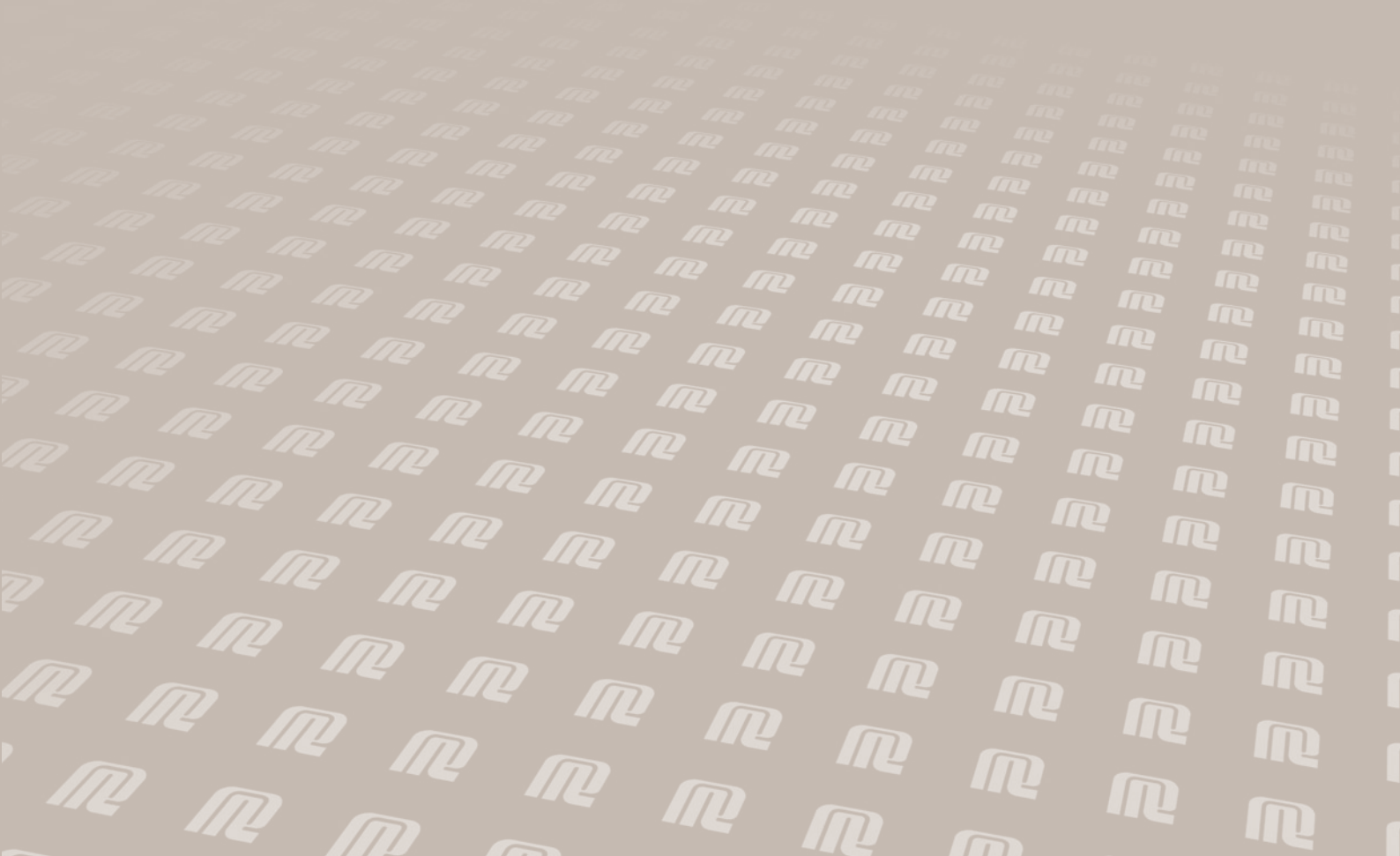




I N T E R I M   R E P O R T   2 0 0 7   中 期 報 告



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## CORPORATE INFORMATION

### 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#

\* *Non-Executive Director*

# *Independent Non-Executive Director*

### AUDIT COMMITTEE

Wong Chi Keung (Chairman)  
Francis Choi Chee Ming, JP  
Alice Kan Lai Kuen  
Ng Siu Chan

### REMUNERATION COMMITTEE

Lo Yuk Sui (Chairman)  
Alice Kan Lai Kuen  
Ng Siu Chan  
Wong Chi Keung

### SECRETARY

Eliza Lam Sau Fun

### AUDITORS

Ernst & Young

### PRINCIPAL REGISTRAR

Butterfield Fund Services (Bermuda) Limited  
Rosebank Centre, 11 Bermudiana Road,  
Pembroke, Bermuda

### BRANCH REGISTRAR IN HONG KONG

Computershare Hong Kong Investor  
Services Limited  
Shops 1712-1716, 17th Floor,  
Hopewell Centre,  
183 Queen's Road East,  
Wan Chai,  
Hong Kong

### REGISTERED OFFICE

Rosebank Centre, 11 Bermudiana Road,  
Pembroke, Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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## FINANCIAL AND BUSINESS REVIEW

### FINANCIAL REVIEW

The 2007 financial year is a very fruitful year for the Group. The successful implementation of the separate listing of Regal Real Estate Investment Trust on the Main Board of The Stock Exchange of Hong Kong Limited in March 2007 marked a very important step for the Group in its overall business development. Through this spin-off process, substantial profits and significant new funds have been derived, establishing for the Group a solid platform for its continuing growth.

For the six months ended 30th June, 2007, the Group achieved an unaudited consolidated profit attributable to ordinary shareholders of HK\$2,496.2 million, which represented an increase of more than 7 times over the comparative profit of HK\$310.8 million attained in 2006.

Following the completion of the spin-off transactions on 30th March, 2007, the operating structure of the Group in respect of its hotel businesses has changed, as explained in the circular to shareholders in relation to the spin-off of Regal REIT dated 21st February, 2007. Summarily, the five Regal Hotels in Hong Kong are now directly owned by Regal REIT but the Group continues to be the operator and manager of these hotel properties under the lease arrangements and hotel management agreements with Regal REIT. Regal Portfolio Management Limited, a wholly-owned subsidiary of the Group, also acts as the asset manager of Regal REIT.

As at 30th June, 2007, Regal REIT was equity-accounted for by the Group as a 70.5% owned associate. A gain of HK\$2,320.4 million, as attributable to the 29.5% interest in Regal REIT effectively disposed of by the Group, was derived from the sale of the five hotel properties, which has been reflected in the profit achieved for the period under review.

Due to the elimination of the attributable unrealised gain, the interest in Regal REIT was stated in the Group's financial statements for the period under review only at a net sum of HK\$292.5 million. The interest in Regal REIT represented by far the most significant investment held by the Group and if it were to be valued plainly based on its attributable share of the underlying net assets of Regal REIT as at 30th June, 2007, the interest held in Regal REIT would have been stated at HK\$7,333.9 million instead. In order to more fairly reflect the underlying net asset value of the Group and for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on a proforma basis to reflect the share of the underlying net assets as attributable to the 70.5% interest held in Regal REIT as mentioned above, is provided in the section headed "Management Discussion and Analysis" below.

