富豪酒店國際控股有限公司
Regal Hotels International Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 78)

ANNUAL REPORT 2008

Contents

Corporate Information

DIRECTORS

Lo Yuk Sui
(Chairman and Chief Executive Officer)
Francis Choi Chee Ming, JP
(Vice Chairman)*
Belinda Yeung Bik Yiu
(Chief Operating Officer)
Donald Fan Tung
Alice Kan Lai Kuen#
Jimmy Lo Chun To
Lo Po Man
Kenneth Ng Kwai Kai
Ng Siu Chan#
Wong Chi Keung#

* *Non-Executive Director*
\# *Independent Non-Executive Director*

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

SECRETARY

Eliza Lam Sau Fun

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
China Construction Bank Corporation, Hong Kong Branch
The Bank of East Asia, Limited
Oversea-Chinese Banking Corporation Limited
Deutsche Bank AG, Hong Kong Branch
Standard Bank Asia Limited

AUDITORS

Ernst & Young

PRINCIPAL REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road,
Pembroke HM08, Bermuda

BRANCH REGISTRAR IN HONG KONG

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

REGISTERED OFFICE

Rosebank Centre, 11 Bermudiana Road,
Pembroke, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

11th Floor, 68 Yee Wo Street,
Causeway Bay,
Hong Kong

Tel: 2894 7888
Fax: 2890 1697
Website: www.regal.com.hk

Directors' Profile

Mr. Lo Yuk Sui, *aged 64; Chairman and Chief Executive Officer* — Chairman and Managing Director since 1989 when the Company was established in Bermuda as the holding company of the Group. Mr. Lo has been the Managing Director and the Chairman of the predecessor listed company of the Group since 1984 and 1987 respectively. Mr. Lo was designated as the Chief Executive Officer of the Company in 2007. He is also the chairman and chief executive officer of Century City International Holdings Limited ("CCIHL") and Paliburg Holdings Limited ("PHL"), of which the Company is the listed associate, and the chairman of Regal Portfolio Management Limited ("RPML"), the manager of Regal Real Estate Investment Trust (the listed associate of the Company). Mr. Lo is a qualified architect. In his capacity as the Chief Executive Officer, Mr. Lo oversees the overall policy and decision making of the Group. Mr. Lo is the father of Mr. Jimmy Lo Chun To and Miss Lo Po Man.

Dr. Francis Choi Chee Ming, JP*, aged 63; Vice Chairman and Non-Executive Director* — Invited to the Board as Non-Executive Director and elected Vice Chairman in 2004. Dr. Choi holds a master degree in business administration from the Newport University in the United States of America and a bachelor degree in business administration from the Sussex College of Technology in the United Kingdom. He also holds a Ph. D in Business Management from Harbin Institute of Technology, the People's Republic of China. Dr. Choi is the chairman of Early Light International (Holdings) Ltd. and has extensive business interests in the manufacturing industry and the property sector. He is the Honorary President of the Toys Manufacturer's Association of Hong Kong, Honorary President of the Hong Kong Young Industrialists Council and the Council Member of the Hong Kong Polytechnic University. He is also a Member of National Committee of the Chinese People's Political Consultative Conference. Dr. Choi is also the vice chairman and non-executive director of Town Health International Holdings Company Limited, a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ms. Belinda Yeung Bik Yiu, *aged 50; Executive Director and Chief Operating Officer* — Appointed to the Board in 2002 and designated as the Chief Operating Officer in 2007. Ms. Yeung joined the Group in 1987. Having obtained her hotel management university degree in U.S.A., Ms. Yeung has acquired extensive hotel management experience in U.S.A., Mainland China as well as in Hong Kong — in both multi-unit corporate and single-unit hotel management levels. As the Chief Operating Officer in charge of the hotel operation and management functions of the Group, Ms. Yeung is responsible for overseeing the hotel business operations of the Group. On top of her hotel management responsibilities, Ms. Yeung is also in charge of the human resources management of the Century City Group.

Mr. Donald Fan Tung, *aged 52; Executive Director* — Appointed to the Board in 2002. Mr. Fan has been with the Group since 1987. He is primarily in charge of the property investment and development businesses and the hotel project works of the Group. Mr. Fan is also an executive director of CCIHL, an executive director and the chief operating officer of PHL and a non-executive director of RPML. Mr. Fan is involved in the property development, architectural design and project management functions as well as overseeing the building construction business of the Paliburg Group. He is a qualified architect.

Ms. Alice Kan Lai Kuen, *aged 54; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Ms. Kan is a shareholder and the managing director of Asia Investment Management Limited providing corporate advisory and investment management services and Asia Investment Research Limited involving in research work in Hong Kong and China based companies. She is a licensed person under the Securities and Futures Ordinance of Hong Kong (the "SFO") to carry out certain regulated activities. She has over 18 years of experience in corporate finance and is well experienced in both the equity and debt markets. She formerly held various senior positions in international and local banks and financial institutions. Ms. Kan is a fellow member of The Association of Chartered Certified Accountants, a fellow member of the CPA Australia and an associate member of the Hong Kong Institute of Certified Public Accountants. She is a fellow member of the Hong Kong Institute of Directors. Ms. Kan is an independent non-executive director of China Energine International (Holdings) Limited (formerly CASIL Telecommunications Holdings Limited), Shougang Concord International Enterprises Company Limited, Shougang Concord Technology Holdings Limited, G-Vision International (Holdings) Limited, Shimao Property Holdings Limited and Sunway International Holdings Limited, all of which are companies listed on the Stock Exchange.

Mr. Jimmy Lo Chun To, *aged 35; Executive Director* — Appointed to the Board in 1999. He is also an executive director of CCIHL and PHL and a non-executive director of RPML. Mr. Jimmy Lo graduated from Cornell University, New York, U.S.A. with a degree in architecture. Apart from his involvement with the design of the Group's property and hotel projects, he undertakes responsibilities in the business development function of the Century City Group. He is the son of Mr. Lo Yuk Sui and the brother of Miss Lo Po Man.

Miss Lo Po Man, *aged 29; Executive Director* — Appointed to the Board in 2004. Miss Lo graduated from Duke University, North Carolina, U.S.A. with a bachelor degree in psychology. She is also an executive director of CCIHL and PHL. Miss Lo joined the Group in 2000 and has been involved in the marketing and sales functions of the Group. She is an executive director of the estate agency business of the Group and has undertaken an active role in directing the marketing campaign of the Group's luxury residential development, Regalia Bay in Stanley, Hong Kong. She also undertakes responsibilities in the business development function of the Group. Miss Lo is the daughter of Mr. Lo Yuk Sui and the sister of Mr. Jimmy Lo Chun To.

Mr. Kenneth Ng Kwai Kai, *aged 54; Executive Director* — Joined the Group in 1985 and appointed to the Board in 1998. Mr. Ng is a Chartered Secretary and is in charge of the company secretarial and corporate finance functions of the Group. He is also an executive director and the chief operating officer of CCIHL, an executive director of PHL and, since 12th June, 2008, a non-executive director of Cosmopolitan International Holdings Limited, a company listed on the Stock Exchange.

Mr. Ng Siu Chan, *aged 78; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2005. Mr. Ng is also an independent non-executive director of CCIHL and PHL. He is a non-executive director of Transport International Holdings Limited, which is publicly listed in Hong Kong.

Mr. Wong Chi Keung, *aged 54; Independent Non-Executive Director* — Invited to the Board as Independent Non-Executive Director in 2004. Mr. Wong is also an independent non-executive director of CCIHL and PHL. He holds a master's degree in business administration from the University of Adelaide in Australia. He is a fellow member of Hong Kong Institute of Certified Public Accountants, The Association of Chartered Certified Accountants and CPA Australia and an associate member of The Institute of Chartered Secretaries and Administrators and The Chartered Institute of Management Accountants. Mr. Wong is also a responsible officer for asset management, advising on securities and advising on corporate finance for Legend Capital Partners, Inc. under the SFO. Mr. Wong was an executive director, the deputy general manager, group financial controller and company secretary of Guangzhou Investment Company Limited, a company listed on the Stock Exchange, for over ten years. He is also an independent non-executive director and a member of the audit committee of Asia Orient Holdings Limited, Asia Standard International Group Limited, China Nickel Resources Holdings Company Limited, China Ting Group Holdings Limited, First Natural Foods Holdings Limited (Provisional Liquidators Appointed (in January 2009)), FU JI Food and Catering Services Holdings Limited, Golden Eagle Retail Group Limited, Great Wall Motor Company Limited, PacMOS Technologies Holdings Limited and TPV Technology Limited, all of which companies are listed on the Stock Exchange. He retired as an independent non-executive director of International Entertainment Corporation, a company listed on the Stock Exchange, on 23rd September, 2008. Mr. Wong has over 30 years of experience in finance, accounting and management.

Chairman's Report

Dear shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31st December, 2008.

FINANCIAL RESULTS

For the year ended 31st December, 2008, the Group recorded a consolidated loss attributable to shareholders of HK$808.8 million, as compared to the consolidated profit of HK$2,957.3 million attained in 2007 which, as explained before, included a one-off gain of HK$2,293.5 million derived from the spin-off of Regal Real Estate Investment Trust.

The loss incurred by the Group for the year under review was mainly attributable to the losses arising from the changes in the fair values of certain investment properties and financial assets held by the Group and Regal REIT, a listed associate of the Group.

The decrease in the fair values of the investment properties and financial assets held by the Group and Regal REIT largely reflected the significant downturn in the financial and property market conditions in Hong Kong which, in turn, was brought about by the recent global financial crisis. These fair value losses are however non-cash items and do not have an immediate impact on the cash flow of the Group.

Nevertheless, the underlying net asset value of the Company's ordinary shares is still significantly higher than the market price of the shares. With a view to enhancing the net asset value of the outstanding shares of the Company, the Company has continued with the share repurchases pursuant to the mandate granted to the Directors and repurchased an aggregate of about 35.4 million ordinary shares (as adjusted for the 10-into-1 share consolidation in October 2008) during the year under review.

For the purpose of reference, supplementary information on the net assets of the Group, compiled on an adjusted basis to reflect more fairly the underlying net assets attributable to the interests held by the Group in Regal REIT, is provided in the section headed "Management Discussion and Analysis" in the Report of the Directors.

In December 2008, the outstanding 16,748 5¼% convertible cumulative redeemable preference shares, which were issued by the Company in 1993, matured for redemption. Although the Company has the option to redeem the preference shares by issuing to the preference shareholders new ordinary shares at an issue price effectively based on 95% of the market share price which, as mentioned above, was at substantial discount to its underlying net asset value, the Company has elected to redeem all the outstanding preference shares for an aggregate cash redemption amount of approximately HK$129.9 million.

SHARE CONSOLIDATION

To achieve savings for shareholders on the trading and transaction costs for dealing in the ordinary shares of the Company, which are charged on a per board lot basis, the Company implemented earlier in October 2008 a share consolidation scheme by consolidating every 10 ordinary shares of HK$0.01 each into 1 ordinary share of HK$0.10. Following the share consolidation, the issued ordinary share capital of the Company as at 31st December, 2008 comprised approximately 1,014.6 million ordinary shares of HK$0.10 each.

DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK5.0 cents (2007 – HK10.0 cents, as adjusted for the share consolidation implemented in October 2008) per ordinary share for the year ended 31st December, 2008, absorbing an amount of approximately HK$50.5 million (2007 – HK$103.8 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 9th June, 2009. The final dividend being recommended is comparatively lower than that in last year as it is considered prudent for the Company to conserve cash resources under the present economic climate.

Together with the interim dividend of HK3.0 cents (as adjusted for the share consolidation) per ordinary share paid in October 2008 (2007 – HK3.0 cents, as adjusted), the total dividends per ordinary share for the year ended 31st December, 2008 will amount to HK8.0 cents (2007 – HK13.0 cents, as adjusted).

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Thursday, 4th June, 2009 to Tuesday, 9th June, 2009, both days inclusive, during which period no transfers of ordinary shares will be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 3rd June, 2009. The relevant dividend warrants are expected to be despatched on or about 30th June, 2009.

REVIEW OF OPERATIONS

HOTELS

Hong Kong

During the year under review, the tourist industry in Hong Kong remained relatively stable until the latter part of 2008, when the adverse impact of the global financial crisis became more apparent and exacerbated. Visitors from major long haul markets have on the whole recorded negative growth on a year-on-year basis, though the shortfall was compensated by the continuing influx of visitors from Mainland China. For the whole year of 2008, the total number of visitors to Hong Kong was over 29.5 million, a growth of about 4.7% as compared with 2007, with visitors from Mainland China having further increased to account for about 57.1% of the total number.

Based on the information published by Tourism Research of the Hong Kong Tourism Board, the average hotel room occupancy rate for all hotels in different categories for the year 2008 was 85%, which was only marginally below the 86% recorded for 2007. Due to the reduction in the number of long haul visitors, particularly those from America and Europe, there was increased pressure on room rates since the last quarter of the year, especially for the upscale hotel category, but on a year round basis, the average achieved room rate for all hotels as a whole was still able to be maintained at about the same level recorded for 2007.

The five Regal Hotels in Hong Kong, which are now owned by Regal REIT but operated and managed by the Group, have on the whole performed steadily during the year. Despite the relatively competitive market condition in the latter part of 2008, the five Regal Hotels managed to achieve a modest improvement of 0.7% in their average RevPAR (Revenue per Available Room) over 2007, which is above market average.

Regal Hotels International Limited, which is the hotel management arm of the Group and acts as the hotel manager of the five Regal Hotels in Hong Kong, was awarded "The Best Hotel Management Group of China of China Hotel Starlight Award (2008)". In recognition of its quality and service standard, the Regal Airport Hotel was awarded "Best Airport Hotel in the World 2008" by Business Traveller, UK Magazine, the "Best Airport Hotel in Asia-Pacific" by Business Traveller Asia-Pacific Magazine and TTG Asia Media Pte Limited for many consecutive years since 2001 and 2005, respectively, as well as "The Top 10 Convention & Exhibition Hotels of China of China Hotel Starlight Award (2007-2008)". Moreover, the Regal Oriental Hotel was also awarded "The Top 10 City – Nova Hotels of China of China Hotel Starlight Award (2008)".

The People's Republic of China

The Group will continue to expand its hotel operations in Mainland China, which will initially be focused on major first and second tier cities.

In April 2008, the Group entered into a formal management contract with Shanghai Jinfeng Investment Co. Ltd. for the provision of hotel management services to a 380-room four star business hotel in Pudong, Shanghai. The hotel is being named as Regal Jinfeng Hotel and now scheduled to be opened in the third quarter of 2009.

Lately in January this year, the Group entered into a hotel management contract with Sichuan Master Investment Group Company Limited for the Group to provide management services to a 350-room five star luxury hotel in Chengdu, the capital city of Sichuan. The hotel is being named as Regal Master Hotel and scheduled for opening in the fourth quarter of this year.

The Group is also providing hotel consultancy and pre-opening services to a hotel project in Dezhou in Shandong and, subject to further agreement on the detailed terms, may extend to full management services to the hotel when it comes into business operations.

Together with the two hotels in Shanghai presently managed by the Group, there will be a total of four Regal managed hotels in the Mainland by the end of this year. The Group is endeavouring to expand its portfolio to more than 20 managed or owned hotels in the first and second tier cities of China within the next five years.

REGAL REAL ESTATE INVESTMENT TRUST

For the year ended 31st December, 2008, Regal REIT recorded a consolidated net loss before distributions to its unitholders of approximately HK$2,150.2 million. The loss incurred by Regal REIT was mainly attributable to the revaluation deficit arising from the changes in the fair values of its hotel portfolio based on the independent valuer's appraisal as at 31st December, 2008. Total distributable income for the year under review amounted to approximately HK$501.9 million, as compared to HK$421.5 million for the period ended 31st December, 2007.

Although 2009 is expected to be a very challenging year, Regal REIT's existing lease structure with the Group provides a strong shelter to protect against fluctuations in market conditions. Moreover, all the five Regal Hotels in Hong Kong are of good quality and cater strategically to different clienteles and market segments.

In 2008, Regal REIT has committed to capital additions projects with a total cost of about HK$85 million covering all the five Regal Hotels. Notable projects that have since been completed included the conversion of space in Regal Hongkong Hotel, Regal Oriental Hotel and Regal Riverside Hotel to add a total of approximately 16,700 square feet of state-of-the-art conference and meeting facilities, the renovation and upgrade of another guest room floor with 51 hotel rooms in Regal Kowloon Hotel to club floor standard, the setting up of 3 additional food outlets in Regal Riverside Hotel offering various choices of specialty cuisine, and the upgrade of the external façade at Regal Oriental Hotel. Projects approved and scheduled for completion in 2009 include the re-decoration and upgrade of the Chinese restaurant in Regal Kowloon Hotel and the renovation and upgrade of the external façades at Regal Kowloon Hotel and Regal Riverside Hotel.

The delay in the implementation by Regal REIT of the expansion plans for the acquisition of hotel properties has apparently proven to have been a correct strategy. Management of Regal REIT continues to actively review hotel acquisition opportunities but in view of the uncertainty on the timing of an overall economic revival, the near-term focus of Regal REIT is still to preserve liquidity and be prepared for any appropriate acquisition opportunities that may arise.

Regal Portfolio Management Limited

Regal Portfolio Management Limited is a wholly-owned subsidiary of the Group and acts as the manager of Regal REIT. Aggregate manager's fees received or receivable from Regal REIT for 2008 amounts to approximately HK$66.7 million, representing an increase of about 25% as compared with the total fees received for 2007, as the financial year ended 31st December, 2008 was the first full year of operation for Regal REIT since its separate listing on 30th March, 2007.

PROPERTIES

Hong Kong

Regalia Bay, Stanley

The Group beneficially owns 31 houses in Regalia Bay, some of which have been leased out for rental purposes and generated gross rental revenues of about HK$30.3 million in 2008. During the year under review, 15 of those houses that were leased to third party lessees have been reclassified from properties held for sale to investment properties. Due to such reclassification, a fair value gain of HK$358.5 million was recognised in the interim results for 2008, based on their independent professional valuations as at 30th June, 2008.

Affected by the global financial crisis, the property market in Hong Kong as a whole has been adversely impacted since the second half of 2008. Market valuations as at 31st December, 2008 of the Regalia Bay houses that are now held as investment properties have similarly been affected. Consequently, a fair value loss of HK$321.6 million, reflecting the decrease in their market valuations since 1st July, 2008, has also been incorporated in the results for the year under review.

However, the carrying costs of the remaining 16 houses that are being held for sale are still below their market valuations as at the last balance sheet date. Pending revival of the property market, the Group may in the interim period lease out some of these houses for rental income, unless the prices offered by prospective purchasers are favourable.

The People's Republic of China

Development Project in the Central Business District of Beijing

This development project is held through a Sino-foreign joint venture entity that is 59%-owned by an associate which, in turn, is 50% each owned by the Group and Paliburg Holdings Limited, the effective controlling shareholder of the Company. Based on latest available information, it is anticipated that the joint venture entity will succeed in its application to secure the award by the Beijing Municipal Bureau of Land and Resources of the primary development rights for the Phase II land site. Pending further resolution of detailed terms of joint venture with the local partner, it is hopeful that the Sino-foreign joint venture entity will be able to solidly proceed with this prominent large scale project in Beijing in the not too distant future.

Development Project in Xindu District, Chengdu, Sichuan Province

This development project is 50% beneficially owned by each of the Group and Cosmopolitan International Holdings Limited. The land transfer consideration for the subject site of RMB213.1 million was fully settled in July 2008.

This is a mixed-use project comprising a hotel and commercial complex with aggregate gross floor area of about 180,000 square meters above ground together with about 56,000 square meters of commercial, auxiliary services and car park areas below ground as well as residential development with aggregate gross floor area of about 315,000 square meters. Planning works are still in progress but further development works might proceed at a more controlled pace due to the recent changes in the general market conditions in China.

OTHER INVESTMENTS

During the year, the Group has further invested in the convertible bonds issued by the Cosmopolitan group. Further information in this respect was contained in the 2008 Interim Report and other previous announcements released by the Company.

Presently, the Group holds substantial interests in the convertible bonds issued by Cosmopolitan group and, in addition, approximately 3.0% of the issued ordinary shares of Cosmopolitan. Assuming that all the outstanding convertible bonds and options on convertible bonds granted by the Cosmopolitan group, including those held by the Group, are fully converted and/or exercised, the Group can come to own up to approximately 32.8% of the enlarged share capital of Cosmopolitan.

Apart from the joint venture with the Group on the development project in Xindu District in Chengdu, Cosmopolitan group has been working on a large scale development project involving re-forestation and landscaping works in Urumqi City in Xinjiang as well as certain proposed projects in other parts of China.

As also noted in the 2008 Interim Report, the strategic investments in Cosmopolitan group is expected to provide an opportunity to the Group to share in its growth potential, while creating a platform for further mutually beneficial business collaborations between the two groups in the future.

As part of its ordinary businesses, the Group also undertakes other investments in financial instruments and securities which are conducted with a prudent and conservative approach and the Group has no exposure to any highly leveraged or speculative investment products. Nevertheless, due to the severely adverse market conditions experienced by the stock market in Hong Kong in 2008, particularly in the second half, the Group has incurred in the year ended 31st December, 2008 an overall net loss of approximately HK$202.8 million in its investment businesses. This included the losses on fair value changes in securities investments held by the Group as well as the provisions in the amount of approximately HK$111.7 million for the fair value losses on the Group's holding of the convertible bonds issued by Cosmopolitan group, partly reversing the fair value gain of HK$228.2 million recorded in 2007.

OUTLOOK

The adverse effects to the overall economy caused by the global financial crisis are unprecedented and the impact to the financial and capital markets worldwide is far reaching. Revival of global economy will depend on when liquidity can be reinstated to normal levels and overall confidence restored. The Chinese government has recently announced enormous stimulus packages to generate liquidity and to boost domestic consumption, with a view to maintaining the GDP growth in the Mainland. In the meantime, plans are also being devised to help sustain the tourist industry and economic development in Hong Kong. Nevertheless, overall business environment in Hong Kong in 2009 will be very challenging and competitive.

The Group has since last year taken a relatively cautious approach towards commitment to new significant investments. The Group is financially strong and in net cash position. While the Group is well-prepared for the challenges that may lie ahead, it is also at the same time well-poised to capitalise on any appropriate acquisition and expansion opportunities that will become available.

DIRECTORS AND STAFF

Once again, I would like to thank all my fellow Directors for their contribution and all the management and staff members for their loyalty and hard work during the past year.

