

## INTERIM DIVIDEND

In view of the satisfactory results achieved, the Directors have resolved to declare the payment of an interim dividend of HK0.25 cent per ordinary share for the financial year ending 31st December, 2005 (2004 – Nil), absorbing a total amount of approximately HK\$21.1 million, payable to holders of ordinary shares on the Register of Ordinary Shareholders on 28th October, 2005.

The Register of Ordinary Shareholders will be closed from Wednesday, 26th October, 2005 to Friday, 28th October, 2005, both days inclusive, during which period no transfers of shares will be effected. In order to qualify for the proposed ordinary dividend, all transfers accompanied by the relevant certificates must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, not later than 4:00 p.m. on Tuesday, 25th October, 2005. The relevant dividend warrants are expected to be despatched on or about 8th November, 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Highlights

The Group's significant investments principally comprise its ownership and operating interests in the five Regal Hotels in Hong Kong and the investment in the jointly controlled Regalia Bay development. 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 as well as the progress and prospects on the Regalia Bay development are contained in the sections above headed "Review of Operations" and "Outlook".

### Cash Flow and Capital Structure

During the period under review, net cash inflow from operating activities totalled HK\$193.0 million (2004 – HK\$160.0 million). Net interest payment for the period amounted to HK\$97.6 million (2004 – HK\$49.8 million). The increase in net interest payment was largely due to the settlement during the period of the accrued preference dividends in arrears of HK\$40.8 million (2004 – Nil).

During the period under review, a total of 64.0 million new ordinary shares of the Company were allotted and issued to the holders of the 2007 Warrants of the Company who exercised the subscription rights in an aggregate amount of HK\$16.0 million attaching to certain 2007 Warrants at the subscription price of HK\$0.25 per ordinary share. As at the date of this report, a total of 118.2 million new ordinary shares of the Company have been allotted and issued upon exercise of the 2007 Warrants, and the aggregate amount of the 2007 Warrants remaining outstanding was HK\$178.9 million exercisable into 715.7 million new ordinary shares of the Company at the prevailing subscription price of HK\$0.25 per ordinary share (subject to adjustments).



Up to the date of this report, none of the 2% Guaranteed Convertible Bonds due 2007 (the "Bonds"), in an aggregate principal amount of HK\$200.0 million, (the "Firm Bonds") issued by Cheerview Limited, a wholly owned subsidiary company of the Company, in July 2004 have been converted into new ordinary shares of the Company. The optional Bonds of up to an additional aggregate principal amount of HK\$200.0 million (the "Optional Bonds") have not been subscribed for and issued. The Firm Bonds and the Optional Bonds, if fully subscribed for and issued, are convertible into a total of 1,600 million ordinary shares of the Company at the initial conversion price of HK\$0.25 per ordinary share (subject to adjustments).

### **Assets Value**

Prior to 1st January, 2005, it was the Group's policy, in accordance with the relevant accounting standards previously applicable, to state the value of its owned and operated hotel properties at their open market valuations for existing use appraised annually and not depreciated. Under the new applicable accounting standard which became effective as from 1st January, 2005, owner-occupied leasehold land interests can no longer be carried at fair market valuations. Accordingly, in the financial statements herein presented, the Group's five hotel properties in Hong Kong have been stated at cost less accumulated depreciation on buildings and amortisation on the leasehold land interests.

Aggregate depreciation and amortisation provided for the period under review amounted to HK\$64.9 million (2004 - HK\$69.1 million, as restated). Additional depreciation on the hotel buildings and amortisation of the prepaid land lease payments charged to the profit and loss account for the period due to the adoption of the new or revised accounting standards aggregated to HK\$49.6 million (2004 - HK\$49.2 million, as restated), but this has no actual impact on the operating cash flows.

Moreover, there is significant difference between the fair market values of the Group's hotel properties in Hong Kong based on their annual open market valuations and the values as stated in the financial statements herein presented, particularly that some of these properties were acquired and/or developed by the Group many years ago at relatively low costs. Due to its significant impact on the Group's net assets position, the Group considers it appropriate also to present to shareholders, as set out below, supplementary information on the Group's statement of net assets on a proforma basis to adjust for the open market valuations as at 31st December, 2004 of the Group's hotel properties in Hong Kong, which should more readily reflect the underlying economic values of the property interests.



