



## HALF YEAR RESULTS

### Condensed Consolidated Profit and Loss Account

		Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	Notes	HK\$'million	HK\$'million
TURNOVER	2	570.2	395.9
Cost of sales		(352.0)	(323.0)
Gross profit		218.2	72.9
Other revenue	4	3.2	4.3
Administrative expenses		(34.5)	(42.8)
Other operating expenses	5	(71.4)	(40.9)
Loss on disposal of overseas subsidiary companies		–	(9.7)
Write-back of impairment of properties		–	39.6
Write-back of impairment of a hotel property		165.8	–
PROFIT FROM OPERATING ACTIVITIES	2	281.3	23.4
Finance costs	6	(47.4)	(94.1)
Share of profits less losses of:			
Jointly controlled entity		59.3	(0.1)
Associates		(7.1)	(1.7)
PROFIT/(LOSS) BEFORE TAX		286.1	(72.5)
Tax	7	(2.8)	48.9
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		283.3	(23.6)
Minority interests		(155.8)	39.4
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		127.5	15.8
Earnings/(Loss) per ordinary share (HK\$):	8		
Basic		0.028	0.006
Diluted		0.021	(0.006)

**Condensed Consolidated Balance Sheet**

		30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	Notes	HK\$'million	HK\$'million
<b>NON-CURRENT ASSETS</b>			
Fixed assets		7,338.9	7,185.5
Goodwill		254.5	260.5
Negative goodwill		(49.7)	(4.1)
Properties under development		7.2	7.2
Property held for future development		26.7	26.7
Interest in a jointly controlled entity		1,391.4	1,298.6
Interests in associates		237.8	245.3
Long term investments	10	121.9	114.1
Loans and other long term receivable		106.0	109.1
Deferred tax assets		10.8	10.4
Deferred expenditure		33.6	38.7
		<b>9,479.1</b>	<b>9,292.0</b>
<b>CURRENT ASSETS</b>			
Short term investments		4.7	4.0
Properties held for sale		203.4	215.1
Hotel and other inventories		22.7	23.0
Debtors, deposits and prepayments	11	133.7	127.8
Pledged time deposits		5.1	25.9
Time deposits		167.6	110.9
Cash and bank balances		27.7	26.9
		<b>564.9</b>	<b>533.6</b>
<b>CURRENT LIABILITIES</b>			
Creditors and accruals	12	284.9	320.9
Tax payable		19.1	16.0
Interest bearing bank and other borrowings		1,151.2	1,076.7
Deposits received		99.5	81.6
		<b>1,554.7</b>	<b>1,495.2</b>
<b>NET CURRENT LIABILITIES</b>			
		<b>(989.8)</b>	<b>(961.6)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>8,489.3</b>	<b>8,330.4</b>

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

		30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	Note	HK\$'million	HK\$'million
TOTAL ASSETS LESS CURRENT LIABILITIES		<b>8,489.3</b>	8,330.4
NON-CURRENT LIABILITIES			
Interest bearing bank and other borrowings		<b>(3,456.6)</b>	(3,546.7)
Advances from minority shareholders of subsidiary companies		<b>(42.4)</b>	(42.4)
Deferred tax liabilities		<b>(65.7)</b>	(64.4)
Other payable		<b>(28.7)</b>	(28.7)
		<b>(3,593.4)</b>	(3,682.2)
Minority interests	13	<b>(2,415.8)</b>	(2,362.5)
		<b>2,480.1</b>	2,285.7
CAPITAL AND RESERVES			
Issued capital		<b>174.6</b>	238.3
Reserves		<b>2,305.5</b>	2,047.4
		<b>2,480.1</b>	2,285.7

## Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2004

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Retained profits (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2004	238.3	146.5	887.2	689.6	(16.1)	1.5	338.7	2,285.7
Conversion of convertible preference shares (Note)	(67.5)	67.5	-	-	-	-	-	-
Issue of new shares	3.8	59.9	-	-	-	-	-	63.7
Movement in fair value of long term investments	-	-	-	-	3.5	-	-	3.5
Release on disposal	-	-	-	-	(0.3)	-	-	(0.3)
Net profit for the period	-	-	-	-	-	-	127.5	127.5
<b>At 30th June, 2004</b>	<b>174.6</b>	<b>273.9</b>	<b>887.2</b>	<b>689.6</b>	<b>(12.9)</b>	<b>1.5</b>	<b>466.2</b>	<b>2,480.1</b>

	Share capital (Unaudited)	Share premium account (Unaudited)	Capital reserve (Unaudited)	Special reserve (Unaudited)	Revaluation reserves (Unaudited)	Exchange equalisation reserve (Unaudited)	Accumulated losses (Unaudited)	Total (Unaudited)
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
At 1st January, 2003	368.2	-	1,073.2	689.6	(15.1)	(5.0)	(48.9)	2,062.0
Conversion of convertible preference shares	(131.4)	131.4	-	-	-	-	-	-
Movement in fair value of long term investments	-	-	-	-	3.3	-	-	3.3
Release on deemed disposal of the Group's interest in the listed subsidiary company	-	-	(17.3)	-	-	-	-	(17.3)
Release on disposal of overseas subsidiary companies	-	-	(33.8)	-	-	-	-	(33.8)
Exchange realignments	-	-	-	-	-	7.4	-	7.4
Net profit for the period	-	-	-	-	-	-	15.8	15.8
<b>At 30th June, 2003</b>	<b>236.8</b>	<b>131.4</b>	<b>1,022.1</b>	<b>689.6</b>	<b>(11.8)</b>	<b>2.4</b>	<b>(33.1)</b>	<b>2,037.4</b>

**Note:** During the period, there were 750.0 million convertible preference shares of the Company of HK\$0.10 each converted into 750.0 million new ordinary shares of the Company of HK\$0.01 each.

**Condensed Consolidated Cash Flow Statement**

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Net cash inflow from operating activities	135.9	57.8
Net cash inflow/(outflow) from investing activities	(143.9)	15.7
Net cash inflow/(outflow) from financing activities	65.3	(126.7)
Net increase/(decrease) in cash and cash equivalents	57.3	(53.2)
Cash and cash equivalents at beginning of period	137.7	119.9
Effect of foreign exchange rate changes, net	–	1.1
Cash and cash equivalents at end of period	195.0	67.8
Analysis of balances of cash and cash equivalents		
Cash and bank balances	27.7	56.6
Non-pledged time deposits with original maturity of less than three months when acquired	167.6	12.6
	195.3	69.2
Bank overdrafts	(0.3)	(1.4)
	195.0	67.8

## **Notes to Condensed Consolidated Financial Statements**

### **1. Accounting Policies**

These unaudited interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the Group's audited financial statements for the year ended 31st December, 2003.

### **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 property development and investment segment comprises the development and sale of properties, the leasing of office and commercial premises and the provision of estate agency services;
- (b) the construction and building related segment is engaged in construction works and building related businesses, including the provision of development consultancy and project management services, property management and also security systems and other software development and distribution (the property management segment, which was previously separately disclosed as a business segment, was combined with the construction and building related segment in the current period in order to better reflect the performance of similar businesses within the Group);
- (c) the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- (d) the brewery operations segment represents the Group's brewery operations in Mainland China; and
- (e) the others segment mainly comprises the Group's securities trading, laundry services, bakery operations and other investments.

