Hotel to an independent third party for a consideration of HK$350.0 million (subject to adjustments). Pursuant to a supplemental agreement to the SP Agreement entered into in March 2004, the completion date under the SP Agreement, originally scheduled on March 31, 2004, was deferred to June 30, 2004 and an option (the "ROH Option") was reinstated for the Group to terminate the SP Agreement, exercisable by the Group prior to the extended completion date. While the SP Agreement continued to subsist, the Directors considered it appropriate to state the Regal Oriental Hotel at its net realizable value as at December 31, 2003. On June 3, 2004, the Group exercised the ROH Option and the SP Agreement was terminated with effect on June 24, 2004. Consequently, a write-back of impairment loss of HK$30.0 million was recognized in the income statement for the year ended December 31, 2004.

Certain of the Group's shop units in the hotel properties are leased to third parties under operating leases, further summary details of which are included in note 39(a).

As at December 31, 2003, 2004 and 2005 and September 30, 2006, all of the hotel properties situated in Hong Kong were mortgaged to secure banking facilities granted to the Group as further detailed in note 37.

As at December 31, 2003 and 2004, certain leasehold properties situated in Mainland China were mortgaged to secure banking and other credit facilities granted to the Group.

The open market value of all hotel properties (including land and buildings and hotel furniture, fixtures and equipment), based on a valuation performed by independent professionally qualified valuers with an RICS qualification on an existing use basis, amounted to HK$7,303.0 million, HK$9,800.0 million and HK$14,500.0 million as at December 31, 2003, 2004 and 2005, respectively.

For the purpose of the proposed disposal of the hotel properties to a real estate investment trust in preparation for a proposed spin-off, a valuation was performed by independent professionally qualified valuers with an RICS qualification, who took into account the benefits of the capital expenditure (to be borne by the vendor pursuant to the terms of the proposed disposal), relating to the expansion and renovation of certain of the hotel properties. The valuation amounted to HK$16,070.0 million as at September 30, 2006.

16. PREPAID LAND LEASE PAYMENTS

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million
At beginning of year/period	1,154.6	1,132.4	1,110.2	1,088.0
Recognized during the year/period	(22.2)	(22.2)	(22.2)	(16.7)
At end of year/period	1,132.4	1,110.2	1,088.0	1,071.3

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

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Long term leases	509.5	508.5	507.5	506.8
Medium term leases	622.9	601.7	580.5	564.5
	1,132.4	1,110.2	1,088.0	1,071.3

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Share of net liabilities	(1,870.5)	(1,650.8)	(1,522.3)	(1,315.4)
Loans to the jointly controlled entity	2,730.3	3,128.7	2,960.3	2,970.4
Amount due from the jointly controlled entity	366.7	366.7	366.7	366.7
	1,226.5	1,844.6	1,804.7	2,021.7

The share of net liabilities as at January 1, 2003, 2004, 2005 and 2006 included a provision for a foreseeable loss in respect of a property development project as follows:

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Carrying amount at January 1	1,633.3	1,122.4	370.5	222.5
Reversed during the year/period	(287.0)	(101.4)	(134.1)	(222.5)
Realized upon disposal of the properties during the year/period	(223.9)	(650.5)	(13.9)	—
Carrying amount at end of year/period	1,122.4	370.5	222.5	—

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

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

Name	Place of incorporation	Particulars of issued shares	Percentage of equity interest attributable to the Group				Principal activity
			At December 31,			At September 30,	
			2003	2004	2005	2006	
Chest Gain Development Limited ("Chest Gain")	Hong Kong	Ordinary shares of HK$1 each	70	70	70	70	Property development

The jointly controlled entity is indirectly held by the Company.

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

The following table illustrates the summarized financial information of the Group's jointly controlled entity:

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Share of the jointly controlled entity's assets and liabilities:				
Current assets	3,768.4	1,905.3	1,838.6	2,068.4
Current liabilities	(2,482.9)	(48.3)	(21.5)	(34.5)
Non-current liabilities	(3,156.0)	(3,507.8)	(3,339.4)	(3,349.3)
Net liabilities	(1,870.5)	(1,650.8)	(1,522.3)	(1,315.4)

	Year ended December 31,			Nine months ended September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Share of the jointly controlled entity's results:				
Revenue	453.7	2,208.5	80.9	0.9
Other income and gains	287.0	152.8	135.2	222.7
Total revenue	740.7	2,361.3	216.1	223.6
Total expenses	(534.1)	(2,141.6)	(87.6)	(16.7)
Profit after tax	206.6	219.7	128.5	206.9

18. INTERESTS IN ASSOCIATES

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Unlisted companies:				
Share of net assets/(liabilities)	(12.6)	(11.7)	224.0	222.2
Negative goodwill	(2.8)	(2.6)	—	—
Loans to associates	35.9	36.6	36.7	176.5
	20.5	22.3	260.7	398.7
At the balance sheet date:				
Share of post-acquisition undistributed surplus/(deficits)	(19.6)	(18.7)	65.1	63.3

The amount of negative goodwill recognized and included in the amount of interests in associates, arising from the acquisition of an associate, is as follows:

	HK$'million
December 31, 2003:	
At January 1, 2003:	
Cost	3.1
Recognition as income	(0.1)
Net carrying amount	3.0
At January 1, 2003, net of recognition as income	3.0
Recognized as income during the year	(0.2)
At December 31, 2003	2.8
At December 31, 2003:	
Cost	3.1
Recognition as income	(0.3)
Net carrying amount	2.8
December 31, 2004:	
At January 1, 2004:	
Cost	3.1
Recognition as income	(0.3)
Net carrying amount	2.8
At January 1, 2004, net of recognition as income	2.8
Recognized as income during the year	(0.2)
At December 31, 2004	2.6
At December 31, 2004:	
Cost	3.1
Recognition as income	(0.5)
Net carrying amount	2.6
December 31, 2005:	
At January 1, 2005:	
Cost as previously reported	3.1
Effect of adopting HKFRS 3 (note 2.1(d))	(3.1)
Cost as restated	—
Recognition as income as previously reported	(0.5)
Effect of adopting HKFRS 3 (note 2.1(d))	0.5
Recognition as income as restated	—
Net carrying amount	—

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

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

Name	Place of incorporation/ registration	Particulars of issued shares	Percentage of equity interest attributable to the Group				Principal activities
			At December 31,			At September 30,	
			2003	2004	2005	2006	
8D International (BVI) Limited ("8D-BVI")	British Virgin Islands	Ordinary shares of US$1 each	30	30	30	30	Investment holding
8D International Limited	Hong Kong	Ordinary shares of HK$1 each	36(1)	36(1)	36(1)	36(1)	Promotions and information technology
8D Matrix Limited	British Virgin Islands	Ordinary shares of US$1 each	36(1)	36(1)	36(1)	36(1)	Investment holding
8D Travel Limited	Hong Kong	Ordinary shares of HK$1 each	—	—	36(1)	36(1)	Travel agency
Bright Future (HK) Limited*	Hong Kong	Ordinary shares of HK$1 each	50	50	50	50	Investment holding
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US$1 each	—	—	50	50	Investment holding
Mira Technology Limited	Hong Kong	Ordinary shares of HK$1 each	33(2)	33(2)	33(2)	33(2)	Software development
Regala Management Limited	Hong Kong	Ordinary shares of HK$1 each	25	25	25	25	Light refreshment operation

* not audited by Ernst & Young

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

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

(3) In July 2005, the Group completed a sale and purchase agreement with Paliburg Holdings Limited and its subsidiary companies (the "PHL Group") for the acquisition of a 50% equity interest in Hang Fok, which held 23% equity interest in each of two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"), at a consideration of HK$145.0 million (the "Hang Fok SP Agreement"). The Group was given a right to terminate or rescind the Hang Fok SP Agreement exercisable subject to certain conditions subsequent regarding the land use rights then yet be secured by the Investee Companies. The Group's investment in Hang Fok was accounted for as an associate since then.

In February 2006, one of the Investee Companies has formally entered into two new land grant contracts in respect of certain portions of the original land site (the "New Grant Contracts"). Having considered the entitlements of the land use rights granted to the Investee Companies under the New Grant Contracts and the prevailing market conditions in Beijing, PRC, the Group agreed to accept the conditions subsequent as fulfilled or otherwise waived on April 3, 2006.

All associates were indirectly held by the Company.

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

All the above associates have been accounted for using the equity method in these financial statements.

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

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Assets	70.4	74.0	781.8	1,069.7
Liabilities	115.2	115.6	357.0	649.3

	Year ended December 31,			Nine months ended September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Revenue	4.2	5.6	7.1	5.3
Profit/(Loss)	(7.3)	3.3	298.1	(4.4)

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/LONG TERM INVESTMENTS

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Listed equity investments in Hong Kong, at fair value	42.9	78.6	140.8	—

The fair values of listed equity investments are based on quoted market prices. Upon the adoption of HKAS 39, as at January 1, 2005, the above investments are designated by the Group as equity investments at fair value through profit or loss.

20. OTHER LOAN

The balance represents a loan of US$10.0 million (HK$78.0 million) (December 31, 2003, 2004 and 2005 and September 30, 2006 - HK$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the Group. The loan is unsecured, interest-free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit determined in accordance with the PRC accounting standards after appropriation of the statutory reserves, over the tenure of the management contract for the hotel of 15 years.

Upon adoption of HKAS 39, the other loan was classified as loans and receivables and was stated at amortized cost of HK$62.1 million and HK$64.7 million as at December 31, 2005 and September 30, 2006, respectively, calculated using the effective interest method. In accordance with HKAS 39, the comparative amount of HK$78.0 million in the consolidated balance sheets as at December 31, 2003 and 2004 has not been restated.

21. HOTEL AND OTHER INVENTORIES

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Hotel and other merchandise	13.4	15.8	16.3	12.8
Raw materials	5.8	15.4	—	0.4
Work in progress	0.8	1.7	—	—
Finished goods	1.4	1.5	—	2.6
	21.4	34.4	16.3	15.8

As at December 31, 2003, 2004 and 2005 and September 30, 2006, the carrying amount of the inventories of the Group pledged to secure general banking facilities granted to the Group amounted to HK$20.9 million, HK$4.3 million, HK$4.5 million and HK$3.5 million, respectively.

22. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$38.2 million, HK$52.8 million, HK$73.0 million and HK$80.0 million as at December 31 2003, 2004 and 2005 and September 30 2006, respectively, representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Outstanding balances with ages:				
Within 3 months	35.9	47.9	64.6	70.5
Between 4 to 6 months	2.8	1.7	1.9	5.7
Between 7 to 12 months	3.0	1.8	4.0	1.4
Over 1 year	8.0	11.4	3.6	3.2
	49.7	62.8	74.1	80.8
Provisions	(11.5)	(10.0)	(1.1)	(0.8)
	38.2	52.8	73.0	80.0

Credit terms

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

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

Included in the Group's debtors, deposits and prepayments are amounts due from related companies of HK$1.3 million, HK$1.1 million, HK$2.1 million and HK$4.5 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, which are repayable on demand.

