

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, 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and its listed associate, Regal Hotels International Holdings Limited ("RHIHL") and its subsidiary companies (the "RHIHL Group"), and are adopted for the first time for the current period's financial statements:

| | |
|----------------|--|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 11 | Construction Contracts |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosures and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |
| HKFRS 5 | Non-current Assets Held for Sale and Discontinued Operations |
| HK(SIC)-Int 21 | Income Taxes – Recovery of Revalued Non-depreciable Assets |
| HK-Int 2 | The Appropriate Policies for Hotel Properties |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 18, 19, 21, 23, 24, 28, 31, 33, 37, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and RHIHL, and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs by the Group and RHIHL is summarised as follows:

- (a) HKAS 16 Property, Plant and Equipment
- HKAS 17 Leases
- HK-Int 2 The Appropriate Policies for Hotel Properties

In prior periods, the hotel properties of the RHIHL Group were stated at their open market values for existing use on the basis of annual professional valuations. No depreciation was provided on the hotel properties on the basis that they were maintained in such condition that their residual values were not diminished by the passage of time and that any element of depreciation was insignificant.



Upon the adoption of HKAS 16 and HK-Int 2, the RHIHL Group's leasehold interest in the hotel buildings is now stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the RHIHL Group's leasehold interest in hotel land and buildings is separated into leasehold land and leasehold buildings. The RHIHL Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the RHIHL Group by the end of the lease term, and is reclassified from fixed assets to prepaid land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The effects of the above changes are summarised in note 2 below. The comparative amounts in the condensed consolidated balance sheet for the year ended 31st December, 2004 have been restated.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior periods, the Group classified its investments in listed and unlisted equity securities which were held for non-trading purposes as long term investments and were stated at fair values.

The gains or losses arising from changes in fair values of a security were dealt with as movements in the long term investment revaluation reserve, until the security was sold, collected or otherwise disposed of, or until the security was determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, was charged to the profit and loss account for the period in which the impairment arose.

Upon the adoption of HKASs 32 and 39, and in accordance with the transitional provisions of HKAS 39, these securities are classified as either available-for-sale investments or financial assets at fair value through profit or loss. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any other categories of financial assets. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised in the investment revaluation reserve as in the prior period. Financial assets at fair value through profit or loss are those investments acquired principally for the purpose of trading or so designated at inception. Any gain or loss arising from a change in the fair value of the financial assets is recognised in the profit and loss account.

The fair value of financial assets that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For financial assets where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions and reference to the current market value of another instrument which is substantially the same.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for those financial assets, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The effects of the above changes are summarised in note 2 below. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.



(ii) Convertible bonds

In prior periods, the RHIHL Group's convertible bonds were stated at amortised cost. Upon the adoption of HKASs 32 and 39, convertible bonds issued are split into liability and equity components.

On the issue of the convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

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

The effects of the above changes are summarised in note 2 below. In accordance with HKAS 32, comparative amounts have been restated.

(iii) Convertible preference shares

In prior periods, the RHIHL Group's convertible preference shares were stated at their par values under equity and the related share premium had been cancelled to offset against the RHIHL Group's accumulated losses in a capital reorganisation in 2002. Upon the adoption of HKASs 32 and 39, the whole principal amount of the convertible preference shares is restated and split into liability and equity components.

On the issue of the convertible preference shares, the fair value of the liability component is determined using a market rate for an equivalent non-convertible preference share; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

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

The effects of the above changes are summarised in note 2 below. In accordance with HKAS 32, comparative amounts have been restated.

(c) HKAS 40 – Investment Property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit and loss account in the year of the retirement or disposal.



The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively for the earlier period presented in the condensed consolidated financial statements. The effects of the above changes are summarised in note 2 below.

(d) HKFRS 2 – Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (“equity-settled transactions”), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by an external valuer using an option pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

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

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

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

The effects of adopting HKFRS 2 on the share options granted by the Company and RHIHL to employees (including directors) during the current period are summarised in note 2 below. There were no share options granted to any employees or directors in any prior period after 7th November, 2002.

(e) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1st January, 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the profit and loss account until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1st January, 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.



Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiary companies and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the consolidated profit and loss account.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1st January, 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the profit and loss account when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 below. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

- (f) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations and HKAS 27 – Consolidated and Separate Financial Statements

In prior periods, the Group's interest in an investee company was classified under interests in associates despite its equity interest in the company was increased from 50% to 100% in 2003, since it has entered into an agreement subsequently in that year to dispose of the entire equity interest in the company and accordingly the control over the company is considered temporary depending on the outcome of the agreement.

