



Shun Ho Resources Holdings Limited

(順 豪 資 源 集 團 有 限 公 司)

(Stock Code 股份代號: 253)

ANNUAL REPORT 2007

二 零 零 七 年 年 報

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Corporate Information

Executive Directors

Mr. William Cheng Kai Man (*Chairman*)
Mr. Albert Hui Wing Ho

Non-Executive Directors

Mr. David Cheng Kai Ho
Madam Mabel Lui Fung Mei Yee

Independent Non-Executive Directors

Mr. Vincent Kwok Chi Sun
Mr. Chan Kim Fai
Mr. Hui Kin Hing

Company Secretary

Mr. Peter Lee Yip Wah

Auditor

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Solicitors

Dibb Lupton Alsop
40th Floor, Bank of China Tower
1 Garden Road
Central, Hong Kong

Woo, Kwan, Lee & Lo
26th Floor, Jardine House
1 Connaught Place
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Chong Hing Bank Limited

Registered Office

3rd Floor, Shun Ho Tower
24-30 Ice House Street
Central, Hong Kong

Share Registrars

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong
Tel: 2980 1333

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Shun Ho Resources Holdings Limited (the “Company”) will be held at 5th Floor, Ramada Hong Kong Hotel, 308 Des Voeux Road West, Hong Kong on Friday, the 30th day of May, 2008 at 10:15 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements, the Report of the Directors and the Independent Auditor’s Report for the year ended 31st December, 2007.
2. (1) To re-elect retiring Directors; and
(2) to authorise the Board to fix the remuneration of the Directors.
3. To re-appoint Auditor and to authorise the Board to fix their remuneration.

By Order of the Board
Peter LEE Yip Wah
Secretary

Hong Kong, 30th April, 2008

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him and a proxy so appointed shall also have the same rights as the member to speak at the meeting. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the registered office of the Company at 3rd Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting.
3. The Register of Members of the Company will be closed from Monday, 26th May, 2008 to Friday, 30th May, 2008, both dates inclusive, during which period no share transfers will be effected. In order to determine the identity of members who are entitled to attend and vote at the meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s Share Registrars, Tricor Tengis Limited, at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai,

Hong Kong not later than 4:30 p.m. on Friday, 23rd May, 2008.

4. With regard to item no.2(1) of this notice, details of retiring Directors proposed for re-election are set out below:

- (a) Mr. William CHENG Kai Man, Executive Director, aged 46, was appointed to the Board in 1990. He is also an executive director of Shun Ho Technology Holdings Limited and Magnificent Estates Limited which are subsidiaries of the Company. Shares of both companies are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). He has over twenty years’ experience in construction, property investment and development and has over ten years’ experience in hotel management. He graduated in the U.K. and holds a bachelor’s degree in civil engineering and a master’s degree in structural engineering. He is also a director of a number of subsidiaries of the Company. He is Mr. David CHENG Kai Ho’s brother. Save as disclosed above, Mr. William CHENG Kai Man did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Company’s group.

There is no service contract between Mr. William CHENG Kai Man and the Company. He has no fixed term of service with the Company and will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association of the Company. The Director’s fee payable to Mr. William CHENG Kai Man as executive Director is determined by shareholders in general meeting. At the annual general meeting of the Company held on 25th May, 2007, it was approved that the Director’s fee for the year ended 31st December, 2007 be determined by the Board. Mr. William CHENG Kai Man did not receive Director’s fee and other emoluments paid to Mr. William CHENG Kai Man for the year ended 31st December, 2007 was determined at HK\$90,000 with reference to his duties and responsibility with the Company, the Company’s performance and current market situation. Save as disclosed above, Mr. William CHENG Kai Man is and was not connected with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of

Notice of Annual General Meeting

this notice, Mr. William CHENG Kai Man was deemed to have interest in 216,608,825 shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

- (b) Mr. David CHENG Kai Ho, Non-executive Director, aged 44, Solicitor, was appointed to the Board in 1999. He is also a non-executive director of Shun Ho Technology Holdings Limited and Magnificent Estates Limited which are subsidiaries of the Company. Shares of both companies are listed on the Stock Exchange. He is a qualified lawyer with many years of experience. He graduated from Warwick University and holds a bachelor's degree in law. He is Mr. William CHENG Kai Man's brother. He has a directorship and a corporate interest in the Imperial Hotel in Hong Kong. Save as disclosed above, Mr. David CHENG Kai Ho did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Company's group.