For the period from 11th December, 2006 (the date of establishment of Regal REIT) to 30th June, 2007, Regal REIT attained a profit of HK\$2,165.0 million, which included the gain of HK\$2,044.4 million that arose from its acquisition of the five Regal Hotels in Hong Kong from the Group at a discount to their market valuations. The board of the REIT Manager has also resolved to make a distribution of HK\$0.057 per unit to unitholders for the period from the listing date of Regal REIT of 30th March, 2007 to 30th June, 2007.

## BUSINESS REVIEW

### HOTELS

#### Hong Kong

During the period under review, market fundamentals in the travel and tourism sector in Hong Kong continued to be strong. Based on the information published by the Hong Kong Tourism Board, there were over 13 million visitor arrivals to Hong Kong during the first half year of 2007, representing an increase of about 6.8% as compared with last year. Over this same comparative period, the average room rate achieved by all the surveyed hotels in Hong Kong as a whole continued to improve; however, due to the enlarged hotel room inventory in Hong Kong and the increased percentage of same day visitors, the overall hotel room occupancy rate has slightly reduced from 86% last year to 83% in the first half of 2007.

The Regal Airport Hotel is catching up on its room occupancy, improving by about 13% year-on-year in the six months under review, while the other four Regal Hotels in Hong Kong have maintained an average room occupancy of about 87%. Overall for the five Regal Hotels, the combined average room occupancy level was about 81%, reflecting an increase of about 1.5% as compared with the first half of 2006, while the combined average room rate was enhanced by about 3.7%.

Though the room occupancy at the Regal Oriental Hotel and the Regal Riverside Hotel during the period under review, and particularly in the second quarter, has been affected by the softening of demand from Mainland Chinese leisure groups, the recent strategy to replacing these price sensitive groups with other travel segments such as individual travelers and overseas groups is proving to be successful. The Group will continue to reposition the overall marketing strategy for the five Regal Hotels in Hong Kong to one that is more focused towards individual business and leisure travelers, overseas leisure groups and MICE (meeting, incentive, convention and exhibition) businesses, which is expected to produce positive future impact.

The Asset Enhancement Programme at the Regal Airport Hotel, Regal Hongkong Hotel, Regal Oriental Hotel as well as those rooms at the Regal Riverside Hotel that are scheduled for completion within this year have all been substantially completed and by the fourth quarter this year, an aggregate of 194 new hotel rooms will be ready for letting. As part of the agreement for the sale of the five Regal Hotels in Hong Kong to Regal REIT, the Group has undertaken to complete the Asset Enhancement Programme at its own cost. The negotiation on the land premium for the lease modification to permit the construction of 3 additional storeys on top of the existing building structure at the Regal Riverside Hotel, which will provide additionally 274 new hotel rooms, has recently been concluded and the requisite construction works will soon commence.

## **PROPERTIES**

### **Hong Kong**

#### **Regalia Bay, Stanley**

Over 20 houses in Regalia Bay, the luxury residential development in Stanley, Hong Kong have been leased at progressively increased rental rates. The Group will continue to lease out the unsold houses unless the price offered by prospective purchasers is attractive. The Group is discussing with its joint venture partner for a division of the available houses between the two shareholders and based on the proposed arrangement being discussed, it is expected that the Group will have an allocation of 36 available houses with total gross area of about 166,000 square feet.

### **The People's Republic of China**

#### **Development project in the Central Business District of Beijing**

The development project in the Central Business District of Beijing, the People's Republic of China, is 59% owned by an associate which, in turn, is 50% each held by the Group and Paliburg Holdings Limited, of which the Company is its listed associate. Due to the time required to secure the development rights to the Phase II land site included within the project and to resolve relocation and compensation arrangements with existing occupiers on the land sites, the overall development timetable has been delayed. It is expected that a more accurate projection of the development timetable for this project should be finalised in the near future.

## **OTHER INVESTMENTS**

In January 2007, the Group entered into a letter of intent with Cosmopolitan International Holdings Limited, a listed company in Hong Kong, to participate in a large scale development project in Shenyang City, Liaoning Province, which is the subject of an overall development cooperation framework agreement between the Cosmopolitan group and the Shenyang Menrong Economic District. Further in May 2007, the Group subscribed for convertible bonds issued by the Cosmopolitan group in a principal amount of HK\$102.5 million, which are convertible into 500 million new shares of Cosmopolitan at an initial conversion price of HK\$0.205 per share. The fair value gain accruing to the Group's investment in these convertible bonds, based on the market price of the shares of Cosmopolitan as at 30th June, 2007, has been reflected in the results for the period under review. The Cosmopolitan group is working on a number of proposed large scale property development projects in the PRC. Through the investment in the Cosmopolitan group, the Group will be provided with opportunities to directly participate in the hotel and hospitality-related portions planned within certain of these large scale development projects, and indirectly to share in the profit potentials of such projects as would be enhanced by the Group's presence and contribution.

## OUTLOOK

As the latter half of the year is traditionally the higher season, with the fourth quarter being the strongest for the hotel industry in Hong Kong, the five Regal Hotels are expected to achieve better performance than that attained in the first half year.

Following the spin-off of Regal REIT, the Group is staging its expansion plans in the hotel business sector in two directions, to be undertaken in parallel and on a complementary basis. Regal REIT will focus on the acquisition of hotel and hospitality-related properties and has the mission to build up its existing portfolio and to become a pre-eminent owner of four and five star hotels in Greater China. On the other front, the Group will primarily target on the expansion of the hotel management network as well as the acquisition and development of new hotel and hospitality-related projects, which in appropriate cases may potentially serve as an incubator for future acquisitions by Regal REIT.

The Group presently holds a substantial amount of cash resources and is free of any bank debt, and it is in a ready position to embark on the planned expansion programme.

Over the past months, the Group has been actively reviewing a vast number of proposals for the acquisition and/or joint venture of hotel projects in China. Some of these proposals have been identified as possible targets and certain of which are at a relatively more advanced stage of negotiation.

The Group is however conscious of the increasing volatility in the financial and capital markets over the recent period and is closely watching the rippling effects on the global economic conditions triggered off by the problems over the sub-prime loans in the United States. In view of the latest credit crunch seen in the international financial markets and taking into consideration the cash requirements for the planned expansion, the Directors have taken the prudent view of conserving cash in the Group. Although the total quantum of the interim dividend declared for 2007 is relatively modest, the amount of interim dividend per ordinary share nonetheless represented an increase of 20% over the comparative amount paid out for 2006.

The Directors are confident that as the Group maintains a very strong financial position, the Group is now ready for dynamic network expansion and well-poised to take advantage of any attractive investment or other opportunities that may become available in the near future, which can serve to enhance long-term value to shareholders.