LO YUK SUI
Chairman

Hong Kong
31st March, 2009

Regal Airport Hotel

■ The Best Airport Hotel in the World 2008

■ Deluxe Suite

■ Duplex Suite

■ Rouge

Regal Hotels in Hong Kong

Regal Hongkong Hotel

■ Regal Royale Lounge

■ The Forum II & III

■ The Forum I

■ Zeffirino Ristorante

Regal Hotels in Hong Kong

Regal Kowloon Hotel

■ Regal Club Deluxe Room

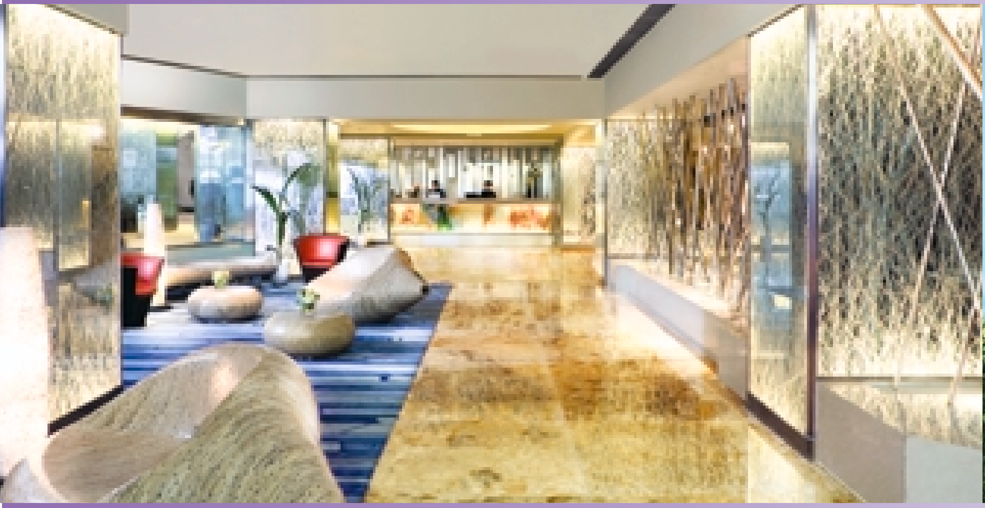
■ Mezzo Grill

■ Café Allegro

■ Basso Bar

Regal Hotels in Hong Kong

Regal Oriental Hotel



■ Hotel Lobby

■ Deluxe Room

■ Ballroom

■ Meeting & Conference Centre

Regal Hotels in Hong Kong

Regal Riverside Hotel

■ Regal i-Club Guest Room

■ The Forum

■ Riverside Ballroom

■ Moon River

Regalia Bay

■ Luxurious residence in the south of Hong Kong Island

The Directors have pleasure in presenting their report together with the audited financial statements of the Company and the Group for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of a holding company. The principal activities of the subsidiaries are hotel operation and management, investment in Regal Real Estate Investment Trust ("Regal REIT") (which owns the five Regal Hotels in Hong Kong), asset management of Regal REIT, property development and investment, and other investments.

There have been no significant changes in these activities during the year.

The turnover and contribution to trading results by each principal activity are set out in note 4 to the financial statements.

FINANCIAL RESULTS

The results of the Group for the year ended 31st December, 2008 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 59 to 143.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Highlights

The Group's significant investments principally comprise its interests in the operation and management of the five Regal Hotels in Hong Kong, the investment in Regal REIT, the asset management of Regal REIT, the interest in the remaining houses in Regalia Bay in Stanley and other investment businesses. The performance of the Group's hotel operations during the year under review, their future prospects, the commentary on the local hotel industry and changes in general market conditions and their potential impact on the operating performance, the progress and prospects on the Regalia Bay properties as well as the performance of Regal REIT are contained in the Chairman's Report preceding this report.

Cash Flow and Capital Structure

During the year under review, net cash outflow from operating activities totalled HK$110.9 million (2007 – HK$237.1 million). Net interest receipt for the year amounted to HK$30.0 million (2007 – HK$2.7 million).

At the special general meeting of the Company held on 22nd October, 2008, the consolidation of ordinary shares in the share capital of the Company (on the basis that every 10 then existing issued and unissued ordinary shares of HK$0.01 each were consolidated into one ordinary share of HK$0.10) (the "Share Consolidation") was approved by the shareholders of the Company. The Share Consolidation subsequently became effective on 23rd October, 2008.

As a result, with effect from the Share Consolidation becoming effective, corresponding adjustments were made to:

(1) the exercise price (adjusting from HK$0.75 per share to HK$7.50 per share) and the number of shares falling to be allotted and issued (adjusting from 350,000,000 to 35,000,000) upon exercise of the outstanding share options granted under the share option scheme of the Company named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Share Option Scheme"); and

(2) the conversion price (adjusting from HK$1.7037 per share to HK$17.037 per share) and the number of shares falling to be allotted and issued (adjusting from 75,991,260 to 7,599,126) upon conversion* of the then outstanding 16,748 5¼% convertible cumulative redeemable preference shares of US$10.00 each of the Company ("Preference Shares").

* The Preference Shares were convertible into ordinary shares of the Company at the conversion price based on a reference amount of US$1,000 per Preference Share and a fixed exchange rate of HK$7.730255 to US$1.00.

Details of the Share Consolidation and the resultant adjustments were disclosed in the circular and the announcement of the Company dated 30th September, 2008 and 22nd October, 2008, respectively.

All the outstanding 16,748 Preference Shares were redeemed by the Company at the fifteenth anniversary of the Closing Date (being the issue date of the Preference Shares of 13th December, 1993) at the reference amount of US$1,000 per share pursuant to the terms of the Preference Shares. The redemption monies in an aggregate amount of US$16,748,000, together with the 2008 preference share dividend in the aggregate amount of US$879,270, were paid to the holders of the outstanding 16,748 Preference Shares so redeemed. Following the final redemption of the Preference Shares, the listing of the Preference Shares on Société de la Bourse de Luxembourg was withdrawn and cancelled in December 2008.

During the year under review, the Company repurchased a total of 311,036,000 ordinary shares of HK$0.01 each and 4,276,800 ordinary shares of HK$0.10 each on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Except for 654,000 repurchased ordinary shares of HK$0.10 each, which were cancelled subsequent to the balance sheet date, all ordinary shares repurchased during the year were cancelled during the year. Details of the repurchase by the Company of its ordinary shares during the year are disclosed under the section headed "Purchase, Sale or Redemption of the Company's Listed Securities" below. From the date of the last annual general meeting of the Company held on 5th June, 2008, at which the share repurchase mandate was approved by its shareholders, and up to the date of this report, the Company has repurchased a total of 148,064,000 ordinary shares of HK$0.01 each and 7,448,800 ordinary shares of HK$0.10 each on the Stock Exchange and all of such repurchased ordinary shares have subsequently been cancelled.

Asset Value

Based on the consolidated balance sheet as at 31st December, 2008, the book net asset value of the ordinary shares of the Company was HK$4.08 per share. Such book net asset value has been significantly affected by the elimination of the unrealised gain on the disposal of subsidiaries owning the hotel properties to Regal REIT in 2007 against the Group's interest held in Regal REIT as well as the sharing of the fair value loss on the hotel properties held by Regal REIT for the year under review, which resulted in the interest held by the Group in Regal REIT having been stated at zero value as at 31st December, 2008.

In order to more fairly reflect the underlying net asset value of the Group, management of the Group considers it appropriate to also present, for the purposes of reference and ease of comparison, supplementary information on the Group's net assets position, compiled on an adjusted basis to reflect the share of the underlying net assets of Regal REIT attributable to the Group. Accordingly, on the basis that the interest of the Group held in Regal REIT were to be stated based on the published net asset value per unit of Regal REIT of HK$2.596 as at 31st December, 2008, the adjusted net asset value of the ordinary shares of the Company would be HK$10.00 per share.

	As at 31st December, 2008
Book net asset value per ordinary share	**HK$4.08**
Adjusted net asset value per ordinary share	**HK$10.00**

Borrowings

As at 31st December, 2008, the Group had total cash and bank balances, net of long term bank loans, of HK$1,200.3 million (2007 - total cash and bank balances, net of a short term bank loan and other borrowings, of HK$1,411.5 million).

As at 31st December, 2008, part of the Group's bank deposits in the amount of HK$1,000.0 million (2007 - bank deposits and certain other financial assets at fair value through profit or loss in the total amount of HK$1,000.8 million) were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees in connection with the leasing of the hotel properties from Regal REIT, and certain of the Group's investment properties, properties held for sale, bank deposits and cash balances in the total amount of HK$512.5 million (2007 - bank deposits in the amount of HK$24.0 million) were also pledged to secure other banking facilities granted to the Group. Under the lease agreements in connection with the leasing of the hotel properties from Regal REIT, the Group has also guaranteed a total minimum variable rent payable for the period from 30th March, 2007 to 31st December, 2010 in the amount of HK$220.0 million, of which HK$101.6 million has been paid by the Group up to 31st December, 2008.

Details of the maturity profile of the borrowings and the contingent liabilities of the Group are shown in notes 27 and 37, respectively, to the financial statements.

Material Acquisitions or Disposals of Subsidiaries or Associates

During the year under review, there were no material acquisitions or disposals of subsidiaries or associates of the Company.

Save as otherwise disclosed in the Chairman's Report, 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. Cash balances are mostly placed on bank deposits and yield enhancement products are deployed from time to time as management of the Group considers to be appropiate.

Remuneration Policy

The Group employs approximately 1,890 staff in Hong Kong. The Group's management considers the overall level of staffing employed and the remuneration cost incurred in connection with the Group's operations to be compatible with market norm.

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

With a view to providing long term incentives, the Company maintains the Share Option Scheme, under which share options have been granted to selected eligible persons.

DIVIDENDS

An interim dividend of HK3.0 cents (as adjusted for the Share Consolidation) per ordinary share (2007 – HK3.0 cents, as adjusted), absorbing a total amount of approximately HK$30.8 million (2007 – HK$32.0 million) was paid to holders of ordinary shares during the year.

The Directors now recommend the payment of a final dividend of HK5.0 cents (2007 – HK10.0 cents, as adjusted for the Share Consolidation) per ordinary share for the year ended 31st December, 2008, absorbing an amount of approximately HK$50.5 million (2007 – HK$103.8 million), payable to holders of ordinary shares on the Register of Ordinary Shareholders on 9th June, 2009. This recommendation has been incorporated in the financial statements.

During the year, the fixed cumulative preference share dividend in respect of the twelve month period ended 13th December, 2008 amounted to HK$6.8 million and was paid to the holders of the Preference Shares, together with the redemption payment, on final redemption in December 2008.

CLOSURE OF REGISTER

The Register of Ordinary Shareholders will be closed from Thursday, 4th June, 2009 to Tuesday, 9th June, 2009, both days inclusive, during which period no transfers of ordinary shares will be effected. In order to qualify for the proposed final dividend, all transfers of ordinary shares, duly accompanied by the relevant share certificates, must be lodged with the Company's branch registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, no later than 4:30 p.m. on Wednesday, 3rd June, 2009. The relevant dividend warrants are expected to be despatched on or about 30th June, 2009.

DIRECTORS

The Directors of the Company are:

Mr. Lo Yuk Sui
Dr. Francis Choi Chee Ming, JP
Ms. Belinda Yeung Bik Yiu
Mr. Donald Fan Tung
Ms. Alice Kan Lai Kuen
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai
Mr. Ng Siu Chan
Mr. Wong Chi Keung

During the year, there have been no changes in the Directors of the Company.

In accordance with Bye-law 109(A) of the Bye-laws of the Company and for compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Ms. Belinda Yeung Bik Yiu, an Executive Director and the Chief Operating Officer, Mr. Donald Fan Tung and Mr. Jimmy Lo Chun To, both Executive Directors, will retire from office by rotation at the 2009 Annual General Meeting.

All the retiring Directors, being eligible, have offered themselves for re-election at the 2009 Annual General Meeting. Details of these Directors, which are required to be disclosed pursuant to Rules 13.51(2) and 13.74 of the Listing Rules, are set out in the circular of the Company relating to, inter alia, re-election of Directors sent to shareholders together with the 2008 Annual Report.

The Company has received from each of the three incumbent Independent Non-Executive Directors an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considers that all of these Independent Non-Executive Directors are independent.

DIRECTORS' INTERESTS IN CONTRACTS

Save as otherwise disclosed, none of the Directors had any beneficial interests, whether direct or indirect, in any significant contract to which the Company, or any of its subsidiaries was a party at the balance sheet date or at any time during the year.

None of the Directors had any service contract, which is not determinable by the employer within one year without payment of compensation (other than statutory compensation), with the Company or any of its subsidiaries during the year.

At no time during the year was the Company or any of its subsidiaries a party to any arrangement whose objects are to enable a Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate, other than under the Share Option Scheme, under which options have been granted to certain Directors.

During the year, no option was granted to any Directors under the Share Option Scheme, and none of the Directors exercised options to subscribe for shares under the Share Option Scheme.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) of the Company, which (a) are as recorded in the register required to be kept under section 352 of the SFO; or (b) are as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

				Number of shares held			
		Name of Director	Class of shares held	Personal interests	Corporate interests	Family/ Other interests	Total (Approximate percentage of the issued shares as at 31st December, 2008)
1.	**The Company**	Mr. Lo Yuk Sui	Ordinary (i) issued	24,200	477,507,262 (Note a(i))	260,700	477,792,162
			(ii) unissued	20,000,000 (Note a(ii))	—	—	20,000,000
						Total (i) & (ii):	497,792,162 (49.06%)
		Dr. Francis Choi Chee Ming	Ordinary (issued)	50,240,000	—	—	50,240,000 (4.95%)
		Ms. Belinda Yeung Bik Yiu	Ordinary (unissued)	3,000,000 (Note b)	—	—	3,000,000 (0.30%)
		Mr. Donald Fan Tung	Ordinary (unissued)	2,000,000 (Note c)	—	—	2,000,000 (0.20%)
		Mr. Jimmy Lo Chun To	Ordinary (unissued)	1,500,000 (Note d)	—	—	1,500,000 (0.15%)
		Miss Lo Po Man	Ordinary (i) issued	300,000	—	269,169 (Note e)	569,169
			(ii) unissued	3,000,000 (Note b)	—	—	3,000,000
						Total (i) & (ii):	3,569,169 (0.35%)
		Mr. Kenneth Ng Kwai Kai	Ordinary (unissued)	2,000,000 (Note c)	—	—	2,000,000 (0.20%)

	Name of associated corporation	Name of Director	Class of shares held	Number of shares held: Personal interests	Corporate interests	Family/ Other interests	Total (Approximate percentage of the issued shares as at 31st December, 2008)
2.	8D International (BVI) Limited	Mr. Lo Yuk Sui	Ordinary (issued)	—	1,000 (Note f)	—	1,000 (100%)
3.	Regal Real Estate Investment Trust	Mr. Lo Yuk Sui	Units (issued)	—	2,318,808,152 (Note g)	—	2,318,808,152 (73.80%)

Notes:

(a) (i) The interests in 421,400 issued ordinary shares of the Company were held through companies wholly owned by Century City International Holdings Limited ("CCIHL"), in which Mr. Lo Yuk Sui ("Mr. Lo") held 51.86% shareholding interests, and the interests in the other 477,085,862 issued ordinary shares of the Company were held through companies wholly owned by Paliburg Holdings Limited ("PHL"), in which CCIHL held 57.45% shareholding interests.

(ii) The interests in 20,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 20,000,000 new ordinary shares of the Company at an adjusted exercise price of HK$7.50 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

Exercise period	Number of ordinary shares of the Company under vested options
12th May, 2007 to 11th May, 2011	8,000,000
12th May, 2008 to 11th May, 2011	4,000,000
12th May, 2009 to 11th May, 2011	4,000,000
12th May, 2010 to 11th May, 2011	4,000,000

(b) The interests in 3,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 3,000,000 new ordinary shares of the Company at an adjusted exercise price of HK$7.50 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

Exercise period	Number of ordinary shares of the Company under vested options
25th July, 2007 to 24th July, 2011	1,200,000
25th July, 2008 to 24th July, 2011	600,000
25th July, 2009 to 24th July, 2011	600,000
25th July, 2010 to 24th July, 2011	600,000

(c) The interests in 2,000,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 2,000,000 new ordinary shares of the Company at an adjusted exercise price of HK$7.50 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

Exercise period	Number of ordinary shares of the Company under vested options
25th July, 2007 to 24th July, 2011	800,000
25th July, 2008 to 24th July, 2011	400,000
25th July, 2009 to 24th July, 2011	400,000
25th July, 2010 to 24th July, 2011	400,000

(d) The interests in 1,500,000 unissued ordinary shares of the Company were held through the interests in the options granted under the Share Option Scheme, entitling the holder thereof to subscribe for a total of 1,500,000 new ordinary shares of the Company at an adjusted exercise price of HK$7.50 per ordinary share (subject to adjustment). The options have, and will, become vested in stages, commencing with 40% of options granted from two years after the offer date of 25th July, 2005 and thereafter a further 20% of options granted for each subsequent year, and are, and will be, exercisable as follows:

Exercise period	Number of ordinary shares of the Company under vested options
25th July, 2007 to 24th July, 2011	600,000
25th July, 2008 to 24th July, 2011	300,000
25th July, 2009 to 24th July, 2011	300,000
25th July, 2010 to 24th July, 2011	300,000

(e) The interests in 269,169 issued ordinary shares of the Company were held by Miss Lo Po Man as the beneficiary of a trust.

(f) 400 shares were held through companies controlled by CCIHL, in which Mr. Lo held 51.86% shareholding interests, and 600 shares were held through a company controlled by Mr. Lo.

(g) The interests in 2,313,521,152 units of Regal Real Estate Investment Trust were held through wholly owned subsidiaries of the Company, and the interests in the other 5,287,000 units of Regal Real Estate Investment Trust were held through wholly owned subsidiaries of CCIHL. PHL, in which CCIHL held 57.45% shareholding interests, held 47.02% shareholding interests in the Company. Mr. Lo held 51.86% shareholding interests in CCIHL.

Save as disclosed herein, as at 31st December, 2008, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) of the Company, which (a) are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (b) are required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

During the year, no right has been granted to, or exercised by, the following persons, to subscribe for shares in or debentures of the Company under the Share Option Scheme and no option granted to such persons under the Share Option Scheme has been cancelled and lapsed:

(i) any Director, chief executive or substantial shareholders of the Company, or their respective associates;

(ii) any participant under the Share Option Scheme with options granted in excess of the individual limit;

(iii) any employee working under employment contract that is regarded as "continuous contract" for the purpose of the Employment Ordinance;

(iv) any supplier of goods or services; and

(v) any other participants under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL

As at 31st December, 2008, so far as is known to the Directors and the chief executive of the Company, the following substantial shareholders (not being a Director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or notified to the Company pursuant to the SFO:

Name of substantial shareholder	Number of issued ordinary shares held	Number of underlying ordinary shares (unissued) held	Total number of ordinary shares (issued and unissued) held	Approximate percentage of the issued ordinary shares as at 31st December, 2008
CCIHL (Note i)	477,507,262	—	477,507,262	47.07%
Century City BVI Holdings Limited (Note ii)	477,507,262	—	477,507,262	47.07%
Almighty International Limited (Note ii)	477,085,262	—	477,085,262	47.02%
PHL (Note iii)	477,085,262	—	477,085,262	47.02%
Paliburg Development BVI Holdings Limited (Note iv)	477,085,262	—	477,085,262	47.02%
Guo Yui Investments Limited (Note iv)	163,602,466	—	163,602,466	16.13%
Paliburg International Holdings Limited (Note iv)	262,943,209	—	262,943,209	25.92%
Paliburg BVI Holdings Limited (Note iv)	262,943,209	—	262,943,209	25.92%
Taylor Investments Ltd. (Note iv)	154,232,305	—	154,232,305	15.20%
Glaser Holdings Limited (Note iv)	58,682,832	—	58,682,832	5.78%

Notes:

(i) The interests in ordinary shares held by CCIHL were included in the corporate interests of Mr. Lo Yuk Sui in the Company as disclosed under the section headed "Directors' Interests in Share Capital" above.

(ii) These companies are wholly owned subsidiaries of CCIHL and their interests in the ordinary shares of the Company are included in the interests held by CCIHL.

(iii) PHL is a listed subsidiary of CCIHL, which held 57.45% shareholding interests in PHL, and PHL's interests in the ordinary shares of the Company are included in the interests held by CCIHL.

(iv) These companies are wholly owned subsidiaries of PHL and their interests in the ordinary shares of the Company are included in the interests held by PHL.

Save as disclosed herein, the Directors and the chief executive of the Company are not aware that there is any person (not being a Director or chief executive of the Company) who, as at 31st December, 2008, had an interest or short position in the shares and underlying shares of the Company which are recorded in the register required to be kept under section 336 of the SFO or notified to the Compnay pursuant to the SFO.

Details of directorships of the Company's Directors in each of those companies which has an interest in the shares and underlying shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO are set out as follows:

(1) Mr. Lo Yuk Sui, Mr. Donald Fan Tung, Mr. Jimmy Lo Chun To, Miss Lo Po Man, Mr. Kenneth Ng Kwai Kai, Mr. Ng Siu Chan and Mr. Wong Chi Keung are directors of CCIHL and PHL.

(2) Messrs. Lo Yuk Sui, Donald Fan Tung and Kenneth Ng Kwai Kai are directors of all the above-mentioned wholly owned subsidiaries of CCIHL and PHL.

DISCLOSURE PURSUANT TO RULES 13.13 AND 13.16 OF CHAPTER 13 OF THE LISTING RULES

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

Advances to an Entity (Rule 13.13 of Chapter 13)

Details of the advances made to Chest Gain Development Limited ("Chest Gain"), a jointly controlled entity owned as to 70% by the Company and 30% by China Overseas Land & Investment Limited, which is a company listed in Hong Kong and is not a connected person (as defined in the Listing Rules) of the Company, by the Company and its subsidiaries (the "Group") as at 31st December, 2008 are set out below:

Advances	**Group (HK$'million)**
(A) Principal Amount of Advances	940.4
(B) Interest Receivable	366.7
Total:(A)+(B)	1,307.1

The above advances to Chest Gain in an aggregate sum of HK$1,307.1 million represent contributions of funds to Chest Gain provided in the form of shareholders' loans. The advances are unsecured and have no fixed term of repayment, interest bearing at prime rate per annum. The provision of financial assistance to Chest Gain is for the purpose of facilitating Chest Gain in the development of the "Regalia Bay" luxury residential project at Rural Building Lot No.1138, Wong Ma Kok Road, Stanley, Hong Kong (the "Regalia Bay Development"). The site for the Regalia Bay Development was acquired by Chest Gain at the government land auction held on 3rd June, 1997.

