

Notes to Condensed Consolidated Financial Statements

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st December, 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

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

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

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

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



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

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

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

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

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

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

Upon the adoption of HKASs 32 and 39 and in accordance with the transitional provisions of HKAS 39, these securities are classified as financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are those investments acquired principally for the purpose of trading or so designated at inception. Any gain or loss arising from a change in the fair value of the financial assets is recognised in the profit and loss account.

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

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

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



(ii) Convertible bonds

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

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

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

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

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

(iii) Convertible preference shares

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

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

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

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

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

(c) HKFRS 2 – Share-based Payment

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

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



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

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

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

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

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

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

There was no goodwill arising on acquisitions on or after 1st January, 2001. Negative goodwill was carried in the balance sheet and was recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

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

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

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

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



2. SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

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

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

Effect of new policies (increase/(decrease))	Notes	Equity					Total (Unaudited) HK\$'million
		Share Capital (Unaudited) HK\$'million	Equity component of convertible bonds (Unaudited) HK\$'million	Equity component of convertible preference shares (Unaudited) HK\$'million	Revaluation reserves (Unaudited) HK\$'million	Retained earnings (Unaudited) HK\$'million	
Prior period adjustments:							
HKASs 16 and 17							
Hotel properties	1(a)	-	-	-	(4,752.1)	(967.8)	(5,719.9)
HKASs 32 and 39							
Convertible bonds	1(b)(ii)	-	21.8	-	-	(3.0)	18.8
Convertible preference shares	1(b)(iii)	(1.3)	-	9.4	-	(175.0)	(166.9)
Net increase/(decrease) in total equity before opening adjustments							
		(1.3)	21.8	9.4	(4,752.1)	(1,145.8)	(5,868.0)
Opening adjustments:							
HKAS 39							
Cumulative gain in fair value of financial assets	1(b)(i)	-	-	-	(29.4)	29.4	-
HKFRS 3							
Derecognition of negative goodwill	1(d)	-	-	-	-	2.7	2.7
Total effect at 1st January, 2005		(1.3)	21.8	9.4	(4,781.5)	(1,113.7)	(5,865.3)

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

Effect of new policies (increase/(decrease))	Notes	Equity					Total (Unaudited) HK\$'million
		Share Capital (Unaudited) HK\$'million	Equity component of convertible bonds (Unaudited) HK\$'million	Equity component of convertible preference shares (Unaudited) HK\$'million	Revaluation reserves (Unaudited) HK\$'million	Retained earnings (Unaudited) HK\$'million	
Prior period adjustments:							
HKASs 16 and 17							
Hotel properties	1(a)	-	-	-	(2,280.0)	(743.2)	(3,023.2)
HKASs 32 and 39							
Convertible preference shares	1(b)(iii)	(1.3)	-	9.4	-	(167.5)	(159.4)
Total effect at 1st January, 2004		(1.3)	-	9.4	(2,280.0)	(910.7)	(3,182.6)



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

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

Effect of new policies (increase/(decrease))	Notes	For the six months ended 30th June,					
		2005			2004		
		Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)	Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million		
Effect on profit after tax:							
HKAS 16							
Depreciation on hotel buildings net of related deferred tax	1(a)	(29.3)	-	(29.3)	(24.9)	-	(24.9)
Write-back of impairment of a hotel property	1(a)	-	-	-	(135.8)	-	(135.8)
HKAS 17							
Amortisation of prepaid land lease payments	1(a)	(11.1)	-	(11.1)	(11.1)	-	(11.1)
HKAS 39							
Gain in fair value of financial assets at fair value through profit or loss	1(b)(i)	61.0	-	61.0	-	-	-
Finance cost on convertible bonds	1(b)(ii)	(3.5)	-	(3.5)	-	-	-
Finance cost on convertible preference shares	1(b)(iii)	(3.8)	-	(3.8)	(3.8)	-	(3.8)
HKFRS 2							
Employee share option scheme	1(c)	(0.3)	-	(0.3)	-	-	-
HKFRS 3							
Discontinuation of amortisation of goodwill	1(d)	(0.1)	-	(0.1)	-	-	-
Total effect for the period		12.9	-	12.9	(175.6)	-	(175.6)
Effect on earnings per share:							
Basic		HK0.15 cent			HK(2.2) cents		
Diluted		HK0.12 cent			HK(2.2) cents		



