

Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2005, except for the adoption of the following Hong Kong Financial Reporting Standards ("HKFRSs") mandatory for annual periods beginning on or after 1st January, 2006.

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

The adoption of the above HKFRSs has had no material impact on the Group's results of operations for the current period or financial position at 30th June, 2006 in the Group's condensed consolidated financial statements.

2. Segment Information

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

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

- (a) the hotel ownership and management segment engages in hotel operations and the provision of hotel management services;
- (b) the property development and investment segment includes investments in properties held 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.

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 and profit/(loss) information for the Group's business segments.

Group

	Hotel ownership and management Six months ended 30th June, 2006		Property development and investment Six months ended 30th June, 2006		Others Six months ended 30th June, 2006		Eliminations Six months ended 30th June, 2006		Consolidated Six months ended 30th June, 2006	
	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m	(Unaudited) HK\$'m
Segment revenue:										
Sales to external customers	575.0	509.1	0.5	1.0	32.8	32.3	-	-	608.3	542.4
Intersegment sales	1.1	1.2	0.1	0.2	1.2	3.5	(2.4)	(4.9)	-	-
Total	576.1	510.3	0.6	1.2	34.0	35.8	(2.4)	(4.9)	608.3	542.4
Segment results before depreciation and amortisation	262.4	238.0	0.2	0.2	31.5	61.5	-	-	294.1	299.7
Depreciation and amortisation	(67.8)	(62.2)	(0.1)	(0.1)	(0.1)	(2.6)	-	-	(68.0)	(64.9)
Segment operating results	194.6	175.8	0.1	0.1	31.4	58.9	-	-	226.1	234.8
Interest income and unallocated non-operating and corporate gains									8.5	1.6
Unallocated non-operating and corporate expenses									(8.4)	(10.6)
Operating profit									226.2	225.8
Finance costs									(134.9)	(77.5)
Share of profits and losses of: Jointly controlled entity									217.1	140.6
Associates									(1.0)	(1.2)
Profit before tax									307.4	287.7
Tax									3.4	14.6
Profit for the period									310.8	302.3
Attributable to:										
Equity holders of the parent									310.8	302.3
Minority interests									-	-
									310.8	302.3



Regal Hotels
International
Holdings Limited



(b) Geographical segments

The following table presents revenue information for the Group's geographical segments.

Group	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m	Six months ended 30th June, 2006 (Unaudited) HK\$m	2005 (Unaudited) HK\$m
Segment revenue:								
Sales to external customers	606.1	511.1	2.2	31.3	-	-	608.3	542.4

3. Other Income and Gains

Other income and gains are analysed as follows:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
<u>Other income</u>		
Bank interest income	2.8	1.5
Interest income from other loan	1.5	–
Dividend income from listed investments	3.0	0.9
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	–	20.9
Others	–	0.2
	<u>7.3</u>	<u>23.5</u>
<u>Gains</u>		
Fair value gains on equity investments at fair value through profit or loss, net	29.9	61.0
Fair value gain on derivative financial instrument	4.3	–
	<u>34.2</u>	<u>61.0</u>
	<u>41.5</u>	<u>84.5</u>

4. An analysis of gain on sale of investments of the Group is as follows:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Gain on sale of equity investments at fair value through profit or loss	<u>2.5</u>	<u>–</u>



Regal Hotels
International
Holdings Limited



5. Finance Costs

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans, convertible bonds, convertible preference shares, other loans and a promissory note payable wholly repayable within five years	<u>134.9</u>	<u>77.5</u>

6. Tax

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Current - Hong Kong		
Prior year overprovision	-	(5.0)
Current - Overseas		
Provision for tax in respect of profits for the period	0.2	0.2
Prior year overprovision	(0.3)	-
Deferred tax	<u>(3.3)</u>	<u>(9.8)</u>
Tax credit for the period	<u>(3.4)</u>	<u>(14.6)</u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits or had available tax losses brought forward from prior years to offset the assessable profits, derived from or earned in Hong Kong during the period (2005 - Nil).

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.

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

Deferred tax income has been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

7. 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 period attributable to equity holders of the parent of HK\$310.8 million (2005 - HK\$302.3 million), and on the weighted average of 8,397.9 million (2005 - 8,356.2 million) ordinary shares of the Company in issue during the period.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2006 is based on the adjusted profit for the period attributable to equity holders of the parent of HK\$316.5 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,413.2 million ordinary shares of the Company that would have been in issue during the period 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 period. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the period and is not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of the Company outstanding during the period is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2005 was based on the adjusted profit for that period attributable to equity holders of the parent of HK\$307.8 million, as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,461.7 million ordinary shares of the Company that would have been in issue during that period assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of that period. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that period and was not included in the calculation of diluted earnings per ordinary share. In addition, the exercise price of the share options of the Company outstanding during that period was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

8. Dividend

The Directors have declared the payment of an interim dividend of HK0.25 cent per ordinary share for the financial year ending 31st December, 2006 (2005 - HK\$0.25 cent), absorbing a total amount of approximately HK\$21.1 million (2005 - HK\$21.1 million).



Regal Hotels
International
Holdings Limited

9. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$67.3 million (31st December, 2005 - HK\$73.0 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	61.9	64.6
Between 4 to 6 months	1.9	1.9
Between 7 to 12 months	0.9	4.0
Over 1 year	3.5	3.6
	<hr/>	<hr/>
	68.2	74.1
Impairment	(0.9)	(1.1)
	<hr/>	<hr/>
	67.3	73.0
	<hr/> <hr/>	<hr/> <hr/>

Credit terms

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

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

Included in the Group's debtors, deposits and prepayments are amounts due from related companies of HK\$1.7 million (31st December, 2005 - HK\$2.1 million) which are repayable on similar credit terms to those offered to the major customers of the Group.

