

Notes to the Financial Statements

For the Year Ended 31st December, 2004

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”).

The principal activities of the Group are the investment and operation of hotel and furnished suites, property investment, property development and trading, securities investment and trading, and treasury investment.

The Company’s immediate holding company, Shun Ho Technology Holdings Limited (“Shun Ho Technology”), and intermediate holding company, Shun Ho Resources Holdings Limited (“Shun Ho Resources”), are public limited companies incorporated in Hong Kong whose shares are listed on the Hong Kong Stock Exchange. The directors consider the Company’s ultimate holding company to be Trillion Resources Limited, an international business company incorporated in the British Virgin Islands.

2. POTENTIAL IMPACT ARISING FROM RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted the new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of the new HKFRSs but is not yet in a position to quantify the effects of the new HKFRSs on the results of operations and financial position of the Group. The new HKFRSs will result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date.

The results of subsidiaries and associates acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Interests in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement to form part of the gain or loss on disposal.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Hotel properties and furnished suites

Hotel properties and furnished suites held for short-term lease purposes are stated at their open market value based on an independent professional valuation at the balance sheet date. Any revaluation increase arising on the revaluation of these properties is credited to other property revaluation reserve except when it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of the hotel property or the furnished suites is dealt with as an expense to the extent that it exceeds the balance, if any, on reserve relating to a previous revaluation of the same asset.

On disposal of the hotel property or the furnished suites, the balance on other property revaluation reserve attributable to that property is transferred to retained profits.

It is the Group's practice to maintain its hotel property and furnished suites in a continual state of sound repairs and to make improvements from time to time, accordingly the directors consider that depreciation is not necessary as the properties maintain a residual value at least equal to their carrying amount. Repairs and maintenance expenditures are charged to the income statement in the period in which they are incurred.

Other property, plant and equipment

Other property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives from the date on which they become fully operational and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Furniture, fixtures and equipment	20% – 33 $\frac{1}{3}$ %
Motor vehicles and vessels	20%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost includes the cost of land, development expenditure, borrowing cost capitalised and other attributable expenses.

Properties for sale

Properties for sale are carried at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised and other attributable expenses. Net realisable value is determined by management based on prevailing market conditions.

Inventories

Inventories, representing stocks of food, beverages and general stores, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals payable (receivable) under operating leases are charged (credited) to income statement on a straight line basis over their respective lease terms.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Revenue recognition

Revenue from the operation of hotels and furnished suites is recognised when services are rendered.

Rental income in respect of properties under operating leases is recognised and credited to the income statement on a straight line basis over the relevant lease term.

Sales of properties are recognised on the execution of a binding sales agreement.

Sales of investments are recognised when the sale becomes unconditional.

Interest income from bank deposits and loans receivable is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

4. TURNOVER

Turnover represents the aggregate of income from operation of hotels and furnished suites, property rentals, proceeds from sale of properties and trading securities, interest and dividend income, and is analysed as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Income from operation of hotels and furnished suites	51,405	32,851
Property rentals	13,858	15,678
Proceeds from sale of properties	109,803	–
Proceeds from sale of trading securities	8,341	14,674
Interest income from		
A property owning associate	1,650	2,400
Debt securities	1,182	1,179
Dividend income	4	279
	<u>186,243</u>	<u>67,061</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is mainly organised into four operations. These operations based on which the Group reports its primary segment information are as follows:

- Hospitality services – investment and operation of hotels and furnished suites
- Property investment – property letting
- Property development and trading – development and trading of properties
- Securities investment and trading – investment in and trading of securities

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

Revenue and results

Year ended 31st December, 2004

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Consolidated HK\$'000
TURNOVER					
External	51,405	15,508	109,803	9,527	186,243
SEGMENT RESULTS					
Operations	16,546	15,085	21,337	2,336	55,304
Increase on revaluation of investment properties	–	20,207	–	–	20,207
Gain on disposal of investment properties	–	1,642	–	–	1,642
					77,153
Other income					168
Unallocated corporate expenses less amounts reimbursed by related companies					(11,966)
Profit from operations					65,355
Finance costs					(5,346)
Share of (losses) profits of associates	(40)	52,990			52,950
Profit before taxation					112,959
Income tax expense					(10,724)
Net profit for the year					102,235