By Order of the Board

**LO YUK SUI**

Chairman

Hong Kong, 27th August, 2007

## INTERIM DIVIDEND

In view of the satisfactory results achieved, the Directors have declared the payment of an interim dividend of HK0.3 cent per ordinary share for the financial year ending 31st December, 2007, an increase of 20% over the comparative amount of HK0.25 cent paid for 2006, absorbing a total amount of approximately HK\$32.0 million (2006 - HK\$21.1 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 21st September, 2007.

The Register of Ordinary Shareholders will be closed from Wednesday, 19th September, 2007 to Friday, 21st September, 2007, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the interim dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:00 p.m. on Tuesday, 18th September, 2007. The relevant dividend warrants are expected to be despatched on or about 11th October, 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Highlights

Following the spin-off of Regal Real Estate Investment Trust ("Regal REIT") on 30th March, 2007, the Group's significant investments principally comprise its interests in the operation and management of the five Regal Hotels in Hong Kong, the investment in Regal REIT (which now directly owns the five Regal Hotels in Hong Kong), the asset management of Regal REIT, the interest in the jointly controlled Regalia Bay development and other investment businesses. The performance of the Group's hotel operations during the period under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance, the related performance of Regal REIT as well as the progress and prospects on the Regalia Bay development are contained in the sections headed "Business Review" and "Outlook" above, respectively.

### Cash Flow and Capital Structure

During the period under review, net cash inflow from operating activities totalled HK\$4.5 million (2006 - HK\$204.1 million). Net interest payment for the period amounted to HK\$36.7 million (2006 - HK\$152.7 million). The decrease in net interest payment was largely due to the full repayment of bank borrowings during the period upon spin-off of Regal REIT.

During the period under review and up to the end of July 2007, a total of 237.4 million new ordinary shares of the Company were allotted and issued to the holders of the 2007 Warrants who exercised the subscription rights in an aggregate amount of HK\$59.3 million attached to the 2007 Warrants at the subscription price of HK\$0.25 per ordinary share. The outstanding subscription rights attached to the 2007 Warrants of the Company which had not been exercised by 4:00 p.m. on 26th July, 2007 (the expiry date of the subscription rights) had lapsed. The listing of the 2007 Warrants was withdrawn with effect from the close of trading hours of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 26th July, 2007.



During the period under review, optional bonds for an additional aggregate principal amount of HK\$200.0 million (the "Optional Bonds") in respect of the 2% Guaranteed Convertible Bonds due 2007 were issued by Cheerview Limited, a wholly owned subsidiary of the Company, to the relevant option holders who exercised the options granted to them for the subscription of the Optional Bonds. All of the outstanding Firm Bonds in an aggregate principal amount of HK\$125.0 million and the issued Optional Bonds were converted into a total of 1,300 million new ordinary shares of the Company at the conversion price of HK\$0.25 per ordinary share during the period.

### Assets Value

In order to more fairly reflect the underlying net asset value of the Group and for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on a proforma basis to adjust for the interest held in Regal REIT to reflect the share of the underlying net assets of Regal REIT attributable to the Group, is provided as follows:

### Statement of Proforma Net Assets

	<b>30th June, 2007 (Unaudited) HK\$'million</b>
Interest in a jointly controlled entity	2,050.7
Interest in Regal REIT	7,333.9
Interests in other associates	494.2
Other non-current assets	1,351.1
	<hr/>
Total non-current assets	11,229.9
Net current assets	858.6
	<hr/>
Total assets less current liabilities	12,088.5
Non-current liabilities	(131.5)
Minority interests	(1.3)
	<hr/>
Proforma net assets attributable to equity holders of the parent	11,955.7
	<hr/> <hr/>
Proforma net asset value per ordinary share	HK\$1.14
	<hr/> <hr/>

## **Borrowings**

As at 30th June, 2007, the Group had no bank borrowings and had total cash and bank balances, net of other borrowings, of HK\$2,009.0 million (31st December, 2006 - net borrowings of HK\$4,375.0 million, representing a gearing ratio of 61.8% based on total assets of HK\$7,078.4 million).

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

## **Material Acquisitions or Disposals of Subsidiaries or Associates**

As disclosed in the annual report of the Company for the financial year ended 31st December, 2006 (the "2006 Annual Report"), on 30th March, 2007, the spin-off of Regal REIT from the Group was completed and the separate listing of the units of Regal REIT on the Main Board of the Stock Exchange commenced.

Save as otherwise disclosed in the sections headed "Business Review" and "Outlook" above, the Group has no immediate plans for material investments or capital assets.

## **Funding and Treasury Policy**

The Group adopts a prudent funding and treasury policy with regard to its overall business operations. As the Group's borrowings were primarily denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues were derived, and with interest determined with reference to interbank offered rates, the use of hedging instruments for currency or interest rates purposes was not considered to be necessary. Following the spin-off of Regal REIT, the Group has become free of any bank debt.

## **Remuneration Policy**

The Group employs approximately 1,820 staff in Hong Kong. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

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

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

## CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Condensed Consolidated Income Statement

		Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	Notes	HK\$'million	HK\$'million
REVENUE	2	622.0	608.3
Cost of sales		(532.8)	(320.0)
Gross profit		89.2	288.3
Other income and gains	3	203.9	41.5
Administrative expenses		(68.5)	(35.6)
Gain on disposal of subsidiaries	4	2,320.4	–
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTISATION		2,545.0	294.2
Depreciation and amortisation		(37.6)	(68.0)
OPERATING PROFIT	2	2,507.4	226.2
Finance costs	6	(80.3)	(134.9)
Share of profits and losses of:			
Jointly controlled entity		1.9	217.1
Associates		79.3	(1.0)
PROFIT BEFORE TAX		2,508.3	307.4
Tax	7	(12.1)	3.4
PROFIT FOR THE PERIOD		2,496.2	310.8
Attributable to:			
Equity holders of the parent		2,496.2	310.8
Minority interests		–	–
		2,496.2	310.8
EARNINGS PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic		HK26.3 cents	HK3.7 cents
Diluted		HK23.4 cents	HK3.0 cents
DIVIDEND PER ORDINARY SHARE	9	HK0.3 cent	HK0.25 cent

## Condensed Consolidated Balance Sheet

		30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	Notes	HK\$'million	HK\$'million
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		9.8	10.6
Interest in a jointly controlled entity		2,050.7	2,032.6
Interests in associates		786.7	488.8
Financial assets at fair value through profit or loss		272.5	–
Other loan		66.4	65.6
Deferred tax assets		2.4	2.4
Pledged bank deposits		1,000.0	–
Total non-current assets		4,188.5	2,600.0
<b>CURRENT ASSETS</b>			
Hotel and other inventories		18.4	17.8
Debtors, deposits and prepayments	10	163.9	162.0
Financial assets at fair value through profit or loss		200.0	29.8
Time deposits		1,090.3	156.3
Cash and bank balances		50.2	66.4
		1,522.8	432.3
Assets of a disposal group classified as held for sale		–	4,046.1
Total current assets		1,522.8	4,478.4
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	11	(662.6)	(229.4)
Derivative financial instrument		(0.2)	(0.6)
Interest bearing bank borrowings	12	–	(1,718.7)
Convertible bonds		–	(122.5)
Tax payable		(1.4)	(2.4)
		(664.2)	(2,073.6)