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

**GROUP**

	Property development and investment		Construction and building related businesses		Hotel ownership and management		Brewery operations		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m	Six months ended 30th June, 2004 (Unaudited) HK\$'m	2003 (Unaudited) HK\$'m
Segment revenue:														
Sales to external customers	32.6	6.0	55.5	47.3	454.3	323.0	26.1	17.6	1.7	2.0	-	-	570.2	395.9
Intersegment sales	0.5	0.5	21.2	9.8	1.2	0.1	-	-	4.9	4.1	(27.8)	(14.5)	-	-
<b>Total</b>	<b>33.1</b>	<b>6.5</b>	<b>76.7</b>	<b>57.1</b>	<b>455.5</b>	<b>323.1</b>	<b>26.1</b>	<b>17.6</b>	<b>6.6</b>	<b>6.1</b>	<b>(27.8)</b>	<b>(14.5)</b>	<b>570.2</b>	<b>395.9</b>
Segment results	12.6	39.2	(0.9)	16.1	289.2	8.0	(0.1)	(3.9)	(1.5)	1.3	-	-	299.3	60.7
Interest income and unallocated non-operating and corporate gains													1.7	2.9
Unallocated non-operating and corporate expenses													(19.7)	(40.2)
Profit from operating activities													281.3	23.4
Finance costs													(47.4)	(94.1)
Share of profits less losses of:														
Jointly controlled entity	59.3	(0.1)	-	-	-	-	-	-	-	-	-	-	59.3	(0.1)
Associates	-	-	-	-	(0.2)	(0.5)	-	-	(6.9)	(1.2)	-	-	(7.1)	(1.7)
Profit/(Loss) before tax													286.1	(72.5)
Tax													(2.8)	48.9
Profit/(Loss) before minority interests													283.3	(23.6)
Minority interests													(155.8)	39.4
Net profit from ordinary activities attributable to shareholders													127.5	15.8

(b) Geographical segments

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

**GROUP**

	Hong Kong		Mainland China		Canada		Eliminations		Consolidated	
	Six months ended 30th June, 2004		Six months ended 30th June, 2004		Six months ended 30th June, 2004		Six months ended 30th June, 2004		Six months ended 30th June, 2004	
	(Unaudited) HK\$'m		(Unaudited) HK\$'m		(Unaudited) HK\$'m		(Unaudited) HK\$'m		(Unaudited) HK\$'m	
Segment revenue:										
Sales to external customers	543.9	346.0	26.3	17.7	-	32.2	-	-	570.2	395.9







(c) An analysis of profit on sale of investments or properties of the Group is as follows:

	<b>Six months ended 30th June, 2004 (Unaudited)</b>	<b>Six months ended 30th June, 2003 (Unaudited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Profit on disposal of listed investments	0.1	–
Profit on sale of properties	8.9	–
	<u>          </u>	<u>          </u>

### 3. Discontinued Operation

As previously reported, on 3rd September, 2002, Regal Hotels International Holdings Limited (“RHIHL”), the listed subsidiary company of the Company, and its subsidiary companies (the “RHIHL Group”) entered into a sale and purchase agreement with a purchaser (the “CH Purchaser”) to dispose of its 100% interest in a hotel property in Canada. The CH Purchaser subsequently defaulted to proceed to complete the sale and purchase. Since the default by the CH Purchaser, on 25th June, 2003, the RHIHL Group disposed of its 100% shareholding interest in the Canadian subsidiary company then indirectly holding the hotel property to an independent third party for a nominal consideration of CAD2.00, with sharing arrangements on any recovery from the defaulted purchaser. Accordingly, a loss on disposal of HK\$9.7 million was accounted for in the prior period’s consolidated profit and loss account. The principal repayment obligations of the bank loans secured on the hotel property in the principal sum of approximately CAD33.85 million (approximately HK\$195.8 million) have no recourse against the RHIHL Group.

The turnover, expenses and results attributable to the discontinued operation for the period from 1st January, 2003 to 25th June, 2003 (date of completion of disposal of the Canadian hotel operation) were as follows:

	<b>Six months ended 30th June, 2003 (Unaudited)</b>
	<b>HK\$'million</b>
TURNOVER	32.2
Cost of sales	(37.3)
	<u>          </u>
Gross loss	(5.1)
Administrative expenses	(1.9)
Other operating expenses	(1.1)
	<u>          </u>
LOSS FROM OPERATING ACTIVITIES	(8.1)
Finance costs	(4.2)
	<u>          </u>
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	<u>          </u> <u>          </u> (12.3)