The agreement for the disposal has not yet been completed and upon the adoption of HKAS 27 and HKFRS 5, the Group's interest in the company amounting to HK\$79.0 million is reclassified from interests in associates to non-current asset classified as held for sale, which is now presented as a separate item under current assets. In accordance with the transitional provision of HKFRS 5, the comparative amount has been restated.



2. Summary of the Impact of Changes in Accounting Policies

Following the adoption of the HKFRSs, the opening balances of the following accounts were adjusted retrospectively. The details of the prior period adjustments and opening adjustments are summarised as follows:

(a) Effect on opening balance of total equity at 1st January, 2005

| Effect of new policies (increase/(decrease)) | Notes | Equity components of convertible bonds and convertible preference shares of an associate (Unaudited) HK\$'million | Capital reserve (Unaudited) HK\$'million | Assets revaluation surplus/ Revaluation reserves (Unaudited) HK\$'million | Retained profits (Unaudited) HK\$'million | Total (Unaudited) HK\$'million |
|--|-----------|---|---|---|--|--------------------------------------|
| Prior period adjustments: | | | | | | |
| HKASs 16 and 17 | | | | | | |
| Hotel properties | 1(a) | - | (466.7) | 27.7 | (779.6) | (1,218.6) |
| HKASs 32 and 39 | | | | | | |
| Convertible bonds | 1(b)(ii) | 9.8 | - | - | (1.4) | 8.4 |
| Convertible preference shares | 1(b)(iii) | 5.2 | - | - | (80.3) | (75.1) |
| Net increase/(decrease) in total equity before opening adjustments | | 15.0 | (466.7) | 27.7 | (861.3) | (1,285.3) |
| Opening adjustments: | | | | | | |
| HKAS 39 | | | | | | |
| Cumulative gain in fair value of financial assets | 1(b)(i) | - | - | (4.0) | 4.0 | - |
| HKAS 40 | | | | | | |
| Surplus on revaluation of investment properties | 1(c) | - | - | (0.3) | 0.3 | - |
| HKFRS 3 | | | | | | |
| Derecognition of negative goodwill | 1(e) | - | (420.5) | - | 464.6 | 44.1 |
| Total effect at 1st January, 2005 | | 15.0 | (887.2) | 23.4 | (392.4) | (1,241.2) |



(b) Effect on opening balance of total equity at 1st January, 2004

| Effect of new policies (increase/(decrease)) | Notes | Equity component of convertible preference shares of the listed subsidiary company (Unaudited) HK\$'million | Capital reserve (Unaudited) HK\$'million | Assets revaluation surplus/ Revaluation reserves (Unaudited) HK\$'million | Retained profits (Unaudited) HK\$'million | Minority interests (Unaudited) HK\$'million | Total (Unaudited) HK\$'million |
|---|-----------|--|---|---|--|--|--------------------------------------|
| Prior period adjustments: | | | | | | | |
| HKASs 16 and 17 | | | | | | | |
| Hotel properties | 1(a) | - | (466.7) | 706.7 | (256.6) | 20.8 | 4.2 |
| HKFRS 32 and 39 | | | | | | | |
| Convertible preference shares | 1(b)(iii) | 5.2 | - | - | (69.7) | (94.9) | (159.4) |
| Total effect at 1st January, 2004 | | 5.2 | (466.7) | 706.7 | (326.3) | (74.1) | (155.2) |



The following tables summarise the impact on profit after tax, income or expenses recognised directly in equity and capital transactions with equity holders for the six-month periods ended 30th June, 2005 and 2004 upon the adoption of the new HKFRSs. As no retrospective adjustments have been made for the adoption of HKASs 39, 40 and HKFRS 3, the amounts shown for the six months period ended 30th June, 2004 may not be comparable to the amounts shown for the current interim period.