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance Sheet

At 31st December, 2004

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	1,400,805	509,861	183,624	102,430	2,196,720
Interests in associates	(283)	874			591
Unallocated corporate assets					135,844
					2,333,155
Consolidated total assets					2,333,155
LIABILITIES					
Segment liabilities	6,946	6,427	2,233	104	15,710
Unallocated corporate liabilities					834,296
					850,006
Consolidated total liabilities					850,006

Other information

Year ended 31st December, 2004

	Hospitality services HK\$'000	Property investment HK\$'000
Capital additions		
– property, plant and equipment	383,335	32
– properties under development	18,651	–
– investment properties	–	15,081
Deposit for acquisition of assets	20,000	–
Depreciation and amortisation	523	130
	523	130

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Revenue and results

Year ended 31st December, 2003

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Consolidated HK\$'000
TURNOVER					
External	32,851	18,078	–	16,132	67,061
SEGMENT RESULTS					
Operations	7,274	18,276	–	8,271	33,821
Increase on revaluation of investment properties	–	19,023	–	–	19,023
Loss on disposal of an investment property	–	(26,598)	–	–	(26,598)
					26,246
Other income					156
Unallocated corporate expenses less amounts reimbursed by related companies					(14,069)
Profit from operations					12,333
Finance costs					(3,245)
Share of (losses) profits of associates	(146)	4,017			3,871
Profit before taxation					12,959
Income tax expense					(7,974)
Net profit for the year					4,985

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet

At 31st December, 2003

	Hospitality services HK\$'000	Property investment HK\$'000	Property development and trading HK\$'000	Securities investment and trading HK\$'000	Consolidated HK\$'000
ASSETS					
Segment assets	809,816	419,785	153,064	54,486	1,437,151
Interests in associates	(239)	93,299	–	–	93,060
Unallocated corporate assets					12,990
Consolidated total assets					<u>1,543,201</u>
LIABILITIES					
Segment liabilities	7,803	3,835	2,723	91	14,452
Unallocated corporate liabilities					420,884
Consolidated total liabilities					<u>435,336</u>

Other information

Year ended 31st December, 2003

	Hospitality services HK\$'000	Property investment HK\$'000
Capital additions		
– property, plant and equipment	380	334
– properties under development	241,967	–
– investment properties	–	3,477
Depreciation and amortisation	<u>471</u>	<u>67</u>

Geographical segments

The following is an analysis of the Group's turnover by geographical market:

	2004 HK\$'000	2003 HK\$'000
Hong Kong	171,463	55,401
Other regions in the People's Republic of China (the "PRC")	<u>14,780</u>	<u>11,660</u>
	<u>186,243</u>	<u>67,061</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

The following is an analysis of the carrying amounts of assets and additions to investment properties, property, plant and equipment and properties under development during the year, analysed by the geographical areas in which the assets are located:

	Carrying amounts of assets		Additions to investment properties, property, plant and equipment and properties under development	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Segment assets				
Hong Kong	2,197,935	1,333,176	418,104	274,339
The PRC	134,628	116,965	417	380
Unallocated	592	93,060	–	–
	<u>2,333,155</u>	<u>1,543,201</u>	<u>418,521</u>	<u>274,719</u>

6. OTHER OPERATING INCOME

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Other operating income includes:		
Unrealised gain on trading securities	829	1,106
Realised (loss) gain on other securities	<u>(465)</u>	<u>3,001</u>
Net gain on investments in securities	<u>364</u>	<u>4,107</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	517	520
Staff costs including directors' emoluments	24,537	21,889
Depreciation of property, plant and equipment	742	737
Realised gain on trading securities	(787)	(2,708)
Rental income in respect of investment properties under operating leases, less outgoings of HK\$839,000 (2003: HK\$889,000)	(13,019)	(14,789)
Dividends from listed securities	(4)	(279)
	<u>517</u>	<u>520</u>

8. FINANCE COSTS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Interests on borrowings wholly repayable within five years		
Bank loans and overdrafts	5,421	3,306
Other loans	2,590	1,094
	<u>8,011</u>	<u>4,400</u>
Less: Amount capitalised on		
Properties under development	(1,378)	(1,155)
Hotel property under refurbishment	(1,287)	–
	<u>5,346</u>	<u>3,245</u>

The borrowing costs capitalised during the year were calculated at the Hong Kong Inter-bank Offer Rate plus a specified margin.