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

Effect of new policies (increase/(decrease))	Note	For the six months ended 30th June,					
		2005			2004		
		Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)	Equity holders of the parent (Unaudited)	Minority interests (Unaudited)	Total (Unaudited)
		HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million	HK\$'million
HKFRS 2 Employee share option scheme	1(c)	0.3	-	0.3	-	-	-
Total effect for the period		0.3	-	0.3	-	-	-

3. Segment Information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

- the hotel ownership and management segment is engaged in hotel operations and the provision of hotel management services;
- the property development and investment segment includes investments in properties for sale and for rental income, and the provision of property agency and management services; and
- the others segment mainly comprises the Group's other investment business, brewery operations, laundry services and bakery operations.

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

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

(a) Business segments

The following table presents revenue and profit/(loss) information for the Group's business segments.

Group

	Hotel ownership and management		Property development and investment		Others		Eliminations		Consolidated	
	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited and restated) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited and restated) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited and restated) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited and restated) HK\$'m	Six months ended 30th June, 2005 (Unaudited) HK\$'m	2004 (Unaudited and restated) HK\$'m
Segment revenue:										
Sales to external customers	509.1	454.3	1.0	5.1	32.3	27.2	-	-	542.4	486.6
Intersegment sales	1.2	1.2	0.2	0.2	3.5	4.9	(4.9)	(6.3)	-	-
Total	510.3	455.5	1.2	5.3	35.8	32.1	(4.9)	(6.3)	542.4	486.6
Segment results	238.0	170.7	0.2	2.9	61.5	3.3	-	-	299.7	176.9
Interest income and unallocated non-operating and corporate gains									1.6	0.5
Unallocated non-operating and corporate expenses									(10.6)	(9.1)
Operating profit before depreciation and amortisation									290.7	168.3
Depreciation and amortisation									(64.9)	(69.1)
Operating profit									225.8	99.2
Finance costs									(77.5)	(54.3)
Share of profits less losses of jointly controlled entity									140.6	59.3
Associates	(0.2)	(0.2)	140.6	59.3	(1.0)	(6.7)	-	-	(1.2)	(6.9)
Profit before tax									287.7	97.3
Tax									14.6	12.2
Profit for the period									302.3	109.5
Attributable to:									302.3	109.5
Equity holders of the parent									-	-
Minority interests									302.3	109.5

(b) Geographical segments

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

Group	Hong Kong		Mainland China		Eliminations		Consolidated	
	Six months ended 30th June, 2005 (Unaudited) HK\$m	2004 (Unaudited) HK\$m						
Segment revenue:								
Sales to external customers	511.1	460.5	31.3	26.1	-	-	542.4	486.6

4. Other Revenue

Other revenue includes the following major items:

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Settlement amount received less expenses for the business interruption claims in relation to the Group's hotel operations	20.9	–
Gain in fair value of financial assets	61.0	–
Interest income	1.5	0.2
	<u> </u>	<u> </u>

5. Other Operating Expenses

Other operating expenses include the following major item:

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

6. Finance Costs

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited and restated)
	HK\$'million	HK\$'million
Interest on bank loans, convertible bonds, convertible preference shares and other loans wholly repayable within five years	70.8	49.2
Amortisation of deferred expenditure	6.4	5.1
Others	0.3	–
	<u> </u>	<u> </u>
Total finance costs	<u>77.5</u>	<u>54.3</u>



7. Tax

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited and restated)
	HK\$'million	HK\$'million
Current - Hong Kong		
Prior year overprovision	(5.0)	—
Current - overseas		
Provision for tax in respect of profits for the period	0.2	0.1
Deferred tax	(9.8)	(12.3)
	<u> </u>	<u> </u>
Tax credit for the period	<u>(14.6)</u>	<u>(12.2)</u>

No provision for Hong Kong profits tax has been made as the Group had no assessable profits or had available tax losses brought forward from prior years to offset the assessable profits, derived from or earned in Hong Kong during the period (2004 - Nil).

Tax on the profits of subsidiary companies operating overseas is calculated at the rates prevailing in the respective jurisdictions in which they operate, based on existing legislation, practices and interpretations thereof.

No provision for tax is required for the associates or the jointly controlled entity as no assessable profits were earned by these associates or the jointly controlled entity during the period (2004 - Nil).