(c) Effect on profit after tax for the six months ended 30th June, 2005 and 2004

| Effect of new policies (increase/(decrease)) | Notes | For the six months ended 30th June, | | | | | |
|--|--------------|---|--------------------------------------|----------------------|---|--------------------------------------|----------------------|
| | | 2005 | | | 2004 | | |
| | | Equity holders of the parent (Unaudited) | Minority interests (Unaudited) | Total (Unaudited) | Equity holders of the parent (Unaudited) | Minority interests (Unaudited) | Total (Unaudited) |
| HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | | |
| Effect on profit after tax: | | | | | | | |
| HKAS 16 | | | | | | | |
| Depreciation on hotel buildings net of related deferred tax | 1(a) | (13.2) | - | (13.2) | (22.1) | (27.2) | (49.3) |
| Write-back of impairment of a hotel property | 1(a) | - | - | - | (60.9) | (74.9) | (135.8) |
| HKAS 17 | | | | | | | |
| Amortisation of prepaid land lease payments | 1(a) | (5.0) | - | (5.0) | (5.0) | (6.1) | (11.1) |
| HKAS 39 | | | | | | | |
| Gain in fair value of financial assets at fair value through profit or loss | 1(b)(i) | 30.2 | - | 30.2 | - | - | - |
| Finance costs on convertible bonds | 1(b)(ii) | (1.6) | - | (1.6) | - | - | - |
| Finance costs on convertible preference shares | 1(b)(iii) | (1.7) | - | (1.7) | (1.7) | (2.1) | (3.8) |
| HKFRS 2 | | | | | | | |
| Employee share option scheme | 1(d) | (0.2) | - | (0.2) | - | - | - |
| HKFRS 3 | | | | | | | |
| Discontinuation of amortisation of goodwill/recognition of negative goodwill | 1(e) | 0.4 | - | 0.4 | - | - | - |
| Total effect for the period | | 8.9 | - | 8.9* | (89.7) | (110.3) | (200.0) |
| Effect on earnings per share: | | | | | | | |
| Basic | | HK0.12 cent | | | HK(1.96) cents | | |
| Diluted | | HK0.12 cent | | | HK(1.46) cents | | |

* An amount of HK\$5.8 million was included in the share of profits less losses of associates.



- (d) Effect on income or expenses recognised directly in equity and capital transactions with equity holders for the six months ended 30th June, 2005 and 2004

| Effect of new policies (increase/(decrease)) | Note | For the six months ended 30th June, | | | | | |
|---|--------------|---|--------------------------------------|----------------------|---|--------------------------------------|----------------------|
| | | 2005 | | | 2004 | | |
| | | Equity holders of the parent (Unaudited) | Minority interests (Unaudited) | Total (Unaudited) | Equity holders of the parent (Unaudited) | Minority interests (Unaudited) | Total (Unaudited) |
| HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | HK\$'million | | |
| HKFRS 2 Employee share option scheme | 1(d) | 0.2 | - | 0.2 | - | - | - |
| Total effect for the period | | 0.2 | - | 0.2 | - | - | - |

3. 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 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;
- the construction and building related businesses 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 products and other software development and distribution;
- the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services; and
- the others segment mainly comprises investment and securities trading businesses, brewery operations, laundry services and bakery operations.

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

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



(a) Business segments

The following 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 | | Others | | Eliminations | | Consolidated | |
|---|-------------------------------------|--------------------------------------|--|--------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|----------------------------------|--------------------------------------|
| | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m | Six months ended 30th June, 2005 | 2004 (Unaudited and restated) HK\$'m |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 4.9 | 32.6 | 25.2 | 55.5 | - | 454.3 | - | 27.8 | - | - | 30.1 | 570.2 |
| Intersegment sales | - | 0.5 | 2.1 | 21.2 | - | 1.2 | - | 4.9 | (2.1) | (27.8) | - | - |
| Total | 4.9 | 33.1 | 27.3 | 76.7 | - | 455.5 | - | 32.7 | (2.1) | (27.8) | 30.1 | 570.2 |
| Segment results | (0.5) | 12.6 | 12.1 | 5.5 | - | 170.7 | 5.1 | 1.0 | - | - | 16.7 | 189.8 |
| Interest income and unallocated non-operating and corporate gains | | | | | | | | | | | 10.5 | 1.7 |
| Unallocated non-operating and corporate expenses | | | | | | | | | | | (10.5) | (19.5) |
| Operating profit before depreciation and amortisation | | | | | | | | | | | 16.7 | 172.0 |
| Depreciation and amortisation | | | | | | | | | | | (0.1) | (100.2) |
| Operating profit | | | | | | | | | | | 16.6 | 71.8 |
| Finance costs | | | | | | | | | | | (7.5) | (51.2) |
| Share of profits less losses of: | | | | | | | | | | | | |
| Jointly controlled entity | - | 59.3 | - | - | - | - | - | - | - | - | - | 59.3 |
| Associates | - | - | - | - | 135.7 | (0.2) | (0.1) | (6.9) | - | - | 135.6 | (7.1) |
| Profit before tax | | | | | | | | | | | 144.7 | 72.8 |
| Tax | | | | | | | | | | | (0.6) | 10.5 |
| Profit for the period before allocation between equity holders of the parent and minority interests | | | | | | | | | | | 144.1 | 83.3 |
| Attributable to: | | | | | | | | | | | | |
| Equity holders of the parent | | | | | | | | | | | 144.1 | 37.8 |
| Minority interests | | | | | | | | | | | - | 45.5 |
| | | | | | | | | | | | 144.1 | 83.3 |