The net cash flows attributable to the discontinued operation were as follows:

Operating	0.1
Investing	(0.3)
Financing	(5.4)
	<u>          </u>
Net cash outflows	<u>          </u> (5.6)



#### 4. Other Revenue

Other revenue includes the following major item:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Interest income	<u>1.6</u>	<u>3.4</u>

#### 5. Other Operating Expenses

Other operating expenses include the following major items:

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Depreciation	20.2	21.5
Amortisation of goodwill	6.3	7.2
Loss on deemed disposal of the Group's interest in the listed subsidiary company	–	4.6
Termination fee in respect of cancellation of the disposal of a hotel property	<u>39.0</u>	<u>–</u>

#### 6. Finance Costs

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Interest on bank loans and overdrafts, convertible bonds, promissory notes and other loans wholly repayable within five years	42.2	91.0
Interest capitalised in respect of property development projects and construction contracts	<u>–</u>	<u>(0.4)</u>
	42.2	90.6
Amortisation of deferred expenditure	5.1	3.5
Other loan costs	<u>0.1</u>	<u>–</u>
Total finance costs	<u>47.4</u>	<u>94.1</u>



## 7. Tax

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
The Group:		
Provision for tax in respect of profits for the period:		
Hong Kong	1.8	1.4
Overseas	0.1	0.1
Deferred tax expenses/(income)	0.9	(50.4)
Tax charge/(credit) for the period	2.8	(48.9)

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2003 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

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 (2003 - Nil).

Deferred tax expenses/(income) have 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/(Loss) Per Ordinary Share

### (a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$127.5 million (2003 - HK\$15.8 million) and on the weighted average of 4,568.5 million (2003 - 2,792.8 million) ordinary shares of the Company in issue during the period.

### (b) Diluted earnings/(loss) per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2004 is based on the adjusted net profit from ordinary activities attributable to ordinary shareholders for the period of HK\$127.2 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 6,129.9 million ordinary shares of the Company that would have been in issue during the period assuming (i) all outstanding convertible preference shares and optional convertible bonds of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the period; and (ii) all the 1,990.0 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the beginning of the period. The exercise prices of share options of the Company and RHIHL outstanding during the period are higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.



The calculation of diluted loss per ordinary share for the period ended 30th June, 2003 was based on the adjusted net loss from ordinary activities attributable to ordinary shareholders for the prior period of HK\$33.4 million as adjusted for the deemed changes in the Group's interest in the listed subsidiary company and on the adjusted weighted average of 5,768.5 million ordinary shares of the Company that would have been in issue during the prior period assuming (i) all outstanding convertible preference shares and convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of the prior period; and (ii) all the 3,450.0 million convertible preference shares of the Company were converted into the same number of ordinary shares of the Company at the beginning of the prior period. The exercise of share options of the Company and RHIHL were anti-dilutive.

## 9. Dividend

The Directors have resolved not to declare the payment of any interim dividend for the financial year ending 31st December, 2004 (2003 - Nil).

According to the terms of the convertible preference shares of the Company, the holders of the convertible preference shares shall not be entitled to any right of participation in the profits of the Company.

## 10. Long Term Investments

Included in the long term investments is an amount of HK\$56.9 million (31st December, 2003 - HK\$56.9 million) which represents the Group's unlisted investments comprising a 23% interest each in two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"). Despite the Group's holding of 23% interests in the Investee Companies, the Directors confirm that the Group is not in a position to exercise significant influence over the financial and operating policies of the Investee Companies due to a previous contractual arrangement made with the independent third parties to exchange the Group's entire interests in the Investee Companies for the hotel portion of the land site beneficially and collectively held by the Investee Companies in accordance with the agreed terms. Accordingly, the Directors consider it appropriate to account for the investments therein as long term investments.