### Condensed Consolidated Balance Sheet (Cont'd)

		30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	Notes	HK\$'million	HK\$'million
Liabilities directly associated with the assets of a disposal group classified as held for sale		–	(29.1)
Total current liabilities		<b>(664.2)</b>	(2,102.7)
NET CURRENT ASSETS		<b>858.6</b>	2,375.7
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>5,047.1</b>	4,975.7
NON-CURRENT LIABILITIES			
Convertible preference shares		<b>(131.5)</b>	(127.7)
Interest bearing bank borrowings	12	–	(2,628.8)
Total non-current liabilities		<b>(131.5)</b>	(2,756.5)
Net assets		<b>4,915.6</b>	2,219.2
EQUITY			
<b>Equity attributable to equity holders of the parent</b>			
Issued capital		<b>105.1</b>	91.4
Equity component of convertible bonds		–	13.6
Reserves		<b>4,777.2</b>	1,966.4
Dividends		<b>32.0</b>	146.5
		<b>4,914.3</b>	2,217.9
<b>Minority interests</b>		<b>1.3</b>	1.3
Total equity		<b>4,915.6</b>	2,219.2

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2007

	Attributable to equity holders of the parent												
	Issued share capital (Unaudited) HK\$ million	Share premium account (Unaudited) HK\$ million	Share component of convertible bonds (Unaudited) HK\$ million	Share option reserve (Unaudited) HK\$ million	Capital redemption reserve (Unaudited) HK\$ million	Hedge reserve (Unaudited) HK\$ million	Investment revaluation reserve (Unaudited) HK\$ million	Exchange equalisation reserve (Unaudited) HK\$ million	Retained profits (Unaudited) HK\$ million	Dividends (Unaudited) HK\$ million	Total (Unaudited) HK\$ million	Minority interests (Unaudited) HK\$ million	Total equity (Unaudited) HK\$ million
1st January, 2007	91.4	750.8	13.6	20.7	0.9	-	-	10.2	1,183.8	146.5	2,217.9	1.3	2,219.2
Exchange realignment and income recognised directly in equity	-	-	-	-	-	-	-	0.9	-	-	0.9	-	0.9
Profit for the period	-	-	-	-	-	-	-	-	2,496.2	-	2,496.2	-	2,496.2
Final 2006 dividend declared	-	-	-	-	-	-	-	-	(21.6)	(146.5)	(168.1)	-	(168.1)
Issue of new shares upon exercise of warrants	0.7	16.8	-	-	-	-	-	-	-	-	17.5	-	17.5
Issue of new shares upon conversion of convertible bonds	13.0	323.1	(13.6)	-	-	-	-	-	-	-	322.5	-	322.5
Share of Regal REIT's reserve	-	-	-	-	-	20.1	-	-	-	-	20.1	-	20.1
Equity-settled share option arrangements	-	-	-	7.3	-	-	-	-	-	-	7.3	-	7.3
Interim 2007 dividend	-	-	-	-	-	-	-	-	(32.0)	32.0	-	-	-
At 30th June, 2007	105.1	1,090.7	-	28.0	0.9	20.1	-	11.1	3,626.4	32.0	4,914.3	1.3	4,915.6
1st January, 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	-	-	-	-	-	-	-	-	310.8	-	310.8	-	310.8
Final 2005 dividend declared	-	-	-	-	-	-	-	-	(0.3)	(46.1)	(46.4)	-	(46.4)
Issue of new shares upon exercise of warrants	0.8	19.6	-	-	-	-	-	-	-	-	20.4	-	20.4
Equity-settled share option arrangements	-	-	-	7.4	-	-	-	-	-	-	7.4	-	7.4
Interim 2006 dividend	-	-	-	-	-	-	-	-	(21.1)	21.1	-	-	-
At 30th June, 2006	84.5	578.9	21.8	13.1	0.9	-	29.4	0.6	1,309.8	21.1	2,060.1	1.3	2,061.4

### Condensed Consolidated Cash Flow Statement

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	4.5	204.1
Net cash inflow/(outflow) from investing activities	5,274.8	(327.0)
Net cash outflow from financing activities	<u>(4,361.5)</u>	<u>(181.7)</u>
Net increase/(decrease) in cash and cash equivalents	917.8	(304.6)
Cash and cash equivalents at beginning of period	<u>222.7</u>	<u>383.4</u>
Cash and cash equivalents at end of period	<u><u>1,140.5</u></u>	<u><u>78.8</u></u>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	50.2	25.1
Non-pledged time deposits with original maturity of less than three months when acquired	<u>1,090.3</u>	<u>53.7</u>
	<u><u>1,140.5</u></u>	<u><u>78.8</u></u>

## 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, 2006, except for the adoption of the following Hong Kong Financial Reporting Standards (“HKFRSs”) mandatory for annual periods beginning on or after 1st January, 2007.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>
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

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 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:

- the hotel ownership/operation\* and management segment engages in hotel operations and the provision of hotel management services;
- the asset management segment engages in the provision of asset management services to Regal Real Estate Investment Trust (“Regal REIT”);
- the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services; and
- the others segment mainly comprises the Group’s securities trading, other investment business, health products operations and bakery operations.

\* the Group owned and operated its hotels in Hong Kong until the disposal of the hotel properties to Regal REIT for a separate listing on 30th March, 2007 and thereafter leased the hotel properties from Regal REIT for hotel 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 table presents revenue and profit information for the Group's business segments.

**Group**

	Hotel ownership/operation and management Six months ended 30th June,		Asset management Six months ended 30th June,		Property development and investment Six months ended 30th June,		Others Six months ended 30th June,		Eliminations Six months ended 30th June,		Consolidated Six months ended 30th June,	
	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m	2007 (Unaudited) HK\$'m	2006 (Unaudited) HK\$'m
Segment revenue												
Sales to external customers	596.3	575.0	17.4	-	0.6	0.5	7.7	32.8	-	-	622.0	608.3
Intersegment sales	0.1	1.1	-	-	0.2	0.1	1.6	1.2	(1.9)	(2.4)	-	-
<b>Total</b>	<b>596.4</b>	<b>576.1</b>	<b>17.4</b>	<b>-</b>	<b>0.8</b>	<b>0.6</b>	<b>9.3</b>	<b>34.0</b>	<b>(1.9)</b>	<b>(2.4)</b>	<b>622.0</b>	<b>608.3</b>
Segment results before depreciation and amortisation	46.8	274.9*	11.6	-	0.4	0.2	167.2	31.5	-	-	276.0	306.6
Depreciation and amortisation	(36.4)	(67.8)	(0.1)	-	(0.1)	(0.1)	-	(0.1)	-	-	(36.6)	(68.0)
Segment operating results	10.4	207.1	11.5	-	0.3	0.1	167.2	31.4	-	-	189.4	238.6
Interest income and unallocated non-operating and corporate gains											2,353.0	8.5
Unallocated non-operating and corporate expenses											(35.0)	(20.9)*
Operating profit											<b>2,507.4</b>	<b>226.2</b>
Finance costs											<b>(80.3)</b>	<b>(134.9)</b>
Share of profits and losses of: Jointly controlled entity					1.9	217.1	-	-	-	-	1.9	217.1
Associates	(0.4)	(0.2)	80.2	-	(0.3)	(0.6)	(0.2)	(0.2)	-	-	79.3	(1.0)
Profit before tax											<b>2,508.3</b>	<b>307.4</b>
Tax											<b>(12.1)</b>	<b>3.4</b>
Profit for the period											<b>2,496.2</b>	<b>310.8</b>
Attributable to: Equity holders of the parent											<b>2,496.2</b>	<b>310.8</b>
Minority interests											-	-
											<b>2,496.2</b>	<b>310.8</b>