## Statement of Proforma Net Assets

	30th June, 2005 (Unaudited)	31st December, 2004 (Unaudited)
	HK\$'million	HK\$'million
NON-CURRENT ASSETS		
Fixed assets	2,957.4	2,990.7
Prepaid land lease payments	1,099.1	1,110.2
Add: Revaluation surplus relating to hotel properties based on open market valuations *	<u>5,786.6</u>	<u>5,743.7</u>
	9,843.1	9,844.6
Other non-current assets	<u>2,107.0</u>	<u>2,082.8</u>
	<u>11,950.1</u>	<u>11,927.4</u>
CURRENT ASSETS	584.2	508.3
CURRENT LIABILITIES	<u>(309.3)</u>	<u>(311.5)</u>
NET CURRENT ASSETS	<u>274.9</u>	<u>196.8</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	12,225.0	12,124.2
NON-CURRENT LIABILITIES	<u>(4,813.7)</u>	<u>(5,035.4)</u>
MINORITY INTERESTS	<u>(1.1)</u>	<u>(0.8)</u>
PROFORMA NET ASSETS	<u>7,410.2</u>	<u>7,088.0</u>
Proforma net assets per ordinary share	<u>HK\$0.88</u>	<u>HK\$0.85</u>

\* Surplus of independent professional valuations as at 31st December, 2004 over the carrying values of hotel properties (including furniture, fixture and equipment) at the respective balance sheet dates.



## **Borrowings**

As at 30th June, 2005, the Group's borrowings net of cash and bank balances amounted to HK\$4,485.5 million (31st December, 2004 – HK\$4,747.0 million, as restated). The Group's gearing ratio based on total assets of HK\$6,747.7 million per financial statements herein presented (31st December, 2004 – HK\$6,692.0 million, as restated) was about 66.5% (31st December, 2004 – 70.9%, as restated). However, based on the proforma total assets of HK\$12,534.3 million as at 30th June, 2005 (31st December, 2004 – HK\$12,435.8 million), as adjusted for the revaluation surplus relating to the hotel properties as aforesaid, the gearing ratio would be 35.8% (31st December, 2004 – 38.2%).

Details of the Group's pledge of assets and contingent liabilities are shown in notes 14 and 15, respectively, to the condensed consolidated financial statements. As disclosed in note 14, most of the Group's assets have been pledged to secure general banking facilities granted to the Group. As at 30th June, 2005, the Company has contingent liabilities in the aggregate amount of HK\$4,768.7 million under the respective corporate guarantees given by the Company in respect of the outstanding syndicated loan facility of HK\$4,568.7 million granted to the Group and the Firm Bonds.

Information in relation to the maturity profile of the Group's borrowings as of 30th June, 2005 has not changed materially from that disclosed in the most recently published annual report of the Company for the year ended 31st December, 2004.

## **Material Acquisitions or Disposals of Subsidiary Companies or Associates**

During the period under review, there were no material acquisitions or disposals of subsidiary companies or associates of the Company.

Subsequent to the period end, the Group completed the relevant transactions relating to the acquisition of a 50% equity interest in Hang Fok Properties Limited and the disposal of all of its shareholding interests in the Kaifeng Yatai Brewery located in Kaifeng City in Henan, PRC. Details of such transactions are disclosed in the section above headed "Review of Operations" and note 18 to the condensed consolidated financial statements.

Save as otherwise disclosed in the section above headed "Review of Operations", the Group has no immediate plan 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 are primarily denominated in Hong Kong dollar currency, being the same currency in which the Group's major revenues are derived, and with interest determined with reference to interbank offered rates, the use of hedging instruments for currency or interest rates purposes is not considered to be necessary.





### **Remuneration Policy**

The Group employs approximately 1,600 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 adopted in June 2005 a new 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. Subsequent to the period under review, the outstanding share option granted under the Executive Share Option Scheme of the Company adopted in 1990 and terminated in 2000 has been surrendered and cancelled.