At December 31, 2003, an amount of HK$26.7 million was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin Engineering Limited ("Chatwin"), the main contractor which is a wholly-owned subsidiary company of Paliburg Holdings Limited ("PHL"), a substantial shareholder of the Company, against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of Regal Airport Hotel. During 2004, an amount of HK$18.6 million was refunded by Chatwin while the remaining balance of HK$8.1 million continued to be held by Chatwin as the reserve fund against potential claims from a sub-contractor as at December 31, 2004 and 2005 and September 30, 2006.

At September 30, 2006, an amount of HK$4.5 million was also included in debtors, deposits and prepayments, which represented the hotel room revenue receivable from an associate acting as a travel agency.

23. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Listed equity investments in Hong Kong, at market value	—	—	9.7	13.7

The above equity investments at December 31, 2005 and September 30, 2006 were classified as held for trading.

24. CREDITORS AND ACCRUALS

Included in the balances were amounts of HK$57.5 million, HK$54.8 million, HK$45.8 million and HK$37.2 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Outstanding balances with ages:				
Within 3 months	46.3	47.9	45.0	36.4
Between 4 to 6 months	6.0	3.2	0.8	0.6
Between 7 to 12 months	0.4	1.3	—	0.1
Over 1 year	4.8	2.4	—	0.1
	57.5	54.8	45.8	37.2

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

Included in creditors and accruals were amounts due to an associate of HK$5.1 million, HK$3.5 million, HK$4.8 million and HK$4.1 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, and amounts due to related companies of HK$1.0 million, HK$0.4 million, HK$19.2 million and HK$30.7 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, which represent similar credit terms to those offered by the associate and those related companies to their major customers.

25. PROMISSORY NOTE PAYABLE

The promissory note payable represents the consideration for the acquisition of a 50% equity interest in Hang Fok during the year as further detailed in note 18. The promissory note was unsecured, interest bearing at 3% per annum and was fully repaid on April 10, 2006.

26. DERIVATIVE FINANCIAL INSTRUMENT

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million
The conversion option of the convertible preference shares	9.4	9.4	5.4	1.3

As detailed in note 29, the derivative financial instrument represents the residual amount assigned to the conversion option of the convertible preference shares denominated in foreign currency at inception, upon adoption of HKASs 32 and 39.

The fair value of the derivative financial instrument is reassessed at each balance sheet date using the binomial valuation model. In accordance with HKAS 39, the remeasurement is applied prospectively with effect from January 1, 2005.

27. INTEREST BEARING BANK AND OTHER BORROWINGS

	Effective interest rate p.a.	Maturity	At December 31, 2003	2004	2005	At September 30, 2006
	(%)		HK$'million (Restated)	HK$'million	HK$'million	HK$'million
Current						
Bank loans - secured	1.3-5.7	2006	899.7	118.4	1,668.7	1,668.7
Other loans - secured	8.0	On demand	4.2	4.2	—	—
Convertible bonds (note 28)	5.92	2007	—	—	—	195.0
			903.9	122.6	1,668.7	1,863.7
Non-current						
Bank loans - secured	1.3-5.7	2009	3,546.7	4,650.0	2,766.9	2,625.8
Convertible bonds (note 28)	5.92	2007	—	183.0	188.4	—
Convertible preference shares (note 29)	5.75	2008	159.4	166.9	126.9	132.6
			3,706.1	4,999.9	3,082.2	2,758.4
			4,610.0	5,122.5	4,750.9	4,622.1

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million
Analysed into:				
Bank loans repayable:				
Within one year or on demand	899.7	118.4	1,668.7	1,668.7
In the second year*	360.0	1,850.0	148.2	148.6
In the third to fifth years, inclusive*	2,622.5	2,800.0	2,618.7	2,477.2
Beyond five years	564.2	—	—	—
	4,446.4	4,768.4	4,435.6	4,294.5
Other borrowings repayable:				
Within one year or on demand	4.2	4.2	—	195.0
In the second year	—	—	188.4	—
In the third to fifth years, inclusive	159.4	349.9	126.9	132.6
	163.6	354.1	315.3	327.6
	4,610.0	5,122.5	4,750.9	4,622.1

* Upon the adoption of HKAS 39, the unamortized loan cost previously classified as deferred expenditure under non-current assets has been net off against the bank loan included under non-current liabilities. The amount involved as at December 31, 2005 was HK$33.1 million and, in accordance with HKAS 39, such adjustment has been applied prospectively from January 1, 2005 onwards.

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

The Group's bank and other borrowings are secured by a pledge of the Group's certain assets as further detailed in note 38 to the financial statements.

Other interest rate information:

	GROUP							
	At December 31,						At September 30,	
	2003		2004		2005		2006	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million	HK$'million
Bank loans - secured	—	4,446.4	—	4,768.4	—	4,435.6	—	4,294.5
Other loans - secured	4.2	—	4.2	—	—	—	—	—
Convertible bonds	—	—	183.0	—	188.4	—	195.0	—
Convertible preference shares	159.4	—	166.9	—	126.9	—	132.6	—

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

	Carrying amounts and fair values			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Bank loans - secured	4,450.6	4,772.6	4,435.6	4,294.5
Convertible bonds	—	183.0	188.4	195.0
Convertible preference shares	159.4	166.9	126.9	132.6

28. CONVERTIBLE BONDS

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

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

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

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

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

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Nominal value of the Firm Bonds issued	—	200.0	200.0	200.0
Equity component	—	(21.8)	(21.8)	(21.8)
Liability component at beginning of year/the issuance date	—	178.2	183.0	188.4
Interest expense	—	4.8	11.2	8.6
Interest paid	—	—	(5.8)	(2.0)
Liability component at end of year/period (note 27)	—	183.0	188.4	195.0

Subsequent to the balance sheet date, in December 2006, the Firm Bonds in nominal value of HK$75.0 million were converted into 300.0 million new ordinary shares of the Company.

29. CONVERTIBLE PREFERENCE SHARES

The outstanding preference shares at the beginning of the year represented 16,748 5¼% convertible cumulative redeemable preference shares of US$10 each issued by the Company for cash on December 13, 1993 at US$1,000 each. The preference shares are redeemable on December 13, 2008 at US$1,000 each (the "Reference Amount"). The Company has the right to redeem, on or at any time after December 13, 1996, either part or all of the preference shares, subject to certain conditions, at a redemption price of not less than the Reference Amount, with such amount to be determined by reference to specified percentages applicable to the year in which the redemption takes place. The redemption can be made either in United States dollars, or by issuing such number of the Company's ordinary shares calculated by reference to 95% of the average daily closing price of the ordinary shares for the five dealing days ending on the seventh day prior to the date on which notice of such redemption (the "Redemption Notice") is first given to the preference shareholders, at the fixed exchange rate of HK$7.730255 to US$1.00.

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

None of the preference shares was converted during the Relevant Periods. The exercise in full of the Conversion Rights attached to the outstanding 16,748 preference shares in issue at the end of each of the Relevant Periods would have, with the present capital structure of the Company, resulted in the issue of a further 76.0 million additional ordinary shares.

The fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. The residual amount is recognized as the derivative financial instrument classified as current liabilities which is remeasured at fair value at each balance sheet date (notes 2.1(b)(iii) and 26). The dividend on the convertible preference shares is charged as interest expense in the income statement.

	At December 31,			At September 30,
	2003	**2004**	**2005**	**2006**
	HK$'million (Restated)	**HK$'million**	**HK$'million**	**HK$'million**
Liability component at beginning of year/period	151.9	159.4	166.9	126.9
Interest expense	7.5	7.5	7.6	5.7
Dividend paid	—	—	(47.6)	—
Liability component at end of year/period (note 27)	159.4	166.9	126.9	132.6

30. DEFERRED TAX

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

Deferred tax assets

GROUP

	Losses available for offset against future taxable profits			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Balance at beginning of year/period	—	70.1	104.8	213.9
Deferred tax credited to the income statement during the year/period (note 11)	70.1	34.7	109.1	0.3
Gross deferred tax assets at end of year/period	70.1	104.8	213.9	214.2

Deferred tax liabilities

GROUP

	Accelerated tax depreciation			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million
Balance at beginning of year/period	95.1	114.7	126.0	137.7
Deferred tax charged to the income statement during the year/period (note 11)	19.6	11.3	11.7	2.9
Gross deferred tax liabilities at end of year/period	114.7	126.0	137.7	140.6
Net deferred tax assets/(liabilities) at end of year/period	(44.6)	(21.2)	76.2	73.6

GROUP

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million
Deferred tax assets and liabilities at end of year/period, presented after appropriate offsetting:				
Deferred tax assets	3.9	14.3	98.1	93.7
Deferred tax liabilities	(48.5)	(35.5)	(21.9)	(20.1)
Net deferred tax assets/(liabilities) at the end of year/period	(44.6)	(21.2)	76.2	73.6

The Group had tax losses arising in Hong Kong amounting to HK$2,536.9 million, HK$2,443.3 million, HK$2,215.3 million and HK$2,140.2 million as at December 31, 2003, 2004 and 2005 and September 30 2006, respectively. The Group had tax losses arising in Mainland China amounting to HK$21.1 million as at December 31, 2003 and 2004. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, whilst those arising in Mainland China were available for a maximum period of five years. In the opinion of the Directors, deferred tax assets have been recognized for such unused tax losses to the extent that it is probable that sufficient future taxable profits will be available against which the unused tax losses can be utilized.

Deferred tax assets have not been recognized in respect of the tax losses as at December 31, 2003, 2004 and 2005 and September 30, 2006 which amounted to HK$2,176.6 million, HK$1,884.6 million, HK$993.1 million and HK$916.0 million, respectively.

At December 31, 2003, 2004 and 2005 and September 30, 2006, there was no significant unrecognized deferred tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiary companies, associates or jointly controlled entity as the Group has no liability to additional tax should such amounts be remitted.

31. OTHER PAYABLE

The other payable as at 31 December, 2003 represented loan restructuring fees payable to the bank creditors due on December 31, 2006 pursuant to the terms of a rescheduling agreement. The balance was fully settled upon the refinancing of the relevant loans completed on December 31, 2004.

32. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Shares				
Authorized:				
20,000 million (December 31, 2003 - 10,000 million, December 31, 2004 and 2005 - 20,000 million) ordinary shares of HK$0.01 each	100.0	200.0	200.0	200.0
Issued and fully paid:				
8,463.2 million (December 31, 2003 - 7,520.4 million, December 31, 2004 - 8,340.4 million and December 31, 2005 - 8,371.3 million) ordinary shares of HK$0.01 each	75.2	83.4	83.7	84.6
Share premium				
Ordinary shares	513.2	574.0	559.3	581.3

A summary of the movements of the Company's share capital and share premium during the Relevant Periods is as follows:

		Authorized		Issued and fully paid		Share premium
	Notes	No. of shares million	Amount HK$'million	No. of shares million	Amount HK$'million	Amount HK$'million
Ordinary shares						
At January 1, 2003		10,000.0	100.0	6,297.1	62.9	467.1
Issue of new shares	(i)	—	—	390.0	3.9	14.8
Issue of new shares upon conversion of convertible bonds	(ii)	—	—	833.3	8.4	31.6
Share issue expenses		—	—	—	—	(0.3)
At December 31, 2003 and at January 1, 2004		10,000.0	100.0	7,520.4	75.2	513.2
Increase of authorized share capital	(iii)	10,000.0	100.0	—	—	—
Issue of new shares upon conversion of convertible bonds	(iv)	—	—	625.0	6.2	23.8
Issue of new shares in settlement of termination fee payable	(v)	—	—	195.0	2.0	37.0
At December 31, 2004 and at January 1, 2005		20,000.0	200.0	8,340.4	83.4	574.0
Increase of new shares upon exercise of warrants	(vi)	—	—	118.9	1.2	28.5
Repurchase and cancellation of shares	(vii)	—	—	(88.0)	(0.9)	(43.2)
At December 31, 2005 and at January 1, 2006		20,000.0	200.0	8,371.3	83.7	559.3
Increase of new shares upon exercise of warrants	(vi)	—	—	91.9	0.9	22.0
At September 30, 2006		20,000.0	200.0	8,463.2	84.6	581.3

(i) On June 16, 2003, 210.0 million new ordinary shares of HK$0.01 each were issued by the Company to Guo Yui Investments Limited ("Guo Yui") at a price of HK$0.048 per ordinary share to raise general working capital, following a placement by Guo Yui of 150.0 million issued ordinary shares in the Company at a price of HK$0.048 per ordinary share. Furthermore, on July 21, 2003, 180.0 million new ordinary shares of HK$0.01 each were issued by the Company through placement to certain independent investors at a price of HK$0.048 per ordinary share to raise general working capital.

(ii) During the year ended December 31, 2003, 833.3 million new ordinary shares of HK$0.01 each were issued by the Company upon conversion of the convertible bonds, including the related optional bonds, in a total principal amounts of HK$40.0 million at an adjusted conversion price of HK$0.048 each (note 28).

(iii) At the special general meeting held on July 18, 2004 (the "SGM"), an ordinary resolution was duly passed by the shareholders of the Company with respect to the increase in the authorized share capital of the Company by the creation of an additional 10,000.0 million new ordinary shares of par value HK$0.01 each of the Company. As a result, the authorized share capital of the Company now comprises HK$200.0 million divided into 20,000.0 million ordinary shares and US$167,480 divided into 16,748 5¼% convertible cumulative redeemable preference shares of par value US$10 each.

(iv) During the year ended December 31, 2004, an aggregate of 625.0 million new ordinary shares of HK$0.01 each were issued to a wholly-owned subsidiary company of PHL and certain independent third party upon the conversion of the 5% Optional Bonds in a principal amount of HK$30.0 million at HK$0.048 each.

(v) On July 12, 2004, 195.0 million new ordinary shares of HK$0.01 each were issued to an independent third party at an issue price of HK$0.2 each in settlement of the termination fee payable in the amount of HK$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel.

(vi) During the year ended December 31, 2005 and the nine months ended September 30, 2006, an aggregate of 118.9 million and 91.9 million new ordinary shares of HK$0.01 each were issued for cash at a subscription price of HK$0.25 to the exercise of the Company's warrants for a total cash consideration of HK$29.7 million and HK$22.9 million, respectively, before expenses.

(vii) The repurchased ordinary shares were cancelled during the year end December 31, 2005 and the issued share capital of the Company was reduced by the par value thereof. The premium paid on the repurchases of the ordinary shares, of HK$43,179,527, has been charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled has been transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the repurchases are summarized as follows:

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

Share options

(a) *Executive Share Option Scheme*

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

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

Date of grant of share option	Name or category of participant	Number of ordinary shares under share options** At January 1, 2003	Vested during the year	Lapsed during the year	At December 31, 2003	Vesting period*/ Exercise period of share option	Exercise price of share option**
							HK$ per share
	Directors						
August 5, 1993	Mr. Donald Fan Tung						
	Vested:	1,080,000	120,000	(1,200,000)	—	Note	1.1083
	Unvested:	120,000	(120,000)	—	—	Note	
August 5, 1993	Ms. Belinda Yeung Bik Yiu						
	Vested:	150,000	30,000	(180,000)	—	Note	1.1083
	Unvested:	30,000	(30,000)	—	—	Note	
		1,380,000		(1,380,000)	—		
February 22, 1997	Ms. Belinda Yeung Bik Yiu						
	Vested:	540,000	108,000	—	648,000	Note	2.1083
	Unvested:	540,000	(108,000)	—	432,000	Note	
		1,080,000		—	1,080,000		
	Total	**2,460,000**		**(1,380,000)**	**1,080,000**		

Date of grant of share option	Name or category of participant	At January 1, 2004	Vested during the year	Cancelled during the year	At December 31, 2004	Vesting period*/ Exercise period of share option	Exercise price of share option**
							HK$ per share
	Directors						
February 22, 1997	Ms. Belinda Yeung Bik Yiu						
	Vested:	648,000	108,000	—	756,000	Note	2.1083
	Unvested:	432,000	(108,000)	—	324,000	Note	
		1,080,000		—	1,080,000		
	Total	**1,080,000**		**—**	**1,080,000**		

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

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

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

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

Note:

Vesting/Exercise periods of share option:

On completion of continuous service of		Initial/Cumulative percentage vesting	Initial/Cumulative percentage exercisable
(a)	2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b)	3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c)	9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

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

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

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

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

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

(i)	Purpose:	To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons
(ii)	Participants:	Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly-owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person

(iii)	Total number of ordinary shares subject to outstanding options under the New Share Option Scheme and as a percentage of the issued share capital as at December 31, 2005:	350,000,000 ordinary shares (approximately 4.18%)
(iv)	Maximum entitlement of each participant under the New Share Option Scheme:	Not exceeding 1% of the offer ordinary shares of the Company in issue as of the offer date in any 12 month period
(v)	The period within which the shares must be taken up under an option:	From the time when the options become vested to no later than ten years after the offer date
(vi)	Minimum period for which an option must be held before it can be exercised:	No minimum period unless otherwise determined by the Board at the time of the approval of the grant
(vii)	Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	N/A
(viii)	The basis of determining the exercise price:	Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations ordinary sheet on the offer date; (ii) the average closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of the Company
(ix)	The life of the New Share Option Scheme:	The life of the New Share Option Scheme commenced from June 16, 2005, date of adoption, and ending on June 15, 2015

During the year ended December 31, 2005, movements in share options granted by the Company pursuant to the New Share Option Scheme are as follows:

		Number of ordinary shares under share options*					
Offer date**	Name or category of participant	At January 1, 2005	Granted during the year	Cancelled during the year	At December 31, 2005	Vesting/ Exercise period of share options	Exercise price of share options*
							HK$ per share
	Directors						
May 12, 2005	Mr. Lo Yuk Sui						
	Unvested:	—	200,000,000	—	200,000,000	Note	0.75
July 25, 2005	Mr. Donald Fan Tung						
	Unvested:	—	20,000,000	—	20,000,000	Note	0.75
July 25, 2005	Mr. Tommy Lam Chi Chung***						
	Unvested:	—	15,000,000	(15,000,000)	—	Note	0.75
July 25, 2005	Mr. Jimmy Lo Chun To						
	Unvested:	—	15,000,000	—	15,000,000	Note	0.75
July 25, 2005	Miss Lo Po Man						
	Unvested:	—	30,000,000	—	30,000,000	Note	0.75
July 25, 2005	Mr. Kenneth Ng Kwai Kai						
	Unvested:	—	20,000,000	—	20,000,000	Note	0.75
July 25, 2005	Ms. Belinda Yeung Bik Yiu						
	Unvested:	—	30,000,000	—	30,000,000	Note	0.75
	Other employees						
July 25, 2005	Employees, in aggregate						
	Unvested:	—	35,000,000	—	35,000,000	Note	0.75
		—	365,000,000	(15,000,000)	350,000,000		

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

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

*** Resigned as Director during the year ended December 31, 2005.

Note:

Vesting/Exercise periods of share options:

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

The fair values of the share options for the 200 million and 165 million ordinary shares granted during the year ended December 31, 2005 were HK$22.5 million and HK$25.6 million, respectively, which were recognized to the income statements over the vesting period of the share options granted.

The fair value of equity-settled share options granted during the year ended December 31, 2005 was estimated as at the date of grant, using a Black-Scholes Option Pricing Model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended December 31, 2005:

	Share options for 200,000,000 ordinary shares	**Share options for 165,000,000 ordinary shares**
Dividend yield (%)	1.00	1.00
Expected volatility (%)	26.13	26.23
Historical volatility (%)	26.13	26.23
Risk-free interest rate (%)	3.33	3.10-3.60
Expected life of option (year)	5.9	6.0
Weighted average share price (HK$)	0.639	0.625

The expected life of the options is based on historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

Warrants

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

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

During the year ended December 31, 2005 and the nine months ended September 30, 2006, 118.9 million and 91.9 million warrants were exercised for 118.9 million and 91.9 million new ordinary shares of HK$0.01 each at a price of HK$0.25 per share, respectively. As at September 30, 2006, the Company had 623.2 million warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 623.2 million additional ordinary shares and share premium of HK$149.6 million (before issue expenses).

33. RESERVES

The amounts of the Group's reserves and the movements therein for the years ended December 31, 2003, 2004 and 2005 and the nine months ended September 30, 2005 and 2006 are presented in the consolidated statements of changes in equity on pages 106 to 109 of the Financial Information.

The special reserve represents reserve arising from the Company's capital reorganization in 2002.