There is no service contract between Mr. David CHENG Kai Ho and the Company. He has no fixed term of service with the Company and will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association of the Company. The Director's fee payable to Mr. David CHENG Kai Ho as non-executive Director is determined by shareholders in general meeting. Mr. David CHENG Kai Ho did not receive any Director's fee and other emoluments for the year ended 31st December, 2007. Save as disclosed above, Mr. David CHENG Kai Ho is and was not connected with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of this notice, Mr. David CHENG Kai Ho did not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

- (c) Mr. HUI Kin Hing, Independent Non-executive Director, aged 40, ACCA, CPA (Practising), was appointed to the Board in 2005. He is also an independent non-executive director of Shun Ho Technology Holdings Limited and Magnificent Estates Limited which are subsidiaries of the Company. Shares of both companies are listed on the Stock Exchange. He holds a master's

degree in business administration. He runs a firm of Titus K.H. Hui. He has extensive experience in accounting, corporate finance and financial management. Save as disclosed above, Mr. HUI Kin Hing did not hold any directorship in other listed public companies in the last three years or any position with the Company or other members of the Company's group.

There is no service contract between Mr. HUI Kin Hing and the Company. He has no fixed term of service with the Company and will be subject to the rotational retirement and re-election requirements at annual general meetings pursuant to the Articles of Association of the Company. The Director's fee payable to Mr. HUI Kin Hing as independent non-executive Director is determined by shareholders in general meeting. At the annual general meeting of the Company held on 25th May, 2007, it was approved that the Director's fee for the year ended 31st December, 2007 be determined by the Board. The Director's fee paid to Mr. HUI Kin Hing for the year ended 31st December, 2007 was determined at HK\$33,000 with reference to his duties and responsibility with the Company, the Company's performance and current market situation. Mr. HUI Kin Hing is and was not connected with any Directors, senior management or substantial or controlling shareholders of the Company. As at the date of this notice, Mr. HUI Kin Hing did not have any interest in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Save as disclosed above, Mr. William CHENG Kai Man, Mr. David CHENG Kai Ho and Mr. HUI Kin Hing have confirmed that there are no other matters relating to their re-election that need to be brought to the attention of the shareholders and there is no other information which is required to be disclosed pursuant to rule 13.51(2) of the Listing Rules.

5. As at the date of this notice, the executive Directors of the Company are Mr. William CHENG Kai Man and Mr. Albert HUI Wing Ho; the non-executive Directors of the Company are Mr. David CHENG Kai Ho and Madam Mabel LUI FUNG Mei Yee; and the independent non-executive Directors of the Company are Mr. Vincent KWOK Chi Sun, Mr. CHAN Kim Fai and Mr. HUI Kin Hing.

Chairman's Statement

I present to the shareholders my report on the results and operations of Shun Ho Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31st December, 2007.

RESULTS

The Group's audited consolidated profit for the year ended 31st December, 2007 amounted to HK\$737,162,000 (2006: HK\$113,906,000).

The shareholders' funds of the Group increased during the financial year to HK\$862 million (HK\$2.8 per share).

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31st December, 2007 (2006: Nil).

BOOK CLOSURE

The register of members will be closed from Monday, 26th May, 2008 to Friday, 30th May, 2008, both dates inclusive, during which period transfer of shares will not be registered. In order to determine the identity of members who are entitled to attend and vote at the Annual General Meeting to be held on Friday, 30th May, 2008, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Tricor Tengis Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 23rd May, 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year under review, the Group through its major subsidiaries, Magnificent Estates Limited and Shun Ho Technology Holdings Limited, continued with its operations of property investment, development and operation of hotels.

- For the year ended 31st December, 2007, the Group's turnover was mostly derived from the aggregate of income from operation of hotels, properties rental income, interest, dividend income and proceeds from sale of insignificant assets.