As explained in the Group's prior years' audited consolidated financial statements, a land site beneficially and collectively held by the Investee Companies was resumed by the Land Bureau in Beijing in 2000 on the grounds of its prolonged idle condition. The Group and the other parties concerned have been undergoing negotiations with the relevant PRC government authorities with a view to safeguarding the Investee Companies' interest in the land site. During 2002, an impairment loss of HK\$62.0 million (further to an impairment loss of HK\$180.0 million made in 2001) was made against the investments by reference to an independent valuation of the hotel portion of the land site. The valuation was conducted on the assumption that the Group has enforceable title to the land site.

In December 2003, approval on the overall development plan on the subject land site was obtained from the relevant government authorities. However, in the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations with respect to the grant of the land use rights and the resolution of certain other outstanding issues with the other parties involved in the Investee Companies.

In the meantime, the Group continues to negotiate with prospective investors for the possible disposal of its investments in the Investee Companies at an indicative price which is substantially higher than its written down carrying value. Having regard to the circumstances developed to date, the Directors consider that no further provision is required to be made against the Group's investments in the Investee Companies.



## 11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$68.0 million (31st December, 2003 - HK\$47.5 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	61.9	44.0
Between 4 to 6 months	2.8	3.0
Between 7 to 12 months	4.3	3.2
Over 1 year	10.0	9.7
	<hr/>	<hr/>
	79.0	59.9
Provisions	(11.0)	(12.4)
	<hr/>	<hr/>
	68.0	47.5
	<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 provisions for doubtful debts which are made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

## 12. Creditors and Accruals

Included in the balance is an amount of HK\$55.2 million (31st December, 2003 - HK\$59.9 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	43.4	47.6
Between 4 to 6 months	5.3	6.0
Between 7 to 12 months	2.5	0.7
Over 1 year	4.0	5.6
	<hr/>	<hr/>
	55.2	59.9
	<hr/> <hr/>	<hr/> <hr/>

## 13. Minority Interests

Included in the minority interests is an amount of HK\$39.0 million (31st December, 2003 - Nil) which represents the value of new ordinary shares to be issued by RHIHL as explained below.

Following the termination of the sale and purchase agreement, as supplemented, in respect of the disposal of a hotel property of the RHIHL Group (the "SP Agreement"), which took effect on 24th June, 2004, RHIHL was committed to issue certain new ordinary shares in settlement of the termination fee in the amount of HK\$39.0 million payable to the purchaser under the terms of the SP Agreement. In this connection, subsequent to the balance sheet date, on 12th July, 2004, 195.0 million new ordinary shares of HK\$0.01 each were issued by RHIHL at an issue price of HK\$0.20 per share.

#### 14. Related Party Transactions

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

	Six months ended 30th June, 2004 (Unaudited)	Six months ended 30th June, 2003 (Unaudited)
	HK\$'million	HK\$'million
Advertising and promotion fees (including cost reimbursements) paid to an associate of Century City International Holdings Limited ("CCIHL"), the listed ultimate holding company of the Company	3.5	3.0
Management costs allocated from CCIHL	6.7	7.8
Gross construction fee income from a jointly controlled entity	42.6	-
	<u>42.6</u>	<u>-</u>

The nature and terms of the above related party transactions are similar to those disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2003.

At the balance sheet date, the Group also had guarantees given in respect of banking facilities granted to a jointly controlled entity as detailed in note 16(a).

#### 15. Pledge of Assets

At 30th June, 2004, certain of the Group's time deposits, properties held for sale, listed investments, interests in associates, fixed assets including properties and equipment, inventories and receivables with a total carrying value of HK\$7,816.5 million (31st December, 2003 - HK\$7,732.4 million) and the shares held in certain subsidiary companies, including certain ordinary shares held in the listed subsidiary company, and a jointly controlled entity, were pledged to secure general banking facilities granted to the Group and the jointly controlled entity.

#### 16. Contingent Liabilities

- (a) At 30th June, 2004, a corporate guarantee in the amount of HK\$2,359.0 million (31st December, 2003 - HK\$2,359.0 million) had been given by the Group in respect of banking facilities granted to a jointly controlled entity. The amount outstanding on these facilities attributable to the Group at the end of the period amounted to HK\$720.8 million (31st December, 2003 - HK\$2,255.4 million).
- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$10.4 million as at 30th June, 2004 (31st December, 2003 - HK\$12.8 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.