34. INTERESTS IN SUBSIDIARY COMPANIES

Details of the principal subsidiary companies as at the date of this report are as follows:

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity interest attributable to the Company	Principal activities
Bauhinia Hotels Limited	Hong Kong	HK$2	100	Hotel ownership
Camomile Investments Limited	Hong Kong	HK$2	100	Property investment
Charmwin Limited	Hong Kong	HK$2	100	Distribution of beer
Cheerview Limited	Hong Kong	HK$1	100	Financing
Cityability Limited	Hong Kong	HK$10,000	100	Hotel ownership
Cranfield Investments Limited	Hong Kong	HK$2	100	Financing
Farah Investments Limited	Hong Kong	HK$2	100	Financing
Fortune Nice Investment Limited	Hong Kong	HK$2	100	Financing
Gala Hotels Limited	Hong Kong	HK$2	100	Hotel ownership
Harvest Charm Investment Limited	Hong Kong	HK$2	100	Financing
HK 168 Limited	Republic of Liberia	US$1	100	Securities investment
Honrich Investment Limited	Hong Kong	HK$2	100	Financing
Kaybro Investments Limited	British Virgin Islands	US$1	100	Securities investment
Key Winner Investment Limited	Hong Kong	HK$2	100	Financing

Name	Place of incorporation	Nominal value of issued share capital	Percentage of equity interest attributable to the Company	Principal activities
Regal Century Investment Limited	Hong Kong	HK$2	100	Investment holding and management services
Regal Estate Agents Limited	Hong Kong	HK$2	100	Estate agents
Regal Estate Management Limited	Hong Kong	HK$2	100	Estate management
Regal Hotels (Holdings) Limited	Hong Kong	HK$1,151,598,638	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK$100,000	100	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US$1	100	Hotel management
Regal International Limited	British Virgin Islands	US$20	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK$10.1	100	Investment holding
Regal Laundry Services Limited	Hong Kong	HK$2	100	Laundry operations
Regal Riverside Hotel Limited	Hong Kong	HK$2	100	Hotel ownership
Regal Supplies Limited	Hong Kong	HK$2	100	Bakery plant operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	Trademark holding
Richtech Holdings Limited	Hong Kong	HK$2	100	Financing
Ricobem Limited	Hong Kong	HK$100,000	100	Hotel ownership

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

All of the above subsidiary companies operate in the place of their incorporation.

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

35. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENTS

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

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Profit before tax	95.8	328.2	426.8	287.4	318.9
Adjustments for:					
Finance costs	151.6	150.3	199.8	133.9	199.8
Share of profits and losses of a jointly controlled entity and associates	(204.5)	(220.6)	(212.3)	(133.9)	(205.1)
Interest income	(0.2)	(0.4)	(8.5)	(6.5)	(6.2)
Depreciation	117.3	108.2	109.3	80.2	86.2
Recognition of prepaid land and lease payments	22.2	22.2	22.2	16.7	16.7
Excess over the cost of an associate/negative goodwill recognized as income	(0.2)	(0.2)	(6.7)	—	—
Dividend income from listed investments	—	(2.3)	(1.7)	(0.9)	(3.1)
Loss/(Profit) on disposal of equity investments at fair value through profit or loss, net/long term investments	0.5	—	(1.0)	—	(67.5)
Gain on disposal of items of property, plant and equipment	(5.4)	—	—	—	—
Gain on disposal of overseas subsidiary companies	(19.7)	—	(0.7)	(0.7)	—
Fair value gains on equity investments at fair value through profit or loss, net	—	—	(62.3)	(57.0)	2.0
Termination fee in respect of cancellation of the disposal of a hotel property	—	39.0	—	—	—
Write-back of impairment of a hotel property	—	(30.0)	—	—	—
Write-back of impairment of a long term investment	—	(7.8)	—	—	—
Impairment of trade debtors	2.5	0.1	—	—	—
Fair value gain on derivative financial instrument	—	—	(9.0)	(3.0)	(4.1)
Equity-settled share option expenses	—	—	5.7	2.9	11.2
Operating profit before working capital changes	159.9	386.7	461.6	319.1	348.8

	Year ended December 31,			Nine months ended September 30,	
	2003	2004	2005	2005	2006
	HK$'million (Restated)	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Operating profit before working capital changes	159.9	386.7	461.6	319.1	348.8
Decrease/(Increase) in debtors, deposits and prepayments	10.3	(2.1)	(41.8)	(46.2)	(36.5)
Decrease/(Increase) in hotel and other inventories	(3.0)	(13.0)	(5.0)	(4.2)	0.5
Increase/(Decrease) in creditors and accruals	(17.7)	25.8	41.4	4.7	(31.9)
Exchange differences	(1.4)	—	—	—	—
Cash generated from operations	148.1	397.4	456.2	273.4	280.9
Overseas taxes refunded/(paid)	(0.1)	11.8	(0.2)	(0.1)	—
Hong Kong taxes refunded/(paid)	0.3	—	(0.1)	—	0.3
Net cash inflow from operating activities	148.3	409.2	455.9	273.3	281.2

(b) **Major non-cash transactions**

During the year ended December 31, 2005, a promissory note payable of HK$145.0 million was issued to PHL Group in settlement of the consideration in respect of the acquisition of 50% equity interest in Hang Fok (note 18). The balance was fully repaid on April 10, 2006.

During the year ended December 31, 2004, 195.0 million new ordinary shares of the Company were issued to an independent third party at an issue price of HK$0.2 each in settlement of the termination fee payable in the amount of HK$39.0 million relating to the termination of the sale and purchase agreement in respect of the Regal Oriental Hotel (notes 15 and 32(v)).

(c) **Disposal of subsidiary companies**

	Year ended December 31,			Nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'million	**HK$'million**	**HK$'million**	**HK$'million (Unaudited)**	**HK$'million**
Net assets disposed of:					
Property, plant and equipment	257.9	—	39.0	39.0	—
Hotel and other inventories	4.7	—	23.1	23.1	—
Debtors, deposits and prepayments	3.4	—	6.8	6.8	—
Cash and bank balances	2.5	—	2.1	2.1	—
Creditors and accruals	(28.4)	—	(45.4)	(45.4)	—
Interest bearing bank and other borrowings	(195.8)	—	(22.6)	(22.6)	—
	44.3	—	3.0	3.0	—
Capital reserve released on disposal	(71.9)	—	—	—	—
Exchange equalization reserve released on disposal	7.9	—	(0.7)	(0.7)	—
Gain on disposal	19.7	—	0.7	0.7	—
	—	—	3.0	3.0	—
Satisfied by:					
Other receivable included in debtors, deposits and prepayment	—	—	3.0	3.0	—

An analysis of the outflow of cash and cash equivalents in respect of the disposal of subsidiary companies is as follows:

	Year ended December 31,			Nine months ended September 30,	
	2003	**2004**	**2005**	**2005**	**2006**
	HK$'million	**HK$'million**	**HK$'million**	**HK$'million (Unaudited)**	**HK$'million**
Cash and bank balances disposed of and outflow of cash and cash equivalents in respect of the disposal of subsidiary companies	(2.5)	—	(2.1)	(2.1)	—

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

The subsidiary companies disposed of in 2003 contributed HK$32.2 million to revenue and loss of HK$13.9 million to the consolidated profit after tax and before minority interests for the year ended December 31, 2003.

(d) **Restricted cash and cash equivalent balances**

At December 31, 2003 and 2004, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1.1 million and HK$2.6 million, respectively. The RMB is not freely correctible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment and Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

36. RELATED PARTY TRANSACTIONS

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

		Year ended December 31,			Nine months ended September 30,	
	Notes	**2003**	**2004**	**2005**	**2005**	**2006**
		HK$'million	**HK$'million**	**HK$'million**	**HK$'million (Unaudited)**	**HK$'million**
A substantial shareholder:						
Management fees	(i)	9.7	8.9	11.8	8.4	8.2
Wholly-owned subsidiary companies of a substantial shareholder, Paliburg Holdings Limited ("PHL"):						
Development consultancy fees	(ii)	—	18.7	12.4	—	—
Service fees in respect of security systems and products and other software	(iii)	1.1	0.8	3.0	2.7	0.3
Repairs and maintenance fees and construction fees	(iv)	—	0.8	7.1	5.5	8.9
An associate:						
Advertising and promotion fees (including cost reimbursements)	(v)	7.3	7.3	9.6	4.9	11.2
Hotel room revenue	(vi)	—	—	—	—	10.1
A jointly controlled entity:						
Estate agency fee income	(vii)	—	5.7	0.6	—	0.6

Notes:

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

(ii) During the year ended December 31, 2004, the consultancy fees were paid to a subsidiary company of PHL for services rendered in connection with the settlement of certain claims with the Airport Authority Hong Kong (the "Airport Authority") relating to the construction of Regal Airport Hotel at Chek Lap Kok. The fees comprised a basic fee and a success fee calculated by reference to the term of the sub-lease extension concluded with the Airport Authority upon settlement of all claims.

During the year ended December 31, 2005, the consultancy fees were paid to the same subsidiary company of PHL for various services provided, which include advisory, supervisory, architectural and design services in connection with the Group's room extension and other renovation projects of its hotels. The fees were charged at rates ranging from 4.0% to 10.0% of the estimated cost of individual projects. In addition, a consultancy fee was also paid to the same company for architectural and design services rendered in connection with the Group's proposed hotel development project in Macau.

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

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

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

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

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

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

(b) Other transaction with related party:

During the year ended December 31, 2005, the Group entered into a sale and purchase agreement with the PHL Group to acquire a 50% equity interest in Hang Fok at a consideration of HK$145.0 million, which was completed in July 2005. As a result, Hang Fok became an associate of the Group thereafter. The consideration was satisfied by the issuance of a promissory note by the Group, bearing interest at a rate of 3% per annum (note 25).

(c) Outstanding balances with related parties:

	Notes	At December 31, 2003	2004	2005	At September 30, 2006
		HK$'million	HK$'million	HK$'million	HK$'million
Due from the jointly controlled entity	(i)	366.7	366.7	366.7	366.7
Due from an associate	(ii)	—	—	—	4.5
Due from related companies	(ii)	28.0	9.2	10.2	12.6
Due to an associate	(iii)	(5.1)	(3.5)	(4.8)	(4.1)
Due to related companies	(iv)	(1.0)	(0.4)	(19.2)	(1.0)
Loans to the jointly controlled entity	(i)	2,730.8	3,128.7	2,960.3	2,970.4
Loans to associates	(v)	35.9	36.6	36.7	176.5
Promissory note payable	(vi)	—	—	(145.0)	—

Notes:

(i) Details of an amount due from and loans to the jointly controlled entity are included in interest in a jointly-controlled entity in note 17.

(ii) Details of an amount due from an associate and the amounts due from related companies are included in debtors, deposits and prepayments in note 22.

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

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

(v) Details of loans to associates are included in interests in associates in note 18.

(vi) Details of the promissory note payable are disclosed in note 25.