The income from operation of hotels increased by 16% to HK\$198 million (2006: HK\$170 million). The increase of turnover for the whole year was due to better tourism visit environment and smooth running of the operations of Ramada Hotel Kowloon, Ramada Hong Kong Hotel, Best Western Hotel Taipa, Macau and Magnificent International Hotel, Shanghai.

The properties rental income was derived from office building of Shun Ho Tower, 633 King's Road, 19-23 Austin Avenue and shops from Ramada Hotel Kowloon, Ramada Hong Kong Hotel and Best Western Hotel Taipa, Macau amounted to HK\$32,341,000. Although the commercial building at 633 King's Road has been completed, the significant effect of its successful leasing would contribute to 2008 income.

- Overall operating expenses for the Group was HK\$95 million (2006: HK\$90 million) for the hotel operations and HK\$21 million (2006: HK\$16 million) for the corporate management office. Hotel overall expenses in 2007 represented 48% (2006: 53%) on income from operation of hotels, representing more efficient cost to profit margin.

At 31st December, 2007, the overall debt was HK\$874 million (2006: HK\$316 million). Gearing ratio was approximately 30% (2006: 18%) in terms of external bank borrowings of HK\$874 million (2006: HK\$316 million) against funds employed of HK\$2,862 million (2006: HK\$1,732 million). The increase of borrowings of HK\$558 million was due to acquisition costs of the development sites of HK\$1,060 million subsequent to 31st December, 2006 and the subsequent construction costs. It is estimated that a further of HK\$500 million will be required for the construction costs of the acquired development sites in the next two or three years.

The Group's bank borrowings carry interest at floating rates and are mainly denominated in Hong Kong dollar. Accordingly, the exchange risk of the Group is minimal.

- For the year under review, the investment properties such as Shun Ho Tower, and shops in Ramada Hotel Kowloon, Ramada Hong Kong Hotel, and Best Western Hotel Taipa, Macau remained fully let. It is expected that the rental revenue from these properties will continue to increase.

The construction of the grade A office building at 633 King's Road was completed in June 2007. Leasing of the commercial space is well underway. As of the date of this announcement, only 5 floors of the 33 floors in the 300,000 sq. ft. office building is still yet to be leased. It is expected that the rental income of the Group will be significantly increase by the building in the second half of 2008. The effect of full occupancy of the building will be reflected in the year of 2009.

Chairman's Statement

For the year under review, there was no significant property disposal. However, the houses at Gold Coast, New Territories are already available for rental income or disposal.

In the coming year, it is envisaged that the hotel business should further improve due to continuous increase of inbound tour from global interests in Asia and implementation of the CEPA and further relaxation of mainlanders to travel freely and the Olympic effects. The management of the hotels will endeavour to maintain the high occupancy but will focus on obtaining higher room rates.

- Subsequent to 31st December, 2006, the Group completed the following acquisitions*:

Name of Properties	Acquisition	Independent	Change
	Cost	Revaluation	
	HK\$'000	HK\$'000	
239-243 Queen's Road West	99,404*		
245-247 Queen's Road West	104,593*	466,000	+128%
19-23 Austin Avenue	520,093*	785,000	+51%
30-40 Bowrington Road	238,855*	522,000	+119%
249-251 Queen's Road West	97,401	-	-
Total:	<u>1,060,346</u>		

The overall acquisition costs of the development sites subsequent to 31st December, 2006 amounted to HK\$1,060 million.

The above acquisitions provided a valuable opportunity for the Group to develop more than 1,000 hotel rooms in the busiest city locations with significant capital gain and income potentials.

Queen's Road Hotel Development

A 435 rooms hotel development has been approved by the relevant authorities, foundation works is in progress.

Austin Avenue, Tsimshatsui

A 300 rooms hotel development has been approved by the relevant authorities. Demolition of the old building is expected to commence in June 2008.

Bowrington Road, Causeway Bay

A 265 rooms hotel development has been approved by the relevant authorities, foundation works is in progress.

The Board look forward to the completion of the hotel developments of which an additional 1,000 rooms will be added on to the existing 1,000 rooms which shall make the Group to be one of the largest hotelier in Hong Kong which will benefit from the current tourism boom and contributing potential operating income and capital gain.