Deferred tax income has been calculated by applying the rate that is expected to apply in the period when the asset is realised or the liability is settled.

8. Earnings Per Ordinary Share

(a) Basic earnings per ordinary share

The calculation of basic earnings per ordinary share is based on the profit attributable to equity holders of the parent for the period of HK\$302.3 million (2004 - HK\$109.5 million, as restated) and on the weighted average of 8,356.2 million (2004 - 7,885.1 million) ordinary shares of the Company in issue during the period.

(b) Diluted earnings per ordinary share

The calculation of diluted earnings per ordinary share for the period ended 30th June, 2005 is based on the adjusted profit attributable to equity holders of the parent for the period of HK\$307.8 million as adjusted for the interest savings arising from the conversion of the convertible bonds into ordinary shares of the Company, and on the adjusted weighted average of 10,461.7 million ordinary shares of the Company that would have been in issue during the period assuming all outstanding convertible bonds (including optional convertible bonds) of the Group were converted into, and the subscription rights attaching to all outstanding warrants of the Company were exercised to subscribe for, ordinary shares of the Company at the beginning of the period. The conversion of the outstanding convertible preference shares of the Company is anti-dilutive for the period. In addition, the exercise price of share options of the Company outstanding during the period is higher than the average market price of the Company's ordinary shares and, accordingly, they have no dilutive effect on the basic earnings per ordinary share.



The calculation of diluted earnings per ordinary share for the period ended 30th June, 2004 was based on the adjusted profit attributable to equity holders of the parent for that period of HK\$109.5 million, as restated, and on the adjusted weighted average of 8,152.9 million ordinary shares of the Company that would have been in issue during that period assuming all outstanding optional convertible bonds of the Group were converted into ordinary shares of the Company at the beginning of that period. The conversion of the outstanding convertible preference shares of the Company was anti-dilutive for that period. In addition, the exercise price of share options of the Company outstanding during that period was higher than the average market price of the Company's ordinary shares and, accordingly, they had no dilutive effect on the basic earnings per ordinary share.

9. Dividend

The Directors have declared the payment of an interim dividend of HK0.25 cent per ordinary share for the year ending 31st December, 2005 (2004 – Nil), absorbing a total amount of approximately HK\$21.1 million.

10. Debtors, Deposits and Prepayments

Included in the balance is an amount of HK\$63.2 million (31st December, 2004 - HK\$52.8 million) representing the trade debtors of the Group. The aged analysis of such debtors is as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	57.7	47.9
Between 4 to 6 months	2.2	1.7
Between 7 to 12 months	1.9	1.8
Over 1 year	11.5	11.4
	<hr/>	<hr/>
	73.3	62.8
Provisions	(10.1)	(10.0)
	<hr/>	<hr/>
	63.2	52.8
	<hr/> <hr/>	<hr/> <hr/>

Credit terms

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



11. Creditors and Accruals

Included in the balance is an amount of HK\$41.2 million (31st December, 2004 - HK\$54.8 million) representing the trade creditors of the Group. The aged analysis of such creditors is as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Outstanding balances with ages:		
Within 3 months	36.9	47.9
Between 4 to 6 months	1.4	3.2
Between 7 to 12 months	0.9	1.3
Over 1 year	2.0	2.4
	<u>41.2</u>	<u>54.8</u>

12. Interest bearing bank and other borrowings

Included in the amount is a bank loan of HK\$4,568.7 million (31st December, 2004 - HK\$4,750.0 million) which represented the outstanding balance under a syndicated loan facility of HK\$4,750.0 million implemented on 31st December, 2004 (the "Refinancing Loan").

The Group has agreed to certain covenants in the loan and security documents relating to the Refinancing Loan. All of the proceeds receivable by the Group from the luxury residential property project of the jointly controlled entity (the "Regalia Bay Project") (except the proceeds from certain excluded units) will be applied towards prepayment of the Refinancing Loan. There are also covenants relating to the use of certain excess hotel cash flow towards prepayment of the Refinancing Loan, the maintenance of a loan to value ratio, a minimum consolidated tangible net worth and net borrowings to consolidated tangible net worth ratio, and restrictions on consolidated net borrowings, dividend distributions, creation of new encumbrances and disposal of interests in its subsidiary companies relating to the hotels and the Regalia Bay Project.