\* restated to reflect the reallocation of certain staff costs and directors' emoluments in the amount of HK\$12.5 million from segment results of hotel ownership/operation and management to unallocated non-operating and corporate expenses

(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, 2007 (Unaudited) HK\$m	2006 (Unaudited) HK\$m	Six months ended 30th June, 2007 (Unaudited) HK\$m	2006 (Unaudited) HK\$m	Six months ended 30th June, 2007 (Unaudited) HK\$m	2006 (Unaudited) HK\$m	Six months ended 30th June, 2007 (Unaudited) HK\$m	2006 (Unaudited) HK\$m
Segment revenue:								
Sales to external customers	619.7	606.1	2.3	2.2	-	-	622.0	608.3

### 3. Other Income and Gains

Other income and gains are analysed as follows:

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	HK\$'million	HK\$'million
<u>Other income</u>		
Bank interest income	26.9	2.8
Interest income from other loan	0.8	1.5
Dividend income from listed investments	0.1	3.0
Net settlement amount received for the claim in connection with the agreement for the sale and purchase of the Group's hotel property in Canada in 2002	4.4	–
Others	0.1	–
	<u>32.3</u>	<u>7.3</u>
<u>Gains</u>		
Fair value gains on financial assets at fair value through profit or loss, net	171.2	29.9
Fair value gain on derivative financial instrument	0.4	4.3
	<u>171.6</u>	<u>34.2</u>
	<u>203.9</u>	<u>41.5</u>

### 4. Gain on disposal of subsidiaries

The gain arose from the completion of the spin-off of Regal REIT (the "Spin-off") during the period, which comprised the global offering and separate listing of the units in Regal REIT on The Stock Exchange of Hong Kong Limited, and all the incidental arrangements which primarily involved the disposal of the Group's subsidiaries owning the five hotel properties in Hong Kong to Regal REIT, a real estate investment trust constituted by a trust deed (the "Trust Deed") between Regal Portfolio Management Limited ("RPML"), a wholly owned subsidiary of the Group, as the manager of Regal REIT and DB Trustees (Hong Kong) Limited as the trustee of Regal REIT. The Group has retained 70.5% interest in Regal REIT and effectively disposed of 29.5% of its interest in the hotel properties upon the completion of the Spin-off (after accounting for the exercise of the over allotment option of the units in Regal REIT pursuant to the global offering).

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

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	HK\$'million	HK\$'million
Gain on sale of equity investments at fair value through profit or loss	<u>0.7</u>	<u>2.5</u>

## 6. Finance Costs

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (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>80.3</u>	<u>134.9</u>

## 7. Tax

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	HK\$'million	HK\$'million
Current - Hong Kong	1.0	-
Current - Overseas		
Provision for tax in respect of profits for the period	0.2	0.2
Prior year overprovision	-	(0.3)
Deferred tax	<u>10.9</u>	<u>(3.3)</u>
Tax charge/(credit) for the period	<u>12.1</u>	<u>(3.4)</u>

The provision for Hong Kong profits tax has 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 that period. No provision for Hong Kong profits tax had been made in the prior year 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 that period.

Tax on the profits of subsidiaries 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 jointly controlled entity as no assessable profits were earned by the jointly controlled entity during the period (2006 - Nil).

The share of tax charge attributable to the associates amounting to HK\$6.3 million is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

Deferred tax income/charge 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.

## 8. 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\$2,496.2 million (2006 - HK\$310.8 million), and on the weighted average of 9,475.6 million (2006 - 8,397.9 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, 2007 is based on the adjusted profit for the period attributable to equity holders of the parent of HK\$2,500.0 million as adjusted for the interest savings arising from the conversion of the convertible preference shares into ordinary shares of the Company, and on the adjusted weighted average of 10,681.2 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, and all outstanding convertible preference shares of the Company were converted into ordinary shares of the Company at the beginning of the period. 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, 2006 was based on the adjusted profit for that 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 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.

## 9. Dividend

The Directors have declared the payment of an interim dividend of HK0.3 cent per ordinary share for the financial year ending 31st December, 2007 (2006 - HK0.25 cent), absorbing a total amount of approximately HK\$32.0 million (2006 - HK\$21.1 million).

## 10. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$85.9 million (31st December, 2006 - HK\$91.1 million) representing the trade debtors of the Group. The aged analysis of such debtors, based on the invoice date, is as follows:

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	73.6	81.7
Between 4 to 6 months	5.1	5.8
Between 7 to 12 months	5.3	2.0
Over 1 year	2.6	2.3
	<hr/>	<hr/>
	86.6	91.8
Impairment	(0.7)	(0.7)
	<hr/>	<hr/>
	85.9	91.1
	<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 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 associates and related companies of HK\$19.8 million (31st December, 2006 - HK\$10.3 million) and HK\$2.4 million (31st December, 2006 - HK\$2.4 million) respectively, which are repayable on similar credit terms to those offered to the major customers of the Group or otherwise in accordance with the agreed terms in the relevant agreements.

At 31st December, 2006, 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 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, 2007.

## 11. Creditors and Accruals

Included in the balance is an amount of HK\$51.0 million (31st December, 2006 - HK\$64.2 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	49.9	61.9
Between 4 to 6 months	0.7	1.6
Between 7 to 12 months	0.2	0.6
Over 1 year	0.2	0.1
	<u>51.0</u>	<u>64.2</u>

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

Included in creditors and accruals are amounts due to associates and related companies of HK\$19.0 million (31st December, 2006 - HK\$11.3 million) and HK\$35.7 million (31st December, 2006 - HK\$9.5 million) respectively, which have similar credit terms to those offered by the associate and those related companies to their major customers or otherwise in accordance with the agreed terms in the relevant agreements.

Also included in creditors and accruals is a provision for outstanding land premium and construction cost payable for the asset enhancement program of the hotel properties leased from Regal REIT, undertaken to be borne by the Group pursuant to the sale and purchase agreement in connection with the Spin-off of Regal REIT in the amount of HK\$407.9 million, of which HK\$25.3 million is included in the amounts due to related companies mentioned above.