Calculated on the basis shown above, the aggregate of advances as at 31st December, 2008 provided by the Group to Chest Gain in the sum of HK$1,307.1 million represented 27.0% of the consolidated total assets of the Company of HK$4,835.4 million (the "Regal TA"), by reference to its latest audited consolidated financial statements for the year ended 31st December, 2008.

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

Details of the financial assistance provided to affiliated companies (including Chest Gain) by the Group as at 31st December, 2008 are set out below:

Name of Affiliated Companies	Principal Amount of Advances (HK$'million)	Interest Receivable (HK$'million)	Total (HK$'million)
Chest Gain	940.4	366.7	1,307.1
8D International (BVI) Limited	29.0	–	29.0
8D Matrix Limited	1.3	–	1.3
Bright Future (HK) Limited	5.6	–	5.6
Faith Crown Holdings Limited	176.2	–	176.2
Hang Fok Properties Limited	238.4	–	238.4
	1,390.9	366.7	1,757.6

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

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

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

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

Faith Crown Holdings Limited ("Faith Crown"), which was previously a wholly owned subsidiary of the Company and became a 50% owned jointly controlled entity of the Company in February 2008, holds, through its wholly owned subsidiaries, interests in a site in Xindu District, Chengdu, the PRC acquired at a public land auction. The remaining 50% shareholding interest in Faith Crown is indirectly held by Cosmopolitan International Holdings Limited ("CIHL"), which is a company listed in Hong Kong and is not a connected person (as defined in the Listing Rules) of the Company. The Company holds, through its wholly owned subsidiaries, 2.96% shareholding interests in CIHL and certain convertible bonds issued by the CIHL group. The site is composed of two separate land parcels, one of which is planned to be developed into a hotel and commercial complex with aggregate gross floor area of about 180,000 square meters above ground together with about 56,000 square meters of commercial, auxiliary services and car park areas below ground, while the other parcel is planned for residential development with aggregate gross floor area of about 315,000 square meters. The advances to Faith Crown were provided by the Group in the form of shareholder's loans in proportion to the Company's shareholding interests in Faith Crown. The advances to Faith Crown are unsecured, interest-free and have no fixed term of repayment.

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

Calculated on the basis shown above, as at 31st December, 2008, the aggregate amount of financial assistance provided to affiliated companies by the Group in the sum of HK$1,757.6 million represented 36.3% of the Regal TA.

Save as disclosed above, there were no other financial assistance provided to and guarantees given for affiliated companies by the Group as at 31st December, 2008, which were discloseable pursuant to Rule 13.16 of Chapter 13 of the Listing Rules.

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

	Combined balance sheet (HK$'million)	**The Group's attributable interest (HK$'million)**
Non-current assets	2,390.2	760.3
Current assets	2,257.9	85.9
Current liabilities	(253.4)	(124.0)
Non-current liabilities	(7,771.5)	(451.4)
Net liabilities	(3,376.8)	270.8

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period from 1st January, 2008 to 22nd October, 2008 (the date immediately before the 10-into-1 Share Consolidation became effective), the Company repurchased a total of 311,036,000 ordinary shares of HK$0.01 each of the Company at an aggregate purchase price of HK$133,474,772 on the Stock Exchange. During the period from the effective date of the Share Consolidation to the balance sheet date, the Company repurchased a total of 4,276,800 ordinary shares of HK$0.10 each of the Company at an aggregate purchase price of HK$7,397,724 on the Stock Exchange. Details of the repurchases of such ordinary shares were as follows:

During January to October (up to 22nd October, 2008) 2008

Month of repurchase	Number of ordinary shares of HK$0.01 each repurchased	Price per ordinary share of HK$0.01 Highest (HK$)	Lowest (HK$)	Aggregate purchase price (HK$)
January 2008	106,872,000	0.640	0.510	63,925,280
February 2008	6,120,000	0.570	0.540	3,325,500
April 2008	47,082,000	0.475	0.425	21,283,480
May 2008	2,898,000	0.440	0.430	1,253,140
June 2008	36,292,000	0.425	0.365	14,116,960
July 2008	39,266,000	0.390	0.355	14,456,780
September 2008	51,892,000	0.245	0.188	11,435,482
October 2008 (up to 22/10/2008)	20,614,000	0.218	0.160	3,678,150
Total	311,036,000			133,474,772

During October (from 23rd October, 2008) to December 2008

Month of repurchase	Number of ordinary shares of HK$0.10 each repurchased	Price per ordinary share of HK$0.10 Highest (HK$)	Lowest (HK$)	Aggregate purchase price (HK$)
October 2008 (from 23/10/2008)	1,260,800	1.680	1.290	1,823,766
November 2008	916,000	1.920	1.590	1,652,538
December 2008	2,100,000	2.140	1.710	3,921,420
Total	4,276,800			7,397,724
Total expenses on shares repurchased during the year				979,200
				141,851,696

Except for 654,000 repurchased ordinary shares of HK$0.10 each, which were cancelled subsequent to the balance sheet date, all ordinary shares repurchased during the year were cancelled during the year, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The above repurchases were effected by the Directors pursuant to the mandate from shareholders, with a view to benefit shareholders as a whole in enhancing the net assets and earnings per share of the Company.

Save for the final redemption of the Preference Shares on maturity as disclosed in sub-section of "Cash Flow and Capital Structure" under the section headed "Management Discussion and Analysis" above and the repurchases of ordinary shares as disclosed in this section, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of any listed securities of the Company during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has maintained sufficient public float as required under the Listing Rules.

PRE-EMPTIVE RIGHTS

No pre-emptive rights exist in Bermuda, being the jurisdiction in which the Company is incorporated.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the percentage of purchases attributable to the Group's 5 largest suppliers and the percentage of turnover or sales attributable to the Group's 5 largest customers combined in respect of goods and services was in each case less than 30% of the total amount involved.

PROPERTY, PLANT AND EQUIPMENT

The details of movements in the Group's property, plant and equipment during the year are set out in note 15 to the financial statements.

INVESTMENT PROPERTIES

The details of movements in investment properties during the year are set out in note 16 to the financial statements.

BORROWINGS

The details of the Group's borrowings at the balance sheet date are set out in note 27 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

The details of movements in the share capital and share options of the Company, together with the reasons therefor, during the year are set out in note 31 to the financial statements.

SHARE PREMIUM ACCOUNT

The details of movements in the share premium account during the year are set out in note 31 to the financial statements.

SHARE OPTION RESERVE

The details of movements in the share option reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

CAPITAL REDEMPTION RESERVE

The details of movements in the capital redemption reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

SPECIAL RESERVE

The details of movements in the special reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

REVALUATION RESERVES

The details of movements in the revaluation reserves account during the year are set out in consolidated statement of changes in equity of the financial statements.

EXCHANGE EQUALISATION RESERVE

The details of movements in the exchange equalisation reserve account during the year are set out in consolidated statement of changes in equity of the financial statements.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 33 to the financial statements.

JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

Particulars of the Group's interests in its jointly controlled entities and associates are set out in notes 17 and 18 to the financial statements, respectively.

CONTRIBUTED SURPLUS

The details of movements in the contributed surplus account during the year are set out in note 32(b) to the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December, 2008, the Company's reserves available for distribution calculated in accordance with the Companies Act 1981 of Bermuda amounted to HK$3,983.0 million, of which HK$50.5 million has been proposed as final dividend for the year.

In addition, the Company's share premium account, in the amount of HK$885.1 million, may be distributed in the form of fully paid bonus shares.

AUDITORS

Ernst & Young retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
LO YUK SUI
Chairman

Hong Kong
31st March, 2009

Corporate Governance Report

The Company is committed to maintaining good corporate governance practices and procedures. Review of existing policies and practices in respect of the management and corporate matters of the Group has been conducted by the Company. An enhancement to the current standards and for complying with new requirements, revision of existing policies and practices and introduction of appropriate new measures have been implemented. Constant review of the system and controls within the Group will be carried out by the Company to comply with the prevailing standards and requirements of good corporate governance.

The Company has complied with the Code Provisions in the Code of Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the year ended 31st December, 2008, except that:

(1) The roles of the Chairman and Chief Executive Officer are not separated and performed by two different individuals due to practical necessity to cater to the Group's corporate operating structure.

(2) The Non-Executive Director and the Independent Non-Executive Directors of the Company were not appointed for specific terms, but arrangements have been put in place such that the Non-Executive Director and the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

Further details relating to the compliance of the CG Code by the Company are set out in the report below.

(I) CORPORATE GOVERNANCE PRACTICES

A report on the extent of compliance by the Company of and any deviation from the provisions of the CG Code (as summarised below) during the year ended 31st December, 2008 is as follows:

A. DIRECTORS

A.1 The Board

Code A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.

Deviation from Code A.1.1

No Four Board Meetings have been held at regular intervals during the year ended 31st December, 2008.

Code A.1.2 Arrangements should be in place to ensure that all directors are given an opportunity to include matters in the agenda for regular board meetings.

Deviation from Code A.1.2

No Directors may include matters in the agenda for regular Board Meetings as other business of the meeting any time after receiving the notice of meeting or at the meeting after all businesses in the agenda have been transacted.

Code A.1.3 *Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.*

Deviation from Code A.1.3

No At least 14 days' notice is given to the Directors for regular Board Meetings and reasonable notice is given for other ad hoc Board Meetings, in accordance with relevant provisions of the Bye-laws of the Company. Arrangements will be made for any Director who cannot be present in person to participate in and discuss with the other Directors at the meeting through appropriate means of communication.

Code A.1.4 *All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed.*

Deviation from Code A.1.4

No The Executive Director who is in charge of the company secretarial function of the Group is in close liaison with the Company Secretary of the Company to ensure that board procedures, and all applicable rules and regulations, are followed. All other Directors may make enquiry to the Company Secretary any time they consider necessary or appropriate for such purposes.

Code A.1.5 *Minutes of board meetings and meetings of board committees should be kept by a duly appointed secretary of the meeting and such minutes should be open for inspection at any reasonable time on reasonable notice by any director.*

Deviation from Code A.1.5

No Minutes of Board Meetings and Meetings of Board Committees are kept by the Company Secretary of the Company and the appointed secretary of the Board Committees and such minutes are open for inspection at any reasonable time on reasonable notice by any Director.

Code A.1.6 *Minutes of board meetings and meetings of board committees should record in sufficient detail the matters considered by the board and decisions reached, including any concerns raised by directors or dissenting views expressed. Draft and final versions of minutes of board meetings should be sent to all directors for their comment and records respectively, in both cases within a reasonable time after the board meeting is held.*

Deviation from Code A.1.6

No Minutes of Board Meetings and Meetings of Board Committees have recorded relevant details of the transactions or matters considered by the Directors at the meetings, rationales for making the decisions and the resolutions revolved at the meetings. Board Resolutions are circulated to the Directors for review and signing within a reasonable time.

Code A.1.7 *There should be a procedure agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the issuer's expense. The board should resolve to provide separate independent professional advice to directors to assist the relevant director or directors to discharge his/their duties to the issuer.*

Deviation from Code A.1.7

No In the event that independent professional advice is required or considered necessary for the Directors to make decisions on any transactions or matters concerning the Group, any Director may after consulting the Chairman of the Board, or the Directors may resolve at the Board Meeting held for considering the relevant transaction or matter to, seek independent professional advice at the expense of the Company.

Code A.1.8 *If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.*

Deviation from Code A.1.8

No An ad hoc full Board Meeting will be convened for considering and approving any matter which the Board has determined to be material and in which any substantial shareholder or Director of the Company has a conflict of interest. The Board Meeting will be scheduled for an appropriate time that the disinterested Independent Non-Executive Directors shall be able to attend. Any substantial shareholder or Director who has a conflict of interest and any of his/her associates will abstain from voting at the Meeting and not be counted as quorum of the Meeting in accordance with the Bye-laws of the Company.

A.2 Chairman and Chief Executive Officer

Code A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Deviation from Code A.2.1

Yes Due to practical necessity on account of the Group's corporate operating structure, the roles of the Chairman and Chief Executive Officer are both performed by Mr. Lo Yuk Sui who is the controlling shareholder and the Chairman and Chief Executive Officer of the Company overseeing the overall policy and decision making of the Group. A Chief Operating Officer has been appointed to take up responsibility for overseeing the hotel business operations of the Group.

Code A.2.2 The chairman should ensure that all directors are properly briefed on issues arising at board meetings.

Deviation from Code A.2.2

No The Chairman takes the role of briefing the Directors issues arising at the Board Meetings or, in appropriate circumstance, delegates this role to Executive Directors who are primarily involved in and in possession of comprehensive details about the relevant issue.

Code A.2.3 The chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner.

Deviation from Code A.2.3

No The Chairman takes active efforts to ensure that the Executive Directors or executives who are primarily involved in the relevant transaction or matter will provide to Directors adequate information, which is complete and reliable, in a timely manner.

A.3 Board composition

Code A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications that disclose the names of directors of the issuer.

Deviation from Code A.3.1

No Identification of the Independent Non-Executive Directors has been shown on announcements and other corporate communications of the Company to its shareholders.

A.4 Appointments, re-election and removal

Code A.4.1 Non-executive directors should be appointed for a specific term, subject to re-election.

Deviation from Code A.4.1

Yes The Non-Executive Director and the Independent Non-Executive Directors of the Company were not appointed for specific terms. However, arrangements have been put in place such that the Non-Executive Director and the Independent Non-Executive Directors would retire, and are subject to re-election, either by rotation in accordance with the provisions of the Bye-laws of the Company or on a voluntary basis, at least once every three years.

Code A.4.2 All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

Deviation from Code A.4.2

No Pursuant to relevant provisions of the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office until the next annual general meeting of the Company and is therefore subject to re-election by the shareholders at that annual general meeting after his/her appointment. In compliance with the requirements under this Code, all Directors would retire at annual general meetings at least once every three years either by rotation pursuant to the retirement provisions of the Bye-laws or on a voluntary basis. At the annual general meeting of the Company held on 5th June, 2008, four Directors, who had been in office for three years, all retired and were re-elected at that meeting.

A.5 Responsibilities of directors

Code A.5.1 *Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.*

Deviation from Code A.5.1

No The Chairman or an Executive Director so delegated is responsible for providing every newly appointed Director with an induction on the first occasion of his/her appointment to ensure that he/she has a proper understanding of the operations and business of the Group. With respect to compliance matters, the Company Secretary is responsible for providing any new Director with information and materials relating to his/her responsibilities under applicable statutory and regulatory requirements. Subsequent updating about the latest changes and development of such requirements will be sent to the Directors by the Company Secretary.

Code A.5.2 *The functions of non-executive directors should include but should not be limited to the following:*

(a) participating in board meetings of the issuer to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;

(b) taking the lead where potential conflicts of interests arise;

(c) serving on the audit, remuneration, nomination and other governance committees, if invited; and

(d) scrutinising the issuer's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.

Deviation from Code A.5.2

No The Non-Executive Director and the Independent Non-Executive Directors perform the functions as set out in this Code.

Code A.5.3 Every director should ensure that he can give sufficient time and attention to the affairs of the issuer and should not accept the appointment if he cannot do so.

Deviation from Code A.5.3

No Every Director contributes sufficient time and attention to the affairs of the Company and the Group as appropriate for the roles undertaken.

Code A.5.4 Directors must comply with their obligations under the Code of Conduct for Securities Transactions by Directors (the "Model Code") set out in Appendix 10 of the Listing Rules and, in addition, the board should establish written guidelines on no less exacting terms than the Model Code for relevant employees (as defined in this Code) in respect of their dealings in the securities of the issuer.

Deviation from Code A.5.4

No The Directors have confirmed that they have complied with the required standard under the Model Code and the "Code for Securities Transactions by Directors of Regal Hotels International Holdings Limited" (the "Regal Code") adopted by the Company, on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors during the year ended 31st December, 2008.

The Board has also adopted the "Guidelines for Securities Transactions by Relevant Employees of Regal Hotels International Holdings Limited" (the "Regal Guidelines"), on terms no less exacting than the required standard set out in the Model Code, in respect of their dealings in the securities of the Company.

The Regal Code and the Regal Guidelines are available on the website of the Company.

A.6 Supply of and access to information

Code A.6.1 In respect of regular board meetings, and so far as practicable in all other cases, an agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meeting (or such other period as agreed).

Deviation from Code A.6.1

No Agenda and relevant board papers for Board Meetings and Board Committee Meetings have been timely sent to all Directors at least 3 days before the intended date of the Meetings (or such other period as agreed).

Code A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The information supplied must be complete and reliable.

Deviation from Code A.6.2

No Any Director may require information in addition to those provided by management and make further enquiries where necessary. Each Director has separate and independent access to the Company's senior management.

Code A.6.3 All directors are entitled to have access to board papers and related materials. Such papers and related materials should be prepared in such form and quality as will enable the board to make an informed decision on matters placed before it. Where queries are raised by directors, steps must be taken to respond as promptly and fully as possible.

Deviation from Code A.6.3

No All relevant board papers and related materials are sent to all Directors ahead of time for the Meetings, with an aim to enabling the Board to make informed decisions on matters placed before it. In the event of queries raised by Directors, the Executive Directors and management are obligated to ensure that the requisite information or materials will be provided to the Directors soonest possible.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Code B.1.1 Issuers should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

Deviation from Code B.1.1

No The Company has established a Remuneration Committee comprising Mr. Lo Yuk Sui, the Chairman and Chief Executive Officer of the Company, as Chairman of the Committee, and Ms. Alice Kan Lai Kuen, Mr. Ng Siu Chan and Mr. Wong Chi Keung, all Independent Non-Executive Directors, as members, with written terms of reference which deal clearly with the authority and duties of the Committee.

Code B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.

Deviation from Code B.1.2

No The proposals relating to the remuneration of other Executive Directors are formulated by consultation amongst the members of the Remuneration Committee which is presided by the Chairman and Chief Executive Officer of the Company. Professional advice in such respect is sought if considered necessary.

Code B.1.3 The terms of reference of the remuneration committee should include, as a minimum, the specific duties as set out in this Code.

Deviation from Code B.1.3

No The terms of reference of the Remuneration Committee are set up with reference to the requirements under this Code.

Code B.1.4 The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

Deviation from Code B.1.4

No The terms of reference of the Remuneration Committee are available on the website of the Company.

Code B.1.5 The remuneration committee should be provided with sufficient resources to discharge its duties.

Deviation from Code B.1.5

No The Remuneration Committee has been and will be provided with sufficient resources to discharge its duties.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Code C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.

Deviation from Code C.1.1

No The Executive Director and other executives of the Group who are in charge of the financial reporting function have provided detailed explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

Code C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.

Deviation from Code C.1.2

No Relevant acknowledgement by the Directors of their responsibility in preparing financial statements of the Group is stated in this Corporate Governance Report.

In the Independent Auditors' Report contained in this Annual Report, the Auditors state their reporting responsibilities on the financial statements of the Group.

Code C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

Deviation from Code C.1.3

No The Board uses all reasonable endeavours to ensure that a balanced, clear and understandable assessment is presented in all reports, announcements or other disclosures as required to be made by the Company under the Listing Rules and other applicable statutes and regulations.

C.2 Internal controls

Code C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.

Deviation from Code C.2.1

No The Directors have conducted an annual review of the effectiveness of the system of internal control of the Group covering all material controls, including financial, operational and compliance controls and risk management functions. Proposals on further enhancement of the system of internal control of the Group, if required or necessary, are being implemented from time to time.

Code C.2.2 The board's annual review should, in particular, consider the adequacy of resources, qualifications and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget.

Deviation from Code C.2.2

No As a manpower policy of the Group, which is subject to regular review by the Directors and senior management, adequate resources have been allocated to the accounting and financial reporting function with staff members possessing appropriate qualifications and experience engaged in the discharge of the relevant functions. The relevant staff members attend seminars and workshops organised by the professional accounting bodies on a regular basis, and a reasonable budget has been allocated for continuous professional development purposes.

C.3 Audit Committee

Code C.3.1 Full minutes of audit committee meetings should be kept by a duly appointed secretary of the meeting (who should normally be the company secretary). Draft and final versions of minutes of the audit committee meetings should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.

Deviation from Code C.3.1

No Minutes of the Audit Committee Meetings of the Company are kept by the Company Secretary who is appointed the secretary of the Audit Committee, after finalisation with the members of the Audit Committee within a reasonable time after the Meetings.

Code C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for a period of 1 year commencing on the date of his ceasing:

(a) to be a partner of the firm; or

(b) to have any financial interest in the firm,

whichever is the later.

Deviation from Code C.3.2

No None of the members of the Audit Committee is a former partner of the Company's existing Auditors.

Code C.3.3 The terms of reference of the audit committee should include at least the duties as specified in the CG Code.

Deviation from Code C.3.3

No The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants, with terms of reference, explaining its role and the authority delegated to it by the Board.

Code C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.

Deviation from Code C.3.4

No The terms of reference of the Audit Committee explaining its role and the authority delegated to it by the Board are available on the website of the Company.

Code C.3.5 Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuer should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the board has taken a different view.

Deviation from Code C.3.5

No There has not been any disagreement between the Audit Committee and the Board on the selection and appointment of the external Auditors of the Company.

Code C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.

Deviation from Code C.3.6

No The Company ensures that sufficient resources will be provided to the Audit Committee for discharging its duties.

D. DELEGATION BY THE BOARD

D.1 Management functions

Code D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the board before making decisions or entering into any commitments on behalf of the issuer.

Deviation from Code D.1.1

No All material policies and decisions remain within the authority of the Board as a whole. The Board only delegates authorities to management to an extent that would not significantly hinder or reduce the ability of the Board to discharge its proper functions as a whole.

Code D.1.2 *An issuer should formalise the functions reserved to the board and those delegated to management. It should review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the issuer.*

Deviation from Code D.1.2

No The functions of the Board and those delegated to management of the Company are properly distinguished and clarified. Review of the formalised arrangements will be carried out on a periodic basis to ensure that they remain appropriate to the needs of the Company.

D.2 Board Committees

Code D.2.1 *Where board committees are established to deal with matters, the board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.*

Deviation from Code D.2.1

No The Audit Committee and the Remuneration Committee are established with sufficiently clear terms of reference to enable such committees to discharge their functions properly.

Code D.2.2 *The terms of reference of board committees should require such committees to report back to the board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).*

Deviation from Code D.2.2

No The respective terms of reference of Audit Committee and the Remuneration Committee require such committees to report back to the Board on their decisions or recommendations.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Code E.1.1 *In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.*

Deviation from Code E.1.1

No Separate Resolution on each substantially separate issue was proposed by the Chairman of Meeting at the Annual General Meeting of the Company held in 2008. Proposed election of Directors of the Company were put to vote by a separate Resolution for each nominated Director.