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

	Year ended December 31, 2003	2004	2005	Nine months ended September 30, 2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million (Unaudited)	HK$'million
Short term employee benefit	10.6	11.0	12.4	7.6	8.2
Share-based payments	—	—	5.3	2.7	9.9
Total compensation paid to key management personnel	10.6	11.0	17.7	10.3	18.1

37. PLEDGE OF ASSETS

In addition to the balances set out elsewhere in the notes to the financial information, at December 31, 2003, 2004 and 2005 and September 30, 2006, certain of the Group's interest in a jointly controlled entity, prepaid land lease payments, hotel properties, leasehold properties, furniture, fixtures and equipment, bank deposits and cash, inventories and receivables with a total carrying value of HK$4,485.6 million, HK$5,976.7 million, HK$5,945.3 million and HK$6,060.8 million, respectively, and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

38. CONTINGENT LIABILITIES

At the balance sheet dates, the Group had the following contingent liabilities:

	GROUP			
	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
(a) Corporate guarantees provided in respect of:				
Attributable share of outstanding bank borrowings of a jointly controlled entity	2,255.4	—	—	—
Utility guarantees of a subsidiary company	3.8	3.8	—	—
	2,259.2	3.8	—	—

(b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK$11.1 million, HK$7.0 million, HK$5.6 million and HK$3.1 million as at December 31, 2003, 2004 and 2005 and September 30, 2006, respectively, as further explained in note 2.4(t). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group, and are eligible for long service payments under the Employment Ordinance if their employment is terminated under certain circumstances. A provision has not been recognized in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

39. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Group leases certain of its properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 4 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Within one year	11.4	13.8	21.0	19.2
In the second to fifth years, inclusive	11.9	9.1	7.8	6.6
	23.3	22.9	28.8	25.8

(b) **As lessee**

The Group leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms from 6 months to 2 years, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Lease for office equipment in respect of the Group is negotiated for a term of 3 months to 5 years.

At balance sheet date, the Group had total future minimum lease payments under non- cancellable operating leases falling due as follows:

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Land and buildings:				
Within one year	3.9	3.0	2.4	6.5
In the second to fifth years, inclusive	10.1	8.9	6.9	6.3
After five years	2.5	0.4	—	—
	16.5	12.3	9.3	12.8
Other equipment:				
Within one year	—	—	0.1	0.1
In the second to fifth years, inclusive	—	0.1	0.3	0.2
	—	0.1	0.4	0.3
	16.5	12.4	9.7	13.1

40. COMMITMENTS

In addition to the operating lease commitments detailed in note 39(b) above, the Group had the following outstanding commitments at the balance sheet date:

	At December 31,			At September 30,
	2003	2004	2005	2006
	HK$'million	HK$'million	HK$'million	HK$'million
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:				
Authorized and contracted for	3.4	2.0	8.1	90.8
Authorized, but not contracted for	86.9	187.3	294.3	283.7
	90.3	189.3	302.4	374.5

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

It is, and has been, throughout the years and periods under review, the Group's policy that no trading in financial instruments shall be undertaken.

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

Interest rate risk

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

Credit risk

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

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

Liquidity risk

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

(III) SUBSEQUENT EVENT

Save as disclosed in note 28 to the Financial Information, the Group has the following subsequent event:

Subsequent to the balance sheet date, on December 11, 2006, a real estate investment trust ("Regal REIT") was constituted by a trust deed between Regal Portfolio Management Limited, a wholly-owned subsidiary company of the Group, as the manager of Regal REIT and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT, in preparation for the proposed disposal of the hotel properties to Regal REIT and the proposed spin-off.

(IV) SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company and its subsidiary companies in respect of any period subsequent to September 30, 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

2. STATEMENT OF INDEBTEDNESS

At the close of business on December 31, 2006, being the latest practicable date for this statement of indebtedness prior to the printing of this Circular, the Group has outstanding borrowings of approximately HK$4,597.7 million comprising secured bank borrowings of approximately HK$4,347.5 million and unsecured borrowings of approximately HK$250.2 million. The unsecured borrowings comprised convertible bonds of approximately HK$122.5 million and convertible preference shares of approximately HK$127.7 million.

Pledge of assets

At the close of business on December 31, 2006, the secured bank borrowings are secured by certain of the Group's assets of approximately HK$6,085.1 million.

Debt securities

At the close of business on December 31, 2006, the Group has no other debt securities, save as disclosed in this section.

Commitments

At December 31, 2006, the Group has authorized capital expenditure not provided for (excluding any land premium in respect of the Asset Enhancement Program) in these financial statements amounting to approximately HK$350.1 million of which approximately HK$58.4 million was contracted for.

Save as aforesaid and apart from intra-group liabilities, the Group did not have outstanding at the close of business on December 31, 2006 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

The Directors of Regal confirm that there has been no material change in indebtedness and contingent liabilities of the Group since December 31, 2006.

The following is the unaudited pro forma consolidated balance sheet of the Remaining Regal Group as at September 30, 2006, together with unaudited pro forma consolidated income statement and consolidated cash flow statement for the nine months ended September 30, 2006 (collectively the "Pro Forma Accounts"), prepared to demonstrate the effect of the Restructuring and the issuance of the Units pursuant to the Global Offering (the "Transactions") as if the Transactions had been completed (i) as at September 30, 2006 for the unaudited pro forma consolidated balance sheet; and (ii) as at January 1, 2006 for the unaudited pro forma consolidated income statement and consolidated cash flow statement.

The unaudited Pro Forma Accounts of the Remaining Regal Group were prepared based on the audited consolidated balance sheet of the Group as at September 30, 2006 and the audited consolidated income statement and consolidated cash flow statement of the Group for the nine months ended September 30, 2006, as set out in the accountants' report in Appendix II, adjusted only to reflect the effects of the Transactions. These unaudited Pro Forma Accounts have been prepared for illustrative purposes only and do not purport to represent what the assets and liabilities as at September 30, 2006 or the results and cash flows for the nine months ended September 30, 2006 of the Remaining Regal Group will actually be or to give a true picture of the financial position of the Remaining Regal Group as at that date. The fair value of the assets and liabilities of the Remaining Regal Group as at September 30, 2006 may be different from the fair value used in the preparation of the unaudited Pro Forma Accounts.

I. UNAUDITED PRO FORMA ACCOUNTS

(A) Unaudited Pro Forma Consolidated Balance Sheet of the Remaining Regal Group

	As at September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 1	HK$'000 Note 2	HK$'000 Note 3	HK$'000
NON-CURRENT ASSETS					
Property, plant and equipment	2,896,213	(2,886,163)	—	—	10,050
Prepaid land lease payments	1,071,339	(1,071,339)	—	—	—
Interest in a jointly controlled entity	2,021,644	—	—	—	2,021,644
Interests in associates	398,709	—	—	—	398,709
Other loan	64,700	—	—	—	64,700
Deferred tax assets	93,705	(91,301)	—	—	2,404
	6,546,310				2,497,507
Interest in Regal REIT	—	—	—	304,010	304,010
Total non-current assets	6,546,310				2,801,517

	As at September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 1	HK$'000 Note 2	HK$'000 Note 3	HK$'000
CURRENT ASSETS					
Hotel and other inventories	15,817	—	—	—	15,817
Debtors, deposits and prepayments	170,423	—	—	—	170,423
Equity investments at fair value through profit or loss	13,688	—	—	—	13,688
Time deposits	69,333	—	—	—	69,333
Cash and bank balances	23,495	12,472,200	(4,318,720)	(5,990,400)	2,186,575
Total current assets	292,756				2,455,836
CURRENT LIABILITIES					
Creditors and accruals	(150,460)	(573,560)	—	—	(724,020)
Derivative financial instrument	(1,271)	—	—	—	(1,271)
Interest bearing bank and other borrowings	(1,668,720)	—	1,668,720	—	—
Convertible bonds	(195,000)	—	—	—	(195,000)
Tax payable	(2,523)	—	—	—	(2,523)
Dividend payable	(21,100)				(21,100)
Total current liabilities	(2,039,074)				(943,914)
NET CURRENT ASSETS/(LIABILITIES)	(1,746,318)				1,511,922
TOTAL ASSETS LESS CURRENT LIABILITIES	4,799,992				4,313,439
NON-CURRENT LIABILITIES					
Convertible preference shares	(132,580)	—	—	—	(132,580)
Interest bearing bank and other borrowings	(2,625,786)	—	2,625,786	—	—
Deferred tax liabilities	(20,127)	20,127	—	—	—
Total non-current liabilities	(2,778,493)				(132,580)
NET ASSETS	2,021,499				4,180,859
EQUITY					
Equity attributable to equity holders of the parent					
Issued capital	84,632	—	—	—	84,632
Equity component of convertible bonds	21,798	—	—	—	21,798
Reserves	1,913,809	7,869,964	(24,214)	(5,686,390)	4,073,169
	2,020,239				4,179,599
Minority interests	1,260				1,260
Total equity	2,021,499				4,180,859

(B) Unaudited Pro Forma Consolidated Income Statement of the Remaining Regal Group

	Nine months ended September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 4	HK$'000 Note 5	HK$'000 Note 6	HK$'000
Revenue	901,520	—	45,504	—	947,024
Cost of sales	(500,153)	—	(528,331)	—	(1,028,484)
Gross profit/(loss)	401,367				(81,460)
Other income and gains	74,647	—	45,920	—	120,567
Administrative expenses	(59,476)	6,911	—	—	(52,565)
Gain on disposal of subsidiary companies	—	—	—	2,171,026	2,171,026
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION	416,538				2,157,568
Depreciation and amortization	(102,888)	101,229	—	—	(1,659)
OPERATING PROFIT	313,650				2,155,909
Finance costs	(199,829)	184,345	—	—	(15,484)
Write-off of unamortized loan costs	—	(33,133)	—	—	(33,133)
Share of profits and losses of:					
Jointly controlled entity	206,956	—	—	—	206,956
Associates	(1,820)	—	—	219,380	217,560
PROFIT BEFORE TAX	318,957				2,531,808
Tax	(3,843)	2,328	—	—	(1,515)
PROFIT FOR THE YEAR	315,114				2,530,293
Attributable to:					
Equity holders of the parent	315,133	261,680	(436,907)	2,390,406	2,530,312
Minority interests	(19)	—	—	—	(19)
	315,114				2,530,293

(C) Unaudited Pro Forma Consolidated Cash Flow Statement of the Remaining Regal Group