## 12. Interest bearing bank and other borrowings

	Effective interest rate p.a. (%)	Maturity	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
			HK\$'million	HK\$'million
<b>Current</b>				
Bank loans - secured	4.7 - 5.7	2007	-	1,718.7
Convertible bonds	5.92	2007	-	122.5
			<u>-</u>	<u>1,841.2</u>
<b>Non-current</b>				
Bank loans - secured	4.7 - 5.7	2009	-	2,628.8
Convertible preference shares	5.75	2008	131.5	127.7
			<u>131.5</u>	<u>2,756.5</u>
			<u>131.5</u>	<u>4,597.7</u>

The bank borrowings were in Hong Kong dollars, bore interests at floating interest rates and were fully repaid during the period.

The convertible bonds were fully converted during the period.

### 13. Related Party Transactions

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these condensed consolidated financial statements, the Group had the following material related party transactions during the period:

		Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	Notes	HK\$'million	HK\$'million
A substantial shareholder:			
Management fees		5.7	5.5
Wholly-owned subsidiaries of a substantial shareholder, Paliburg Holdings Limited ("PHL"):			
Development consultancy fees		3.7	–
Service fees in respect of security systems and products and other software		0.1	0.2
Repairs and maintenance fees and construction fees		69.2	3.1
Associates:			
REIT manager's fees	(i)	17.4	–
Lease rental	(ii)	174.8	–
Furniture, fixtures and equipment reserve contribution	(iii)	6.9	–
Advertising and promotion fees (including cost reimbursements)		5.9	5.0
Hotel room revenue		12.3	4.5
A jointly controlled entity:			
Estate agency fee income		0.2	–
Rental expenses in respect of land and buildings		1.4	–
		<u>          </u>	<u>          </u>

**Notes:**

- (i) The REIT manager's fees comprise a base fee and a variable fee payable by Regal REIT to RPML for its services as the REIT manager under the terms of the Trust Deed.
- (ii) The lease rental represents the cash base rent and variable rent payable by the Group to Regal REIT under the relevant lease agreements (the "Lease Agreements") in connection with the leasing of the hotel properties from Regal REIT for hotel operations.
- (iii) The furniture, fixtures and equipment reserve contribution is payable by the Group to Regal REIT under the Lease Agreements for the purchases and replacement of furniture, fixtures and equipment of the hotel properties.

The nature and terms of the other related party transactions set out above were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2006.

In addition, the Group has guaranteed the total minimum variable rent payable under the Lease Agreements for the years up to 2010 in the amount of HK\$220.0 million.



The Company has also guaranteed the lessee's obligations under the Lease Agreements under separate guarantees (the "Lease Guarantees"). In this connection, the Company has undertaken to maintain a minimum consolidated tangible net worth (as defined in the Lease Guarantees) of HK\$4 billion and procure an unconditional and irrevocable bank guarantee in the amount of HK\$1 billion in favour of the lessors and the trustee of Regal REIT.

Pursuant to the sale and purchase agreement signed in connection with the Spin-off of Regal REIT, the Group has undertaken to complete and bear the cost of the asset enhancement program ("AEP") for certain hotel properties disposed of to Regal REIT. The total estimated cost of the AEP, including the land premium payable, amounted to approximately HK\$494.1 million of which the outstanding balance as at 30th June, 2007 amounted to approximately HK\$407.9 million and has been fully provided for in the condensed consolidated interim financial statements.

Pursuant to the distributable income guarantee deed (the "DIGD") signed in connection with the spin-off of Regal REIT, the Company has guaranteed the total distributable income of Regal REIT for the period from the date of its listing (i.e. 30th March, 2007) to 31st December, 2007 to be not less than HK\$420.3 million.

Under a deed of trade mark licence, the Group has granted to Regal REIT a non-exclusive and non-transferable licence at nil consideration to use its registered trade marks or service marks for the purpose of describing the ownership of the hotels disposed of by the Group to Regal REIT and/or use in connection with the business of these hotels.

(b) Outstanding balances with related parties

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Due from the jointly controlled entity	366.7	366.7
Due from associates	19.8	10.3
Due from related companies	10.5	10.5
Due to associates	(19.0)	(11.3)
Due to related companies	(35.7)	(9.5)
Loans to the jointly controlled entity	3,000.7	2,984.5
Loans and advances to associates	257.6	252.2
	<u>          </u>	<u>          </u>

(c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2007 (Unaudited)	Six months ended 30th June, 2006 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	14.7	4.9
Share-based payments	7.3	6.5
	<u>          </u>	<u>          </u>
Total compensation paid to key management personnel	22.0	11.4
	<u>          </u>	<u>          </u>

#### 14. Pledge of Assets

At 30th June, 2007, the Group's bank deposits in the amount of HK\$1,000.0 million were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees (note 13).

At 31st December, 2006, certain of the Group's interest in a jointly controlled entity, prepaid land lease payments, hotel properties, leasehold properties and certain of its furniture, fixtures and equipment, bank deposits and cash, inventories and receivables with a total carrying value of HK\$6,085.4 million and the shares in certain subsidiaries were pledged to secure general banking facilities granted to the Group (note 12).

#### 15. Contingent Liability

Apart from the guarantees given under the Lease Agreements in respect of the minimum variable rent and DIGD in respect of the minimum distributable income of Regal REIT as disclosed in note 13 above, the Group had no other contingent liability as at 30th June, 2007 (31st December, 2006 - Nil).

#### 16. Operating Lease Arrangements

(a) As lessor

Since the completion of the Spin-off of Regal REIT on 30th March, 2007, the Group has effectively subleased certain retail space and areas of its leased hotel 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, 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Within one year	15.8	21.1
In the second to fifth years, inclusive	9.0	14.7
	<u>24.8</u>	<u>35.8</u>

(b) As lessee

Since the completion of the Spin-off of Regal REIT on 30th March, 2007, the Group has started to lease certain hotel properties from Regal REIT under the Lease Agreements, the term of which runs from 30th March, 2007 to 31st December, 2015. The rental package for the years up to 2010 comprises a cash base rent which is a pre-determined escalating annual amount payable monthly and a variable rent calculated as a percentage of the net property income of the hotel properties in excess of the cash base rent on an annual basis, as stipulated in the Lease Agreements. For the years from 2011 to 2015, the rental package is to be determined subject to annual rent reviews by an independent property valuer.

The Group also leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms from 1 to 3 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 to 5 years.

At 30th June, 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	669.9	5.8
In the second to fifth years, inclusive	<u>1,884.7</u>	<u>5.3</u>
	<u>2,554.6</u>	<u>11.1</u>
Other equipment:		
Within one year	0.1	0.1
In the second to fifth years, inclusive	<u>0.2</u>	<u>0.2</u>
	<u>0.3</u>	<u>0.3</u>
	<u><u>2,554.9</u></u>	<u><u>11.4</u></u>

The lease payments set out above exclude the lease rental payable by the Group under the Lease Agreements for the years from 2011 to 2015, which is to be determined subject to annual rent reviews by an independent property valuer.

In addition, the Group has guaranteed the total minimum variable rent payable under the Lease Agreements for the years up to 2010 in the amount of HK\$220.0 million.