## 17. Operating Lease Arrangements

### (a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 10 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, 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<b>30th June, 2004 (Unaudited)</b>	<b>31st December, 2003 (Audited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Within one year	18.2	15.8
In the second to fifth years, inclusive	12.3	12.7
	<u>30.5</u>	<u>28.5</u>

### (b) As lessee

The Group leases certain office and shop units under operating lease arrangements. Leases for properties are negotiated for terms of 6 months, 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.

At 30th June, 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30th June, 2004 (Unaudited)</b>	<b>31st December, 2003 (Audited)</b>
	<b>HK\$'million</b>	<b>HK\$'million</b>
Land and buildings:		
Within one year	2.4	3.9
In the second to fifth years, inclusive	8.8	10.1
After the fifth year	1.4	2.5
	<u>12.6</u>	<u>16.5</u>

## 18. Commitments

In addition to the operating lease commitments detailed in note 17(b) above, the Group had the following outstanding capital commitments:

	30th June, 2004 (Unaudited)	31st December, 2003 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of or improvements to the hotel properties:		
Authorised and contracted for	16.6	3.4
Authorised, but not contracted for	47.1	86.9
	<u>63.7</u>	<u>90.3</u>

## 19. Post Balance Sheet Events

Subsequent to the balance sheet date, in addition to the events detailed elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions:

- (i) At the special general meeting of the Company held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of the Company with respect to the issue by Cheerview Limited (the "Issuer"), a wholly-owned subsidiary company of RHIHL, of 2% Guaranteed Convertible Bonds due 2007, guaranteed by, and convertible into ordinary shares of, RHIHL (the "2% Convertible Bonds") up to an aggregate principal amount of HK\$400.0 million (comprising firm bonds in an aggregate principal amount of HK\$200.0 million (the "Firm Bonds") and optional bonds of up to an aggregate principal amount of HK\$200.0 million (the "Optional Bonds") to the relevant third party purchasers pursuant to the two subscription agreements both dated 3rd June, 2004 (the "Subscription Agreements") relating to the issue of the 2% Convertible Bonds.

On 21st July, 2004, two of the purchasers subscribed for, and to whom the Issuer issued, the Firm Bonds. The cash proceeds arising therefrom were used by the RHIHL Group substantially for repayment of its bank indebtedness. The Firm Bonds will be convertible into a total of 800.0 million new ordinary shares of RHIHL, at the initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

Dr. Francis Choi Chee Ming, who was subsequently appointed as a non-executive director and the vice-chairman of RHIHL on 18th August, 2004, holds a 100% equity interest in the purchaser under one of the Subscription Agreements which subscribed for HK\$100.0 million of the Firm Bonds and has the right to subscribe for Optional Bonds up to principal amount of HK\$100.0 million.





- (ii) At the special general meeting of RHIHL held on 19th July, 2004, an ordinary resolution was duly passed by the shareholders of RHIHL with respect to a bonus issue of warrants ("Warrants") of RHIHL to its shareholders, on the basis of one unit of Warrants carrying a subscription right of HK\$0.25 for every ten ordinary shares of RHIHL held by its shareholders on the register of members of RHIHL on 19th July, 2004.

On 2nd August, 2004, Warrants carrying aggregate subscription rights of approximately HK\$208.5 million were issued to the shareholders of RHIHL. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of RHIHL at the initial subscription price of HK\$0.25 per ordinary share (subject to adjustments), at any time from the date falling 6 months after the date of issue to the date falling 7 days prior to the third anniversary of the date of issue.