	Nine months ended September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 7	HK$'000 Note 8	HK$'000 Note 9	HK$'000
Net cash inflow/(outflow) from operating activities	281,164	6,911	(429,331)	—	(141,256)
CASH FLOWS FROM INVESTING ACTIVITIES					
Disposal of subsidiary companies	—	—	—	6,481,800	6,481,800
Proceeds from disposal of equity investments at fair value through profit or loss	224,554	—	—	—	224,554
Purchases of items of property, plant and equipment	(68,248)	58,718	—	—	(9,530)
Purchases of equity investments at fair value through profit or loss	(53,963)	—	—	—	(53,963)
Repayment of a promissory note payable for investment in an associate	(145,000)	—	—	—	(145,000)
Advance to associates	(139,840)	—	—	—	(139,840)
Advance to a jointly controlled entity	(9,999)	—	—	—	(9,999)
Interest received	3,623	—	45,920	—	49,543
Dividends received from listed investments	3,142	—	—	—	3,142
Net cash inflow/(outflow) from investing activities	(185,731)				6,400,707

	Nine months ended September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 7	HK$'000 Note 8	HK$'000 Note 9	HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from exercise of warrants	22,971	—	—	—	22,971
Drawdown of a new loan	540,000	—	—	—	540,000
Repayments of bank loans and other loans	(690,000)	—	—	(4,468,720)	(5,158,720)
Advance from a minority shareholder of a subsidiary company	27	—	—	—	27
Interest paid	(212,469)	173,396	—	—	(39,073)
Dividends paid	(46,483)	—	—	—	(46,483)
Net cash outflow from financing activities	(385,954)				(4,681,278)
Net increase/(decrease) in cash and cash equivalents	(290,521)				1,578,173
Cash and cash equivalents at beginning of period	383,349				383,349
Cash and cash equivalents at end of period	92,828				1,961,522
Analysis of balances of cash and cash equivalents					
Cash and bank balances	23,495	239,025	(383,411)	2,013,080	1,892,189
Non-pledged time deposits with original maturity of less than three months when acquired	69,333				69,333
	92,828				1,961,522

	Nine months ended September 30, 2006				
	Before Spin-off	Pro forma adjustments			After Spin-off
	HK$'000	HK$'000 Note 7	HK$'000 Note 8	HK$'000 Note 9	HK$'000
Operating activities					
Profit before tax	318,957	259,352	(436,907)	2,390,406	2,531,808
Adjustments for:					
Finance costs	199,829	(184,345)	—	—	15,484
Write-off of unamortized loan costs	—	33,133	—	—	33,133
Share of profits and losses of a jointly controlled entity and associates	(205,136)	—	—	(219,380)	(424,516)
Interest income	(6,213)	—	(45,920)	—	(52,133)
Depreciation	86,228	(84,569)	—	—	1,659
Recognition of prepaid land lease payments	16,660	(16,660)	—	—	—
Dividend income from listed investments	(3,142)	—	—	—	(3,142)
Loss on disposal of fixed assets	22	—	—	—	22
Profit on disposal of equity investments at fair value through profit or loss, net	(67,449)	—	—	—	(67,449)
Gain on disposal of subsidiary companies	—	—	—	(2,171,026)	(2,171,026)
Fair value losses on equity investments at fair value through profit or loss	1,958	—	—	—	1,958
Fair value gain on derivative financial instrument	(4,154)	—	—	—	(4,154)
Equity-settled share option expenses	11,244	—	—	—	11,244
REIT manager's fees received in units of Regal REIT	—	—	(45,504)	—	(45,504)
Operating profit/(loss) before working capital changes	348,804				(172,616)
Increase in debtors, deposits and prepayments	(36,435)	—	—	—	(36,435)
Decrease in hotel and other inventories	447	—	—	—	447
Increase/(Decrease) in creditors and accruals	(31,884)	—	99,000	—	67,116
Cash generated from/(used in) operations	280,932				(141,488)
Overseas taxes refunded	232	—	—	—	232
Net cash inflow/(outflow) from operating activities	281,164				(141,256)

Notes to Unaudited Pro Forma Financial Information

(1) The adjustments reflect the effect of segregation of the assets and liabilities of Regal REIT as at September 30, 2006 from the Group assuming the Proposed Spin-off had taken place on that date.

It is assumed for the purpose of preparing this pro forma balance sheet that the consideration payable by Regal REIT for the acquisition of the Initial Hotel Properties will be at HK$12,500,000,000. The amount of HK$12,472,200,000 represents the net cash proceeds received by the Remaining Regal Group and is calculated as the difference between (a) gross cash proceeds of HK$12,500,000,000 from the Proposed Spin-off; and (b) estimated spin-off expenses of HK$27,800,000 to be borne by the Remaining Regal Group.

The adjustment of HK$573,560,000 represents the accrued estimated cost of AEP to be borne by the Remaining Regal Group.

The transactions described in note (1) above and the following notes (2) and (3) are assumed to effect simultaneously on September 30, 2006.

(2) The adjustments reflect the effect of repayment of bank loan by the Remaining Regal Group as at September 30, 2006 immediately after the Proposed Spin-off assumed to have taken place on that date.

The amount of HK$4,318,720,000 represents the repayment of bank loan whilst HK$24,214,000 reflects the write-off of the related unamortized loan cost charged to the pro forma consolidated income statement.

(3) The adjustments reflect the interest in Regal REIT as at September 30, 2006 after elimination of the portion of the unrealized gain on the Proposed Spin-off attributable to the Remaining Regal Group's interest in Regal REIT, assuming the Proposed Spin-off had occurred on that date.

The amount of HK$304,010,000 represents the difference between the assumed subscription monies for 72% interest in Regal REIT of HK$5,990,400,000 subscribed by the Remaining Regal Group and the portion of the unrealized gain on the Proposed Spin-off of HK$5,686,390,000 attributable to the Remaining Regal Group's interest in Regal REIT.

(4) The adjustments reflect the effects of segregation of the expenses no longer borne by the Remaining Regal Group assuming the Proposed Spin-off had taken place on January 1, 2006.

The pro forma rental expenses for the first nine months of 2006 is based on the rental amount stipulated in the previously contemplated lease agreements with the original expected completion date of the Proposed Spin-off in 2006 (the "Previous Lease Agreements"). It would not be practical to use the 2005 full year as the financial period to present the pro forma results or cash flows as there is not any rental payment rate for that year. Also, based on the historical results, the Group's revenue contribution over the first nine month periods in 2005 and 2004 have been consistently of approximately 70% of the respective annual amounts. On the above basis, the directors of the Company consider it appropriate to present the pro forma consolidated income statement and consolidated cash flow statement for the first nine months of 2006 instead of the full year of 2005.

The adjustment of HK$6,911,000 to administrative expenses represents the corporate overhead incurred by the holding companies of the Initial Hotel Properties, which were disposed of to Regal REIT assuming the Proposed Spin-off had taken place on January 1, 2006.

The amount of HK$101,229,000 represents the decrease in depreciation and amortization relating to the hotel related property, plant and equipment and the prepaid land lease payments, respectively, due to the disposal of the holding companies of the Initial Hotel Properties assumed to have taken place on January 1, 2006. The amount of HK$184,345,000 represents the savings on bank loan interest due to the assumed repayment of the Remaining Regal Group's bank loan. The amount of HK$33,133,000 represents the write-off of the related unamortized loan cost, assuming the proceeds from the disposal had been applied to fully repay the Remaining Regal Group's bank loan on January 1, 2006.

(5) The adjustment of HK$528,331,000 to cost of sales represents the rental expenses payable by the Remaining Regal Group to Regal REIT, comprising cash Base Rent of HK$412,500,000, accrued Base Rent of HK$99,000,000 and contribution to FF&E Reserve of HK$16,831,000 assuming the Proposed Spin-off had occurred on January 1, 2006.

In accordance with Hong Kong Accounting Standard 17 Leases, the total Base Rent payable by the Remaining Regal Group to Regal REIT is recognized on a straight line basis over the initial lease term from 2006 to 2010. Accordingly, the difference between the average annual Base Rent and the cash Base Rent for 2006 (pro-rated for the first nine months period) is accrued for the period assuming the Proposed Spin-off had taken place on January 1, 2006.

The cash Base Rent is calculated on a time pro-rated basis by reference to the Base Rent of HK$550,000,000 stipulated for the year of 2006 in the Previous Lease Agreements. The accrued Base Rent represents the difference between (i) the average annual Base Rent for the five years from 2006 to 2010 under the Previous Lease Agreements, pro-rated for a nine-month period of HK$511,500,000; and (ii) the pro-rated cash Base Rent of HK$412,500,000. The contribution to FF&E Reserve is calculated as 2% of the hotel revenue for the nine-month period in accordance with the terms of the Lease Agreements. Based on the audited financial statements of the holding companies of the Initial Hotel Properties for the nine months ended September 30, 2006, there is no Collective NPI Excess and accordingly, no Variable Rent is assumed for the pro forma consolidated income statement.

The adjustment of HK$45,504,000 to revenue represents the REIT Manager's Fee income and the amount of HK$45,920,000 represents the additional interest income earned on the net cash proceeds retained by the Remaining Regal Group at an assumed annual deposit rate of 3% after the Proposed Spin-off.

(6) The purpose of this adjustment is to reflect the gain on disposal of the Holding SPV (assuming the Proposed Spin-off had occurred on January 1, 2006) by the Group, which is calculated as the difference between (a) the implied disposal value of Holding SPV achieved from the Proposed Spin-off ; and (b) the aggregate of (i) the net asset value of the Holding SPV and its subsidiary companies; and (ii) accrued estimated cost of AEP of HK$573,560,000, after the elimination of the portion of the unrealized gain and the deduction of estimated spin-off expenses of HK$27,800,000. On this basis, the gain resulted from the Proposed Spin-off recognized by the Group would be HK$2,171,026,000.

The amount of HK$219,380,000 represents the share of profit of Regal REIT assuming the Remaining Regal Group holds a 72% interest in Regal REIT, which is derived from the estimated profit of Regal REIT assuming the Proposed Spin-off had occurred on January 1, 2006 and Regal REIT started to receive a rental income from the Remaining Regal Group under the terms of the Previous Lease Agreements and the acquisition of the Initial Hotel Properties was partly financed by a drawdown by the Regal REIT of a term loan of HK$4,350,000,000 on that date.

(7) The adjustments reflect the net increase in cash inflow of the Remaining Regal Group as if the Proposed Spin-off had taken place on January 1, 2006.

The amount of HK$6,911,000 represents the administrative expenses of the holding companies of the Initial Hotel Properties, which were disposed of to Regal REIT, whilst the amount of HK$58,718,000 represents the exclusion of cash outflow on purchases of hotel related property, plant and equipment, assuming the Proposed Spin-off had taken place on January 1, 2006.

The amount of HK$173,396,000 represents savings on bank loan interest paid due to the assumed repayment of bank loans with cash derived from the Proposed Spin-off.