#### 17. Commitments

As at 30th June, 2007, the Group had no outstanding commitment. As at 31st December, 2006, the Group had the following outstanding capital commitments:

	30th June, 2007 (Unaudited)	31st December, 2006 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of, improvements or extensions to the hotel properties:		
Authorised and contracted for	–	58.4
Authorised, but not contracted for	<u>–</u>	<u>291.7</u>
	<u>–</u>	<u>350.1</u>
	<u><u>–</u></u>	<u><u>350.1</u></u>

## 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, 2007	Vested during the period	At 30th June, 2007		
<b>Directors</b>						
12th May, 2005	Mr. Lo Yuk Sui					
	Vested:	–	80,000,000	80,000,000	Note	0.75
	Unvested:	200,000,000***	(80,000,000)	120,000,000		
25th July, 2005	Ms. Belinda Yeung Bik Yiu					
	Unvested:	30,000,000	–	30,000,000	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
<b>Other Employees</b>						
25th July, 2005	Employees, in aggregate					
	Unvested:	35,000,000	–	35,000,000	Note	0.75
	<b>Total</b>					
	Vested:	–	80,000,000	80,000,000		
	Unvested:	350,000,000	(80,000,000)	270,000,000		

- \* 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 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.

**Note:**

Vesting/Exercise periods of share options:

<b>On completion of continuous service of</b>	<b>Percentage vesting</b>	<b>Cumulative percentage exercisable</b>
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)

## OTHER INFORMATION

### Directors' Interests in Share Capital

As at 30th June, 2007, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

	Name of Director	Class of Shares Held	Number of Shares Held			Total (Approximate percentage of the Issued Shares as at 30th June, 2007)
			Personal Interests	Corporate Interests	Family/ Other Interests	
1. The Company	Mr. Lo Yuk Sui ("Mr. Lo")	Ordinary (i) issued	220,000	4,702,561,610 (Note a(i))	-	4,702,781,610
		(ii) unissued (Notes a(iii) & (v))	200,022,000	69,805,453 (Notes a(ii) to (iv))	-	269,827,453
				Total (i) & (ii):		4,972,609,063 (47.32%)
		Preference (issued)	-	3,440 (Note a(iv))	-	3,440 (20.54%)
	Dr. Francis Choi Chee Ming	Ordinary (issued)	802,400,000	-	-	802,400,000 (7.64%)
	Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	30,000,000 (Note b)	-	-	30,000,000 (0.29%)
	Mr. Donald Fan Tung	Ordinary (unissued)	20,000,000 (Note c)	-	-	20,000,000 (0.19%)
	Mr. Jimmy Lo Chun To	Ordinary (unissued)	15,000,000 (Note d)	-	-	15,000,000 (0.14%)
	Miss Lo Po Man	Ordinary (i) issued	3,000,000	-	2,691,690	5,691,690
		(ii) unissued (Note b)	30,000,000	-	-	30,000,000
			Total (i) & (ii):		35,691,690 (0.34%)	
Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	20,000,000 (Note c)	-	-	20,000,000 (0.19%)	

	Name of Associated Corporation	Name of Director	Class of Shares Held	Number of Shares Held			Total (Approximate percentage of the Issued Shares as at 30th June, 2007)
				Personal Interests	Corporate Interests	Family/ Other Interests	
2.	8D International (BVI) Limited	Mr. Lo	Ordinary (issued)	-	1,000 (Note f)	-	1,000 (100%)
3.	Regal Real Estate Investment Trust	Mr. Lo	Units (issued)	-	2,203,622,452 (Note g)	-	2,203,622,452 (70.94%)

**Notes:**

- (a) (i) The issued ordinary shares of the Company were held through companies wholly owned by Paliburg Holdings Limited ("PHL"), in which Century City International Holdings Limited ("CCIHL") held 53.0% shareholding interests. Mr. Lo held 55.68% shareholding interests in CCIHL.
- (ii) The interests in 69,805,453 unissued ordinary shares of the Company were held through companies wholly owned by PHL, in which CCIHL held 53.0% shareholding interests. Mr. Lo held 55.68% shareholding interests in CCIHL.
- (iii) The interests in 22,000 and 54,197,026 unissued ordinary shares of the Company related to the interests in the warrants of the Company (the "2007 Warrants") carrying subscription rights in an aggregate amount of HK\$13,554,756.50, which were exercisable during the period from 2nd February, 2005 to 26th July, 2007 to subscribe for a total of 54,219,026 new ordinary shares of the Company at an initial subscription price of HK\$0.25 per ordinary share (subject to adjustments). All the outstanding 2007 Warrants in the aggregate amount of HK\$13,554,756.50 were exercised before the expiry date of the subscription rights of 26th July, 2007.
- (iv) The interests in 15,608,427 unissued ordinary shares of the Company related to the interests in 3,440 convertible cumulative preference shares of the Company carrying rights to convert into 15,608,427 new ordinary shares of the Company, based on the conversion price of HK\$1.7037 per ordinary share and on a reference amount of US\$1,000 per preference share at the fixed exchange rate of HK\$7.730255 to US\$1.00, during the period from 5th December, 1993 to 5th December, 2008.

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

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

- (b) The interests in 30,000,000 unissued ordinary shares of the Company 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 ordinary shares of the Company at an exercise price of HK\$0.75 per ordinary share (subject to adjustments). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

<u>Exercise period</u>	<u>Number of ordinary shares of the Company under vested options</u>
25th July, 2007 to 24th July, 2011	12,000,000
25th July, 2008 to 24th July, 2011	6,000,000
25th July, 2009 to 24th July, 2011	6,000,000
25th July, 2010 to 24th July, 2011	6,000,000

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

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



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

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

- (e) The interests in 2,691,690 issued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust.
- (f) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 55.68% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.
- (g) The interests in 2,203,622,452 units of Regal Real Estate Investment Trust were held through wholly owned subsidiaries of the Company. PHL, in which CCIHL held 53.0% shareholding interests, held 44.75% shareholding interests in the Company. Mr. Lo held 55.68% shareholding interests in CCIHL.

Save as disclosed herein, as at 30th June, 2007, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed in note 18 to the condensed consolidated financial statements, during the period, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the Share Option Scheme and no option granted to such persons under the Share Option Scheme has been cancelled and lapsed:

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

## Substantial Shareholders' Interests in Share Capital

As at 30th June, 2007, the following substantial shareholders (as defined in the Listing Rules) (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of Substantial Shareholder	Number of Issued Ordinary Shares Held	Number of Underlying Ordinary Shares (Unissued) Held	Total number of Ordinary Shares (Issued and Unissued) Held	Approximate percentage of the Issued Ordinary Shares as at 30th June, 2007
CCIHL (Note i)	4,702,561,610	69,805,453	4,772,367,063	45.41%
Century City BVI Holdings Limited (Note ii)	4,702,561,610	69,805,453	4,772,367,063	45.41%
Almighty International Limited (Note ii)	4,702,561,610	69,805,453	4,772,367,063	45.41%
PHL (Note iii)	4,702,561,610	69,805,453	4,772,367,063	45.41%
Paliburg Development BVI Holdings Limited (Note iv)	4,702,561,610	69,805,453	4,772,367,063	45.41%
Guo Yui Investments Limited (Note iv)	1,607,617,577	14,307,089	1,621,924,666	15.43%
Paliburg International Holdings Limited (Note iv)	2,591,590,810	37,841,291	2,629,432,101	25.02%
Paliburg BVI Holdings Limited (Note iv)	2,591,590,810	37,841,291	2,629,432,101	25.02%
Taylor Investments Ltd. (Note iv)	1,504,510,765	37,812,292	1,542,323,057	14.68%
Glaser Holdings Limited (Note iv)	586,828,314	-	586,828,314	5.58%

### Notes:

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

Save as disclosed herein, there is no person who, as at 30th June, 2007, 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.