Code E.1.2 *The chairman of the board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.*

Deviation from Code E.1.2

No The Chairman of the Board and the Chairman of the Audit Committee had attended the Annual General Meeting of the Company held in 2008. Questions were raised by certain shareholders at the Meeting concerning the Group's business affairs, which were responded to by the Chairman of the Board.

At any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, the chairman of the independent board committee (if any) would be available to answer questions at that meeting.

Code E.1.3 *The issuer should arrange for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days in the case of all other general meetings.*

Deviation from Code E.1.3

No Notice of more than 20 clear business days for convening the annual general meeting of the Company held in 2008 was sent to the shareholders of the Company. In addition, notice of more than 10 clear business days for convening the special general meeting of the Company held in 2008 was sent to the shareholders of the Company.

E.2 Voting by Poll

Code E.2.1 *The chairman of a meeting should ensure disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll in compliance with the requirements about voting by poll contained in Rule 13.39(4) of the Listing Rules. In particular, pursuant to Rule 13.39(3), the chairman of a meeting and/or directors who, individually or collectively, hold proxies in respect of shares representing 5% or more of the total voting rights at a particular meeting shall demand a poll in certain circumstances where, on a show of hands, a meeting votes in the opposite manner to that instructed in those proxies. If a poll is required under such circumstances, the chairman of the meeting should disclose to the meeting the total number of votes represented by all proxies held by directors indicating an opposite vote to the votes cast at the meeting on a show of hands.*

Deviation from Code E.2.1

No Relevant details of the provisions of the Bye-laws relating to the procedures for and the rights of shareholders to demand a poll have been set out in each circular of the Company containing the notice convening the Annual General Meeting and the Special General Meeting of the Company held in 2008.

There had not been situation at the Annual General Meeting and the Special General Meeting of the Company where, on a show of hands, votes were cast in the opposite manner to that as instructed in the proxies as would require the Chairman to demand a poll.

Code E.2.2 *The issuer should count all proxy votes and, except where a poll is required, the chairman of a meeting should indicate to the meeting the level of proxies lodged on each resolution, and the balance for and against the resolution, after it has been dealt with on a show of hands. The issuer should ensure that votes cast are properly counted and recorded.*

Deviation from Code E.2.2

No At the Annual General Meeting and the Special General Meeting of the Company held during the year of 2008, the Chairman of Meeting had indicated to the Meeting by display at the forum the level of proxies lodged on each Resolution put to the Meeting and the balance for and against the Resolution, after the Resolution has been dealt with on a show of hands and before he declared the results of voting.

Code E.2.3 The chairman of a meeting should at the commencement of the meeting ensure that an explanation is provided of:

(a) the procedures for demanding a poll by shareholders before putting a resolution to the vote on a show of hands; and

(b) the detailed procedures for conducting a poll and then answer any questions from shareholders whenever voting by way of a poll is required.

Deviation from Code E.2.3

No The Chairman of the Annual General Meeting and the Special General Meeting of the Company held during the year of 2008 had at the commencement of the Meeting referred the shareholders to the procedures for demanding a poll by shareholders as detailed in the related circular of the Company to its shareholders. The Chairman also informed the Meeting that if a poll was validly demanded and before the poll taking was to be conducted, the Chairman would explain to the shareholders detailed procedures for conducting a poll and he would answer any relevant questions from shareholders.

(II) DIRECTORS' SECURITIES TRANSACTIONS

As reported in the preceding section of this report headed "Corporate Governance Practices", the Company has adopted the Regal Code, on terms no less exacting than the required standard set out in the Model Code, as the code of conduct governing the securities transactions by the Directors of the Company.

Following specific enquiry by the Company, the Directors have confirmed that they have complied with the required standard under the Model Code and the Regal Code during the year ended 31st December, 2008.

(III) BOARD OF DIRECTORS

The Board of Directors of the Company currently comprises the following members:

Executive Directors:

Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)*
Ms. Belinda Yeung Bik Yiu *(Chief Operating Officer)*
Mr. Donald Fan Tung
Mr. Jimmy Lo Chun To
Miss Lo Po Man
Mr. Kenneth Ng Kwai Kai

Non-Executive Director:

Dr. Francis Choi Chee Ming, JP *(Vice Chairman)*

Independent Non-Executive Directors:

Ms. Alice Kan Lai Kuen
Mr. Ng Siu Chan
Mr. Wong Chi Keung

The personal and biographical details of the Directors, including the relationship among them, are disclosed in the preceding section headed "Directors' Profiles" contained in this Annual Report.

During the year ended 31st December, 2008, the Company has fully complied with Rules 3.10(1) and (2) of the Listing Rules regarding the number of Independent Non-Executive Directors and the requirement that at least one of these Directors must have appropriate professional qualifications.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-Executive Directors have met the independence guidelines of Rule 3.13 of the Listing Rules.

The Board conducts regular meetings to discuss and decide on major corporate, strategic, business and operational issues. Appropriate and sufficient information is provided to Board members in a timely manner in order to enable them to discharging their duties.

In the year of 2008, the attendance rates of individual Board members of the Company were as follows:

Name of Directors	**Attendance**
Executive Directors	
Mr. Lo Yuk Sui *(Chairman and Chief Executive Officer)*	7/7
Ms. Belinda Yeung Bik Yiu *(Chief Operating Officer)*	7/7
Mr. Donald Fan Tung	7/7
Mr. Jimmy Lo Chun To	7/7
Miss Lo Po Man	7/7
Mr. Kenneth Ng Kwai Kai	7/7
Non-Executive Director	
Dr. Francis Choi Chee Ming, JP *(Vice Chairman)*	5/7
Independent Non-Executive Directors	
Ms. Alice Kan Lai Kuen	7/7
Mr. Ng Siu Chan	7/7
Mr. Wong Chi Keung	7/7

(IV) NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee. The Board is responsible for the procedure of selecting and appointing Directors.

Those Directors appointed by the Board during the year shall hold office until the next annual general meeting and, being eligible, may offer for re-election.

(V) AUDIT COMMITTEE

The Audit Committee is established with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee currently comprises the following members:

Independent Non-Executive Directors:

Mr. Wong Chi Keung *(Chairman of the Committee)*
Ms. Alice Kan Lai Kuen *(Member)*
Mr. Ng Siu Chan *(Member)*

Non-Executive Director:

Dr. Francis Choi Chee Ming, JP *(Member)*

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim and final financial statements.

As both the Board and the Audit Committee recommended to re-appoint the current external Auditors, Messrs. Ernst & Young, no circumstances exist as would require an explanation from the Audit Committee as to why the Board has taken a different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of the external Auditors.

In the year of 2008, the Audit Committee met twice and the meetings were attended by the external Auditors of the Company. The attendance rates of individual Audit Committee members of the Company were as follows:

Name of Audit Committee members	**Attendance**
Mr. Wong Chi Keung *(Chairman of the Committee)*	2/2
Dr. Francis Choi Chee Ming, JP	1/2
Ms. Alice Kan Lai Kuen	2/2
Mr. Ng Siu Chan	2/2

(VI) REMUNERATION COMMITTEE

The Company has formed the Remuneration Committee with specific written terms of reference that deal with its authority and duties. The terms of reference of the Remuneration Committee are available on the Company's website. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for the remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

The Remuneration Committee currently comprises the following members:

Executive Director:

Mr. Lo Yuk Sui *(Chairman of the Committee)*

Independent Non-Executive Directors:

Ms. Alice Kan Lai Kuen *(Member)*
Mr. Ng Siu Chan *(Member)*
Mr. Wong Chi Keung *(Member)*

Mr. Kenneth Ng Kwai Kai, an Executive Director of the Company, has been appointed to act as the Secretary of the Committee.

In the year of 2008, the Remuneration Committee met once. The attendance rates of individual Remuneration Committee members of the Company were as follows:

Name of Remuneration Committee members	**Attendance**
Mr. Lo Yuk Sui *(Chairman of the Committee)*	1/1
Ms. Alice Kan Lai Kuen	1/1
Mr. Ng Siu Chan	1/1
Mr. Wong Chi Keung	1/1

(VII) DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors of the Company acknowledge their responsibility for preparing the financial statements of the Group, which give a true and fair view of the state of affairs of the Group, and ensure that appropriate accounting policies are selected and applied consistently and the financial statements are prepared in accordance with the relevant statutory requirements and applicable accounting standards. The Directors also ensure the financial statements are published in a timely manner.

The statement by the external Auditors, Messrs. Ernst & Young, about their reporting responsibilities is set out in the Independent Auditors' Report contained in this Annual Report.

The financial statements are prepared on a going concern basis. The Directors confirm that, to the best of their knowledge, they are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(VIII) INTERNAL CONTROL

The Board has conducted a review of the effectiveness of the system of internal controls of the Group during the year of 2008, including financial, operational and compliance controls and risk management functions with a view to safeguarding the shareholders' investment and the Company's assets.

Management of the Company has put into effect a full set of corporate policies and procedures as well as detailed operating manuals for the hotel operations of the Group, with an objective to achieving a sound internal control system. Separate meetings attended by Directors, Group Financial Controller, Area Financial Controller, Hotel General Managers and Hotel Financial Controllers are held regularly to review the effectiveness of the internal control system, to identify any significant control failings or weaknesses, and also to review the need for any control improvements or updating to respond to changes in the business and external environment. Regular management audits have also been performed by the Area Financial Control department on the internal control systems of individual hotels to ensure that there are no significant control failings or weaknesses. Recommendations for improvement are forwarded to individual hotels' management for implementation. While the regular monitoring of the internal control mechanisms is mainly conducted by delegated Directors and senior management staff members, support and advice from external consultants and professionals are sought as and when required.

The Board acknowledges that it is responsible for the Company's system of internal control and for reviewing its effectiveness. Accordingly, while periodic committee meetings are held with the delegated Directors and senior management staff members, clear instructions have been provided to management of the Company that any material issues relating to the internal control system, particularly any incidence of significant control failings or weaknesses that has had, or might have, a material impact on the business of the Group is to be reported to the Board and the Audit Committee of the Company on a timely basis.

(IX) AUDITORS' REMUNERATION

Messrs. Ernst & Young have been re-appointed as the external auditors of the Company at the 2008 Annual General Meeting until the conclusion of the forthcoming 2009 Annual General Meeting.

The amount of fees payable to Messrs. Ernst & Young, the auditors of the Company, for the year ended 31st December, 2008 is HK$3.8 million (2007 - HK$3.4 million). The amount of remuneration payable to the auditors of the Company relating to non-audit service for the year ended 31st December, 2008 is HK$0.3 million (2007 - HK$4.1 million).

Consolidated Income Statement

For the year ended 31st December, 2008

	Notes	2008 HK$'million	2007 HK$'million
REVENUE	5	**1,511.8**	1,722.9
Cost of sales		**(1,545.5)**	(1,643.0)
Gross profit/(loss)		**(33.7)**	79.9
Other income and gains	5	**43.1**	80.0
Administrative expenses		**(172.8)**	(186.3)
Other operating expense	6	**(59.3)**	–
Gain on disposal of subsidiaries	7	**–**	2,293.5
Fair value gains/(losses) on financial assets at fair value through profit or loss, net		**(145.7)**	237.6
Fair value gain upon reclassification of properties held for sale to investment properties net of fair value loss upon revaluation		**36.9**	–
OPERATING PROFIT/(LOSS) BEFORE DEPRECIATION AND AMORTISATION		**(331.5)**	2,504.7
Depreciation and amortisation		**(4.0)**	(9.6)
OPERATING PROFIT/(LOSS)		**(335.5)**	2,495.1
Finance costs	8	**(9.9)**	(84.2)
Share of profits and losses of:			
Jointly controlled entities		**(4.9)**	41.6
Associates		**(457.9)**	527.0
PROFIT/(LOSS) BEFORE TAX	7	**(808.2)**	2,979.5
Tax	11	**(0.6)**	(22.2)
PROFIT/(LOSS) FOR THE YEAR		**(808.8)**	2,957.3
Attributable to:			
Equity holders of the parent	12	**(808.8)**	2,957.3
Minority interests		**–**	–
		(808.8)	2,957.3
DIVIDENDS	13		
Interim		**30.6**	32.0
Proposed final		**50.5**	103.8
		81.1	135.8
EARNINGS/(LOSS) PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	14		(Restated)
Basic		**HK$(0.79)**	HK$2.96
Diluted		**N/A**	HK$2.78

Consolidated Balance Sheet

As at 31st December, 2008

	Notes	2008 HK$'million	2007 HK$'million
NON-CURRENT ASSETS			
Property, plant and equipment	15	**16.8**	11.1
Investment properties	16	**855.0**	–
Interests in jointly controlled entities	17	**203.8**	112.1
Interests in associates	18	**517.4**	1,277.3
Financial assets at fair value through profit or loss	19	**423.0**	380.7
Available-for-sale investment	20	**3.1**	–
Other loan	21	**36.1**	36.1
Pledged bank deposits		**1,000.0**	970.0
Deposit for acquisition of land		**–**	134.4
Total non-current assets		**3,055.2**	2,921.7
CURRENT ASSETS			
Hotel and other inventories	22	**22.7**	17.0
Properties held for sale	23	**963.5**	1,771.3
Debtors, deposits and prepayments	24	**217.1**	551.0
Financial assets at fair value through profit or loss	19	**108.1**	229.8
Pledged time deposits		**8.3**	24.0
Time deposits		**153.3**	489.6
Cash and bank balances		**307.2**	77.9
Total current assets		**1,780.2**	3,160.6
CURRENT LIABILITIES			
Creditors and accruals	25	**(427.2)**	(646.8)
Derivative financial instrument	26	**–**	(0.1)
Interest bearing bank borrowings	27	**–**	(21.4)
Convertible preference shares	29	**–**	(128.6)
Tax payable		**(3.5)**	(3.7)
Total current liabilities		**(430.7)**	(800.6)

	Notes	2008 HK$'million	2007 HK$'million
NET CURRENT ASSETS		**1,349.5**	2,360.0
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,404.7**	5,281.7
NON-CURRENT LIABILITIES			
Interest bearing bank borrowings	27	**(268.5)**	–
Net assets		**4,136.2**	5,281.7
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	**101.4**	104.9
Reserves	32(a)	**3,983.0**	5,071.7
Proposed final dividend	13	**50.5**	103.8
		4,134.9	5,280.4
Minority interests		**1.3**	1.3
Total equity		**4,136.2**	5,281.7

KENNETH NG KWAI KAI
Director

LO YUK SUI
Director

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2008

	Notes	Attributable to equity holders of the parent										Minority interests HK$'m	Total equity HK$'m
		Issued share capital HK$'m	Share premium account HK$'m	Equity component of convertible bonds HK$'m	Share option reserve HK$'m	Capital redemption reserve HK$'m	Hedge reserve HK$'m	Exchange equalisation reserve HK$'m	Retained profits HK$'m	Proposed final dividend HK$'m	Total HK$'m		
At 1st January, 2007		91.4	750.8	13.6	20.7	0.9	–	10.2	1,183.8	146.5	2,217.9	1.3	2,219.2
Share of the listed associate		–	–	–	–	–	(17.5)	–	–	–	(17.5)	–	(17.5)
Exchange realignment		–	–	–	–	–	–	38.7	–	–	38.7	–	38.7
Total income and expense recognised directly in equity		–	–	–	–	–	(17.5)	38.7	–	–	21.2	–	21.2
Profit for the year		–	–	–	–	–	–	–	2,957.3	–	2,957.3	–	2,957.3
Total income and expense for the year		–	–	–	–	–	(17.5)	38.7	2,957.3	–	2,978.5	–	2,978.5
Final 2006 dividend declared		–	–	–	–	–	–	–	(21.6)	(146.5)	(168.1)	–	(168.1)
Issue of new shares upon exercise of warrants	31	2.3	57.0	–	–	–	–	–	–	–	59.3	–	59.3
Repurchase and cancellation of ordinary shares	31	(1.8)	(107.5)	–	–	1.8	–	–	(1.8)	–	(109.3)	–	(109.3)
Issue of new shares upon conversion of convertible bonds	31	13.0	323.1	(13.6)	–	–	–	–	–	–	322.5	–	322.5
Equity-settled share option arrangements		–	–	–	11.6	–	–	–	–	–	11.6	–	11.6
Interim 2007 dividend	13	–	–	–	–	–	–	–	(32.0)	–	(32.0)	–	(32.0)
Proposed final 2007 dividend	13	–	–	–	–	–	–	–	(103.8)	103.8	–	–	–
At 31st December, 2007		104.9	1,023.4	–	32.3	2.7	(17.5)	48.9	3,981.9	103.8	5,280.4	1.3	5,281.7

	Notes	Attributable to equity holders of the parent											
		Issued share capital HK$'m	Share premium account HK$'m	Share option reserve HK$'m	Capital redemption reserve HK$'m	Hedge reserve HK$'m	Investment revaluation reserve HK$'m	Exchange equalisation reserve HK$'m	Retained profits HK$'m	Proposed final dividend HK$'m	Total HK$'m	Minority interests HK$'m	Total equity HK$'m
At 1st January, 2008		104.9	1,023.4	32.3	2.7	(17.5)	–	48.9	3,981.9	103.8	5,280.4	1.3	5,281.7
Change in fair value of available -for-sale investments		–	–	–	–	–	(0.8)	–	–	–	(0.8)	–	(0.8)
Share of the listed associate		–	–	–	–	(109.7)	–	–	–	–	(109.7)	–	(109.7)
Exchange realignment		–	–	–	–	–	–	41.1	–	–	41.1	–	41.1
Total income and expense recognised directly in equity		–	–	–	–	(109.7)	(0.8)	41.1	–	–	(69.4)	–	(69.4)
Loss for the year		–	–	–	–	–	–	–	(808.8)	–	(808.8)	–	(808.8)
Total income and expense for the year		–	–	–	–	(109.7)	(0.8)	41.1	(808.8)	–	(878.2)	–	(878.2)
Final 2007 dividend declared		–	–	–	–	–	–	–	0.5	(103.8)	(103.3)	–	(103.3)
Repurchase and cancellation of ordinary shares before Share Consolidation	31	(3.1)	(129.3)	–	3.1	–	–	–	(3.1)	–	(132.4)	–	(132.4)
Repurchase and cancellation of ordinary shares after Share Consolidation	31	(0.4)	(9.0)	–	0.4	–	–	–	(0.4)	–	(9.4)	–	(9.4)
Equity-settled share option arrangements		–	–	8.4	–	–	–	–	–	–	8.4	–	8.4
Interim 2008 dividend	13	–	–	–	–	–	–	–	(30.6)	–	(30.6)	–	(30.6)
Proposed final 2008 dividend	13	–	–	–	–	–	–	–	(50.5)	50.5	–	–	–
At 31st December, 2008		101.4	885.1	40.7	6.2	(127.2)	(0.8)	90.0	3,089.0	50.5	4,134.9	1.3	4,136.2

Consolidated Cash Flow Statement

For the year ended 31st December, 2008

	Notes	2008 HK$'million	2007 HK$'million
Net cash outflow from operating activities	34(a)	**(110.9)**	(237.1)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of investment properties		**(1.3)**	–
Disposal of subsidiaries	34(c)	**–**	6,630.4
Payment of costs relating to disposal of subsidiaries		**–**	(271.1)
Purchases of items of property, plant and equipment		**(5.5)**	(76.7)
Deposit refunded/(paid) for acquisition of land		**134.4**	(134.4)
Purchases of financial assets at fair value through profit or loss		**(176.0)**	(145.4)
Purchase of available-for-sale investment		**(3.9)**	–
Increase in interest in an associate		**(63.4)**	(71.0)
Advance to associates		**(4.9)**	(18.0)
Advance to a jointly controlled entity		**(94.1)**	(47.7)
Acquisition of subsidiaries	34(d)	**–**	(1.3)
Interest received		**42.8**	72.4
Dividends received from listed investments		**2.1**	0.7
Distributions received from listed associate		**357.8**	105.1
Increase in pledged bank deposits		**(14.3)**	(994.0)
Net cash inflow from investing activities		**173.7**	5,049.0
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of warrants	31	**–**	59.3
Proceeds from issue of convertible bonds		**–**	200.0
Repurchase and cancellation of ordinary shares	31	**(141.8)**	(109.3)
Drawdown of new loans		**332.4**	21.4
Repayments of bank loans		**(83.8)**	(4,368.7)
Interest paid		**(12.8)**	(69.7)
Dividends paid		**(133.9)**	(200.1)
Redemption of convertible preference shares		**(129.9)**	–
Net cash outflow from financing activities		**(169.8)**	(4,467.1)
Net increase/(decrease) in cash and cash equivalents		**(107.0)**	344.8
Cash and cash equivalents at beginning of year		**567.5**	222.7
Cash and cash equivalents at end of year		**460.5**	567.5
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**307.2**	77.9
Non-pledged time deposits with original maturity of less than three months when acquired		**153.3**	489.6
		460.5	567.5

Balance Sheet

As at 31st December, 2008

	Notes	2008 HK$'million	2007 HK$'million
NON-CURRENT ASSETS			
Interests in subsidiaries	33	**4,139.4**	5,417.3
Total non-current assets		**4,139.4**	5,417.3
CURRENT ASSETS			
Deposits and prepayments		**0.2**	0.9
Cash and bank balances		**0.5**	0.4
Total current assets		**0.7**	1.3
CURRENT LIABILITIES			
Creditors and accruals		**(5.2)**	(9.5)
Derivative financial instrument	26	**–**	(0.1)
Convertible preference shares	29	**–**	(128.6)
Total current liabilities		**(5.2)**	(138.2)
NET CURRENT LIABILITIES		**(4.5)**	(136.9)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,134.9**	5,280.4
Net assets		**4,134.9**	5,280.4
EQUITY			
Issued capital	31	**101.4**	104.9
Reserves	32(b)	**3,983.0**	5,071.7
Proposed final dividends	13	**50.5**	103.8
Total equity		**4,134.9**	5,280.4

KENNETH NG KWAI KAI
Director

LO YUK SUI
Director

1. CORPORATE INFORMATION

Regal Hotels International Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business in Hong Kong of the Company is located at 11th Floor, 68 Yee Wo Street, Causeway Bay, Hong Kong.