(8) The purpose of this adjustment is to reflect the additional cash flow effect of the Proposed Spin-off as if it had taken place on January 1, 2006.

The amount of HK$429,331,000 represents the cash outflow on payment of the cash Base Rent of HK$412,500,000 and contribution to FF&E Reserve of HK$16,831,000.

The amount of HK$45,920,000 represents the additional interest income earned on the net cash proceeds retained by the Remaining Regal Group at an assumed annual deposit rate of 3% and the adjustment of HK$45,504,000 represents the REIT Manager's Fee income to be received in units of Regal REIT.

The adjustment to creditors and accruals of HK$99,000,000 represents the accrued Base Rent for the nine months ended September 30, 2006.

(9) The adjustments reflect the net increase in cash inflow of the Proposed Spin-off as if it had taken place on January 1, 2006. It is assumed for the purpose of preparing this pro forma cash flow statement that the disposal of Holding SPV and its subsidiary companies to Regal REIT would be at a consideration of HK$12,500,000,000 and the Remaining Regal Group would subscribe for a 72% interest in Regal REIT on January 1, 2006.

The adjustment of HK$6,481,800,000 represents the net cash inflow calculated as the difference between (a) the consideration for the disposal of Holding SPV assumed at HK$12,500,000,000; and (b) the aggregate of (i) the subscription money for 72% interest in Regal REIT of HK$5,990,400,000, and (ii) the estimated expenses in relation to the Proposed Spin-off of HK$27,800,000.

The subscription monies for 72% interest in Regal REIT of HK$5,990,400,000 is derived assuming a total issued equity of Regal REIT of HK$8,320,000,000 calculated as the aggregate of (i) the difference between the consideration for the acquisition of Holding SPV assumed at HK$12,500,000,000 and the bank loan drawn down by Regal REIT of HK$4,350,000,000 and (ii) estimated issue cost of HK$170,000,000.

The amount of HK$4,468,720,000 represents the repayment of bank loan of the Remaining Regal Group upon the Proposed Spin-off.

No cash distribution from Regal REIT is assumed for the purpose of preparing this pro forma consolidated cash flow statement.

II. LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a letter, prepared for the purpose of inclusion in this circular received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

February 21, 2007

The Directors
Regal Hotels International Holdings Limited
Merrill Lynch Far East Limited

Dear Sirs,

We report on the unaudited pro forma financial information ("Unaudited Pro Forma Financial Information") of Regal Hotels International Holdings Limited (the "Company") and its subsidiary companies (hereinafter collectively referred to as the "Group") which has been prepared by the Directors of the Company, for illustrative purposes only, to provide information on how the proposed disposal of certain companies owning the hotel properties might have affected the financial information presented, for inclusion in Appendix III of the circular dated February 21, 2007.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment

Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information have been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at September 30, 2006 or any future date; and
- results and cash flows of the Group for the nine months ended September 30, 2006 or any future period.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the Directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
Ernst & Young
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this Circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, 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 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			
	Name of Director	**Class of shares held**	**Personal interests**	**Corporate interests**	**Family/other interests**	**Total (Approximate percentage of the issued shares as at the Latest Practicable Date)**
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	200,022,000 (Notes a(iii) & (iv))	69,805,453 (Notes a(ii) to (v))	—	269,827,453
					Total (i) & (ii):	4,423,115,063 (48.37%)
		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%)
	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%)

	Name of Director	Class of shares held	Number of shares held: Personal interests	Corporate interests	Family/other interests	Total (Approximate percentage of the issued shares as at the Latest Practicable Date)
	Miss Lo Po Man	Ordinary				
		(i) issued	3,000,000	—	2,503,898 (Note e)	5,503,898
		(ii) unissued	30,000,000 (Note f)	—	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%)
	Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	30,000,000 (Note f)	—	—	30,000,000 (0.33%)
Name of Associated Corporation						
2. 8D International (BVI) Limited	Mr. Lo	Ordinary (issued)	—	1,000 (Note g)	—	1,000 (100%)

Notes:

(a) (i) The issued Shares were held through companies wholly-owned by PHL, in which CCIHL held 53% shareholding interests.

(ii) The interests in 69,805,453 unissued Shares were held through companies wholly-owned by PHL, in which CCIHL held 53% shareholding interests.

(iii) The interests in 22,000 and 54,197,026 unissued Shares 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 February 2, 2005 to July 26, 2007 to subscribe for a total of 54,219,026 new Shares at an initial subscription price of HK$0.25 per Share (subject to adjustments).

(iv) The interests in 15,608,427 unissued Shares related to the interests in 3,440 convertible cumulative preference shares of the Company carrying rights to convert into 15,608,427 new Shares, based on the conversion price of HK$1.7037 per 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 December 5, 1993 to December 5, 2008.

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

Exercise period	Number of Shares under vested options
May 12, 2007 to May 11, 2011	80,000,000
May 12, 2008 to May 11, 2011	40,000,000
May 12, 2009 to May 11, 2011	40,000,000
May 12, 2010 to May 11, 2011	40,000,000

(b) The interests in 800,000,000 unissued Shares 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 Shares, 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 June 3, 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 Shares at the initial conversion price of HK$0.25 per Share (subject to adjustments).

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

Exercise period	Number of Shares under vested options
July 25, 2007 to July 24, 2011	8,000,000
July 25, 2008 to July 24, 2011	4,000,000
July 25, 2009 to July 24, 2011	4,000,000
July 25, 2010 to July 24, 2011	4,000,000

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

Exercise period	Number of Shares under vested options
July 25, 2007 to July 24, 2011	6,000,000
July 25, 2008 to July 24, 2011	3,000,000
July 25, 2009 to July 24, 2011	3,000,000
July 25, 2010 to July 24, 2011	3,000,000

(e) The interests in 2,503,898 issued Shares and the interests in 187,792 unissued Shares were held by Miss Lo Po Man as the beneficiary of a trust. The interests in 187,792 unissued 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 February 2, 2005 to July 26, 2007 to subscribe for a total of 187,792 new Shares at an initial subscription price of HK$0.25 per Share (subject to adjustments).

(f) The interests in 30,000,000 unissued Shares were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 30,000,000 new Shares at an exercise price of HK$0.75 per Share (subject to adjustments), The options became effective on July 28, 2005 and will become vested in stages, commencing with 40% of options granted from two years after the offer date of July 25, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

Exercise period	Number of Shares under vested options
July 25, 2007 to July 24, 2011	12,000,000
July 25, 2008 to July 24, 2011	6,000,000
July 25, 2009 to July 24, 2011	6,000,000
July 25, 2010 to July 24, 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 the Latest Practicable Date, 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.

3. SHARE OPTIONS

The Company operates a share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "**Share Option Scheme**"). The Share Option Scheme was adopted by the Company's shareholders on June 16, 2005 and became effective on July 21, 2005. Share options granted under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

As at the Latest Practicable Date, the share options granted by the Company pursuant to the Share Option Scheme are as follows:

Offer date**	Name or category of participant	Number of Shares under share options* As at the Latest Practicable Date	Vesting/ Exercise periods of share options	Exercise price of share options* (HK$)
	Directors			
May 12, 2005	Mr. Lo Suk Sui			
	Unvested:	200,000,000***	Note	0.75
July 25, 2005	Mr. Donald Fan Tung			
	Unvested:	20,000,000	Note	0.75
July 25, 2005	Mr. Jimmy Lo Chun To			
	Unvested:	15,000,000	Note	0.75
July 25, 2005	Miss Lo Po Man			
	Unvested:	30,000,000	Note	0.75
July 25, 2005	Mr. Kenneth Ng Kwai Kai			
	Unvested:	20,000,000	Note	0.75
July 25, 2005	Ms. Belinda Yeung Bik Yiu			
	Unvested:	30,000,000	Note	0.75
	Other Employees			
	Employees, in aggregate			
July 25, 2005	Unvested:	35,000,000	Note	0.75
		350,000,000		

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

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

*** In excess of the individual maximum limit of 1% of the Shares in issue as of the offer date.

Note:

Vesting/Exercise periods of share options:

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

4. SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at the Latest Practicable Date, 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 Shares Held	Number of Underlying Shares (Unissued) Held	Total number of Shares (Issued and Unissued) Held	Approximate percentage of the Issued Shares as at the Latest Practicable Date
CCIHL (Note i)	4,153,067,610	69,805,453	4,222,873,063	46.18%
Century City BVI Holdings Limited (Note ii)	4,153,067,610	69,805,453	4,222,873,063	46.18%
Almighty International Limited (Note ii)	4,153,067,610	69,805,453	4,222,873,063	46.18%
PHL (Note iii)	4,153,067,610	69,805,453	4,222,873,063	46.18%
Paliburg Development BVI Holdings Limited (Note iv)	4,153,067,610	69,805,453	4,222,873,063	46.18%
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	28.76%
Paliburg BVI Holdings Limited (Note iv)	2,591,590,810	37,841,291	2,629,432,101	28.76%
Taylor Investments Ltd. (Note iv)	1,504,510,765	37,812,292	1,542,323,057	16.87%
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 Shares held by CCIHL were included in the corporate interests of Mr. Lo in the Company as disclosed under the section headed "Directors' and Chief Executive's Interests in the Share Capital of the Company" above.

(ii) These companies are wholly-owned subsidiary companies of CCIHL and their interests in the Shares are included in the interests held by CCIHL.

(iii) PHL is a listed subsidiary company of CCIHL, which held 53% shareholding interests in PHL, and PHL's interests in the Shares are included in the interests held by CCIHL.

(iv) These companies are wholly-owned subsidiary companies of PHL and their interests in the Shares are included in the interests held by PHL.

(v) The interests in unissued 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' and Chief Executive's Interests in the Share Capital of the Company" above.

Save as disclosed herein, there is no person who, as at the Latest Practicable Date, 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.

5. WORKING CAPITAL

The Directors are of the opinion that taking into account the Group's internal resources, available banking and other borrowing facilities, the Group has sufficient working capital for its present requirements.

6. MATERIAL CONTRACTS

Save for the Trust Deed, neither the Company nor any of its subsidiaries has entered into any material contracts (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this Circular and which are or may be material.

7. EXPERTS' DISCLOSURE OF INTEREST AND CONSENT

(a) The following are the qualifications of the experts who have given opinion or advice contained in this Circular:

Name	Qualification
Merrill Lynch	a licensed corporation for types 1, 4 and 6 regulated activities under the SFO
Platinum Securities	a licensed corporation for types 1 and 6 regulated activities under the SFO
CB Richard Ellis Limited	Chartered surveyors and valuers
Ernst & Young	Certified Public Accountants

(b) As at the Latest Practicable Date, except for 217,600 Shares, held by the broking arm of the Platinum Securities group of companies for and on behalf of client(s) not connected to the Platinum Securities group of companies, none of Merrill Lynch, Platinum Securities, CB Richard Ellis Limited and Ernst & Young has any direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

(c) Merrill Lynch, Platinum Securities, CB Richard Ellis Limited and Ernst & Young have given and have not withdrawn their respective written consents to the issue of this Circular with the inclusion therein of their letters or reports and reference to their names in the form and context in which they appear.