During the financial year under review, there were no significant changes in the Group's staffing level and remuneration and benefit were set with reference to the market.

Looking ahead, the Board considers that the global low interest rate economy will continue to uphold a strong expanding economy and continue to fuel international travels. The implementation by the PRC Government of CEPA and the furtherance of relaxation of mainland travelers to visit Hong Kong and the Olympic effect help stimulate further regional tourism. It is envisaged that the hotel business should further improve in the coming year confirming the Group's correct strategy to build up a portfolio of prime 4-star hotels in Hong Kong and major cities of China. The continuous increase of inbound tourists justified the Group's intention to expand the Group's hotel assets. The recent inflationary environment in Hong Kong will accelerate rising property prices and also add momentum to the Hong Kong business environment. The Group will continue to acquire quality hotels and investment/development properties should the opportunity arises.

The Board of the Company and its subsidiaries, Shun Ho Technology Holdings Limited and Magnificent Estates Limited, announce with sympathy that Mr. Fung Chi Keung, an executive director of the Company, passed away recently.

The Board would like to thank the late Mr. Fung Chi Keung for his invaluable contribution to the Group during the past and expresses the deepest condolences to his family.

By Order of the Board

William CHENG Kai Man
Chairman

Hong Kong, 18th April, 2008

Directors' Profiles

Mr. William CHENG Kai Man, *Executive Director*

Aged 46. Appointed to the Board in 1990. He is also a director of Shun Ho Technology Holdings Limited (“Shun Ho Technology”) and Magnificent Estates Limited (“Magnificent”), both of them are subsidiaries of the Company. He has over twenty years’ experience in construction, property investment and development and has over ten years’ experience in hotel management. He graduated in the U.K. and holds a bachelor’s degree in civil engineering and a master’s degree in structural engineering. He is Mr. David CHENG Kai Ho’s brother. He is a director of Trillion Resources Limited and Mercury Fast Limited, they are the Company’s substantial shareholders.

Mr. Albert HUI Wing Ho, *Executive Director*

Aged 45. Appointed to the Board in 1988. He is also a director of Shun Ho Technology and Magnificent. He has over twenty years’ experience in construction, property investment and development and has over ten years’ experience in hotel management. He graduated in the U.K. and holds a bachelor’s degree in civil engineering.

Mr. David CHENG Kai Ho, *Non-Executive Director*

Aged 44. Solicitor. Appointed to the Board in 1999. He is also a non-executive director of Shun Ho Technology and Magnificent. He is a qualified lawyer with many years of experience. He graduated from Warwick University and holds a bachelor’s degree in law. He is Mr. William CHENG’s brother. He has a directorship and a corporate interest in the Imperial Hotel in Hong Kong.

Madam Mabel LUI FUNG Mei Yee, *Non-Executive Director*

Aged 56. Solicitor and Notary Public. Appointed to the Board in 1999. She is also a non-executive director of Shun Ho Technology and Magnificent. She is a partner of Dibb Lupton Alsop.

Mr. Vincent KWOK Chi Sun, *Independent Non-Executive Director*

Aged 45. ACA (Aust), AHKSA, CPA (Practising). Appointed to the Board in 1999. He is also an independent non-executive director of Shun Ho Technology and Magnificent. He is a partner of Vincent Kwok & Co..

Mr. CHAN Kim Fai, *Independent Non-Executive Director*

Aged 48. ACCA, CPA (Practising). Appointed to the Board in 2004. He is also an independent non-executive director of Shun Ho Technology and Magnificent. He holds a bachelor’s degree in science from The Chinese University of Hong Kong. He has extensive experience in accounting, corporate finance and financial management. He is a partner of Ivan Chan & Co, CPA.

Mr. HUI Kin Hing, *Independent Non-Executive Director*

Aged 40. ACCA, CPA (Practising). Appointed to the Board in 2005. He is also an independent non-executive director of Shun Ho Technology and Magnificent. He holds a master’s degree in business administration. He runs an accounting firm of Titus K. H. Hui. He has extensive experience in accounting, corporate finance and financial management.

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control and transparency and accountability to all shareholders.