At 31st December, 2005, an amount of HK\$8.1 million was included in debtors, deposits and prepayments, which represented a reserve fund maintained by Chatwin Engineering Limited ("Chatwin"), a subsidiary company of Paliburg Holdings Limited, which is a substantial shareholder of the Company, against potential claims arising from litigation and arbitration proceedings with certain sub-contractors in connection with the construction work of the Regal Airport Hotel. The balance continued to be held by Chatwin as the reserve fund against potential claims from a sub-contractor as at 30th June, 2006.

10. Creditors and Accruals

Included in the balance is an amount of HK\$37.2 million (31st December, 2005 - HK\$45.8 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	36.3	45.0
Between 4 to 6 months	0.6	0.8
Between 7 to 12 months	0.3	-
	<u>37.2</u>	<u>45.8</u>

The trade creditors are interest-free and are normally settled on 30 to 60 days.

Included in creditors and accruals are amounts due to an associate and related companies of HK\$3.0 million (31st December, 2005 - HK\$4.8 million) and HK\$4.5 million (31st December, 2005 - HK\$19.2 million) respectively, which represent similar credit terms to those offered by the associate and those related companies to their major customers.

11. Interest bearing bank borrowings

	Effective interest rate p.a. (%)	Maturity	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
			HK\$'million	HK\$'million
Current				
Bank loans - secured	1.3 - 5.7	2006	1,668.7	1,668.7
Non-current				
Bank loans - secured	1.3 - 5.7	2009	<u>2,772.8</u>	<u>2,766.9</u>
			<u>4,441.5</u>	<u>4,435.6</u>

The borrowings are in Hong Kong dollars and bear interests at floating interest rate.

The Group's bank borrowings are secured by a pledge of the Group's certain assets as further detailed in note 13 to the financial statements.

The carrying amounts of the Group's bank loans approximate to their fair values.



Regal Hotels
International
Holdings Limited



12. Related Party Transactions

(a) Transactions with related parties

The Group had the following material related party transactions during the period:

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
A substantial shareholder: Management fees	5.5	5.7
Wholly-owned subsidiary companies of a substantial shareholder, Paliburg Holdings Limited ("PHL"):		
Service fees in respect of security systems and products and other software	0.2	2.5
Repairs and maintenance fees and construction fees	3.1	4.1
An associate: Advertising and promotion fees (including cost reimbursements)	5.0	3.7
An jointly controlled entity: Estate agency fee income	-	0.6
	<u> </u>	<u> </u>

Note:

The nature and terms of the related party transactions set out above were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2005.

(b) Outstanding balances with related parties

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Due from the jointly controlled entity	366.7	366.7
Due from related companies	9.8	10.2
Due to related companies	(4.5)	(19.2)
Loans to the jointly controlled entity	2,967.8	2,960.3
Due to an associate	(3.0)	(4.8)
Loans to associates	175.8	36.7
Promissory note payable to PHL	-	(145.0)
	<u> </u>	<u> </u>

(c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2006 (Unaudited)	Six months ended 30th June, 2005 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	4.9	4.7
Share-based payments	<u>6.5</u>	<u>0.3</u>
Total compensation paid to key management personnel	<u>11.4</u>	<u>5.0</u>



Regal Hotels
International
Holdings Limited



13. Pledge of Assets

At 30th June, 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\$6,069.7 million (31st December, 2005 - HK\$5,885.0 million) and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

14. Contingent Liability

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\$3.8 million as at 30th June, 2006 (31st December, 2005 - HK\$5.6 million). 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 recognised 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.

15. Operating Lease Arrangements

(a) As lessor

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

At 30th June, 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Within one year	15.7	21.0
In the second to fifth years, inclusive	4.0	7.8
	<u>19.7</u>	<u>28.8</u>

(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 of the Group is negotiated for a term of 3 to 5 years.

At 30th June, 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	3.0	2.4
In the second to fifth years, inclusive	6.5	6.9
	<u>9.5</u>	<u>9.3</u>
Other equipment:		
Within one year	0.1	0.1
In the second to fifth years, inclusive	0.2	0.3
	<u>0.3</u>	<u>0.4</u>
	<u>9.8</u>	<u>9.7</u>



Regal Hotels
International
Holdings Limited

16. Commitments

In addition to the operating lease arrangements detailed in note 15(b) above, the Group had the following outstanding capital commitments at the balance sheet date:

	30th June, 2006 (Unaudited)	31st December, 2005 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:		
Authorised and contracted for	96.6	8.1
Authorised, but not contracted for	260.8	294.3
	<u>357.4</u>	<u>302.4</u>

17. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group disposed of its equity interest in a listed company for a gross consideration of HK\$195.0 million which included an amount of HK\$188.5 million attributable to the equity investments at fair value through profit or loss classified under both non-current assets and current assets with a total carrying value of HK\$180.3 million as at 30th June, 2006. Consequently, a gain (before expenses but after release of relevant investment revaluation reserve) of HK\$37.8 million was realised.



Regal Hotels
International
Holdings Limited

18. 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 16th June, 2005 and became effective on 21st July, 2005. Share options granted under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

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

* 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 share options is declined or lapsed.

*** In excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date.



Regal Hotels
International
Holdings Limited

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 200 million and 165 million ordinary shares granted in 2005 were HK\$22.5 million and HK\$25.6 million, respectively, which are amortised to the income statement over the vesting periods of the share options granted.



Regal Hotels
International
Holdings Limited