9. SHARE OF PROFITS OF ASSOCIATES

The share of profits of associates of the current year includes the Group's attributable share of the gain of HK\$48,176,000 (2003: Nil) derived from the disposal by an associate of its investment property.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Directors' fees	89	80
Other emoluments		
Salaries and other benefits	5,583	4,389
Contributions to provident fund scheme	38	36
Total emoluments	<u>5,710</u>	<u>4,505</u>

The directors' fees of HK\$89,000 (2003: HK\$80,000) disclosed above were payable to the independent non-executive directors.

The emoluments of directors are within the following bands:

	2004 Number of directors	2003 Number of directors
Nil to HK\$1,000,000	6	4
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, four (2003: three) were directors of the Company whose emoluments are included above. The emoluments of the remaining individual (2003: two individuals), whose emoluments are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Salaries and other benefits	299	1,000
Contributions to provident fund scheme	12	24
	<u>311</u>	<u>1,024</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

11. INCOME TAX EXPENSE

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong Profits Tax	<u>6,389</u>	<u>1,039</u>
Deferred tax (note 25):		
Current year	2,630	1,798
Attributable to a change in tax rate	<u>–</u>	<u>4,324</u>
	<u>2,630</u>	<u>6,122</u>
Taxation attributable to the Company and subsidiaries	9,019	7,161
Share of Hong Kong Profits Tax of associates	<u>1,705</u>	<u>813</u>
	<u>10,724</u>	<u>7,974</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The income tax expense of the year can be reconciled to the profit before taxation as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation	<u>112,959</u>	<u>12,959</u>
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	19,768	2,268
Tax effect of expenses that are not deductible in determining taxable profit	578	4,805
Tax effect of income that is not taxable in determining taxable profit	(3,922)	(4,393)
Tax effect of tax losses not recognised	1,920	734
Utilisation of tax losses previously not recognised	(863)	(1,390)
Effect of a change in tax rate on deferred tax liabilities brought forward	–	4,324
Effect of different tax rates of subsidiaries operating in other jurisdictions	–	632
Effect of share of taxation of associates	(7,561)	136
Others	<u>804</u>	<u>858</u>
Income tax expense	<u>10,724</u>	<u>7,974</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

12. DIVIDEND

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Proposed final dividend of HK 0.15 cents (2003: Nil) per share	<u>8,197</u>	<u>–</u>

The final dividend proposed is subject to approval by the shareholders in general meeting.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$102,235,000 (2003: HK\$4,985,000) and on 5,464,700,883 (2003: weighted average of 5,388,833,949) ordinary shares in issue during the year.

Diluted earnings per share for the year are not shown as there were no potential dilutive ordinary shares outstanding during the year. Diluted earnings per share for the prior year are not shown as the exercise prices of the outstanding warrants issued by the Company are higher than the average market price for shares in that year.

14. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties and furnished suites <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles and vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP				
COST OR VALUATION				
At 1st January, 2004	560,000	16,530	16,745	593,275
Additions	382,375	1,798	616	384,789
Disposals	–	(41)	(513)	(554)
Surplus on revaluation	167,625	–	–	167,625
	<u>1,110,000</u>	<u>18,287</u>	<u>16,848</u>	<u>1,145,135</u>
At 31st December, 2004				
Comprising:				
At cost	–	18,287	16,848	35,135
At valuation	1,110,000	–	–	1,110,000
	<u>1,110,000</u>	<u>18,287</u>	<u>16,848</u>	<u>1,145,135</u>
DEPRECIATION				
At 1st January, 2004	–	10,493	16,311	26,804
Provided for the year	–	486	256	742
Eliminated on disposals	–	(32)	(496)	(528)
	<u>–</u>	<u>10,947</u>	<u>16,071</u>	<u>27,018</u>
At 31st December, 2004				
NET BOOK VALUES				
At 31st December, 2004	<u>1,110,000</u>	<u>7,340</u>	<u>777</u>	<u>1,118,117</u>
At 31st December, 2003	<u>560,000</u>	<u>6,037</u>	<u>434</u>	<u>566,471</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is an analysis of the carrying amounts of the Group's hotel properties and furnished suites:

	2004 HK\$'000	2003 HK\$'000
Hotel properties in Hong Kong		
On long lease	500,000	–
On medium-term lease	480,000	450,000
Hotel property in the PRC on medium-term lease	130,000	–
Furnished suites in the PRC on medium-term lease	–	110,000
	<u>1,110,000</u>	<u>560,000</u>

The furnished suites in the PRC have been reclassified as hotel property following the issuance of a hotel business licence by the PRC authority during the year.

The Group's hotel properties are carried at their open market value, on an existing use basis, at 31st December, 2004, as valued by Dudley Surveyors Limited, an independent firm of property valuers. The valuation gave rise to an increase of HK\$167,625,000 (2003: Nil) which has been credited to reserve.

Had the Group's hotel properties and furnished suites not been revalued, it would have been included in the financial statements at the historical cost of approximately HK\$814,975,000 (2003: HK\$432,600,000).

	Furniture, fixtures and equipment HK\$'000	Motor vehicles and vessels HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1st January, 2004	101	2,658	2,759
Additions	9	–	9
	<u>110</u>	<u>2,658</u>	<u>2,768</u>
At 31st December, 2004	110	2,658	2,768
DEPRECIATION			
At 1st January, 2004	74	2,470	2,544
Provided for the year	12	71	83
	<u>86</u>	<u>2,541</u>	<u>2,627</u>
At 31st December, 2004	86	2,541	2,627
NET BOOK VALUES			
At 31st December, 2004	<u>24</u>	<u>117</u>	<u>141</u>
At 31st December, 2003	<u>27</u>	<u>188</u>	<u>215</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

15. INVESTMENT PROPERTIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
At valuation		
At beginning of the year	418,200	473,700
Additions	15,081	3,477
Disposals	(34,800)	(78,000)
Increase on revaluation	110,719	19,023
	<u>509,200</u>	<u>418,200</u>
At end of the year	<u>509,200</u>	<u>418,200</u>

An analysis of the Group's investment properties is as follows:

	2004	2003
	HK\$'000	HK\$'000
Land and buildings in Hong Kong on land held on		
Long leases	494,000	383,400
Medium-term leases	15,200	34,800
	<u>509,200</u>	<u>418,200</u>

The investment properties of the Group were revalued at 31st December, 2004 on an open market value basis by Dudley Surveyors Limited, an independent firm of property valuers. This valuation gave rise to an increase of HK\$110,719,000 (2003: HK\$19,023,000), which to the extent of HK\$20,207,000 (2003: HK\$19,023,000) has been dealt with in the income statement and the remaining balance of HK\$90,512,000 (2003: Nil) has been credited to reserve.

The investment properties of the Group with an aggregate carrying amount of approximately HK\$461 million (2003: HK\$386 million) were rented out under operating leases at the balance sheet date.

16. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
At cost		
At beginning of the year	241,967	124,414
Additions	18,651	270,523
Transferred to properties for sale on completion	—	(152,970)
	<u>260,618</u>	<u>241,967</u>
At end of the year	<u>260,618</u>	<u>241,967</u>

The Group's property under development is located in Hong Kong on long leases.

Included in the carrying amounts of the properties are interest expenses of HK\$1,441,000 (2003: HK\$63,000) capitalised.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	112,521	112,521
Amounts due from subsidiaries less allowance	1,038,131	857,317
	<u>1,150,652</u>	<u>969,838</u>

The amounts due from subsidiaries are unsecured with no fixed repayment terms. In the opinion of the directors, repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current.