(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, 2005 (Unaudited) HK\$'m | 2004 (Unaudited) HK\$'m |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 30.0 | 543.9 | 0.1 | 26.3 | - | - | 30.1 | 570.2 |

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

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited) |
|--|--|--|
| | HK\$'million | HK\$'million |
| Profit on disposal of listed investments | – | 0.1 |
| Profit/(Loss) on sale of properties | <u>(0.2)</u> | <u>8.9</u> |

4. Other Revenue

Other revenue includes the following major items:

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited) |
|--|--|--|
| | HK\$'million | HK\$'million |
| Interest income | 1.8 | 1.6 |
| Dividend income | 9.9 | 0.3 |
| Gain in fair value of financial assets | <u>3.8</u> | <u>–</u> |

5. Other Operating Expenses, net

Other operating expenses, net, include the following major item:

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited) |
|--|--|--|
| | HK\$'million | HK\$'million |
| Termination fee in respect of cancellation of the disposal of a hotel property | <u>–</u> | <u>39.0</u> |



6. Finance Costs

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited and restated) |
|--|--|--|
| | HK\$'million | HK\$'million |
| Interest on bank loans and overdrafts, convertible bonds, convertible preference shares, promissory notes and other loans wholly repayable within five years | 6.7 | 46.0 |
| Amortisation of deferred expenditure | – | 5.1 |
| Other loan costs | 0.8 | 0.1 |
| | <u>7.5</u> | <u>51.2</u> |
| Total finance costs | <u>7.5</u> | <u>51.2</u> |

7. Tax

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited and restated) |
|---|--|--|
| | HK\$'million | HK\$'million |
| Provision for tax in respect of profits for the period: | | |
| Hong Kong | 0.6 | 1.8 |
| Overseas | – | 0.1 |
| Deferred tax income | – | (12.4) |
| | <u>0.6</u> | <u>(10.5)</u> |
| Tax charge/(credit) for the period | <u>0.6</u> | <u>(10.5)</u> |

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 17.5% (2004 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the period.

Taxes on the profits of subsidiary companies operating overseas are 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 in the prior period as no assessable profits were earned by the jointly controlled entity during that period.

Deferred tax 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.

Share of tax credit attributable to the associates amounting to HK\$6.6 million (2004 - Nil) is included in "Share of profits less losses of associates" on the face of the Condensed Consolidated Profit and Loss Account.



8. Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to equity holders of the parent for the period of HK\$144.1 million (2004 - HK\$37.8 million, as restated) and on the weighted average of 7,208.5 million (2004 - 4,568.5 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, 2005 is based on the adjusted profit attributable to equity holders of the parent for the period of HK\$125.1 million and on the weighted average of 7,208.5 million ordinary shares of the Company in issue during the period, assuming all outstanding convertible bonds (including optional convertible bonds) of the RHIHL Group were converted into, and the subscription rights attaching to all outstanding warrants of RHIHL were exercised to subscribe for, ordinary shares of RHIHL at the beginning of the period. The conversion of the outstanding convertible preference shares of RHIHL is anti-dilutive for the period. In addition, 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 earnings per ordinary share for the period ended 30th June, 2004 was based on the adjusted profit attributable to equity holders of the parent for the prior period of HK\$37.7 million (as restated) and on the adjusted weighted average of 6,129.9 million ordinary shares of the Company that would have been in issue during the prior period assuming (i) all outstanding optional convertible bonds of the RHIHL Group were converted into ordinary shares of RHIHL at the beginning of that 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 that period. The conversion of the outstanding convertible preference shares of RHIHL was anti-dilutive for that period. In addition, the exercise prices of share options of the Company and RHIHL outstanding during that period were higher than the average market prices of the respective ordinary shares of the Company and RHIHL and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

9. Dividend

The Directors have resolved not to declare the payment of an interim dividend in respect of the ordinary shares for the financial year ending 31st December, 2005 (2004 - Nil).