CODE OF BEST PRACTICE AND CODE ON CORPORATE GOVERNANCE PRACTICES

The Company's Articles of Association have been amended on 27th May, 2005 to provide that all Directors shall retire on such manner of rotation as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), i.e. once every three years. Prior to such amendment, the Company's Articles of Association provided that one-third of the Directors (including Non-executive Directors) should retire by rotation at the annual general meeting of the Company.

The Code of Best Practice set out in Appendix 14 to the Listing Rules was replaced by the Code on Corporate Governance Practices ("Code on CG Practices") which has become effective for accounting periods commencing on or after 1st January, 2005. During the year, the Company has applied the principles and complied with all code provisions and to certain extent of the recommended best practices of the Code on CG Practices except the following:

Code Provision A.2.1

The Company does not have separate appointments for Chairman and Chief Executive Officer. Mr. William CHENG Kai Man holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person enables the Company to have a stable and consistent leadership. It will also facilitate the planning and execution of the Company's strategy and is hence, for the interests of the Company and its shareholders.

Code Provision A.4.1

Non-executive directors of the Company have no set term of office but retire from office on a rotational basis at least once every three years. Amendment to the articles of association of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 27th May, 2005 whereby every director shall be subject to retirement by rotation at least once every three years. The Company considers that sufficient measures have been taken to ensure that its corporate governance practices are no less exacting than those in the Code.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors ("Board") of the Company is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

The Listing Rules require every listed issuer to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Board of the Company comprises a total of seven Directors, with two Executive Directors, two Non-executive Directors and three Independent Non-executive Directors. All the Independent Non-Executive Directors have appropriate professional qualifications, or accounting or related financial management expertise.

Mr. William CHENG Kai Man is Mr. David CHENG Kai Ho's brother. Save as aforesaid, none of the Directors has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

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 is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three years in accordance with the Company's Articles of Association and the Code on CG Practices. Review will be made regularly of the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out on page 7.

The positions of the Chairman of the Board ("Chairman") and the Chief Executive Officer are not held by separate individuals pursuant to the records given above.

The Board is responsible for establishing the strategic direction of the Group; setting objectives and business development plans; monitoring the performance of the senior management and assuming responsibility for corporate governance.

The management, under the leadership of the Managing Director, is responsible for implementing the strategies and plans established by the Board; and submitting reports on the Company's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities.

All Directors have made full and active contribution to the affairs of the Board and the Board always acts in the best interests of the Group.

Corporate Governance Report (Continued)

The Board meets regularly and held four meetings in 2007 and the attendance of each director is set out below:

	Number of board meetings attended in 2007	Attendance rate
Executive Directors		
William Cheng Kai Man (Chairman)	4/4	100%
Albert Hui Wing Ho	4/4	100%
Non-executive Directors		
David Cheng Kai Ho	0/4	0%
Mabel Lui Fung Mei Yee	2/4	50%
Independent Non-executive Directors		
Vincent Kwok Chi Sun	2/4	50%
Chan Kim Fai	1/4	25%
Hui Kin Hing	2/4	50%

According to the Articles of Association of the Company, the Board has the power to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. The Board will consider and assess the qualification, ability and potential contribution of candidates for directorships on the Board.

Regular Board meetings of the year are scheduled in advance to give all Directors an opportunity to attend. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's Articles of Association.

Board papers are circulated not less than three days before the Board meetings to enable the Directors to make informed decisions on matters to be raised at the Board meetings. The Company Secretary or his assistant and the Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. Directors shall have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary by the Directors. The Company Secretary or his assistant shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

Each newly appointed Director is provided with a package of orientation materials setting out the duties and responsibilities of Directors under the Listing Rules, related ordinances and relevant regulatory requirements of Hong Kong. Orientation meeting with newly appointed Director will be held for briefing on business and operations of the Company. Updates are provided to Directors when necessary to ensure that Directors are aware of the latest changes in the commercial and regulatory environment in which the Group conducts its businesses.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. Specific enquiry has been made with all Directors and the Directors have complied with the required standard set out in the Model Code for the year ended 31st December, 2007.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group.

With the assistance of the Accounts Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner.

The statement of the Auditor of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 16.