### Disclosure pursuant to Rules 13.13 and 13.16 of Chapter 13 of the Listing Rules

The following disclosure is made by the Company in compliance with the continuing disclosure requirements under Rules 13.13 and 13.16 of Chapter 13 of the Listing Rules:

#### *Advances to an Entity (Rule 13.13 of Chapter 13)*

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by the Company and 30% by China Overseas Land & Investment Limited, which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules), by the Company and its subsidiaries (the "Group") as at 30th June, 2007 are set out below:

<b>Advances</b>	<b>Group (HK\$'million)</b>
(A) Principal Amount of Advances	3,000.7
(B) Interest Receivable	379.2
	<hr/>
Total: (A)+(B)	<u>3,379.9</u>

The above advances to Chest Gain in an aggregate sum of HK\$3,379.9 million included an amount of HK\$1,701.1 million, which represented the gross amount of the advances attributable to the additional 40% interest in Chest Gain acquired from PHL in 2002 as detailed in the audited consolidated financial statements for the year ended 31st December, 2002. Such contributions of funds to Chest Gain are provided in the form of shareholders' loans in proportion to the respective shareholding interests of the shareholders of Chest Gain. The advances are unsecured and have no fixed term of repayment, interest bearing at prime rate per annum. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of the "Regalia Bay" luxury residential project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Regalia Bay Development"). The site for the Regalia Bay Development was acquired by Chest Gain at the government land auction held on 3rd June, 1997.

Calculated on the basis shown above, the aggregate of advances as at 30th June, 2007 provided by the Group to Chest Gain in the sum of HK\$3,379.9 million represented 59.2% of the consolidated total assets of the Company of HK\$5,711.3 million (the "Regal TA"), by reference to its latest unaudited condensed consolidated financial statements for the six months ended 30th June, 2007.

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

Details of the financial assistance provided to affiliated companies (including Chest Gain) by the Group as at 30th June, 2007 are set out below:

<b>Name of Affiliated Companies</b>	<b>Principal Amount of Advances (HK\$'million)</b>	<b>Interest Receivable (HK\$'million)</b>	<b>Total (HK\$'million)</b>
Chest Gain	3,000.7	379.2	3,379.9
8D International (BVI) Limited	29.0	–	29.0
8D Matrix Limited	1.3	–	1.3
Bright Future (HK) Limited	5.6	–	5.6
Network Sky Limited	0.9	–	0.9
Hang Fok Properties Limited	220.8	–	220.8
	<u>3,258.3</u>	<u>379.2</u>	<u>3,637.5</u>

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

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

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

Bright Future (HK) Limited ("Bright Future"), a 50% owned associate of the Company, owns a 90% effective equity interest in a foreign enterprise engaged in the operation of a hotel in Qinghai in the People's Republic of China (the "PRC"). The remaining 50% shareholding interest in Bright Future and the remaining 10% equity interest in the aforesaid foreign enterprise are owned by third parties respectively, which are independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances to Bright Future were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Bright Future, for the purpose of funding the working capital requirements of Bright Future. The advances to Bright Future are unsecured, interest-free and have no fixed term of repayment.

Network Sky Limited ("Network Sky") is a 25% owned associate of the Company, which through its wholly owned subsidiary was engaged in the carrying on of a light refreshment operation. The other shareholding interests in Network Sky are owned as to 25% indirectly by PHL, 25% indirectly by Mrs. Kitty Lo Lee Kit Tai, the spouse of Mr. Lo Yuk Sui and the mother of Mr. Jimmy Lo Chun To and Miss Lo Po Man, through her associate (as defined in the Listing Rules) and 25% directly by a third party which is independent of, and not connected with the Company, the directors, chief executive and substantial shareholders of the Company and any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). The advances to Network Sky were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interest in Network Sky, for the purpose of financing the working capital of Network Sky. The advances are unsecured, interest-free and have no fixed term of repayment.

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

Calculated on the basis shown above, as at 30th June, 2007, the aggregate amount of financial assistance provided to affiliated companies by the Group in the sum of HK\$3,637.5 million represented 63.7% of the Regal TA.

Save as disclosed above, there were no other financial assistance provided to and guarantees given for affiliated companies by the Group as at 30th June, 2007, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

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

	<b>Pro-forma combined balance sheet (HK\$'million)</b>	<b>The Group's attributable interest (HK\$'million)</b>
Non-current assets	455.3	220.2
Current assets	3,682.0	2,413.5
Current liabilities	(138.6)	(72.5)
Non-current liabilities	(5,393.2)	(3,641.1)
	<hr/>	<hr/>
Net liabilities	<u>(1,394.5)</u>	<u>(1,079.9)</u>

## Corporate Governance

### *Code of Corporate Governance Practices*

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30th June, 2007, except that:

- (1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals due to practical necessity to cater to the Group's corporate operating structure.
- (2) The Non-Executive Director and the Independent Non-Executive Directors of the Company were not appointed for specific terms, but arrangements have been put in place such that the Non-Executive Director and the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

### *Code of Conduct for Securities Transactions by Directors*

The Company has adopted the "Code for Securities Transactions by Directors of Regal Hotels International Holdings Limited" (the "Regal Code"), on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors of the Company. Following specific enquiry by the Company, the Directors have confirmed that they have complied with the required standard under the Model Code and the Regal Code during the six months ended 30th June, 2007.

## Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2007.

## **Review of Results**

The Audit Committee of the Company currently comprises the following members:

Mr. Wong Chi Keung (Chairman of the Committee) (*Independent Non-Executive Director*)

Dr. Francis Choi Chee Ming (*Vice Chairman and Non-Executive Director*)

Ms. Alice Kan Lai Kuen (*Independent Non-Executive Director*)

Mr. Ng Siu Chan (*Independent Non-Executive Director*)

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30th June, 2007, in conjunction with the Company's external auditors. The review report of the external auditors is set out on page 40 of this report.



## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

**To the board of Directors of  
Regal Hotels International Holdings Limited**  
(Incorporated in Bermuda with limited liability)

### Introduction

We have reviewed the interim financial information set out on pages 10 to 28 which comprises the condensed consolidated balance sheet of Regal Hotels International Holdings Limited as at 30th June, 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended, and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants.

The Directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

**Ernst & Young**  
*Certified Public Accountants*

18/F, Two International Finance Centre  
8 Finance Street, Central  
Hong Kong  
27th August, 2007