10. Available-for-sale Investments

Included in the available-for-sale investments is an amount of HK\$56.9 million (31st December, 2004 - HK\$56.9 million) which represents the Group's investments comprising a 23% interest in each of two sino-foreign joint venture companies, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. (collectively, the "Investee Companies") established in Beijing, the People's Republic of China (the "PRC"). 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 available-for-sale 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 Investee Companies has enforceable title to the land site.

In August 2004, the relevant government authorities granted to one of the Investee Companies a Beijing Grant Contract of State-owned Land Use Right (the "Grant Contract") for the granting of the land use rights of the subject land site, subject to the payment of the requisite land premium. As no consensus could be reached among the joint venture parties involved, the due date for its payment under the terms of the Grant Contract has expired and the land premium remained unpaid. The Group has been in active negotiations with the other joint venture parties and with potential investors to explore various feasible alternatives in addressing the situation and with a view to optimising the value of the Group's interest in the Investee Companies.

In the opinion of the Directors, it is not possible to determine with reasonable certainty the ultimate outcome of the negotiations. However, 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.

Subsequent to the balance sheet date, on 8th July, 2005, a wholly owned subsidiary company of the Company (the "Vendor") and a wholly owned subsidiary company of RHIHL (the "Purchaser") entered into and completed a sale and purchase agreement (the "SP Agreement") for the disposal of a 50% equity interest in Hang Fok Properties Limited, which was then a wholly owned subsidiary company of the Company and directly holds a 23% shareholding interest in each of the Investee Companies, at a consideration of HK\$145 million which was satisfied by the issue of a promissory note with a principal amount of HK\$145 million bearing interest at 3% per annum.

Notwithstanding the completion of the SP Agreement, the Purchaser has been given a right exercisable at its discretion to rescind or terminate the SP Agreement in the event that the Vendor fails to secure the land use right of the subject development on the agreed terms within six months of the date of signing the SP Agreement (i.e. 8th January, 2006), or such later date as may be mutually agreed.



11. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$3.8 million (31st December, 2004 - HK\$9.0 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

| | 30th June, 2005 (Unaudited) | 31st December, 2004 (Audited) |
|---------------------------------|--------------------------------|----------------------------------|
| | HK\$'million | HK\$'million |
| Outstanding balances with ages: | | |
| Within 3 months | 3.8 | 6.2 |
| Between 4 to 6 months | - | 2.0 |
| Between 7 to 12 months | - | 0.7 |
| Over 1 year | - | 0.1 |
| | <u>3.8</u> | <u>9.0</u> |

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\$1.4 million (31st December, 2004 - HK\$1.3 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

| | 30th June, 2005 (Unaudited) | 31st December, 2004 (Audited) |
|---------------------------------|--------------------------------|----------------------------------|
| | HK\$'million | HK\$'million |
| Outstanding balances with ages: | | |
| Within 3 months | <u>1.4</u> | <u>1.3</u> |



13. Related Party Transactions

(a) Transactions with related parties

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

| | Notes | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (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 | (i) | – | 3.5 |
| Management costs allocated from CCIHL | (i) | 3.3 | 6.7 |
| Gross construction fee income from: | | | |
| – a jointly controlled entity | (i) | – | 42.6 |
| – the listed associate and its jointly controlled entity | (ii) | 14.9 | – |
| Gross income in respect of security systems and products and other software from the listed associate | (iii) | 2.5 | – |

Notes:

- (i) The nature and terms of these related party transactions were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2004.
- (ii) During the period, construction fees were received from the listed associate and its jointly controlled entity in respect of hotel property renovation and property development projects, respectively, pursuant to contracts negotiated on an arm's length basis and/or awarded through competitive tendering process.
- (iii) During the period, fees were received from the listed associate for the purchases and maintenance services of security systems and products and other software installed in its hotel properties.

At 30th June, 2004, the Group (then including the RHIHL Group) also had guarantees given in respect of the attributable share of the outstanding bank loan of a jointly controlled entity in the amount of HK\$720.8 million.