AUDITOR'S REMUNERATION

For the year ended 31st December, 2007, the Auditor of the Company received approximately HK\$1.9 million for audit service and HK\$0.2 million for tax and consultancy services.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee ("Audit Committee") in 1995

Corporate Governance Report (Continued)

with reference to “A Guide for the Formation of an Audit Committee” issued by the Hong Kong Institute of Certified Public Accountants (formerly known as Hong Kong Society of Accountants). In accordance with the requirements of the Code on CG Practices, the terms of reference of the Audit Committee were revised on 20th April, 2005 in terms substantially the same as the provisions set out in the Code on CG Practices.

The principal duties of the Audit Committee include the review of the Group’s financial controls and internal control and risk management, review of the Group’s financial information (half-yearly and annual results) and review of the relationship with the Auditor of the Company. Regular meetings have been held by the Audit Committee since its establishment. The Audit Committee held two meetings in 2007 and the attendance of each member is set out below:

	Number of Audit Committee meetings attended in 2007	Attendance rate
Vincent Kwok Chi Sun	2/2	100%
Chan Kim Fai	1/2	50%
Hui Kin Hing	2/2	100%

The scope of work done by the Audit Committee during the year under review includes the following:

- reviewed and recommended the Board to approve the audit fee proposal for year 2007;
- reviewed the interim report and the interim results announcement for the six months ended 30th June, 2007;
- reviewed the audit plan for year 2007 to assess the general scope of audit work; and
- reviewed the audited accounts and final results announcement for year 2006.

The existing Audit Committee of the Company comprises three Independent Non-executive Directors, namely, Mr. Vincent Kwok Chi Sun (Chairman of the Audit Committee), Mr. Chan Kim Fai and Mr. Hui Kin Hing.

The Group’s annual report for the year ended 31st December, 2007 has been reviewed by the Audit Committee.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group’s system of internal control includes a defined management structure with limits of authority, is designed to safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and

ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group’s objectives.

Proper controls are in place for the recording of complete, accurate and timely accounting and management information. Regular reviews and audits are carried out to ensure that the preparation of financial statements is carried out in accordance with generally accepted accounting principles, the Group’s accounting policies and applicable laws and regulations.

Internal Audit adopts a risk and control based audit approach. The annual work plan is directed to monitor compliance with internal control procedures focusing on those areas of the Group’s activities with the greatest perceived risk.

The Board has conducted a review of the effectiveness of the system of internal control of the Group. The Board is of the view that the system of internal control in place for the year under review and up to the date of issuance of the annual report and financial statements is sound and is sufficient to safeguard the interests of shareholders, customers and employees, and the Group’s assets.

REMUNERATION COMMITTEE

According to the Code on CG Practices, the Company established its remuneration committee (“Remuneration Committee”) on 20th April, 2005. The existing Remuneration Committee comprises the Chairman of the Company Mr. William Cheng Kai Man (Chairman of the Remuneration Committee) and two Independent Non-executive Directors, namely, Mr. Vincent Kwok Chi Sun and Mr. Chan Kim Fai. No meeting was held by the Remuneration Committee in 2007.

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company’s policy and structure for all remuneration of Directors and senior management and reviewing the specific remuneration packages of all executive Directors and senior management by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee shall consult the Chairman and/or the chief executive officer of the Company about their proposals relating to remuneration of executive directors and have access to professional advice if considered necessary.

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company establishes different communication channels with shareholders and investors: (i) printed copies of corporate communication, (ii) the annual general meeting provides a forum for shareholders to raise comments and exchange views with the Board, (iii) briefing meetings with analysts from investment sectors are set up from time to time on updated performance information of the Group, and (iv) the Company’s Registrars serve the shareholders respecting all share registration matters.

Report of the Directors

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of the Company's principal subsidiaries and associate are set out in notes 33 and 18 to the consolidated financial statements respectively.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2007 are set out in the consolidated income statement on page 17.

The Board does not recommend the payment of any dividend in respect of the year ended 31st December, 2007 (2006: Nil).

SHARE CAPITAL

Details of the share capital of the Company are set out in note 25 to the consolidated financial statements. There were no movements in the share capital of the Company during the year.

RESERVES

Details of movements during the year in the reserves of the Group are set out on page 20 and those of the Company are set out in note 26 to the consolidated financial statements.