Particulars regarding the principal subsidiaries at 31st December, 2004 are set out in note 32.

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Unlisted associates		
Share of net assets	591	8,274
Amount due from an associate (note 31(e))	–	84,786
	<u>591</u>	<u>93,060</u>

Particulars regarding the associates at 31st December, 2004 are set out in note 33.

The following financial information is prepared from the financial statements of a major associate, Lucky Country Development Limited.

Operating results

	Year ended 31st December,	
	2004	2003
	HK\$'000	HK\$'000
Turnover	<u>15,485</u>	<u>15,542</u>
Profit from ordinary activities before taxation	<u>105,981</u>	<u>8,042</u>
Profit from ordinary activities before taxation attributable to the Group	<u>52,990</u>	<u>4,021</u>

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

18. INTERESTS IN ASSOCIATES (Continued)

Financial position

	At 31st December,	
	2004 HK\$'000	2003 HK\$'000
Non-current asset		
Investment property	–	185,000
Current assets	8,309	389
Current liabilities	(6,805)	(668)
Non-current liabilities		
Amounts due to shareholders	–	(167,371)
Other liabilities	–	(560)
Net assets	<u>1,504</u>	<u>16,790</u>
Net assets attributable to the Group	<u>752</u>	<u>8,395</u>

19. INVESTMENTS IN SECURITIES

	THE GROUP				THE COMPANY	
	Other securities (non-current)		Trading securities (current)		Other securities (non-current)	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Listed securities at market value						
Equity securities listed in						
Hong Kong	77,340	29,268	9	1,192	–	–
Debt securities listed outside						
Hong Kong	–	–	23,596	22,767	–	–
Unlisted investments at fair value	780	780	–	–	780	780
	<u>78,120</u>	<u>30,048</u>	<u>23,605</u>	<u>23,959</u>	<u>780</u>	<u>780</u>

The Group's non-current equity securities listed in Hong Kong include approximately 15.07% (2003: 15.59%) interest in Shun Ho Technology and approximately 20.57% (2003: 20.57%) interest in Shun Ho Resources, both are public companies incorporated and listed in Hong Kong. During the year, 2,780,000 shares in Shun Ho Technology held by the Group, representing 0.5% therein, were disposed of to a subsidiary of Shun Ho Resources for a consideration of HK\$918,000. The principal activities of Shun Ho Technology and Shun Ho Resources and their respective subsidiaries are investment in and operation of hotels and furnished suites, property investment, property development and trading, securities investment and trading, and treasury operation.

The Company is a subsidiary of Shun Ho Technology and Shun Ho Resources. Under the Companies Ordinance, members of the Group who are shareholders of Shun Ho Technology and Shun Ho Resources have no right to vote at meetings of these companies. The directors are of the opinion that the Group is not in a position to exercise significant influence over Shun Ho Resources, accordingly, the results of Shun Ho Resources have not been accounted for on an equity basis.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

20. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are proceeds from sale of properties of HK\$98,823,000 (2003: Nil).

Except for an average credit period of 30 to 60 days granted to travel agencies and customers of the hotels and the furnished suites, the Group does not allow any credit period to its other customers. The following is an aged analysis of the Group's trade and other receivables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	100,655	1,737
31 – 60 days	25	69
Over 60 days	152	173
	<u>100,832</u>	<u>1,979</u>

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	7,552	9,488
31 – 60 days	633	263
Over 60 days	4,489	4,538
	<u>12,674</u>	<u>14,289</u>

22. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	2004		2003	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.01 each				
Authorised:				
At beginning and end of the year	<u>80,000,000</u>	<u>800,000</u>	<u>80,000,000</u>	<u>800,000</u>
Issued and fully paid:				
At beginning of the year	5,464,701	54,647	4,835,350	48,353
Issued upon exercise of warrants	–	–	629,351	6,294
At end of the year	<u>5,464,701</u>	<u>54,647</u>	<u>5,464,701</u>	<u>54,647</u>