(d) The letter and advice given by Platinum Securities, the report given by CB Richard Ellis Limited and the report given by Ernst & Young are given as of the date of this Circular for incorporation herein.

8. DIRECTORS' SERVICE CONTRACTS

None of the Directors had, as at the Latest Practicable Date, a service contract or a proposed service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

9. NO MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors confirmed that there has not been any material adverse change in the financial or trading position of the Group since June 30, 2006, the date to which the latest published consolidated audited accounts of the Group were made up.

10. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

11. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the Bye-laws of the Company, the procedures of voting by poll on the resolutions to be put forth for Shareholders' approval at the general meetings of the Company are as follows:

(a) According to Bye-law 78, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

  (i) by the Chairman of the meeting; or

  (ii) by at least three Shareholders present in person (or, in the case of a Shareholders being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

  (iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

  (iv) by a Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding Shares conferring a right to vote at the meeting, being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

(b) According to Bye-law 79, if a poll is demanded as aforesaid under Bye-law 78, it shall (subject as provided in Bye-law 80 as described below) be taken in such manner (including the use of ballot or voting papers or tickets) and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman of the meeting directs. No notice need to be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.

(c) According to Bye-law 80, any poll duly demanded on the election of a Chairman of a meeting or on any question of adjournment shall be taken at the meeting and without adjournment.

12. GENERAL

(a) The registered office of the Company is situated at Rosebank Centre, 11 Bermudiana Road, Pembroke, Bermuda. The head office and principal place of business of the Company in Hong Kong is situated at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

(b) The company secretary of the Company is Ms. Lam Sau Fun, Eliza, an associate of The Institute of Chartered Secretaries and Administrators and The Hong Kong Institute of Company Secretaries.

(c) The qualified accountant of the Company is Mr. Allen Wan Tze Wai, a member of the Hong Kong Institute of Certified Public Accountants.

(d) The English text of this Circular shall prevail over the Chinese text.

(e) As at the Latest Practicable Date, none of the Directors or the experts named in paragraph 7(a) above in this Circular had any direct or indirect interests in any assets which have since June 30, 2006 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(f) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

(g) As at the Latest Practicable Date, none of the Directors and their respective associates (as defined under the Listing Rules) had any competing interest with the Group.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection free of charge at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong during normal business hours on any weekday (Saturdays and public holidays excepted) up to 11:00 a.m. on March 9, 2007:

(a) the memorandum of association and Bye-laws of the Company;

(b) the audited consolidated accounts of the Group for the two financial years ended December 31, 2004 and December 31, 2005;

(c) the accountants' report of the Group for the three years ended December 31, 2005 and nine months ended September 30, 2006, the text of which is set out in Appendix II of this Circular;

(d) the letter issued by Ernst and Young in connection with the unaudited proforma information, the text of which is set out in Appendix III of this Circular;

(e) the letter of advice from Platinum Securities to the Independent Board Committee and the Shareholders, the text of which is set out on pages 53 to 85 of this Circular;

(f) the Independent Property Valuer's property valuation report, the text of which is set out in Appendix I of this Circular;

(g) the written consents referred to in section headed "Experts' Disclosure of Interest and Consent" in this Appendix; and

(h) the Trust Deed.

富豪酒店國際控股有限公司
Regal Hotels
International Holdings Limited
(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

NOTICE IS HEREBY GIVEN THAT a Special General Meeting of Regal Hotels International Holdings Limited (the "**Company**") will be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, March 9, 2007 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

"**THAT** subject to and conditional upon (among other things) (i) the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") granting approval for the listing of, and permission to deal in, all the units ("**Units**") of Regal Real Estate Investment Trust ("**Regal REIT**") (including Units to be issued pursuant to the Proposed Spin-off (as defined below)); (ii) the receipt of the authorization of Regal REIT by the Securities and Futures Commission of Hong Kong pursuant to Section 104 of the Securities and Futures Ordinance; (iii) the conditions precedent to draw down of the term loan facility by Regal REIT being fulfilled or waived; (iv) the obligations of the underwriters under the underwriting agreements to be entered into in respect of the Global Offering (as defined below) becoming and remaining unconditional and not being terminated in accordance with the terms of such agreements or otherwise; (v) the offer price of the Units being duly determined; (vi) the underwriters of the Global Offering being satisfied with respect to completion of the subscription obligations under the subscription agreement in respect of the Global Offering; and (vii) the sale and purchase agreement in respect of the Proposed Spin-off becoming and remaining unconditional in accordance with its terms, and in each case, unless and to the extent any relevant condition is validly waived:

(a) the Proposed Spin-off and all relevant documents or agreements in connection therewith or contemplated thereunder, be and are hereby approved and that any two directors of the Company be and are hereby authorized on behalf of the Company to approve and implement the Proposed Spin-off and all incidental matters and to take all actions in connection therewith or arising therefrom relating to the Proposed Spin-off as they shall think fit; and

(b) any two directors of the Company be and are hereby authorized (i) to sign and/or execute any documents for and on behalf of the Company in connection with or pursuant to the Proposed Spin-off; (ii) to affix the common seal of the Company to any documents in connection with or pursuant to the Proposed Spin-off (if necessary); and (iii) to exercise all such powers and do all such acts as they, in their absolute discretion, consider necessary, desirable or expedient to give effect to or in connection with the Proposed Spin-off, and

that the authority granted by the ordinary resolution of the Company passed on December 18, 2006 in connection with the proposed spin-off of Regal REIT, the principal terms and conditions of which were set out or referred to in the circular dated November 23, 2006 and the supplemental circular dated December 2, 2006 of the Company be and is hereby revoked.

For the purpose of this Resolution,

"**Global Offering**" means the proposed offering of Units to the public in Hong Kong and the proposed offering of Units to certain institutional, professional and other investors (including the preferential offering to certain qualifying holders of the Shares (as defined below) as detailed in the Circular (as defined below) for subscription of reserved Units, amount of which to be determined by the directors of the Company), the principal terms and conditions of which are set out or referred to in the circular to holders of the ordinary shares of the Company (the "**Shares**") dated the date of the notice of this meeting (the "**Circular**", a copy of which has been produced to this meeting marked "A" and initialled by the Chairman of this meeting for identification purpose);

"**Proposed Spin-off**" means the proposed spin-off of Regal REIT comprising the Global Offering, the Separate Listing and all incidental arrangements as set out or referred to or contemplated in the Circular; and

"**Separate Listing**" means the proposed separate listing of the Units on the Main Board of the Stock Exchange, the principal terms and conditions of which are set out or referred to in the Circular."

By order of the Board
Regal Hotels International Holdings Limited
Eliza Lam Sau Fun
Company Secretary

Hong Kong, February 21, 2007

Head office and principal place of business:
11th Floor, 68 Yee Wo Street
Causeway Bay
Hong Kong

Registered Office:
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Notes:

1. *The register of members of the Company will be closed from March 7, 2007 to March 9, 2007 (both dates inclusive). In order to determine the entitlement to attend and vote at the meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (the "Registrar"), by no later than 4:30 p.m. on Tuesday, March 6, 2007, and all documents for exercise of any subscription rights attaching to the outstanding warrants of the Company duly accompanied by the relevant warrant certificates and subscription money must be lodged with the Registrar by no later than 4:00 p.m. on Tuesday, March 6, 2007.*
2. *Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.*
3. *Where there are joint registered holders of any Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders is present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company shall, in respect of such Share, be entitled alone to vote in respect thereof.*
4. *A form of proxy for use at the meeting is enclosed with the Circular.*

5. *To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority, must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or adjourned meeting thereof.*

6. *Completion and return of the form of proxy will not preclude a member from attending and voting in person at the meeting. If such member attends the meeting, however, his form of proxy will be deemed to have been revoked.*

7. *The translation into Chinese language of this notice is for reference only. In case of any inconsistency, the English version shall prevail.*

富豪酒店國際控股有限公司
Regal Hotels
International Holdings Limited
(Incorporated in Bermuda with limited liability)

(Stock Code: 78)

FORM OF PROXY FOR SPECIAL GENERAL MEETING TO BE HELD ON MARCH 9, 2007

[1]No. of Shares[5] to which this Proxy relates	

I/We [2] ....

of ....

being the Shareholder(s)[5] of **REGAL HOTELS INTERNATIONAL HOLDINGS LIMITED** (the "Company")

hereby appoint [3] the Chairman of the Meeting or ....

of ....

as my/our proxy to attend, act and vote for me/us and on my/our behalf at the Special General Meeting of the Company to be held at the Regal Hongkong Hotel, 88 Yee Wo Street, Causeway Bay, Hong Kong on Friday, March 9, 2007 at 11:00 a.m. and at any adjournment thereof on the ordinary resolution referred to in the Notice of the Meeting as indicated below:

ORDINARY RESOLUTION	For [4]	Against [4]
To approve and authorise the Proposed Spin-off[5] and any related matters thereto.		

Dated this .... day of .... 2007.   Signature [6] ....

NOTES:

1. Please insert the number of Shares registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the Shares in the capital of the Company registered in your name(s).
2. Please insert full name(s) and address(es) in **BLOCK CAPITALS**.
3. If any proxy other than the Chairman of the Meeting is preferred, strike out the relevant reference and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company. Where a member appoints more than one proxy to represent him, the form of proxy must clearly indicate the number of Shares in respect of which each proxy is so appointed. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE DULY INITIALLED.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR OR AGAINST THE RESOLUTIONS, PLEASE PLACE AN "X" IN THE APPROPRIATE BOX.** If you do not indicate how you wish your proxy to vote, your proxy will exercise his discretion whether to vote for or against the ordinary resolution or to abstain from voting. Your proxy will be entitled to vote at his discretion on any resolution properly put to the Meeting other than that referred to in the Notice convening the Meeting.
5. This term is defined in the circular in relation to the Proposed Spin-off dated February 21, 2007.
6. This form of proxy must be signed under the hand of the appointor or of his attorney duly authorized in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorized.
7. If two or more persons are jointly entitled to a Share and are present at the Meeting, only the joint holder whose name stands first in the Register of Shareholders in respect of the joint holding is entitled to vote at the Meeting.
8. To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power or authority, must be deposited with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the Meeting or adjourned meeting thereof.