During the year, the Group was principally engaged in hotel operation and management, investment in Regal Real Estate Investment Trust ("Regal REIT") (which owns the five Regal Hotels in Hong Kong), asset management of Regal REIT, property development and investment, and other investments.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, available-for-sale investments, derivative financial instrument and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement* and HKFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets*
HK(IFRIC)-Int 11	*HKFRS 2 – Group and Treasury Share Transactions*
HK(IFRIC)-Int 12	*Service Concession Arrangements*
HK(IFRIC)-Int 14	*HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

The adoption of these new interpretations and amendments has had no significant financial effect on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 *First-time Adoption of HKFRSs* and HKAS 27 *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* [1]
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Vesting Conditions and Cancellations* [1]
HKFRS 3 (Revised)	*Business Combinations* [2]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments* [1]
HKFRS 8	*Operating Segments* [1]
HKAS 1 (Revised)	*Presentation of Financial Statements* [1]
HKAS 23 (Revised)	*Borrowing Costs* [1]
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements* [2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* [1]
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* [2]
HK(IFRIC)-Int 9 and HKAS 39 Amendments	Amendments to HK(IFRIC)–Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* [5]
HK(IFRIC)-Int 13	*Customer Loyalty Programmes* [3]
HK(IFRIC)-Int 15	*Agreements for the Construction of Real Estate* [1]
HK(IFRIC)-Int 16	*Hedges of a Net Investment in a Foreign Operation* [4]
HK(IFRIC)-Int 17	*Distribution of Non-cash Assets to Owners* [2]
HK(IFRIC)-Int 18	*Transfer of Assets from Customers* [2]

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifing wording. Except for the amendment to HKFRS 5 which is effective for the annual periods on or after 1st July, 2009, other amendments are effective for annual periods beginning on or after 1st January, 2009 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1st January, 2009
[2] Effective for annual periods beginning on or after 1st July, 2009
[3] Effective for annual periods beginning on or after 1st July, 2008
[4] Effective for annual periods beginning on or after 1st October, 2008
[5] Effective for annual periods ending on or after 30th June, 2009

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures and the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) may result in changes in accounting policies, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Upon the disposal of interests in subsidiaries, any gain or loss arising thereon, including the realisation of the attributable reserves, is included in the income statement.

(b) Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(i) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(ii) a jointly controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(iii) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(iv) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

(c) Jointly controlled entities

A jointly controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly controlled entity.

The Group's share of the post-acquisition results and reserves of the jointly controlled entity is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly controlled entity are eliminated to the extent of the Group's interests in the jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interest in the jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(d) Associates

An associate is an entity, not being a subsidiary or a jointly controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates, are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(e) Excess over the cost of business combinations

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 acquisition of subsidiaries and associates, after reassessment, is recognised immediately in the consolidated income statement.

The excess for associates is included in the Group's share of the associates' profits or losses in the period in which the investments are acquired.

(f) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold properties	Over the shorter of 40 years or the remaining lease terms
Leasehold improvements	Over the remaining lease terms
Other furniture, fixtures and equipment	10% to 25%
Motor vehicles	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

(h) Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the income statement.

(i) Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss and loans and receivables and available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on financial assets at fair value through profit or loss are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Dividends earned are reported as dividend income and are recognised in the income statement as "Other income" in accordance with the policy set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investments revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (i) the variability in the range of reasonable fair value estimates is significant for that investment or (ii) 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 less any impairment losses.

Fair value

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

(j) Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade debtors and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the debts is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

(k) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

(l) Financial liabilities at amortised cost (including interest bearing loans and borrowings)

Financial liabilities including trade creditors and accruals, amounts due to an associate and related companies and interest bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

(m) Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of 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 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.

(n) Convertible preference shares

The component of the convertible preference shares that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. The corresponding dividends on those shares are charged as interest expense in the income statement. On issuance of the convertible preference shares, 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 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 as derivative financial instrument of the convertible preference shares denominated in foreign currency and included under current liabilities. The fair value of such derivative financial instrument is reassessed at each balance sheet date using a binomial valuation model with the corresponding gain or loss from the reassessment recognised in the income statement.

(o) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(p) Treasury shares

Own equity instruments which are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(q) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on the estimated selling prices less any further costs expected to be incurred to disposal.

(r) Properties held for sale

Properties held for sale are classified as current assets and stated at the lower of cost and net realisable value on an individual property basis. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to the prevailing market prices.

(s) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) hotel and other service income, in the period in which such services are rendered;

(ii) proceeds from the sale of properties, on the exchange of legally binding sales contracts;

(iii) rental income, in the period in which the properties are let and on the straight-line basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(v) dividend income, when the shareholders' right to receive payment has been established;

(vi) net gain or loss from the sale of investments in listed shares, on the transaction dates when the relevant contract notes are exchanged; and

(vii) travel agency services, bakery and health products operations income, when the goods are delivered to the customers.

(t) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange equalisation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(u) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly controlled entity, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(v) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(w) Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes 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 ("market conditions"), 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 income statement for a period represents the movement in the 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.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted on or after 1st January, 2005.

Staff retirement schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, part or all of which are refunded to the Group when the employee leaves employment prior to the contributions vesting with the employee partly or fully in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension schemes operated by the local municipal governments. These subsidiaries are required to contribute a percentage of their payroll costs to the relevant central pension schemes. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension schemes.

(x) Related parties

A party is considered to be related to the Group if:

(i) the party, directly or indirectly through one or more intermediaries, (1) controls, is controlled by, or is under common control with, the Group; (2) has an interest in the Group that gives it significant influence over the Group; or (3) has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a jointly controlled entity;

(iv) the party is a member of the key management personnel of the Group;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

(y) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(z) Dividends

Final dividend proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until it has been approved by the shareholders in a general meeting. When the dividend has been approved by the shareholders and declared, it is recognised as a liability.

Interim dividend is simultaneously proposed and declared, because the Company's memorandum of association and bye-laws grant the Directors the authority to declare interim dividend. Consequently, interim dividend is recognised immediately as a liability when it is proposed and declared.

3. SIGNIFICANT ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

(a) Judgement

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments - Group as lessor

The Group has entered into commercial property leases on its property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

(b) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31st December, 2008 was HK$374.9 million (2007 - HK$415.4 million). Further details are contained in note 30 to the financial statements.

Measurement of convertible preference shares and estimation of fair value of derivative financial instrument

On issuance of convertible preference shares, 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 splitting of the liability component and derivative financial instrument requires an estimation of the market interest rate.

The remainder of the proceeds is allocated to the conversion option that is recognised as derivative financial instrument of the convertible preference shares denominated in foreign currency and included under current liabilities. The fair value of such derivative financial instrument is reassessed at each balance sheet date. In analysis of fair value, the Group uses independent valuation which is based on various assumptions and estimates, with the corresponding gain or loss from the reassessment recognised in the income statement.

Measurement of convertible bonds

On issuance of 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 the shareholders' equity, net of transaction costs. The splitting of the liability and equity components requires an estimation of the market interest rate.

Estimation of amortised cost of other loan

Other loan is a non-derivative financial asset and is stated at its amortised cost which is calculated using the discounted cash flow model based on estimated future cash inflow in repayment of the loan. The determination of the value requires the Group to make assumptions and estimates of the expected future cash flows, including an appropriate discount rate to calculate the present value of those net cash flows.

Measurement of fair value of equity-settled transactions

The Company operates a share option scheme under which employees (including directors) of the Group receive remuneration in the form of share-based payment transactions. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted, using assumptions including expected volatility, dividend yield and risk free interest rate. Such cost is recognised, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. 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.

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Hong Kong.

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

(a) the hotel ownership/operation* and management segment engages in hotel operations and the provision of hotel management services;

(b) the asset management segment engages in the provision of asset management service to Regal REIT;

(c) the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services;

(d) the securities investment segment engages in securities trading and investment businesses; and

(e) the others segment mainly comprises travel agency services, health products operations and bakery operations.

* The Group owned and operated its hotels in Hong Kong until the disposal of the hotel properties to Regal REIT for a separate listing on 30th March, 2007 and thereafter leased the hotel properties from Regal REIT for hotel operations.

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.

Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31st December, 2008 and 2007.

Group

	Hotel ownership/ operation and management		Asset management		Property development and investment		Securities investment		Others		Eliminations		Consolidated	
	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m
Segment revenue:														
Sales to external customers	1,360.9	1,289.2	66.7	53.5	31.2	371.3	2.2	6.8	50.8	2.1	–	–	1,511.8	1,722.9
Intersegment sales	0.1	0.1	–	–	3.4	0.3	–	–	4.1	3.5	(7.6)	(3.9)	–	–
Total	**1,361.0**	**1,289.3**	**66.7**	**53.5**	**34.6**	**371.6**	**2.2**	**6.8**	**54.9**	**5.6**	**(7.6)**	**(3.9)**	**1,511.8**	**1,722.9**
Segment results before depreciation and amortisation	(230.1)	(190.1)	54.3	37.8	55.0	113.7	(203.5)	244.7	(4.5)	(10.3)	–	–	(328.8)	195.8
Depreciation and amortisation	(2.7)	(7.5)	(0.4)	(0.3)	(0.1)	(0.1)	–	–	(0.4)	(0.1)	–	–	(3.6)	(8.0)
Segment operating results	(232.8)	(197.6)	53.9	37.5	54.9	113.6	(203.5)	244.7	(4.9)	(10.4)	–	–	(332.4)	187.8
Interest income and unallocated non-operating and corporate gains													43.1	2,372.8
Unallocated non-operating and corporate expenses, net													(46.2)	(65.5)
Operating profit/(loss)													**(335.5)**	**2,495.1**
Finance costs													**(9.9)**	**(84.2)**
Share of profits and losses of:														
Jointly controlled entities	–	–	–	–	(4.9)	41.6	–	–	–	–	–	–	**(4.9)**	**41.6**
Associates	(445.9)	583.3	–	–	(11.9)	(56.0)	–	–	(0.1)	(0.3)	–	–	**(457.9)**	**527.0**
Profit/(loss) before tax													**(808.2)**	**2,979.5**
Tax													**(0.6)**	**(22.2)**
Profit/(loss) for the year													**(808.8)**	**2,957.3**
Attributable to:														
Equity holders of the parent													**(808.8)**	**2,957.3**
Minority interests													**–**	**–**
													(808.8)	**2,957.3**

Business segments (continued)

Group

	Hotel ownership/ operation and management		Asset management		Property development and investment		Securities investment		Others		Eliminations		Consolidated	
	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m	2008 HK$'m	2007 HK$'m
Segment assets	227.1	204.8	24.5	27.3	1,823.5	2,129.7	534.4	625.5	8.8	1.2	–	(0.1)	2,618.3	2,988.4
Interests in jointly controlled entities	–	–	–	–	203.8	112.1	–	–	–	–	–	–	203.8	112.1
Interests in associates	7.4	796.3	–	–	496.8	467.7	–	–	13.2	13.3	–	–	517.4	1,277.3
Cash and unallocated assets							–	–					1,495.9	1,704.5
Total assets													4,835.4	6,082.3
Segment liabilities	(287.9)	(375.5)	(5.5)	(5.4)	(7.8)	(24.3)	(1.2)	(7.6)	(5.6)	(0.8)	–	0.1	(308.0)	(413.5)
Bank borrowings and unallocated liabilities							–	–					(391.2)	(387.1)
Total liabilities													(699.2)	(800.6)
Other segment information:														
Capital expenditure	9.5	2.3	0.1	1.1	–	–	–	–	0.2	–				
Other non-cash expenses	–	29.5	–	–	–	–	–	–	–	–				

5. REVENUE, OTHER INCOME AND GAINS

Revenue (which is also the Group's turnover), other income and gains are analysed as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Revenue		
Hotel operations and management services	**1,329.9**	1,259.5
Other operations, including estate management, estate agency, travel agency, health products and bakery operations	**51.7**	3.1
Rental income:		
Hotel properties	**31.0**	29.7
Properties held for sale	**14.4**	3.0
Investment properties	**15.9**	–
Net gain from sale of financial assets at fair value through profit or loss*	**0.1**	6.8
Dividend income from listed investments	**2.1**	–
Asset management service	**66.7**	53.5
Sale of properties	**–**	367.3
	1,511.8	1,722.9
Other income		
Bank interest income	**24.8**	64.0
Interest income from other loan	**0.2**	–
Interest income from a jointly controlled entity	**1.3**	–
Other interest income	**14.9**	9.9
Dividend income from listed investments	–	0.7
Net settlement amount received for the claim in connection with the agreement for the sale and purchase of the Group's hotel property in Canada in 2002	**–**	4.4
Others	**1.8**	0.5
	43.0	79.5
Gains		
Fair value gain on derivative financial instrument	**0.1**	0.5
	43.1	80.0

* In prior years, the Group's proceeds from sale of listed investments at fair value through profit or loss was presented under "Revenue" with the corresponding cost of sales included under "Cost of sales". During the current year, the Group has changed the presentation, as in the opinion of the Directors, it is more appropriate to include the gain/loss from sale of listed investments at fair value through profit or loss in the "Revenue" only. To conform with the current year's presentation, the revenue and cost of sales in the prior year were decreased by the same amount of HK$57.8 million with the gross profit remaining the same.

6. OTHER OPERATING EXPENSE

Other operating expense represents the following item:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Loss on settlement of financial assets at fair value through profit or loss	**59.3**	–

7. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	GROUP	
	2008 HK$'million	2007 HK$'million
Cost of sales#	**1,545.5**	1,643.0
Cost of inventories sold and services provided	**567.9**	505.8
Depreciation	**4.0**	4.0
Recognition of prepaid land lease payments	**–**	5.6
Impairment of trade debtors, net	**–**	0.6
Impairment of other receivables	**–**	1.6
Impairment of other loan	**–**	29.5
Write off of fixed assets	**0.1**	–
Employee benefits expense (inclusive of directors' remuneration disclosed in note 8):		
Salaries, wages and benefits*	**417.0**	387.3
Equity-settled share option expense	**8.4**	11.6
Staff retirement scheme contributions	**18.9**	16.4
Less: Forfeited contributions	**(1.0)**	(0.4)
Net staff retirement scheme contributions	**17.9**	16.0
	443.3	414.9
Auditors' remuneration	**3.8**	3.4
Minimum lease payments under operating leases:		
Land and buildings**	**735.9**	653.7
Other equipment	**0.1**	0.1
	736.0	653.8
Gross rental income	**(61.3)**	(32.7)
Less: Outgoings	**9.5**	6.9
Net rental income	**(51.8)**	(25.8)
Gain on disposal of subsidiaries^	**–**	(2,293.5)

Cost of sales does not include depreciation and amortisation, which are separately shown on the face of the consolidated income statement. Cost of sales also includes cost of inventories sold and services provided.

* Inclusive of an amount of HK$347.3 million (2007 - HK$329.8 million) classified under cost of inventories sold and services provided.

** Inclusive of an amount of HK$723.2 million (2007 - HK$647.5 million) classified under cost of sales.

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

8. FINANCE COSTS

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Interest on bank loans wholly repayable within five years	**2.2**	76.5
Dividends on convertible preference shares *(classified as financial liabilities)*	**7.7**	7.7
Total finance costs	**9.9**	84.2

9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	GROUP	
	2008 HK$'million	2007 HK$'million
Fees	**1.6**	1.6
Other emoluments:		
Salaries and other allowances	**13.1**	10.9
Performance related/discretionary bonuses	**1.4**	8.4
Equity-settled share option expense	**7.2**	10.2
Staff retirement scheme contributions	**0.8**	0.7
	24.1	31.8

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2008 HK$'million	2007 HK$'million
Ms. Alice Kan Lai Kuen	**0.15**	0.15
Mr. Ng Siu Chan	**0.15**	0.15
Mr. Wong Chi Keung	**0.20**	0.20
	0.50	0.50

There were no other emoluments payable to the independent non-executive directors during the year (2007 - Nil).

(b) Executive directors and a non-executive director

	Fees HK$'million	Salaries and other allowances HK$'million	Performance related/ discretionary bonuses HK$'million	Equity-settled share option expense HK$'million	Staff retirement scheme contributions HK$'million	Total remuneration HK$'million
2008						
Executive directors:						
Mr. Lo Yuk Sui	0.20	7.62	0.56	3.28	0.34	12.00
Ms. Belinda Yeung Bik Yiu	0.10	1.68	0.28	1.02	0.17	3.25
Mr. Donald Fan Tung	0.20	0.67	0.11	0.68	0.07	1.73
Mr. Jimmy Lo Chun To	0.20	0.30	0.05	0.51	0.03	1.09
Miss Lo Po Man	0.10	1.08	0.18	1.02	0.08	2.46
Mr. Kenneth Ng Kwai Kai	0.10	1.76	0.24	0.68	0.11	2.89
	0.90	13.11	1.42	7.19	0.80	23.42
Non-executive director:						
Dr. Francis Choi Chee Ming	0.15	–	–	–	–	0.15
	1.05	13.11	1.42	7.19	0.80	23.57
2007						
Executive directors:						
Mr. Lo Yuk Sui	0.20	6.29	2.45	5.52	0.30	14.76
Ms. Belinda Yeung Bik Yiu	0.10	1.48	1.55	1.23	0.15	4.51
Mr. Donald Fan Tung	0.20	0.59	1.18	0.82	0.06	2.85
Mr. Jimmy Lo Chun To	0.20	0.23	0.60	0.61	0.02	1.66
Miss Lo Po Man	0.10	0.97	1.13	1.23	0.07	3.50
Mr. Kenneth Ng Kwai Kai	0.10	1.30	1.54	0.82	0.10	3.86
	0.90	10.86	8.45	10.23	0.70	31.14
Non-executive director:						
Dr. Francis Choi Chee Ming	0.15	–	–	–	–	0.15
	1.05	10.86	8.45	10.23	0.70	31.29

The Independent Non-Executive Directors of the Company were entitled to a total sum of HK$0.50 million (2007 - HK$0.50 million) as Directors' fees, including the fees entitled by those Independent Non-Executive Directors for serving as audit committee members, for the year ended 31st December, 2008.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

10. SENIOR EXECUTIVES' EMOLUMENTS

The five highest-paid individuals included four (2007 - four) Directors, details of whose remuneration are disclosed in note 9 to the financial statement. The emoluments of the remaining one, who was not a Director, are as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Salaries and other emoluments	**3.5**	3.3
Performance related/discretionary bonuses	**1.3**	2.5
	4.8	5.8

The emoluments of the non-director, highest paid individual for the year ended 31st December, 2008 fell within the band of HK$4,500,001 to HK$5,000,000 (2007 - HK$5,500,001 to HK$6,000,000).

11. TAX

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Group:		
Current - Hong Kong		
Charge for the year	**0.1**	3.0
Current - Overseas		
Charge for the year	**0.5**	0.6
Deferred tax (note 30)	**–**	18.6
Total tax charge for the year	**0.6**	22.2

The provision for Hong Kong profits tax has been calculated by applying the applicable tax rate of 16.5% (2007 - 17.5%) to the estimated assessable profits which were earned in or derived from Hong Kong during the year. The lower Hong Kong profits tax rate is effective from the year of assessment 2008/2009, and so is applicable to the assessable profits arising in Hong Kong for the whole year ended 31st December, 2008.

Taxes on the profits of subsidiaries operating overseas are calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Profit/(loss) before tax	**(808.2)**	2,979.5
Tax at the statutory tax rate	**(133.4)**	521.4
Profits and losses attributable to jointly controlled entities and associates	**76.4**	(99.5)
Higher tax rates of other countries	**0.1**	0.3
Income not subject to tax	**(15.6)**	(452.5)
Expenses not deductible for tax	**86.0**	6.7
Tax losses utilised from previous years	**(49.1)**	(33.4)
Increase in deferred tax assets not recognised during the year	**36.4**	79.3
Others	**(0.2)**	(0.1)
Tax charge at the Group's effective rate	**0.6**	22.2

No provision for tax is required for the jointly controlled entities as no assessable profits were earned by the jointly controlled entities during the year (2007 - Nil).

The share of tax credit attributable to associates amounting to HK$266.6 million (2007 - tax charge of HK$163.2 million) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

12. PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated loss attributable to equity holders of the parent for the year ended 31st December, 2008 includes a loss of HK$878.2 million (2007 - profit of HK$2,964.9 million) which has been dealt with in the financial statements of the Company (note 32(b)).

13. DIVIDENDS

	2008 HK$'million	2007 HK$'million
Interim - HK3.0 cents (as adjusted for the Share Consolidation (notes 14 and 30)) per ordinary share (2007 - HK3.0 cents, as adjusted)	**30.6**	32.0
Proposed final - HK5.0 cents per ordinary share (2007 - HK10.0 cents, as adjusted for the Share Consolidation)	**50.5**	103.8
	81.1	135.8

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS/(LOSS) PER ORDINARY SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(a) Basic earnings/(loss) per ordinary share

The calculation of basic earnings/(loss) per ordinary share is based on the loss for the year attributable to equity holders of the parent of HK$808.8 million (2007 - profit of HK$2,957.3 million), and on the weighted average of 1,029.3 million ordinary shares of the Company in issue during the year, as adjusted for the effect of the consolidation of ordinary shares of the Company on the basis that every ten then existing issued and unissued ordinary shares of HK$0.01 each were consolidated into one ordinary share of HK$0.10 effective from 23rd October, 2008 (the "Share Consolidation") (2007 - 1,000.0 million, as adjusted for the Share Consolidation).

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

No diluted loss per ordinary share is presented for the year ended 31st December, 2008 since (i) the conversion of the convertible preference shares of the Company is anti-dilutive for the year and is not included in the calculation of diluted loss per ordinary share; and (ii) the exercise price of the share options of the Company outstanding during the year is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic loss per ordinary share.