During the year ended 31st December, 2003, the Company issued 629,350,706 shares of HK\$0.01 each to Shun Ho Technology and its subsidiary at the price of HK\$0.035 per share pursuant to the exercise of the Company's warrants held by them.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

23. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Special capital reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Goodwill on consolidation HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP									
At 1st January, 2003	194,952	612,477	2,128	103,783	(62,596)	(45,723)	-	215,768	1,020,789
Issue of shares	15,734	-	-	-	-	-	-	-	15,734
Share issue expenses	(46)	-	-	-	-	-	-	-	(46)
Increase on revaluation of securities	-	-	-	-	13,382	-	-	-	13,382
Deferred tax liability arising on a change in tax rate	-	-	-	(1,626)	-	-	-	-	(1,626)
Net profit for the year	-	-	-	-	-	-	-	4,985	4,985
At 31st December, 2003	210,640	612,477	2,128	102,157	(49,214)	(45,723)	-	220,753	1,053,218
Increase on revaluation of properties	-	-	90,512	167,625	-	-	-	-	258,137
Deferred tax liability arising on revaluation of properties	-	-	-	(32,415)	-	-	-	-	(32,415)
Increase on revaluation of securities	-	-	-	-	48,629	-	-	-	48,629
Realised on disposal of securities	-	-	-	-	826	-	-	-	826
Realised on disposal of property held by an associate	-	-	(2,128)	-	-	-	-	-	(2,128)
Net profit for the year	-	-	-	-	-	-	-	102,235	102,235
Amount set aside for dividend payment (note 12)	-	-	-	-	-	-	8,197	(8,197)	-
At 31st December, 2004	210,640	612,477	90,512	237,367	241	(45,723)	8,197	314,791	1,428,502

The property revaluation reserves are not distributable to shareholders until they are realised.

Included in the reserves of the Group are the Group's share of the retained profits of associates amounted to HK\$694,000 (2003: HK\$6,249,000).

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

23. SHARE PREMIUM AND RESERVES (Continued)

	Share premium <i>HK\$'000</i>	Special capital reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1st January, 2003	194,952	612,477	–	58,473	865,902
Issue of shares	15,734	–	–	–	15,734
Share issue expenses	(46)	–	–	–	(46)
Net profit for the year	–	–	–	29,665	29,665
At 31st December, 2003	210,640	612,477	–	88,138	911,255
Net profit for the year	–	–	–	(6,202)	(6,202)
Amount set aside for dividend payment (note 12)	–	–	8,197	(8,197)	–
At 31st December, 2004	<u>210,640</u>	<u>612,477</u>	<u>8,197</u>	<u>73,739</u>	<u>905,053</u>

When sanctioning the reduction in the nominal value of the Company's shares in 1999, the High Court of the Hong Kong Special Administrative Region stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve, which may be reduced by any increase in the issued share capital and share premium of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves, is not regarded as realised profit and distributable until all of the liabilities of the Company as at 22nd September, 1999, the date on which the reduction of share capital took effect, are settled. The liabilities of the Company at that date have not yet been fully settled at 31st December, 2004, accordingly the special capital reserve was not considered distributable.

The Company's reserves available for distribution to shareholders as at 31st December, 2004 comprised of the retained profits of HK\$73,739,000 (2003: HK\$88,138,000) and the dividend reserve of HK\$8,197,000 (2003: Nil).

24. BANK LOANS

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans repayable		
Within one year	92,904	159,663
More than one year, but not exceeding two years	137,065	–
More than two years, but not exceeding five years	178,720	123,625
	408,689	283,288
Less: Amounts due within one year included in current liabilities	(92,904)	(159,663)
	<u>315,785</u>	<u>123,625</u>

The bank loans carry interest at commercial lending rates.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

25. DEFERRED TAX LIABILITIES

The following are the deferred tax liabilities recognised and movements thereon during the current and prior reporting periods.