(b) Outstanding balances with related parties

| | 30th June, 2005 (Unaudited) | 31st December, 2004 |
|---|--------------------------------|---------------------|
| | HK\$'million | HK\$'million |
| Due from a jointly controlled entity | – | 6.3 |
| Due from the listed associate and its jointly controlled entity | 4.6 | – |
| Due to the listed associate | 1.5 | 1.1 |

(c) Compensation of key management personnel of the Group

| | Six months ended 30th June, 2005 (Unaudited) | Six months ended 30th June, 2004 (Unaudited) |
|---|--|--|
| | HK\$'million | HK\$'million |
| Short term employee benefits | 2.1 | 6.2 |
| Share-based payments | 0.1 | – |
| Total compensation paid to key management personnel | 2.2 | 6.2 |

14. Pledge of Assets

At 30th June, 2005, certain of the Group's properties held for sale and available-for-sale investments with a total carrying value of HK\$284.7 million (31st December, 2004 - HK\$339.4 million) and certain ordinary shares in the listed associate were pledged to secure general banking facilities granted to the Group.

15. Contingent Liabilities

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\$0.3 million as at 30th June, 2005 (31st December, 2004 - HK\$0.7 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. No provision has 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.



16. Operating Lease Arrangements

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 7.5 months to 2 years and 3 months. 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, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 30th June, 2005 (Unaudited) | 31st December, 2004 (Audited) |
|---|--------------------------------|----------------------------------|
| | HK\$'million | HK\$'million |
| Within one year | 4.9 | 4.0 |
| In the second to fifth years, inclusive | 1.6 | 1.1 |
| | <u>6.5</u> | <u>5.1</u> |

(b) As lessee

At the balance sheet date, the Group had no outstanding operating lease commitments.

17. Commitments

At the balance sheet date, the Group had no outstanding capital commitments.

18. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group did not have significant transactions except for the transaction detailed in note 10 above.



19. Share Options

(a) Executive Share Option Scheme

During the period, the Company operated an executive share option scheme (the "Executive Share Option Scheme"). The Executive 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 granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of movements in share options granted by the Company pursuant to the Executive Share Option Scheme during the period were as follows:

| Date of grant of share options | 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, 2005 | Movement during the period | At 30th June, 2005 | | |
| 22nd February, 1997 | Employees | | | | | |
| | Employees, in aggregate | | | | | |
| | Vested: | 1,750,000 | - | 2,000,000 | Note | 6.672 |
| | Unvested: | 750,000 | - | 500,000 | Note | |
| | Total: | 2,500,000 | - | 2,500,000 | | |

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

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



Note:

Vesting/Exercise Periods of Options:

| | 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) |

The outstanding share options for 2,500,000 ordinary shares granted under the Executive Share Option Scheme, which was terminated in 2003, were subsequently surrendered and cancelled in August 2005.

(b) The Paliburg Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as "The Paliburg Holdings Limited Share Option Scheme" (the "New Share Option Scheme") and the conditional grant to Mr. Lo Yuk Sui ("Mr. Lo"), the chairman of the Company, of share options for 180,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 180,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were approved by the shareholders and the independent shareholders of the Company, respectively. The New Share Option Scheme and the conditional grant of options were approved by the shareholders and the independent shareholders of Century City International Holdings Limited at its special general meeting also held on 16th June, 2005, respectively. The closing price of the ordinary shares traded on The Stock Exchange of Hong Kong Limited immediately before the date on which such options were conditionally offered to Mr. Lo, i.e. 12th May, 2005, was HK\$0.209 per ordinary share. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Subsequently, both the New Share Option Scheme and the conditional grant of options became effective on 21st July, 2005. The options granted to Mr. Lo will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

| <u>Exercise Period</u> | <u>Number of ordinary shares of the Company under vested options</u> |
|----------------------------------|--|
| 12th May, 2007 to 11th May, 2011 | 72,000,000 |
| 12th May, 2008 to 11th May, 2011 | 36,000,000 |
| 12th May, 2009 to 11th May, 2011 | 36,000,000 |
| 12th May, 2010 to 11th May, 2011 | 36,000,000 |

On 25th July, 2005, share options for an aggregate number of 100,000,000 ordinary shares, entitling the holders thereof to subscribe for a total of 100,000,000 new ordinary shares at an exercise price of HK\$0.22 per ordinary share (subject to adjustments), were offered to be granted to other selected eligible persons under the New Share Option Scheme. Such further grants of options have been duly accepted and became effective by end of July 2005.