13. Related Party Transactions

(a) Transactions with related parties

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

	Notes	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
		HK\$'million	HK\$'million
Consultancy fees in respect of hotel property development projects paid to a wholly-owned subsidiary company of Paliburg Holdings Limited ("PHL"), the then immediate listed holding company and the controlling shareholder of the Company		–	18.7
Construction fees in respect of hotel property renovation projects paid to a wholly-owned subsidiary company of PHL	(i)	4.1	–
Costs and service fees in respect of security systems and products and other software paid to a wholly-owned subsidiary company of PHL	(ii)	2.5	–
Advertising and promotion fees (including cost reimbursements) paid to an associate		3.7	3.4
Management costs allocated from Century City International Holdings Limited, the listed ultimate holding company of PHL		5.7	4.8
Estate agency fee income from a jointly controlled entity		0.6	–
		<u>0.6</u>	<u>–</u>

Notes:

- (i) During the period, construction fees were paid to a wholly-owned subsidiary company of PHL for the Group's hotel property renovation projects in respect of contracts negotiated on an arm's length basis.
- (ii) During the period, costs and service fees were paid to a wholly-owned subsidiary company of PHL for the purchases and maintenance services of security systems and products and other software installed in the Group's hotel properties.

The nature and terms of other related party transactions set out above were already disclosed in the Group's audited consolidated financial statements for the year ended 31st December, 2004.

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



(b) Outstanding balances with related parties

	30th June, 2005 (Unaudited)	31st December, 2004
	HK\$'million	HK\$'million
Due from a wholly-owned subsidiary company of PHL	1.5	1.1
Due to wholly-owned subsidiary companies of PHL	0.9	–
Due to an associate	<u>3.2</u>	<u>3.5</u>

(c) Compensation of key management personnel of the Group

	Six months ended 30th June, 2005 (Unaudited)	Six months ended 30th June, 2004 (Unaudited)
	HK\$'million	HK\$'million
Short term employee benefits	4.7	4.1
Share-based payments	<u>0.3</u>	–
Total compensation paid to key management personnel	<u>5.0</u>	<u>4.1</u>

14. Pledge of Assets

At 30th June, 2005, certain of the Group's time deposits, interest in a jointly controlled entity, hotel properties, leasehold properties and equipment, inventories and receivables with a total carrying value of HK\$5,903.2 million (31st December, 2004 - HK\$5,981.1 million, as restated) and the shares in certain subsidiary companies were pledged to secure general banking facilities granted to the Group.

15. Contingent Liabilities

- (a) At the balance sheet date, the Group had contingent liabilities in respect of utility guarantees of subsidiary companies in the amount of HK\$3.8 million (31st December, 2004 - HK\$3.8 million).
- (b) The Group has a contingent liability in respect of possible future long service payments to employees under the Employment Ordinance, with a maximum possible amount of HK\$6.0 million as at 30th June, 2005 (31st December, 2004 - HK\$7.0 million). The contingent liability has arisen because, at the balance sheet date, a number of current employees have achieved the required number of years of service to the Group and are eligible for long service payments under the Employment Ordinance, if their employment is terminated under certain circumstances. No provision has been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.



16. Operating Lease Arrangements

(a) As lessor

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years. The terms of the leases generally also require the tenants to pay security deposits and, in certain cases, provide for periodic rent adjustments according to the terms under the leases.

At 30th June, 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Within one year	14.5	13.8
In the second to fifth years, inclusive	6.8	9.1
	<u>21.3</u>	<u>22.9</u>

(b) As lessee

The Group leases certain office and shop units under operating lease arrangements. Leases for properties are negotiated for terms of 1 to 2 years, except for a lease which is negotiated for a term of 18 years and provides for periodic rent adjustments according to the then prevailing market conditions. Lease for office equipment of the Group is negotiated for a term of 3 years.