THE GROUP

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Hotel property (Note) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	5,067	23,611	44,800	73,478
Charge to income statement	1,798	–	–	1,798
Effect of a change in tax rate				
– charge to income statement	1,609	–	2,715	4,324
– charge to equity	–	1,626	–	1,626
At 31st December, 2003	8,474	25,237	47,515	81,226
Charge to income statement	2,630	–	–	2,630
Charge to equity	–	32,415	–	32,415
At 31st December, 2004	<u>11,104</u>	<u>57,652</u>	<u>47,515</u>	<u>116,271</u>

Note: The deferred tax liability on the hotel property is attributable to the excess of the carrying amount of the property, which is held by a subsidiary, over its tax base at the time when the subsidiary was acquired by the Group.

At the balance sheet date, the Group had unused tax losses of HK\$43,381,000 (2003: HK\$37,455,000) available to offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Substantially all the unrecognised tax losses may be carried forward indefinitely.

26. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free with no fixed repayment terms. Repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

27. PROJECT COMMITMENTS

At the balance sheet date, the Group had outstanding commitments in respect of the following:

	2004 HK\$'000	2003 HK\$'000
(a) Property development expenditure Authorised but not contracted for	<u>260,000</u>	<u>–</u>
Contracted but not provided for in the financial statements	<u>4,653</u>	<u>–</u>
(b) Expenditure for hotel improvements contracted but not provided for in the financial statements	<u>3,995</u>	<u>–</u>
(c) Consideration for the acquisition of a property contracted but not provided for in the financial statements	<u>–</u>	<u>13,110</u>
(d) During the year, the Group entered into agreements with an outside party for the acquisition of the entire interest in Grand – Invest & Development Company Limited, a company which owns and operates a hotel in Macau. The consideration for the acquisition amounted to HK\$242,000,000 (subject to adjustments as stipulated in the agreements) which to the extent of HK\$20,000,000 had been paid as deposit up to the balance sheet date.		

The Company had no material commitments at the balance sheet date.

28. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year amounted to approximately HK\$13,858,000 (2003: HK\$15,678,000). The properties under leases have committed tenants for one to three years without termination options granted to tenants.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases:

	2004 HK\$'000	2003 HK\$'000
Within one year	9,556	10,635
In the second to fifth year inclusive	3,852	3,575
	<u>13,408</u>	<u>14,210</u>

The Group as lessee

	2004 HK\$'000	2003 HK\$'000
Lease payments for office premises paid under operating leases during the year	<u>1,213</u>	<u>1,201</u>

Other than as disclosed above, the Group and the Company had no material lease commitments outstanding at the balance sheet date.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

29. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At the balance sheet date, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK\$409 million (2003: HK\$283 million), were secured by the following:

- (a) guarantees issued by the Company amounted to approximately HK\$824 million (2003: HK\$624 million);
- (b) hotel properties and other properties of the Group with carrying amounts of HK\$980 million (2003: HK\$450 million) and HK\$533 million (2003: HK\$530 million) respectively;
- (c) pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying amount of approximately HK\$347 million (2003: HK\$316 million);
- (d) assignment of the rentals and hotel revenue of a subsidiary; and
- (e) pledge of listed securities and bank deposits held by subsidiaries with carrying amounts of approximately HK\$100 million (2003: HK\$49 million) and HK\$145,000 (2003: HK\$126,000) respectively.

30. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Company's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contributions.

The contributions payable to the schemes by the Group in respect of the year which were charged to the income statement amounted to HK\$1,085,000 (2003: HK\$962,000). The forfeited contributions under the Group's defined contribution retirement scheme which had been suspended are immaterial.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

31. RELATED PARTY TRANSACTIONS

Other than those disclosed above, the Group had the following transactions with related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Shun Ho Technology and its subsidiaries		
Rental expenses (note a)	1,040	1,040
Interest expenses on advances to the Group (note b)	2,590	1,094
Corporate management fees for administrative facilities received (note c)	1,452	1,532
Web advertising expenses (note a)	288	288
Advances due by the Group at end of the year (note b)	299,522	51,732
Trade balance due to the Group at end of the year (note d)	645	476
Shun Ho Resources		
Corporate management fees for administrative facilities received (note c)	150	150
Trade balance due to the Group at end of the year (note d)	723	496
Associates		
Marketing expenses (note a)	480	480
Interest income (note e)	1,650	2,400
Trade balance due to the Group at end of the year (note d)	374	298
Balance due by the Group at end of the year (note e)	2,269	–
Balance due to the Group at end of the year (note e)	<u>–</u>	<u>84,786</u>