The calculation of diluted earnings per ordinary share for the year ended 31st December, 2007 was based on the adjusted profit for that year attributable to equity holders of the parent of HK$2,964.5 million, as adjusted for the interest savings and fair value gain on the derivative component of the convertible preference shares arising from the conversion of the convertible perference shares into ordinary shares of the Company, and on the adjusted weighted average of 1,068.2 million (as adjusted for the Share Consolidation) ordinary shares of the Company that would have been in issue during that year assuming all outstanding convertible bonds (including optional convertible bonds) of the Group and all outstanding convertible preference shares of the Company were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of that year. The exercise price of the share options of the Company outstanding during that year was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold properties HK$'million	Leasehold improvements HK$'million	Other furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Total HK$'million
31st December, 2008					
At 31st December, 2007 and 1st January, 2008:					
Cost	5.3	7.6	9.6	1.4	23.9
Accumulated depreciation	(2.0)	(5.1)	(5.3)	(0.4)	(12.8)
Net carrying amount	3.3	2.5	4.3	1.0	11.1
At 1st January, 2008, net of accumulated depreciation	3.3	2.5	4.3	1.0	11.1
Additions	–	7.9	1.4	0.5	9.8
Disposals	–	–	(0.1)	–	(0.1)
Depreciation provided during the year	(0.1)	(2.0)	(1.5)	(0.4)	(4.0)
At 31st December, 2008, net of accumulated depreciation	3.2	8.4	4.1	1.1	16.8
At 31st December, 2008:					
Cost	5.3	15.5	10.9	1.9	33.6
Accumulated depreciation	(2.1)	(7.1)	(6.8)	(0.8)	(16.8)
Net carrying amount	3.2	8.4	4.1	1.1	16.8

Group

	Leasehold properties HK$'million	Leasehold improvements HK$'million	Other furniture, fixtures and equipment HK$'million	Motor vehicles HK$'million	Total HK$'million
31st December, 2007					
At 1st January, 2007:					
Cost	5.3	6.5	6.9	0.8	19.5
Accumulated depreciation	(1.9)	(2.2)	(4.5)	(0.3)	(8.9)
Net carrying amount	3.4	4.3	2.4	0.5	10.6
At 1st January, 2007, net of accumulated depreciation	3.4	4.3	2.4	0.5	10.6
Additions	–	1.1	1.8	0.8	3.7
Acquisition of subsidiaries (note 33(d))	–	–	0.9	–	0.9
Disposals	–	–	–	(0.2)	(0.2)
Write-back of depreciation upon disposals	–	–	–	0.1	0.1
Depreciation provided during the year	(0.1)	(2.9)	(0.8)	(0.2)	(4.0)
At 31st December, 2007, net of accumulated depreciation	3.3	2.5	4.3	1.0	11.1
At 31st December, 2007:					
Cost	5.3	7.6	9.6	1.4	23.9
Accumulated depreciation	(2.0)	(5.1)	(5.3)	(0.4)	(12.8)
Net carrying amount	3.3	2.5	4.3	1.0	11.1

The leasehold properties are held under medium term leases and are situated in Hong Kong.

16. INVESTMENT PROPERTIES

	GROUP	
	2008 HK$'million	2007 HK$'million
Reclassification from properties held for sales	816.8	–
Capital expenditure for the period	1.3	–
Fair value gain on reclassification of properties held for sales	358.5	–
Loss from fair value adjustments	(321.6)	–
Carrying amount at 31st December	855.0	–

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were revalued on 31st December, 2008 by independent professionally qualified valuers with an RICS qualification at HK$855.0 million, on an open market, existing use basis. Certain of the investment properties are leased to third parties under operating leases, further summary details of which are included in note 38(a) to the financial statements.

At 31st December, 2008, the Group's investment properties with a carrying value of HK$432.0 million (2007 - Nil) were pledged to secure banking facilities granted to the Group.

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	GROUP	
	2008 HK$'million	2007 HK$'million
Share of net liabilities	(1,279.5)	(1,277.1)
Loans to jointly controlled entities	1,116.6	1,022.5
Amount due from a jointly controlled entity	366.7	366.7
	203.8	112.1

Details of the Group's interests in jointly controlled entities are as follows:

Name	Place of incorporation	Particulars of issued shares	Percentage of equity interest attributable to the Group 2008	2007	Principal activity
Chest Gain Development Limited ("Chest Gain")	Hong Kong	Ordinary shares of HK$1 each	70(1)	70(1)	Property development
Faith Crown Holdings Limited ("Faith Crown")	British Virgin Islands	Ordinary shares of US$1 each	50(2)	100	Investment holding

The jointly controlled entities were indirectly held by the Company.

(1) Despite the Group's holding of a 70% interest in Chest Gain, the Directors have confirmed that neither the Group nor the other shareholder of Chest Gain has unilateral control over the operating and financing decisions of Chest Gain in accordance with the agreed terms under the shareholders' agreement of Chest Gain. Accordingly, the Directors consider it appropriate to continue to account for the Group's interest therein as a jointly controlled entity.

Pursuant to a supplemental shareholders' agreement signed on 26th November, 2007 (the "Effective Date") (the "Agreement"), the unsold units of the property project of Chest Gain were effectively allocated between the Group and the other joint venture partner. Under the Agreement, while the legal ownership of the unsold units remains with Chest Gain, the economic benefits and any liabilities pertaining to the unsold units allocated to the Group (the "Regal Allocated Units") have effectively been fully assumed by the Group who has been vested with the absolute right to deal with these Regal Allocated Units since the Effective Date, subject to the terms of the Agreement. Accordingly, the Directors consider that it is appropriate to consolidate the results, assets and liabilities attributable to the Regal Allocated Units in accordance with the terms of the Agreement with effect from the Effective Date.

(2) Following the partial disposal of a 50% equity interest in Faith Crown by the Group during the year, Faith Crown became a jointly controlled entity of the Group.

The major asset of Faith Crown is its 100% indirect interest in a property development project in Xindu District, Chengdu in the Sichuan Province, the People's Republic of China (the "PRC").

The following table illustrates the summarised financial statements of the Group's jointly controlled entities:

	2008 HK$'million	2007 HK$'million
Share of jointly controlled entities' assets and liabilities:		
Non-current assets	**128.1**	–
Current assets	**164.3**	126.9
Current liabilities	**(6.7)**	(11.0)
Non-current liabilities	**(1,565.2)**	(1,393.0)
Net liabilities	**(1,279.5)**	(1,277.1)
Share of jointly controlled entities' results:		
Revenue	**–**	120.1
Other income and gains	**1.2**	15.1
	1.2	135.2
Total expenses	**(6.1)**	(93.6)
Profit/(Loss) after tax	**(4.9)**	41.6

At the balance sheet date, the Group's share of capital commitments of Faith Crown in respect of a property development project was as follows:

	2008 HK$'million	2007 HK$'million
Contracted, but not provided for	**82.0**	–
	82.0	–

18. INTERESTS IN ASSOCIATES

	GROUP	
	2008 HK$'million	2007 HK$'million
Listed and unlisted companies:		
Share of net assets	**242.3**	1,007.1
Loans to/amounts due from associates	**275.1**	270.2
	517.4	1,277.3
Share of net assets of the listed associate	**–**	788.9
Market value of an associate listed in Hong Kong	**2,244.1**	3,961.3

The loans to/amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, these loans are considered as quasi-equity investments in the associates.

Details of the Group's principal associates are as follows:

Name	Place of incorporation/ establishment	Particulars of issued shares/units held	Percentage of equity interest attributable to the Group 2008	2007	Principal activities
8D International (BVI) Limited ("8D-BVI")	British Virgin Islands	Ordinary shares of US$1 each	30.0	30.0	Investment holding
8D International Limited	Hong Kong	Ordinary shares of HK$1 each	36.0[1]	36.0[1]	Promotions and information technology
8D Matrix Limited	British Virgin Islands	Ordinary shares of US$1 each	36.0[1]	36.0[1]	Investment holding
Bright Future (HK) Limited*	Hong Kong	Ordinary shares of HK$1 each	50.0	50.0	Investment holding
Hang Fok Properties Limited ("Hang Fok")	British Virgin Islands	Ordinary shares of US$1 each	50.0[2]	50.0[2]	Investment holding

Name	Place of incorporation/ establishment	Particulars of issued shares/units held	Percentage of equity interest attributable to the Group 2008	2007	Principal activities
Regal Real Estate Investment Trust ("Regal REIT")	Hong Kong	3,142,196,102 units	73.6[3]	71.7[3]	Property investment

* Not audited by Ernst & Young or other member firm of the Ernst & Young global network.

(1) The percentage of equity interest includes a 6% attributable interest held through 8D-BVI.

(2) The major asset of Hang Fok is its 59% equity interest in each of two sino-foreign joint ventures, namely Beijing Century City Real Estate Development Co., Ltd. and Beijing Jianye Real Estate Developing Co., Ltd. established in Beijing, the PRC, which are engaged in a property development project in Beijing, the PRC.

(3) Despite the Group's holding of a 73.6% interest in Regal REIT (including units obtained upon the listing of Regal REIT on the Stock Exchange and additional interest acquired and units received in settlement of REIT manager's fees during the year) and the REIT manager is a wholly owned subsidiary of the Group, pursuant to the terms of the Trust Deed, the Group does not have unilateral power to retain or remove the REIT manager. Accordingly, the Group is considered not to have unilateral power to govern the financial and operating policies of Regal REIT which is therefore not treated as a subsidiary of the Group. However, the Directors consider that the Group still has significant influence over Regal REIT and therefore it is appropriate to account for Regal REIT as an associate and equity account for its investment in Regal REIT as an associate.

All associates are indirectly held by the Company.

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

The Group has discontinued the recognition of its share of losses of Regal REIT because the share of losses of the associate exceeded the Group's interest in the associate. The Group's unrecognised share of losses of this associate for the current year and cumulatively was HK$962.1 million (2007 – Nil).

The following table illustrates the summarised financial statements of the Group's associates from their management accounts:

	2008 HK$'million	2007 HK$'million
Assets	**15,206.9**	18,151.9
Liabilities	**6,589.4**	6,824.7
Revenues	**763.4**	678.8
Profit/(Loss)	**(2,175.0)**	2,735.8

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	GROUP	
	2008 **HK$'million**	**2007** **HK$'million**
Non-current assets:		
Listed equity investments in Hong Kong, at market value	**28.1**	50.1
Unlisted debt investment, at fair value	**394.9**	330.6
	423.0	380.7
Current assets:		
Listed equity investments in Hong Kong, at market value	**103.5**	45.0
Unlisted investments, at fair value	**4.6**	184.8
	108.1	229.8
	531.1	610.5

The listed equity investments included under non-current assets and the unlisted debt investments at 31st December, 2007 and 2008 were designated upon initial recognition as financial assets at fair value through profit or loss as they are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management and investment strategy, and information about the investments are provided on that basis to the Group's key management personnel.

The listed equity investments included under current assets at 31st December, 2007 and 2008 were classified as held for trading.

The unlisted debt investments included under non-current assets in the prior year represented the investment in convertible bonds issued by a subsidiary of Cosmopolitan International Holdings Limited ("Cosmopolitan"), a listed company in Hong Kong, in a principal amount of HK$102.5 million, which are due 2010 and were convertible into 500 million new shares of Cosmopolitan at an initial conversion price of HK$0.205 per share ("2010 CB"). During the year ended 31st December, 2008, the Group further acquired the 2010 CB in a principal amount of HK$38.95 million from an independent third party at the consideration of HK$76.0 million. Subsequent to the balance sheet date, the conversion price of 2010 CB was adjusted to HK$0.2 per share upon the further issuance of new convertible bonds by Cosmopolitan group on 23rd January, 2009, and accordingly, the 2010 CB in an aggregate principal amount of HK$141.45 million held by the Group are convertible into a total of 707.3 million new shares of Cosmopolitan at the adjusted conversion price of HK$0.2 per share.

During the year ended 31st December, 2008, the Group also subscribed for another series of convertible bonds issued by Cosmopolitan group in a principal amount of HK$100.0 million, which are due 2013 and were convertible into 166.7 million new shares of Cosmopolitan at an initial conversion price of HK$0.6 per share ("2013 CB"). The Group was also granted an option to subscribe for further 2013 CB in an additional principal amount of up to HK$100.0 million. The optional 2013 CB, if fully subscribed for and issued, would be convertible into 166.7 million new shares of Cosmopolitan at an initial conversion price of HK$0.6 per share. Subsequent to the balance sheet date, the conversion price of 2013 CB was adjusted to HK$0.3 per share upon the further issuance of new convertible bonds by Cosmopolitan group on 23rd January, 2009, and accordingly, the 2013 CB (including the issued 2013 CB and, if fully subscribed for and issued, the optional 2013 CB) in an aggregate principal amount of HK$200.0 million are convertible into a total of 666.7 million new shares of Cosmopolitan at the adjusted conversion price of HK$0.3 per share.

At 31st December, 2008, the Group also held approximately 3.5% interest in the share capital of Cosmopolitan, which was included in listed equity investments under non-current assets. On the basis that all outstanding convertible bonds were converted, and all optional bonds were subscribed and converted, by the Group and other bond holders, the interest held by the Group in the enlarged share capital of Cosmopolitan would be increased to 26.8%. The results of Cosmopolitan group have not been equity accounted for by the Group as the Directors consider that despite the Group's investments in the shares of Cosmopolitan, the 2010 CB and the 2013 CB, the Group is not in a position to exercise significant influence over the financial and operating policy of Cosmopolitan.

The fair values of the unlisted debt investments included under non-current assets have been estimated by an independent professional valuer using valuation techniques based on quoted market price of the underlying listed security.

The fair values of the unlisted investments included under current assets are based on the market price provided by financial institutions.

At the date of approval of these financial statements, the market value of the listed equity investments was approximately HK$128.9 million and the fair value of the unlisted investments including unlisted debt investments was approximately HK$340.5 million.

As at 31st December, 2007, the Group's unlisted investments included under current assets amounted to HK$30.8 million were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees (notes 35(a) and 36).

20. AVAILABLE-FOR-SALE INVESTMENT

	GROUP	
	2008 **HK$'million**	**2007** **HK$'million**
Unlisted investments, at fair value	**3.1**	–

During the year, the gross loss of the Group's available-for-sale investments recognised directly in equity amounted to HK$0.8 million (2007 - Nil).

21. OTHER LOAN

The balance represents a loan of US$10.0 million (HK$78.0 million) (2007 - HK$78.0 million) advanced to a hotel owner to assist in financing the interior decoration and pre-operating expenditure of its hotel in Shanghai, the PRC, which is managed by the Group. The loan is unsecured, interest-free and is repayable commencing from the date of the hotel opening, by way of payments equivalent to 28% of the hotel's net operating profit over the tenure of the management contract for the hotel of 15 years.

A provision for impairment in the amount of HK$29.5 million was made during the year ended 31st December, 2007 based on the estimated recoverable amount, taking into account the hotel's net operating profit projected for the remaining term of the management contract and the related discounted cash flow forecast.

The other loan was classified as loans and receivables and was stated at amortised cost less provision for impairment of HK$36.1 million as at 31st December, 2008 (2007 - HK$36.1 million), calculated using the effective interest method.

22. HOTEL AND OTHER INVENTORIES

	GROUP	
	2008 **HK$'million**	**2007** **HK$'million**
Hotel and other merchandise	**22.7**	17.0

23. PROPERTIES HELD FOR SALE

At 31st December, 2007, certain of the Group's properties held for sale are leased to third parties under short term operating leases, further summary details of which are included in notes 16 and 38(a) to the financial statements.

At 31st December, 2008, the Group's properties held for sale with a carrying value of HK$69.6 million were pledged to secure banking facilities granted to the Group.

24. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in the balance is an amount of HK$106.9 million (2007 - HK$447.9 million) representing the trade debtors of the Group.

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Trade debtors	**108.0**	449.1
Impairment	**(1.1)**	(1.2)
	106.9	447.9

Credit terms

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

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

The aged analysis of such debtors, based on the invoice date, is as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Outstanding balances with ages:		
Within 3 months	**90.6**	440.0
Between 4 to 6 months	**12.2**	3.5
Between 7 to 12 months	**2.5**	2.6
Over 1 year	**2.7**	3.0
	108.0	449.1
Impairment	**(1.1)**	(1.2)
	106.9	447.9

The movements in provision for impairment of trade debtors are as follows:

	GROUP	
	2008 **HK$'million**	**2007** **HK$'million**
At 1st January	**1.2**	0.7
Impairment losses recognised (note 7)	**0.2**	0.6
Amount written off as uncollectible	**(0.1)**	(0.1)
Impairment losses reversed (note 7)	**(0.2)**	–
At 31st December	**1.1**	1.2

Included in the above provision for impairment of trade debtors is a provision for individually impaired trade debtors of HK$1.1 million (2007 - HK$1.2 million) with a gross carrying amount of HK$2.0 million (2007 - HK$1.8 million). The individually impaired trade debtors relate to customers that were in financial difficulties and only a portion of the balances is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade debtors that are not considered to be impaired is as follows:

	GROUP	
	2008 **HK$'million**	**2007** **HK$'million**
Neither past due nor impaired	**62.5**	408.6
Within 3 months past due	**35.0**	32.7
4 to 6 months past due	**6.1**	2.5
7 to 12 months past due	**1.7**	1.9
Over 1 year past due	**1.6**	2.2
	106.9	447.9

Trade debtors that were neither past due nor impaired relate to a large number of diversified customers (except for sale proceeds receivable from disposal of properties held for sale) for whom there were no recent history of default.

Trade debtors that were past due but not impaired relate to a number of diversified independent customers that have a good track record with the Group. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Apart from the trade debtors, none of the above financial assets is either past due or impaired as they relate to receivables for which there was no recent history of default.

Included in the Group's debtors, deposits and prepayments are amounts due from an associate and related companies of HK$28.1 million (2007 - HK$29.2 million) and HK$2.3 million (2007 - HK$2.6 million), respectively, which are repayable on similar credit terms to those offered to the major customers of the Group.

25. CREDITORS AND ACCRUALS

Included in the balance is an amount of HK$60.1 million (2007 - HK$87.8 million) representing the trade creditors of the Group. The aged analysis of such creditors, based on the invoice date, is as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Outstanding balances with ages:		
Within 3 months	**58.7**	84.1
Between 4 to 6 months	**1.0**	1.4
Between 7 to 12 months	**–**	0.4
Over 1 year	**0.4**	1.9
	60.1	87.8

The trade creditors are non-interest bearing and are normally settled on 30 to 60-day terms.

Included in creditors and accruals are amounts due to associates and related companies of HK$8.9 million (2007 - HK$94.1 million) and HK$13.1 million (2007 - HK$16.8 million), respectively, which have similar credit terms to those offered by the associates and those related companies to their major customers.

26. DERIVATIVE FINANCIAL INSTRUMENT

	GROUP AND COMPANY	
	2008 HK$'million	**2007 HK$'million**
The conversion option of the convertible preference shares	**–**	0.1

As detailed in note 29 to the financial statements, the derivative financial instrument represents the residual amount assigned to the conversion option of the convertible preference shares denominated in foreign currency at inception.

The fair value of the derivative financial instrument is reassessed at each balance sheet date using the binomial valuation model.

27. INTEREST BEARING BANK AND OTHER BORROWINGS

GROUP

	2008			2007		
	Effective interest rate p.a. (%)	Maturity	HK$'million	Effective interest rate p.a. (%)	Maturity	HK$'million
Current						
Bank loans – secured	–	–	–	6.57	2008	21.4
Convertible preference shares (note 29)	–	–	–	5.75	2008	128.6
			–			150.0
Non-current						
Bank loans – secured	1.25-2.25	2010	268.5	–	–	–
			268.5			–
			268.5			150.0

COMPANY

	2008			2007		
	Effective interest rate p.a. (%)	Maturity	HK$'million	Effective interest rate p.a. (%)	Maturity	HK$'million
Current						
Convertible preference shares (note 29)	–	–	–	5.75	2008	128.6

	GROUP		COMPANY	
	2008 HK$'million	2007 HK$'million	2008 HK$'million	2007 HK$'million
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**–**	21.4	**–**	–
In the second year	**268.5**	–	**–**	–
	268.5	21.4	**–**	–
Other borrowings repayable:				
Within one year	**–**	128.6	**–**	128.6
	–	128.6	**–**	128.6
	268.5	150.0	**–**	128.6

All interest bearing bank borrowing at 31st December, 2008 was denominated in Hong Kong dollars whilst at 31st December, 2007, it was denominated in Renminbi.

The Group's bank borrowing is secured by a pledge of the Group's certain assets as further detailed in note 36 to the financial statements.

Other interest rate information:

	GROUP			
	2008		2007	
	Fixed rate HK$'million	Floating rate HK$'million	Fixed rate HK$'million	Floating rate HK$'million
Bank loans - secured	**–**	**268.5**	–	21.4
Convertible preference shares	**–**	**–**	128.6	–

	COMPANY			
	2008		2007	
	Fixed rate HK$'million	Floating rate HK$'million	Fixed rate HK$'million	Floating rate HK$'million
Convertible preference shares	**–**	**–**	128.6	–

The carrying amounts of the Group's and the Company's current and non-current borrowings approximate to their fair values.

28. CONVERTIBLE BONDS

In 2004, the Group made agreements with certain investors in relation to the issue by the Group of 2% guaranteed convertible bonds due 2007, guaranteed by, and convertible into ordinary shares of, the Company (the "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").

The Firm Bonds, which were subscribed for and issued in 2004, were unsecured, bore interest at 2% per annum and were due for repayment in 2007, if not previously converted or redeemed. In 2006, the Firm Bonds in nominal value of HK$75.0 million were converted into 300.0 million new ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.25 per ordinary share.

In 2007, the Optional Bonds were fully subscribed and issued, and the outstanding balance of the Firm Bonds and all the Optional Bonds in a total nominal value of HK$325.0 million were converted into 1,300.0 million new ordinary shares of the Company of HK$0.01 each at a conversion price of HK$0.25 per ordinary share.

In the prior year, the initial fair value of the liability component of the issued Firm Bonds was determined using a market rate for an equivalent non-convertible bond. The residual amount was recognised as the equity component and included in shareholders' equity.

The net proceeds received from the issue of the Firm Bonds in 2007 were split between the liability and equity components, as follows:

	2008 HK$'million	2007 HK$'million
Nominal value of the Firm Bonds issued	–	–
Equity component	–	–
Liability component at 1st January	–	122.5
Interest expense	–	–
Interest paid	–	–
Conversion into ordinary shares during the year	–	(122.5)
Liability component at 31st December	–	–

29. CONVERTIBLE PREFERENCE SHARES

The outstanding preference shares at the beginning of the year represented 16,748 5¼% convertible cumulative redeemable preference shares of US$10 each issued by the Company for cash on 13th December, 1993 at US$1,000 each. The preference shares were redeemable on 13th December, 2008 at US$1,000 each (the "Reference Amount"). The Company had the right to redeem, on or at any time after 13th December, 1996, either part or all of the preference shares, subject to certain conditions, at a redemption price of not less than the Reference Amount, with such amount to be determined by reference to specified percentages applicable to the year in which the redemption takes place. The redemption could be made either in United States dollars, or by issuing such number of the Company's ordinary shares calculated by reference to 95% of the average daily closing price of the ordinary shares for the five dealing days ending on the seventh day prior to the date on which notice of such redemption (the "Redemption Notice") was first given to the preference shareholders, at the fixed exchange rate of HK$7.730255 to US$1.00.

All preference shareholders had the right (the "Conversion Rights") to convert any or all of their preference shares into fully paid ordinary shares of the Company at an initial price of HK$2.0445 per share based on the Reference Amount of US$1,000 per preference share at the fixed exchange rate of HK$7.730255 to US$1.00. The conversion price of the preference shares was adjusted to HK$1.7037 per share on 19th June, 1997 as a result of a bonus issue of ordinary shares and further adjusted to HK$17.037 per share with effect from 23rd October, 2008 as a result of the Share Consolidation. The Conversion Rights were exercisable on or after 28th December, 1993 until and including the eighth day prior to 13th December, 2008 or, if earlier, the date fixed for redemption thereof as set out in the Redemption Notice.