At 30th June, 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Land and buildings:		
Within one year	2.8	3.0
In the second to fifth years, inclusive	8.0	8.9
After the fifth year	–	0.4
	<u>10.8</u>	<u>12.3</u>
Other equipment:		
In the second to fifth years, inclusive	0.1	0.1
	<u>10.9</u>	<u>12.4</u>

17. Commitments

In addition to the operating lease commitments detailed in note 16(b) above, the Group had the following outstanding capital commitments at the balance sheet date:

	30th June, 2005 (Unaudited)	31st December, 2004 (Audited)
	HK\$'million	HK\$'million
Capital commitments in respect of the renovation of, improvements or extensions to, the hotel properties:		
Authorised and contracted for	47.9	2.0
Authorised, but not contracted for	141.6	187.3
	<u>189.5</u>	<u>189.3</u>

18. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group had the following transactions:

- (i) A wholly owned subsidiary company of the Company and a wholly owned subsidiary company of PHL entered into and completed a sale and purchase agreement for the acquisition of 50% equity interest in Hang Fok Properties Limited ("Hang Fok"), a then wholly owned subsidiary company of PHL, at a consideration of HK\$145 million, which was satisfied by the issue of a promissory note with a principal amount of HK\$145 million bearing interest at 3% per annum.

Hang Fok holds a 23% shareholding interest in each of Beijing Century City Real Estate Development Co., Ltd. (北京世紀城市房地產開發有限公司) and Beijing Jianye Real Estate Developing Co., Ltd. (北京建業房地產開發有限公司), both being Sino-foreign cooperative joint ventures incorporated in the People's Republic of China ("PRC") (collectively, the "Investee Companies"). The Investee Companies are principally engaged in the development of a property project in the Central Business District (CBD) of Beijing, the PRC.

- (ii) The Group disposed of its shareholding interest in an intermediate holding company owning the brewery in Kaifeng City in Henan, the PRC at their carrying cost of approximately HK\$3 million to independent third parties.



19. Share Options

(a) Executive Share Option Scheme

During the period, the Company operated an executive share option scheme (the "Executive Share Option Scheme"). The Executive Share Option Scheme was approved by the Company's shareholders on 28th June, 1990. Share options granted under the Executive Share Option Scheme did not confer rights on the holders to dividends or to vote at shareholders' meetings.

Details of Directors' interests in and movements in the outstanding share option granted by the Company pursuant to the Executive Share Option Scheme during the period were as follows:

Date of grant of share option	Name or category of participant	Number of ordinary shares under share option**			Vesting period*/Exercise period of share option	Exercise price of share option** HK\$
		At 1st January, 2005	Movement during the period	At 30th June, 2005		
	Director					
22nd February, 1997	Ms. Belinda Yeung Bik Yiu					
	Vested:	756,000	-	864,000	Note	2.1083
	Unvested:	324,000	-	216,000	Note	
	Total:	1,080,000	-	1,080,000		

* The vesting period of the share option was from the date of the grant until the commencement of the relevant exercise period.

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

Note:

Vesting/Exercise Periods of Option:

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

The outstanding share option for 1,080,000 ordinary shares granted under the Executive Share Option Scheme, which was terminated in 2000, was subsequently surrendered and cancelled in August 2005.



(b) The Regal Hotels International Holdings Limited Share Option Scheme

At the special general meeting of the Company held on 16th June, 2005, the adoption of a new share option scheme of the Company named as "The Regal Hotels International Holdings Limited Share Option Scheme" (the "New Share Option Scheme") and the conditional grant to Mr. Lo Yuk Sui ("Mr. Lo"), the chairman of the Company, of share options for 200,000,000 ordinary shares, entitling Mr. Lo to subscribe for a total of 200,000,000 new ordinary shares at an exercise price of HK\$0.75 per ordinary share (subject to adjustments), were approved by the shareholders and the independent shareholders of the Company, respectively. The closing price of the ordinary shares traded on The Stock Exchange of Hong Kong Limited immediately before the date on which such options were conditionally offered to be granted to Mr. Lo, i.e. 12th May, 2005, was HK\$0.68 per ordinary share. The number of ordinary shares under the options conditionally granted to Mr. Lo was in excess of the individual maximum limit of 1% of the ordinary shares in issue as of the offer date. Both the New Share Option Scheme and the conditional grant of options have become effective on 21st July, 2005. The options granted to Mr. Lo will become vested in stages, commencing with 40% of options granted from two years after the offer date of 12th May, 2005 and thereafter a further 20% of options granted for each subsequent year, and be exercisable as follows:

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

On 25th July, 2005, share options for an aggregate number of 165,000,000 ordinary shares, entitling the holders thereof to subscribe for a total of 165,000,000 new ordinary shares at an exercise price of HK\$0.75 per ordinary share (subject to adjustments), were offered to be granted to other selected eligible persons under the New Share Option Scheme. Such further grants of options have been duly accepted and became effective by end of July 2005.