Notes:

- (a) The transactions were determined based on terms mutually agreed by the parties concerned.
- (b) The advances to the Group, which are unsecured and carry interest at Hong Kong Inter-bank Offer Rate plus a specified margin, are repayable on demand.
- (c) The transactions were calculated on a cost reimbursement basis.
- (d) The amounts are unsecured, interest free and repayable on demand.
- (e) The amount due from an associate, Lucky Country Development Limited (“Lucky Country”), was unsecured with no fixed repayment terms. Such advances to the extent of HK\$60,000,000 (2003: HK\$60,000,000) carried interest chargeable at the rate of 3% (2003: 3% to 5%) per annum with the remaining balance interest free. The amount due from this associate was fully repaid during the year.

During the year, the Group had an amount due to Lucky Country which is unsecured and interest free with no fixed repayment terms. The amount due to Lucky Country of HK\$2,269,000 (2003: Nil) remained outstanding at the balance sheet date.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

32. PARTICULARS OF PRINCIPAL SUBSIDIARIES

All the subsidiaries are incorporated and operating principally in Hong Kong except otherwise indicated. None of the subsidiaries had any debt securities outstanding at 31st December, 2004 or at any time during the year.

Name of subsidiary	Paid up issued/ registered ordinary share capital		Proportion of nominal value of issued capital held by		Principal activities
	Number of shares	Par value	Company %	Subsidiaries %	
Babenna Limited	2	HK\$10	100	–	Investment holding
City Wealth Limited	2	HK\$1	–	100	Property investment
Claymont Services Limited (i)	1	US\$1	100	–	Investment holding
Gainwell Holdings Limited	2	HK\$1	–	100	Property investment
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	Property development
Himson Enterprises Limited (i)	1	US\$1	–	100	Investment holding
Houston Venture Limited (i)	1	US\$1	100	–	Investment holding
Joes River Limited	2	HK\$1	100	–	Property investment
Joligance Limited	2	HK\$1	100	–	Investment holding
Longham Investment Limited (i)	1	US\$1	–	100	Investment holding
Magnificent International Hotel Limited	2	HK\$1	100	–	Property investment
Mercury Fast Limited	2	HK\$1	100	–	Securities dealings and investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	Vessel leasing
Shanghai Shun Ho Property Development Co., Ltd. (ii)		US\$4,950,000 (registered capital)	–	100	Investment in and operation of hotel
Silver Courage Company Limited	2	HK\$10	100	–	Property investment
Tennyland Limited	2	HK\$10	–	100	Property investment
Trans-Profit Limited	1,000,000	HK\$1	–	100	Property investment
United Assets Company Limited	2,000,000	HK\$1	–	100	Investment in and operation of hotel

(i) Incorporated in the British Virgin Islands

(ii) Wholly foreign owned enterprise established and operating principally in the PRC

The directors are of the opinion that a complete list of the subsidiaries of the Company will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or assets of the Group.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

33. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong.

Name of company	Proportion of nominal value of issued ordinary capital held by		Principal activities
	Company %	Subsidiary %	
Lucky Country Development Limited	–	50	Property investment
Shun Ho Real Estate Limited	50	–	Provision of hospitality services
Beautiful Sky Investment Limited	50	–	Inactive

34. POST BALANCE SHEET EVENTS

The following events took place subsequent to the balance sheet date:

- (a) The acquisition of the company which owns and operates a hotel in Macau, as referred to in note 27(d), was completed.
- (b) The Group entered into a provisional agreement in April 2005 for the disposal of an investment property for a consideration of HK\$180 million. This property is carried in the consolidated balance sheet as at 31st December, 2004 at the open market value of HK\$200 million.