- (iii) At the balance sheet date, the Company had a 53.7% voting interest and a 44.9% economic interest in RHIHL. Pursuant to certain settlement proposal described in a circular to the shareholders dated 26th August, 2002 and completed in October 2002 (the "Bonds Settlement"), 1,896.5 million ordinary shares of RHIHL (the "Relevant RHIHL Shares") were transferred to a special purpose vehicle company (the "SPV") wholly owned by the Company, which were subject to a phased release to the bondholders. The rights to dividends relating to these shares were with the bondholders. The Relevant RHIHL Shares were to be held by the SPV for a period of 12 months, subject to certain early release provisions, after the completion of the Bonds Settlement (i.e. from 1st November, 2002 to 31st October, 2003) following which they would be released, subject to certain conditions, at the option of the bondholders in phases. Up to the balance sheet date, a total of 1,179.9 million Relevant RHIHL Shares have been released to the bondholders while the remaining 716.6 million Relevant RHIHL Shares (including those entitled by but not yet released to the bondholders), representing 8.8% of the total issued ordinary shares of RHIHL, continued to be held by the SPV at the balance sheet date.

By 31st July, 2004, the remaining Relevant RHIHL Shares have been fully released in accordance with the terms under the Bonds Settlement. Accordingly, the Company's voting interest in RHIHL fell below 50% and thereafter RHIHL ceased to be a subsidiary company and became an associate of the Company. Based on the issued share capital of RHIHL as at the date of approval of these condensed consolidated financial statements, the Company had an economic and voting interest in RHIHL of 45.0%, after taking into account the additional interests acquired subsequent to the balance sheet date.

- (iv) Subsequent to the balance sheet date, on 16th July, 2004, a total of 300.0 million new ordinary shares of HK\$0.01 each were issued to Almighty International Limited ("Almighty"), a wholly-owned subsidiary company of CCIHL, at HK\$0.146 per share at a total consideration of HK\$43.8 million (before expenses), following a placing of the same number of shares at the same price by Almighty to independent investors on 12th July, 2004.

## 20. Share Options

### Share Options Granted by the Company

The Company operates an executive share option scheme (the "PHL Share Option Scheme"). The PHL Share Option Scheme was adopted by the Company's shareholders on 23rd November, 1993 and subsequently approved by the independent shareholders of Paliburg International Holdings Limited ("PIHL"), formerly the immediate listed holding company of the Company, on 15th December, 1993. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2004	Lapsed during the period	At 30th June, 2004		
22nd February, 1994	<b>Directors</b>					
	Mr. Lo Yuk Sui (Note 2)					
	Vested:	4,562,500	(4,562,500)	–	Notes 3 & 4	10.40
	Mr. Donald Fan Tung (Note 2)					
	Vested:	1,875,000	(1,875,000)	–	Notes 3 & 4	10.40
	Mr. Kenneth Ng Kwai Kai					
	Vested:	1,000,000	(1,000,000)	–	Notes 3 & 4	10.40
<b>Other Employees</b>						
Employees, in aggregate						
Vested:	1,500,000	(1,500,000)	–	Notes 3 & 4	10.40	
		<u>8,937,500</u>	<u>(8,937,500)</u>	–		



Date of grant of share options	Name or category of participant	Number of ordinary shares under share options**			Vesting period*/ Exercise period of share options	Exercise price of share options ** HK\$
		At 1st January, 2004	Lapsed during the period	At 30th June, 2004		
15th September, 1995 (Original Grant Date (Note 1): 22nd February, 1994)	<b>Directors</b>  Mr. Donald Fan Tung (Note 2) Vested:	3,125,000	(3,125,000)	–	Notes 4 & 5	3.5392
22nd February, 1997	<b>Other Employees</b>  Employees, in aggregate Vested: Unvested:	1,500,000 1,000,000	– –	1,750,000 750,000	Note 3 Note 3	6.672
		<u>2,500,000</u>	<u>–</u>	<u>2,500,000</u>		
	<b>Total:</b>	<b><u>14,562,500</u></b>	<b><u>(12,062,500)</u></b>	<b><u>2,500,000</u></b>		

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in the Company's share capital.