None of the preference shares was converted during the year. All outstanding 16,748 preference shares in issue were redeemed at the Reference Amount per share on 13th December, 2008.

In the prior year, the fair value of the liability component was determined using a market rate for an equivalent non-convertible bond. The residual amount was recognised as the derivative financial instrument classified as current liabilities which was remeasured at fair value at each balance sheet date (note 26). The dividend on the convertible preference shares was charged as interest expense in the income statement.

	2008 **HK$'million**	**2007** **HK$'million**
Liability component at 1st January	**128.6**	127.7
Interest expense	**7.7**	7.7
Dividend paid	**(6.8)**	(6.8)
Redemption for the year	**(129.5)**	–
Liability component at 31st December (note 27)	**–**	128.6

30. DEFERRED TAX

The movements in deferred tax assets and liabilities of the Group during the year are as follows:

Deferred tax assets

Group

	Losses available for offsetting against future taxable profits	
	2008 HK$'million	**2007 HK$'million**
Balance at beginning of year	–	2.7
Deferred tax charged to the income statement during the year (note 11)	–	(15.4)
Portion of deferred tax charged to the income statement previously included in the assets of a disposal group held for sale	–	12.7
Gross deferred tax assets at end of year	–	–

Deferred tax liabilities

Group

	Depreciation allowance in excess of related depreciation	
	2008 HK$'million	**2007 HK$'million**
Balance at beginning of year	–	0.3
Deferred tax charged to the income statement during the year (note 11)	–	3.2
Portion of deferred tax charged to the income statement previously included in the liabilities of a disposal group held for sale	–	(3.5)
Gross deferred tax liabilities at end of year	–	–
Net deferred tax assets at end of year	–	–

The Group had tax losses arising in Hong Kong amounting to HK$2,272.3 million (2007 - HK$2,373.6 million) at the balance sheet date. The tax losses arising in Hong Kong are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. No deferred tax assets in respect of the Group's tax losses have been recognised on account of the unpredictability of future profit streams.

At 31st December, 2008, there was no significant unrecognised deferred tax liability (2007 - Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly controlled entities as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

31. SHARE CAPITAL AND SHARE PREMIUM

	COMPANY	
	2008 HK$'million	**2007 HK$'million**
Shares		
Authorised:		
2,000.0 million (2007 - 20,000.0 million) ordinary shares of HK$0.10 (2007 - HK$0.01) each	**200.0**	200.0
0.1 million 5¼% convertible cumulative redeemable preference shares of US$10 each	**1.3**	1.3
	201.3	201.3
Issued and fully paid:		
1,014.0 million (2007 - 10,493.0 million) ordinary shares of HK$0.10 (2007 - HK$0.01) each	**101.4**	104.9
Share premium		
Ordinary shares	**885.1**	1,023.4

A summary of the movements of the Company's share capital and share premium during the period from 1st January, 2007 to 31st December, 2008 is as follows:

		Authorised		Issued and fully paid		Share premium
	Notes	No. of shares 'million	Amount HK$'million	No. of shares 'million	Amount HK$'million	Amount HK$'million
Ordinary shares						
At 1st January, 2007		20,000.0	200.0	9,139.4	91.4	750.8
Increase of new shares upon exercise of warrants	(i)	–	–	237.4	2.3	57.0
Increase of new shares upon conversion of convertible bonds	(ii)	–	–	1,300.0	13.0	323.1
Repurchase and cancellation of shares	(iii)	–	–	(183.8)*	(1.8)	(107.5)
At 31st December, 2007 and at 1st January, 2008		20,000.0	200.0	10,493.0	104.9	1,023.4
Repurchase and cancellation of shares before Share Consolidation	(iii)	–	–	(311.0)	(3.1)	(129.3)
		20,000.0	200.0	10,182.0	101.8	894.1
Balance at 23rd October, 2008 after Share Consolidation	(iv)	2,000.0	200.0	1,018.2	101.8	894.1
Repurchase and cancellation of shares after Share Consolidation	(iii)	–	–	(4.3)*	(0.4)	(9.0)
As 31st December, 2008		2,000.0	200.0	1,013.9	101.4	885.1
5 1/4% convertible cumulative redeemable preference shares of US$10 each						
At 1st January, 2007, 31st December, 2007 and 2008		0.1	1.3	–	–	–
Total share capital						
At 31st December, 2008			**201.3**		**101.4**	**885.1**
At 31st December, 2007			201.3		104.9	1,023.4

* inclusive of 0.7 million (2007 – 31.1 million) repurchased ordinary shares cancelled subsequent to the balance sheet date.

Notes:

(i) During the year ended 31st December, 2007, an aggregate of 237.4 million new ordinary shares of HK$0.01 each were issued for cash at a subscription price of HK$0.25 pursuant to the exercise of the Company's warrants for a total cash consideration of HK$59.3 million before expenses.

(ii) During the year ended 31st December, 2007, convertible bonds in nominal value of HK$325.0 million were converted into 1,300.0 million new ordinary shares of HK$0.01 each of the Company.

(iii) Except for 0.7 million repurchased ordinary shares of HK$0.10 each (2007 – 31.1 million ordinary shares of HK$0.01 each), which were cancelled subsequent to the balance sheet date, all ordinary shares repurchased during the year were cancelled during the year, and the issued share capital of the Company was accordingly reduced by the par value of the repurchased ordinary shares so cancelled. The premium and related expenses paid on the repurchases of the ordinary shares, of HK$138.3 million (2007 – HK$107.5 million), were charged to the share premium account. An amount equivalent to the par value of the ordinary shares cancelled was transferred to the capital redemption reserve as set out in the consolidated statement of changes in equity.

Details of the repurchases are summarised as follows:

During January to October (up to 22nd October, 2008) 2008

Month of repurchase	Number of ordinary shares of HK$0.01 each repurchased	Price per ordinary share of HK$0.01 Highest (HK$)	Lowest (HK$)	Aggregate purchase price (HK$)
January 2008	106,872,000	0.640	0.510	63,925,280
February 2008	6,120,000	0.570	0.540	3,325,500
April 2008	47,082,000	0.475	0.425	21,283,480
May 2008	2,898,000	0.440	0.430	1,253,140
June 2008	36,292,000	0.425	0.365	14,116,960
July 2008	39,266,000	0.390	0.355	14,456,780
September 2008	51,892,000	0.245	0.188	11,435,482
October 2008 (up to 22nd October, 2008)	20,614,000	0.218	0.160	3,678,150
Total	311,036,000			133,474,772

During October (from 23rd October, 2008) to December 2008

Month of repurchase	Number of ordinary shares HK$0.10 each repurchased	Price per ordinary share of HK$0.10 Highest (HK$)	Lowest (HK$)	Aggregate purchase price (HK$)
October 2008 (from 23rd October, 2008)	1,260,800	1.680	1.290	1,823,766
November 2008	916,000	1.920	1.590	1,652,538
December 2008	2,100,000	2.140	1.710	3,921,420
Total	4,276,800			7,397,724
	Total expenses on shares repurchased during the year			979,200
				141,851,696

(iv) Pursuant to an ordinary resolution passed by the shareholders of the Company at the special general meeting of the Company held on 22nd October, 2008, the consolidation of ordinary shares in the share capital of the Company (on the basis that every 10 then existing issued and unissued ordinary shares of HK$0.01 each were consolidated into one ordinary share of HK$0.10) was approved and subsequently became effective on 23rd October, 2008.

Share options

The Company operates a share option scheme named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "Share Option Scheme"). The Share Option Scheme was adopted by the Company's shareholders on 16th June, 2005 and became effective on 21st July, 2005. Share options granted under the Share Option Scheme do not confer rights on the holders to dividends or to vote at shareholders' meetings.

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

		Number of ordinary shares under share options*					
Offer date**	Name or category of participant	At 1st January, 2008	Vested during the year	Before adjustment for the effect of Share Consolidation (Note 1)	After adjustment for the effect of Share Consolidation and at 31st December, 2008 (Note 1)	Vesting/ Exercise periods of share options	Adjusted exercise price of share options* HK$ (Note 1)
	Directors						
12th May, 2005	Mr. Lo Yuk Sui						
	Vested:	80,000,000	40,000,000	120,000,000	12,000,000	Note 2	7.50
	Unvested:	120,000,000***	(40,000,000)	80,000,000	8,000,000		
25th July, 2005	Ms. Belinda Yeung Bik Yiu						
	Vested:	12,000,000	6,000,000	18,000,000	1,800,000	Note 2	7.50
	Unvested:	18,000,000	(6,000,000)	12,000,000	1,200,000		
25th July, 2005	Mr. Donald Fan Tung						
	Vested:	8,000,000	4,000,000	12,000,000	1,200,000	Note 2	7.50
	Unvested:	12,000,000	(4,000,000)	8,000,000	800,000		
25th July, 2005	Mr. Jimmy Lo Chun To						
	Vested:	6,000,000	3,000,000	9,000,000	900,000	Note 2	7.50
	Unvested:	9,000,000	(3,000,000)	6,000,000	600,000		
25th July, 2005	Miss Lo Po Man						
	Vested:	12,000,000	6,000,000	18,000,000	1,800,000	Note 2	7.50
	Unvested:	18,000,000	(6,000,000)	12,000,000	1,200,000		
25th July, 2005	Mr. Kenneth Ng Kwai Kai						
	Vested:	8,000,000	4,000,000	12,000,000	1,200,000	Note 2	7.50
	Unvested:	12,000,000	(4,000,000)	8,000,000	800,000		
	Other Employees						
25th July, 2005	Employees, in aggregate						
	Vested:	14,000,000	7,000,000	21,000,000	2,100,000	Note 2	7.50
	Unvested:	21,000,000	(7,000,000)	14,000,000	1,400,000		
	Total:						
	Vested:	**140,000,000**	**70,000,000**	**210,000,000**	**21,000,000**		
	Unvested:	**210,000,000**	**(70,000,000)**	**140,000,000**	**14,000,000**		

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

** Offer date is the date on which the grant of share options is offered by the Company, and it is deemed the date of grant of the share options unless the grant of share options is declined or lapsed.

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

Notes:

(1) During the year, as a result of the Share Consolidation, the total number of ordinary shares falling to be allotted and issued upon full exercise of the subscription rights attaching to the then outstanding 350,000,000 options granted under the Share Option Scheme was adjusted from 350,000,000 ordinary shares of HK$0.01 each to 35,000,000 ordinary shares of HK$0.10 each, and the exercise price of all outstanding options was adjusted from HK$0.75 per ordinary share to HK$7.50 per ordinary share, both effective from 23rd October, 2008.

(2) Vesting/Exercise periods of share options:

On completion of continuous service of	**Percentage vesting**	**Cumulative percentage exercisable**
2 years after offer date	40% of options granted	40% (exercisable until 6 years after offer date)
3 years after offer date	A further 20% of options granted	60% (exercisable until 6 years after offer date)
4 years after offer date	A further 20% of options granted	80% (exercisable until 6 years after offer date)
5 years after offer date	The final 20% of options granted	100% (exercisable until 6 years after offer date)

The summarised information on the Share Option Scheme is set out as follows:

(i)	Purpose:	To provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to eligible persons
(ii)	Participants:	Eligible person means any person who is either (i) an eligible employee; (ii) a Non-Executive Director (including any Independent Non-Executive Directors); (iii) a direct or indirect shareholder of any member of the Group; (iv) a person or entity that provides advisory, consultancy, professional or other services to any member of the Group; (v) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (vi) any company wholly owned by one or more persons belonging to any of the above classes of participants; or (vii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants, as notified by the Board that he is an eligible person
(iii)	Total number of ordinary shares subject to outstanding options under the Share Option Scheme and as a percentage of the issued share capital as at 31st December, 2008 and at the date of this report:	35,000,000 ordinary shares (approximately 3.4%)
(iv)	Maximum entitlement of each participant under the Share Option Scheme:	Not exceeding 1% of the offer ordinary shares of the Company in issue as of the offer date in any 12 month period
(v)	The period within which the shares must be taken up under an option:	From the time when the options become vested to no later than ten years after the offer date
(vi)	Minimum period for which an option must be held before it can be exercised:	No minimum period unless otherwise determined by the Board at the time of the approval of the grant
(vii)	Amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	N/A

(viii)	The basis of determining the exercise price:	Determined by the Board (subject to any necessary consent or approval being obtained) and shall not be less than the higher of (i) the closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheet on the offer date; (ii) the average closing price of the ordinary shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the offer date; and (iii) the nominal value of the ordinary shares of the Company
(ix)	The life of the Share Option Scheme:	The life of the Share Option Scheme commenced from 16th June, 2005, date of adoption, and ending on 15th June, 2015

Warrants

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 a bonus issue of warrants ("Warrants") of the Company 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 the Company held by the shareholders on the register of members of the Company 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 the Company. The Warrants confer rights on their holders to subscribe for up to approximately 834.0 million new ordinary shares of the Company 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 (i.e., 2nd February, 2005) to the date falling 7 days prior to the third anniversary of the date of issue (i.e., 26th July, 2007).

During the year ended 31st December, 2007, Warrants carrying aggregate subscription rights of approximately HK$59.3 million were exercised for 237.4 million new ordinary shares of HK$0.01 each at a price of HK$0.25 per share. Warrants carrying aggregate subscription rights of approximately HK$2.4 million remained outstanding by 4:00 p.m. on 26th July, 2007 (the expiry date of the subscription rights) and then lapsed. The listing of the Warrants was withdrawn with effect from the close of trading hours of the Stock Exchange on 26th July, 2007.

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 62 to 63 of the financial statements.

(b) Company

	Notes	Share premium account HK$'m	Capital redemption reserve HK$'m	Share option reserve HK$'m	Retained profits HK$'m	Total HK$'m
At 1st January, 2007		750.8	0.9	20.7	1,207.6	1,980.0
Final 2006 dividend declared		–	–	–	(21.6)	(21.6)
Issue of new shares upon exercise of warrants	31(i)	57.0	–	–	–	57.0
Issue of new shares upon conversion of convertible bonds	31(ii)	323.1	–	–	–	323.1
Repurchase and cancellation of ordinary shares		(107.5)	1.8	–	(1.8)	(107.5)
Equity-settled share option arrangements		–	–	11.6	–	11.6
Profit for the year		–	–	–	2,964.9	2,964.9
Interim 2007 dividend	13	–	–	–	(32.0)	(32.0)
Proposed final 2007 dividend	13	–	–	–	(103.8)	(103.8)
At 31st December, 2007 and at 1st January, 2008		1,023.4	2.7	32.3	4,013.3	5,071.7
Final 2007 dividend declared		–	–	–	0.5	0.5
Repurchase and cancellation of ordinary shares before Share Consolidation	31(iii)	(129.3)	3.1	–	(3.1)	(129.3)
Repurchase and cancellation of ordinary share after Share Consolidation	31(iii)	(9.0)	0.4	–	(0.4)	(9.0)
Equity-settled share option arrangements		–	–	8.4	–	8.4
Loss for the year		–	–	–	(878.2)	(878.2)
Interim 2008 dividend	13	–	–	–	(30.6)	(30.6)
Proposed final 2008 dividend	13	–	–	–	(50.5)	(50.5)
At 31st December, 2008		885.1	6.2	40.7	3,051.0	3,983.0

33. INTERESTS IN SUBSIDIARIES

	COMPANY 2008 HK$'million	COMPANY 2007 HK$'million
Unlisted shares, at cost	**5,552.2**	5,552.2
Amount due from a subsidiary	**1,886.8**	2,299.6
	7,439.0	7,851.8
Provision for impairment	**(3,299.6)**	(2,434.5)
	4,139.4	5,417.3

The amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment.

Details of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2008	2007	Principal activities
8D Travel Limited	Hong Kong	HK$500,000	100	100	Travel agency
8D Travel (Shanghai) Ltd**	People's Republic of China	US$375,000	100	100	Travel agency
Camomile Investments Limited	Hong Kong	HK$2	100	100	Property investment
Come On Investment Company Limited	Hong Kong	HK$10,000	100	100	Securities trading and investment
Complete Success Investments Limited	British Virgin Islands	US$1	100	100	Investment holding
Cranfield Investments Limited	Hong Kong	HK$2	100	100	Financing

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2008	2007	Principal activities
Farah Investments Limited#	Hong Kong	HK$2	–	100	Investment holding
Favour Link International Limited	Hong Kong	HK$1	100	100	Hotel operations
Fortune Nice Investment Limited	Hong Kong	HK$2	100	100	Financing
Fountain Sky Limited	Hong Kong	HK$2	100	100	Securities investment
Gaud Limited	Hong Kong	HK$2	100	100	Securities trading and investment
Great Prestige Investments Limited	British Virgin Islands	US$1	100	100	Securities investment
Harvest Charm Investment Limited	Hong Kong	HK$2	100	100	Financing
Honrich Investment Limited	Hong Kong	HK$2	100	100	Financing
Kaybro Investments Limited	British Virgin Islands	US$1	100	100	Investment holding
Regal Century Investment Limited	Hong Kong	HK$2	100	100	Investment holding and management services
Regal Contracting Agency Limited	Hong Kong	HK$1	100	100	Contracting agency
Regal Estate Agents Limited	Hong Kong	HK$2	100	100	Estate agency
Regal Estate Management Limited	Hong Kong	HK$2	100	100	Estate management

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2008	2007	Principal activities
Regal Hotels (Holdings) Limited	Hong Kong	HK$1,151,598,638	100	100	Investment holding
Regal Hotels International Limited	Hong Kong	HK$100,000	100	100	Hotel management
Regal Hotels Management (BVI) Limited	British Virgin Islands	US$1	100	100	Hotel management
Regal International Limited	British Virgin Islands	US$20	100	100	Investment and trademark holding
Regal International (BVI) Holdings Limited	British Virgin Islands	HK$10.1	100	100	Investment holding
Regal Portfolio Management Limited	Hong Kong	HK$8,811,937	100	100	Asset management
Regal Supplies Limited*	Hong Kong	HK$2	100	100	Bakery operation
Regala Health and Beauty Limited*	Hong Kong	HK$2	100	100	Health products operation
R.H.I. Licensing B.V.	The Netherlands	NLG40,000	100	100	Trademark holding
Richtech Holdings Limited	Hong Kong	HK$2	100	100	Investment holding
Tenshine Limited	Hong Kong	HK$2	100	100	Financing
Time Crest Investments Limited	British Virgin Islands	US$1	100	100	Securities investment
Valuegood International Limited	British Virgin Islands	US$1	100	100	Securities investment

Name	Place of incorporation/ registration	Nominal value of issued share capital/ registered capital	Percentage of equity interest attributable to the Company 2008	2007	Principal activities
Well Mount Investments Limited	British Virgin Islands	US$1	100	100	Securities investment
廣州市富堡訂房服務有限公司**	People's Republic of China	RMB100,000	100	100	Room reservation services
置富投資開發(成都)有限公司***#	People's Republic of China	HK$500,000,000	–	100	Property investment
麗歌酒店管理(上海)有限公司**	People's Republic of China	US$140,000	100	100	Hotel management

These are wholly-owned subsidiaries of Faith Crown which was partially disposed of by the Group during the year as further detailed in note 17 to the financial statements.

* These subsidiaries became dormant during the year.

** These subsidiaries are registered as wholly-foreign-owned enterprises under the PRC law.

Except for Regal International (BVI) Holdings Limited, all principal subsidiaries are indirectly held by the Company.

All of the above subsidiaries operate in the place of their incorporation/registration, except for Regal Hotels Management (BVI) Limited, which operates in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

For the year ended 31st December, 2008, the Company has provided an impairment loss of HK$865.1 million (2007 – write-back of HK$2,977.4 million) to reflect the decrease in the net asset value of its subsidiaries during the year.

34. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to net cash outflow from operating activities

	2008 HK$'million	2007 HK$'million
Profit/(loss) before tax	**(808.2)**	2,979.5
Adjustments for:		
Finance costs	**9.9**	84.2
Share of profits and losses of jointly controlled entities and associates	**462.8**	(568.6)
Interest income	**(41.2)**	(74.1)
Depreciation	**4.0**	4.0
Recognition of prepaid land lease payments	**–**	5.6
Dividend income from listed investments	**(2.1)**	(0.7)
Gain on disposal of subsidiaries	**–**	(2,293.5)
Fair value gains/(loss) on financial assets at fair value through profit or loss, net	**133.7**	(235.3)
Impairment of trade debtors, other receivables and other loan	**–**	31.7
Fair value gain on derivative financial instrument	**(0.1)**	(0.5)
Equity-settled share option expenses	**8.4**	11.6
Income from asset management service	**(66.7)**	(53.5)
Fair value gain upon reclassification of properties held for sale to investment properties net of fair value loss upon revaluation	**(36.8)**	–
Write off of fixed assets	**0.1**	–
	(336.2)	(109.6)
Decrease/(increase) in hotel and other inventories	**(5.7)**	0.8
Decrease/(increase) in properties held for sale	**(7.0)**	236.1
Decrease/(increase) in debtors, deposits and prepayments	**321.0**	(354.0)
Decrease/(increase) in financial assets at fair value through profit or loss	**134.9**	(213.3)
Increase/(decrease) in creditors and accruals	**(217.1)**	205.2
Cash used in operations	**(110.1)**	(234.8)
Overseas taxes paid	**(0.8)**	(2.3)
Net cash outflow from operating activities	**(110.9)**	(237.1)

(b) Major non-cash transaction

During the year, REIT manager's fee in the amount of HK$67.7 million (2007 - HK$28.2 million) were received by the Group in units issued by Regal REIT.

(c) Disposal of subsidiaries

On 30th March, 2007, the Group disposed of the entire issued share capital of certain of the Group's subsidiaries holding directly and indirectly the five hotel properties in Hong Kong to Regal REIT.

	2007 **HK$'million**
Net assets disposed of:	
Property, plant and equipment	2,887.2
Construction in progress	76.5
Prepaid land lease payments	1,060.2
Deferred tax assets	74.1
Deferred tax liabilities	(38.9)
	4,059.1
Gain on disposal	2,293.5
Unrealised gain on disposal eliminated	5,648.9
Costs relating to the disposal	498.5
	12,500.0
Satisfied by:	
Cash	6,630.4
Investment in an associate	5,869.6
	12,500.0

An analysis of the inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2007 **HK$'million**
Inflow of cash and cash equivalents in respect of the disposal of subsidiaries	6,630.4

(d) Acquisition of subsidiaries

On 30th October, 2007, the Group acquired the entire issued share capital of 8D Travel Limited and Shinehero Investments Limited (the "8D Travel Group") from an associate for a nominal consideration. 8D Travel Group is engaged in the provision of travel agency services.