#### Notes:

- Consequent upon the group reorganisation resulting in the effective merger of PIHL and the Company on 17th August, 1995 and in accordance with the terms of the executive share option scheme of PIHL ("PIHL Option Scheme"), the outstanding options held under the PIHL Option Scheme ("PIHL Options") lapsed on 17th August, 1995 and in conjunction therewith, the Company granted the same number of options to subscribe for the new consolidated shares of HK\$1.00 each of the Company under the PHL Share Option Scheme ("PHL Options") at the same prices and otherwise on the same terms as held by and applicable to the holders of the then outstanding PIHL Options. The above Original Grant Dates are the dates of grant of the PIHL Options and are used to determine the timing when the rights to exercise the PHL Options vest with the holders thereof.
- The aggregate number of shares under options previously granted was in excess of the individual maximum limit of 1% of the shares in issue in the 12-month period up to the date of the latest grant of options.



## 3. Vesting/Exercise Periods of Options:

<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(a) 2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b) 3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c) 9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

## 4. Lapsed after expiry of the relevant exercise period on 22nd February, 2004.

## 5. Vesting/Exercise Periods of Options:

<b>On Completion of Continuous Service of</b>	<b>Initial/Cumulative Percentage Vesting</b>	<b>Initial/Cumulative Percentage Exercisable</b>
(a) 2 years after Original Grant Date	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after Original Grant Date)
(b) 3 years to 9 years after Original Grant Date	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after Original Grant Date))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after Original Grant Date) upon vesting (exercisable until 10 years after Original Grant Date))
(c) 9½ years after Original Grant Date	100%	100% (exercisable until 10 years after Original Grant Date)

## 6. In the absence of a readily available market value, the Directors are unable to arrive at an accurate assessment of the value of the options granted.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the period end date, would have, with the present capital structure of the Company, resulted in the issue of 1.7 million additional ordinary shares and share premium of HK\$11.7 million (before issue expenses).



### Share Options Granted by Regal Hotels International Holdings Limited

RHIHL operates an executive share option scheme (the "RHIHL Share Option Scheme"). The RHIHL Share Option Scheme was approved by RHIHL's shareholders on 28th June, 1990. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

During the period, details of movements in the share option granted by RHIHL pursuant to the RHIHL Share Option Scheme are as follows:

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option**			Vesting period* / Exercise period of share option	Exercise price of share option** HK\$
		At 1st January, 2004	Movement during the period	At 30th June, 2004		
22nd February, 1997	<b>Other Employees</b>					
	Employees, in aggregate					
	Vested:	648,000	–	756,000	Note 1	2.1083
	Unvested:	432,000	–	324,000	Note 1	
	<b>Total:</b>	<b>1,080,000</b>	<b>–</b>	<b>1,080,000</b>		

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* Subject to adjustment in the case of rights or bonus issues, or other relevant changes in RHIHL's share capital.

#### Notes:

1. Vesting/Exercise Periods of Option:

On Completion of Continuous Service of	Initial/Cumulative Percentage Vesting	Initial/Cumulative Percentage Exercisable
(a) 2 years after date of grant	Initial 20%	Initial 20% upon vesting (exercisable until 10 years after date of grant)
(b) 3 years to 9 years after date of grant	Cumulative 30% to 90% (with 10% additional percentage vested each subsequent year (commencing from 3 years after date of grant))	Cumulative 30% to 90% (with 10% additional percentage exercisable each subsequent year (commencing from 3 years after date of grant) upon vesting (exercisable until 10 years after date of grant))
(c) 9½ years after date of grant	100%	100% (exercisable until 10 years after date of grant)

2. In the absence of a readily available market value, the directors of RHIHL are unable to arrive at an accurate assessment of the value of the option granted.

The exercise in full of the outstanding rights which have vested with the holders of the options up to the date of approval of the financial statements by the Board of Directors, inclusive of those exercised since the period end date, would have, with the present capital structure of RHIHL, resulted in the issue of 0.8 million additional ordinary shares and share premium of HK\$1.6 million (before issue expenses).