The fair values of the identifiable assets and liabilities of 8D Travel Group as at the date of acquisition immediately before the acquisition were as follows:

	Fair value recognised on acquisition HK$'million
Property, plant and equipment	0.9
Debtors, deposits and prepayments	10.5
Cash and bank balances	0.6
Bank overdraft	(1.9)
Trade and other payables	(5.9)
Other loan	(4.2)
	–
Goodwill on acquisition	–
	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

Cash consideration	–
Cash and bank balances acquired	0.6
Bank overdraft acquired	(1.9)
Net cash outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(1.3)

The above fair values approximate to the carrying amounts of the respective assets and liabilities.

Since its acquisition, 8D Travel Group contributed HK$10.7 million to the Group's revenue and loss of HK$1.1 million to the consolidated profit for the year ended 31st December, 2007.

Had the combination taken place at the beginning of the prior year, the revenue from continuing operations of the Group and the profit of the Group for the year ended 31st December, 2007 would have been HK$1,785.5 million and HK$2,956.6 million, respectively.

35. CONNECTED AND RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances set out elsewhere in the notes to the financial statements, the Group had the following material connected and related party transactions during the year:

	Notes	2008 HK$'million	2007 HK$'million
A substantial shareholder:			
Management fees	(i)	**14.8**	13.0
Wholly owned subsidiaries of a substantial shareholder, Paliburg Holdings Limited ("PHL"):			
Development consultancy fees	(ii)	**5.3**	8.9
Service fees in respect of security systems and products and other software	(iii)	**5.4**	3.4
Repairs and maintenance fees and construction fees	(iv)	**68.8**	112.5
Associates:			
REIT manager's fees	(v)	**66.7**	53.5
Lease rental	(vi)	**701.9**	577.5
Furniture, fixtures and equipment reserve contribution	(vii)	**29.0**	22.2
Other rental expenses	(viii)	**9.8**	3.0
Advertising and promotion fees (including cost reimbursements)	(ix)	**9.3**	13.4
Hotel room revenue	(x)	**–**	20.7
Jointly controlled entities:			
Rental expense in respect of land and buildings	(xi)	**–**	2.5
Interest income	(xii)	**1.3**	–

Notes:

(i) The management costs included rentals and other overheads allocated from Century City International Holdings Limited ("CCIHL"), an indirect substantial shareholder of the Company, either on the basis of specific attribution or by reference to a predetermined ratio assessed by the management of CCIHL, PHL and the Company based on the distribution of job responsibilities and the estimated time to be spent by the relevant staff in serving each of the three groups.

(ii) The development consultancy fees were paid to a subsidiary of PHL for various services provided, which include advisory, supervisory, architectural and design services in connection with the room extension and other renovation projects of the hotels operated by the Group. The fees were charged at agreed rates of the estimated cost of individual projects.

(iii) Fees were paid to certain wholly owned subsidiaries of PHL for the purchases and maintenance services of the security systems and products and other software installed in the Group's hotel properties. The fees were charged based on cost plus a margin depending on the nature and location of the work provided.

(iv) Fees were paid to a wholly owned subsidiary of PHL for providing repairs and maintenance and construction works for the hotel properties. The fees were negotiated based on cost plus a margin and/or awarded through competitive tendering process.

(v) The REIT manager's fees comprise a base fee and a variable fee payable by Regal REIT to RPML for its services as the REIT manager under the terms of the Trust Deed.

(vi) The lease rental represents the cash base rent and variable rent payable by the Group to Regal REIT under the relevant lease agreements (the "Lease Agreements") in connection with the leasing of the hotel properties from Regal REIT for hotel operations.

(vii) The furniture, fixtures and equipment reserve contribution is payable by the Group to Regal REIT under the Lease Agreements for the purchases and replacement of furniture, fixtures and equipment of the hotel properties.

(viii) The other rental expenses represent the lease rental for certain supporting premises paid to Regal REIT in connection with the hotel operations.

(ix) The advertising and promotion fees paid to an associate comprised a retainer determined by reference to the estimated volume of advertising and promotional activities of the Group and a standard fee based on total costs involved, in addition to which actual costs and out-of-pocket expenses incurred were reimbursed.

(x) The hotel room revenue was earned from an associate acting as a travel agency, at rates agreed between the associate and individual hotels.

(xi) The rental expense was charged by the jointly controlled entity for providing a quarter for the chairman of the Group at a monthly rent of HK$0.23 million in the prior year.

(xii) The interest income was earned from advance to a jointly controlled entity at agreed rate.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal and usual course of business.

In addition, the Group has guaranteed a total minimum variable rent payable under the Lease Agreements for the period from 30th March, 2007 to 31st December, 2010 in the amount of HK$220.0 million, of which HK$101.6 million has been paid by the Group up to 31st December, 2008.

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

Pursuant to the sale and purchase agreement signed in connection with the Spin-off of Regal REIT, the Group has undertaken to complete and bear the cost of the asset enhancement program (the "AEP") for certain hotel properties disposed of to Regal REIT. The total estimated cost of the AEP, including the land premium payable, amounted to approximately HK$534.7 million of which the outstanding balance as at 31st December, 2008 amounted to approximately HK$103.2 million (2007 - HK$214.1 million) and has been fully provided for in the financial statements.

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

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

(b) Outstanding balances with related parties:

	Notes	2008 HK$'million	2007 HK$'million
Due from a jointly controlled entity	(i)	**366.7**	366.7
Due from an associate	(ii)	**28.1**	29.2
Due from related companies	(ii)	**2.3**	2.6
Due to an associate	(iii)	**(8.9)**	(94.1)
Due to related companies	(iii)	**(13.1)**	(16.8)
Loans to jointly controlled entities	(i)	**1,116.6**	1,022.5
Loans to/amounts due from associates	(iv)	**275.1**	270.2

Notes:

(i) Details of an amount due from and loans to jointly controlled entities are included in interest in jointly controlled entities in note 17 to the financial statements.

(ii) Details of an amount due from an associate and the amounts due from related companies are included in debtors, deposits and prepayments in note 24 to the financial statements.

(iii) Details of the amount due to an associate and related companies are included in creditors and accruals in note 25 to the financial statements.

(iv) Details of loans to/amounts due from associates are included in interests in associates in note 18 to the financial statements.

(c) Compensation of key management personnel of the Group:

	2008 HK$'million	2007 HK$'million
Short term employee benefits	**21.0**	26.4
Equity-settled share option expense	**7.2**	10.2
Total compensation paid to key management personnel	**28.2**	36.6

Further details of directors' emoluments are included in note 9 to the financial statements.

The related party transactions set out in notes 35(a)(i) to (iv) and (ix) above also constituted connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules to the Company. Certain of the transactions set out in notes 35(a)(i) to (iv) and (ix) are exempted from relevant disclosures and other requirements, including, inter alia, independent shareholders' approval pursuant to, where applicable, rules 14A.31(8), 14A.33(2), 14A.31(2)(a) and 14A.33(3)(a) of the Listing Rules. Certain of the transactions set out in notes 35(a)(ii) and (iv) are subject only to the reporting and announcement requirements and exempted from the requirement of obtaining the independent shareholders' approval pursuant to Rule 14A.32(1) of the Listing Rules. Relevant reporting and announcement requirements as set out in rules 14A.45 and 14A.47 of the Listing Rules with respect to such transactions have been complied with.

Relevant disclosures and other requirements, including, inter alia, independent shareholders' approval (where required) in accordance with the Listing Rules with respect to the connected transactions during the prior year set out in note 35(a) had been made or met or otherwise exempted.

36. PLEDGE OF ASSETS

At 31st December, 2008, part of the Group's bank deposits in the amount of HK$1,000.0 million (2007 - bank deposits and certain other financial assets at fair value through profit or loss in the total amount of HK$1,000.8 million) were pledged to secure a bank guarantee procured by the Group pursuant to certain lease guarantees (note 35(a)), and certain of the Group's investment properties, properties held for sale, bank deposits and cash balances in the total amount of HK$512.5 million (2007 - bank deposits in the amount of HK$24.0 million) were also pledged to secure other banking facilities granted to the Group.

37. CONTINGENT LIABILITIES

Apart from the guarantees given under the Lease Agreements in respect of the minimum variable rent as disclosed in note 35(a), the Group had no other contingent liability as at 31st December, 2008 (2007 - Nil).

As at 31st December, 2008, corporate guarantees amounted to HK$680.0 million (2007 - RMB77.0 million) were given by the Company in connection with banking facilities granted to a subsidiary. The banking facilities granted to the subsidiary was utilised to the extent of approximately HK$268.5 million (2007 - RMB20.0 million) at 31st December, 2008.

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$12.8 million as at 31st December, 2008 (2007 - Nil), as further explained in note 2.4(w) to the financial statements. 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.

38. OPERATING LEASE ARRANGEMENTS

(a) As lessor

Since the completion of the Spin-off of Regal REIT on 30th March, 2007, the Group has effectively subleased certain retail space and areas of its leased hotel properties under operating lease arrangements, with leases negotiated for terms ranging from 3 months to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

The Group also leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms of 1.75 to 2 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 31st December, 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Within one year	**40.0**	49.7
In the second to fifth years, inclusive	**15.5**	25.1
	55.5	74.8

(b) As lessee

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

The Group also leases certain office and shop units and office equipment under operating lease arrangements. Leases for properties are negotiated for terms from 1 year to 3 years. Lease for office equipment in respect of the Group is negotiated for a term of 3 to 5 years.

At 31st December, 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	GROUP	
	2008 HK$'million	**2007 HK$'million**
Land and buildings:		
Within one year	**763.0**	705.5
In the second to fifth years, inclusive	**786.2**	1,535.9
	1,549.2	2,241.4
Other equipment:		
Within one year	**0.1**	0.1
In the second to fifth years, inclusive	**0.2**	0.1
	0.3	0.2
	1,549.5	2,241.6

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

The lease payments set out above exclude the lease rental payable by the Group under the Lease Agreements for the years from 2011 to 2015, which is to be determined subject to annual rent reviews by an independent property valuer and a minimum annual lease rental of HK$400.0 million.

In addition, the Group has guaranteed a total minimum variable rent payable under the Lease Agreements for the period from 30th March, 2007 to 31st December, 2010 in the amount of HK$220.0 million, of which HK$101.6 million has been paid by the Group up to 31st December, 2008.

39. COMMITMENTS

In addition to the operating lease commitments detailed in note 38(b) above, the Group had the following outstanding commitments at the balance sheet date:

	GROUP	
	2008 HK$'million	2007 HK$'million
Capital commitments in respect of land, contracted but not provided for	–	91.0
	–	91.0

40. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2008 **GROUP**

Financial assets

	Financial assets at fair value through profit or loss - designated as such upon initial recognition HK$'million	Financial assets at fair value through profit or loss - held for trading HK$'million	Available-for-sale investment HK$'million	Loans and receivables HK$'million	Total HK$'million
Loans to/amount due from jointly controlled entities (note 17)	–	–	–	1,483.3	1,483.3
Loans to/amounts due from associates (note 18)	–	–	–	275.1	275.1
Other loan (note 21)	–	–	–	36.1	36.1
Trade debtors (note 24)	–	–	–	106.9	106.9
Other financial assets included in debtors, deposits and prepayments	–	–	–	89.7	89.7
Financial assets at fair value through profit or loss (note 19)	423.0	108.1	–	–	531.1
Available-for-sale investment	–	–	3.1	–	3.1
Pledged bank deposits	–	–	–	1,008.3	1,008.3
Time deposits	–	–	–	153.3	153.3
Cash and bank balances	–	–	–	307.2	307.2
	423.0	108.1	3.1	3,459.9	3,994.1

Finanical liabilities

	Financial liabilities at amortised cost HK$'million
Trade creditors (note 25)	60.1
Other financial liabilities included in creditors and accruals	111.4
Interest bearing bank borrowings (note 27)	268.5
	440.0

2007 **GROUP**

Financial assets

	Financial assets at fair value through profit or loss - designated as such upon initial recognition HK$'million	- held for trading HK$'million	Loans and receivables HK$'million	Total HK$'million
Loans to/amount due from a jointly controlled entity (note 17)	–	–	1,389.2	1,389.2
Loans to/amounts due from associates (note 18)	–	–	270.2	270.2
Other loan (note 21)	–	–	36.1	36.1
Trade debtors (note 24)	–	–	447.9	447.9
Other financial assets included in debtors, deposits and prepayments	–	–	94.2	94.2
Financial assets at fair value through profit or loss (note 19)	380.7	229.8	–	610.5
Pledged bank deposits	–	–	994.0	994.0
Time deposits	–	–	489.6	489.6
Cash and bank balances	–	–	77.9	77.9
	380.7	229.8	3,799.1	4,409.6

Finanical liabilities

	Financial liabilities at amortised cost HK$'million
Trade creditors (note 25)	87.8
Other financial liabilities included in creditors and accruals	152.3
Interest bearing bank borrowings (note 27)	21.4
Convertible preference shares (note 29)	128.6
	390.1

COMPANY

Financial assets	**2008 Loans and receivables HK$'million**	**2007 Loans and receivables HK$'million**
Amount due from a subsidiary (note 33)	**1,886.8**	2,299.6
Cash and bank balances	**0.5**	0.4
	1,887.3	2,300.0

Financial liabilities	**2008 Financial liabilities at amortised cost HK$'million**	**2007 Financial liabilities at amortised cost HK$'million**
Other payables	**2.7**	7.2
Convertible preference shares (note 29)	**–**	128.6
	2.7	135.8

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other interest bearing loans and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade debtors and trade creditors, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and equity price risk. The Directors meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to interest rate risks relates primarily to the Group's borrowings with a floating interest rate. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 27 to the financial statements. The Group's policy is to obtain the most favourable interest rates available for its borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Group		
	Change in basis points	**Change in profit before tax HK$'million**	**Change in equity* HK$'million**
2008			
Hong Kong dollar	**100**	**(2.7)**	**–**
2007			
Renminbi	100	(0.2)	–

* Excluding retained earnings

Credit risk

The Group's major exposure to the credit risk arising from the default of the trade debtors, with a maximum exposure equal to their carrying amounts in the consolidated balance sheet. The Group only grants credits after due credit risk assessments. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and financial assets at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries (except for sale proceeds receivable from disposal of properties held for sale).

Further quantitative data in respect of the Group's exposure to credit risk arising from trade debtors are disclosed in note 24 to the financial statements.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities. In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The Group will raise funds from either the financial market or realisation of its assets if required.

In the prior year, there was no significant liquidity exposure relating to the convertible preference shares as the redemption could be made by issuing ordinary shares of the Company in lieu of cash settlement at the discretion of the Company as detailed in note 29 to the financial statements. All outstanding convertible preference shares were redeemed in cash by the Company prior to 31st December, 2008.

The maturity profile of the Group's other financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

Group

	2008		
	Within 1 year or on demand HK$'million	1 to 2 years HK$'million	Total HK$'million
Interest bearing bank borrowings	**–**	**268.5**	**268.5**
Trade creditors	**60.1**	**–**	**60.1**
Other payables	**113.1**	**4.7**	**117.8**
	173.2	**273.2**	**446.4**

	2007		
	Within 1 year or on demand HK$'million	1 to 2 years HK$'million	Total HK$'million
Interest bearing bank borrowings	21.4	–	21.4
Trade creditors	87.8	–	87.8
Other payables	150.7	3.1	153.8
Convertible preference shares	129.5	–	129.5
	389.4	3.1	392.5

Company

	2008	2007
	On demand HK$'million	On demand HK$'million
Other payables	**2.7**	7.2

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from individual equity investments and unlisted debt investment in convertible bonds classified as financial assets at fair value through profit or loss (note 19) and available-for-sale investment (note 20) as at 31st December, 2008. The Group's listed investments are listed on the Stock Exchange and are valued at quoted market prices at the balance sheet date. The Group's unlisted debt investment in convertible bonds are stated at fair value provided by an independent professional valuer using valuation techniques based on the quoted market price of the underlying listed securities at the balance sheet date.

The following table demonstrates the sensitivity to a 5% change in the fair values of the equity investments and the underlying listed securities of the convertible bonds, with all other variables held constant and before any impact on tax, based on the carrying amounts of the relevant financial assets at the balance sheet date. For the purpose of this analysis, for the available-for-sale investments, the impact is deemed to be on the available-for-sale investments revaluation reserve and no account is given for factors such as impairment which might impact on the income statement.

	Carrying amount of equity investments HK$'million	Change in profit before tax HK$'million	Change in equity* HK$'million
2008			
Investments listed in Hong Kong	**131.5**	**6.6**	**–**
Unlisted investment at fair value			
– Convertible bonds	**394.9**	**11.8**	**–**
– Available-for-sale investment	**3.1**	**–**	**0.1**
2007			
Investments listed in Hong Kong	95.1	4.8	–
Unlisted investment at fair value			
– Convertible bonds	330.6	13.4	–

* Excluding retained earnings

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements except for the obligation under certain lease guarantees as detailed in note 35 to maintain a minimum consolidated tangible net worth. No changes were made in the objectives, policies or processes for managing capital during the years ended 31st December, 2008 and 31st December, 2007.

The Group monitors capital using a debt to total assets ratio, which is net debt divided by the total assets. Net debt includes interest bearing bank borrowings, convertible bonds and convertible preference shares less cash and cash equivalents, and excludes discontinued operations. The debt to total assets ratios as at the balance sheet dates were as follows:

Group

	2008 HK$'million	**2007 HK$'million**
Interest bearing bank borrowings	**268.5**	21.4
Convertible preference shares	**–**	128.6
Less: Cash and cash equivalents	**(1,468.8)**	(1,561.5)
Net debt/(cash)	**(1,200.3)**	(1,411.5)
Total assets	**4,835.4**	6,082.3
Debt to total assets ratio	**N/A**	N/A

42. COMPARATIVE AMOUNTS

As further explained in note 5 to the financial statements, certain comparative amounts have been revised to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 31st March, 2009.

Independent Auditors' Report

ERNST & YOUNG
安 永

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

We have audited the financial statements of Regal Hotels International Holdings Limited set out on pages 59 to 143, which comprise the consolidated and company balance sheets as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2008 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong
31st March, 2009

Schedule of Principal Properties

As at 31st December, 2008

PROPERTIES FOR DEVELOPMENT AND/OR SALE

	Description	Use	Approx. Area	Stage of completion (completion date)	Percentage interest attributable to the Company
(1)	Certain luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Site area for the whole development- 571,848 sq. ft. Gross floor area of 16 allocated houses held- approx. 78,076 sq. ft.	Completed in March 2004	100
(2)	Development site at Chao Yang Men Wai Da Jie, Chao Yang District, Beijing, PRC	Commercial/ office/hotel complex	Construction site area for the whole development- 610,240 sq. ft.	Development plans approved and Land Use Right Certificates for the Phase I land site obtained	29.5
(3)	Development site at south of Xindu Main Road and both sides of Xingle Road, Banqiao Village, Xindu County, Xindu District, Chengdu, Sichuan Province, PRC	Hotel and commercial complex/ residential	Site area for the whole development- 1,204,148 sq. ft.	Planning works in progress	50

PROPERTIES FOR INVESTMENT

Description	Use	Lease	Percentage interest attributable to the Company
15 luxury residential houses at Regalia Bay, 88 Wong Ma Kok Road, Stanley, Hong Kong	Residential	Medium term	100

Published Five Year Financial Summary

The summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements, is set out below.

RESULTS

	Year ended 31st December,				
	2008 HK$'million	**2007 HK$'million**	**2006 HK$'million**	**2005 HK$'million**	**2004 HK$'million**
Revenue	**1,511.8**	1,722.9	1,261.2	1,141.1	1,050.6
Operating profit/(loss) before depreciation and amortisation	**(331.5)**	2,504.7	553.5	545.8	388.3
Depreciation and amortisation	**(4.0)**	(9.6)	(139.0)	(131.5)	(130.4)
Finance costs	**(9.9)**	(84.2)	(265.8)	(199.8)	(150.3)
Share of profits and losses of:					
Jointly controlled entities	**(4.9)**	41.6	203.6	128.5	219.7
Associates	**(457.9)**	527.0	2.9	83.8	0.9
Profit/(loss) before tax	**(808.2)**	2,979.5	355.2	426.8	328.2
Tax	**(0.6)**	(22.2)	(23.9)	101.7	39.7
Profit/(loss) for the year	**(808.8)**	2,957.3	331.3	528.5	367.9
Attributable to:					
Equity holders of the parent	**(808.8)**	2,957.3	331.3	528.4	367.9
Minority interests	**–**	–	–	0.1	–
	(808.8)	2,957.3	331.3	528.5	367.9

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31st December,				
	2008 HK$'million	**2007 HK$'million**	**2006 HK$'million**	**2005 HK$'million**	**2004 HK$'million**
Property, plant and equipment	**16.8**	11.1	10.6	2,920.2	2,990.7
Investment properties	**855.0**	–	–	–	–
Prepaid land lease payments	**–**	–	–	1,088.0	1,110.2
Interests in jointly controlled entities	**203.8**	112.1	2,032.6	1,804.7	1,844.6
Interests in associates	**517.4**	1,277.3	488.8	260.7	22.3
Financial assets at fair value through profit or loss/long term investments	**423.0**	380.7	–	140.8	78.6
Available-for-sale investment	**3.1**	–	–	–	–
Other loan	**36.1**	36.1	65.6	62.1	78.0
Deferred expenditure	**–**	–	–	–	45.0
Deferred tax assets	**–**	–	2.4	98.1	14.3
Pledged bank deposits	**1,000.0**	970.0	–	–	–
Deposit for acquisition of land	**–**	134.4	–	–	–
Current assets	**1,780.2**	3,160.6	4,478.4	543.4	508.3
Total assets	**4,835.4**	6,082.3	7,078.4	6,918.0	6,692.0
Current liabilities	**(430.7)**	(800.6)	(2,102.7)	(2,044.7)	(320.9)
Interest bearing bank and other borrowings	**(268.5)**	–	(2,628.8)	(2,766.9)	(4,650.0)
Convertible bonds	**–**	–	–	(188.4)	(183.0)
Convertible preference shares	**–**	–	(127.7)	(126.9)	(166.9)
Deferred tax liabilities	**–**	–	–	(21.9)	(35.5)
Other payable	**–**	–	–	–	–
Total liabilities	**(699.2)**	(800.6)	(4,859.2)	(5,148.8)	(5,356.3)
Minority interests	**1.3**	1.3	1.3	1.3	0.8