The Company's reserves available for distribution to shareholders at 31st December, 2007 represent its retained profits of HK\$104,648,000 (2006: HK\$94,304,000).

PROPERTY, PLANT AND EQUIPMENT

Movements during the year in the property, plant and equipment of the Group and the Company are set out in note 13 to the consolidated financial statements.

INVESTMENT PROPERTIES

All the investment properties of the Group were revalued at 31st December, 2007. The revaluation gave rise to an increase of approximately HK\$923 million which has been dealt with in the consolidated income statement.

Details of these and other movements during the year in the investment properties of the Group are set out in note 15 to the consolidated financial statements.

PROPERTIES UNDER DEVELOPMENT

During the year, development expenditure of approximately HK\$94 million were incurred on property under development.

Details of these and other movements during the year in the property under development of the Group are set out in note 16 to the consolidated financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at 31st December, 2007 are set out on pages 65 to 66 of the Annual Report.

BORROWINGS

Bank loans repayable within one year are classified as current liabilities in the consolidated financial statements. An analysis of the repayment schedule of bank loans is set out in note 24 to the consolidated financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Report of the Directors (Continued)

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors

Mr. William Cheng Kai Man

Mr. Albert Hui Wing Ho

Mr. Fung Chi Keung (resigned on 19th March, 2007)

Non-executive directors

Mr. David Cheng Kai Ho

Ms. Mabel Lui Fung Mei Yee

Mr. Vincent Kwok Chi Sun*

Mr. Chan Kim Fai*

Mr. Hui Kin Hing*

* independent non-executive directors

In accordance with the provisions of the Company's Articles of Association, Mr. William Cheng Kai Man, Mr. David Cheng Kai Ho and Mr. Hui Kin Hing shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The term of office for each of the non-executive directors is the period up to his or her retirement by rotation in accordance with the Company's Articles of Association.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not terminable by the Group within one year without payment of compensation (other than statutory compensation).

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence from the Company and considers that each of the independent non-executive directors is independent to the Company.

DIRECTORS' INTERESTS IN LISTED SECURITIES

As at 31st December, 2007, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required (a) to be entered in the register required to be kept by the Company under section 352 of the SFO; or (b) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

The Company

Name of director	Capacity	Nature of interests	Number of shares held	Approximate % of shareholding
William Cheng Kai Man	Interest of controlled corporations	Corporate	216,608,825 (Note)	71.17

Note:

Trillion Resources Limited and Mercury Fast Limited beneficially owned 154,006,125 shares and 62,602,700 shares of the Company respectively, representing 50.60% and 20.57% respectively of the issued share capital of the Company. Mr. William Cheng Kai Man has controlling interests in each of these companies.

Associated corporations

Name of director	Name of associated corporation	Capacity	Nature of interests	Number of shares held	Approximate % of shareholding
William Cheng Kai Man	Shun Ho Technology Holdings Limited (Note 1)	Interest of controlled corporations	Corporate	350,742,682	65.31
William Cheng Kai Man	Magnificent Estates Limited (Note 2)	Interest of controlled corporations	Corporate	2,986,809,406	50.07
William Cheng Kai Man	Trillion Resources Limited (Note 3)	Beneficial owner	Personal	1	100

Report of the Directors (Continued)

Notes:

1. Shun Ho Technology Holdings Limited, the Company's subsidiary, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.
2. Magnificent Estates Limited, the Company's indirect subsidiary, is a public limited company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange.
3. Trillion Resources Limited, the Company's ultimate holding company, is a company incorporated in the British Virgin Islands.

Share options

The Company and any of its associate do not have any share option scheme during the year.

Save as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, as at 31st December, 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (b) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed the Companies and none of the directors or their associates or their spouse or children under the age of 18, had any right to subscribe for the securities of the Company or associated corporation, or had exercised any such right during the year.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than as disclosed above, at no time during the year was the Company, its holding company, any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND RELATED PARTY TRANSACTIONS

During the year, the Group had transactions with certain related parties, details of which are set out in note 32 to the consolidated financial statements.

In addition, the Company had the following transactions with Shun Ho Technology and Magnificent:

- (a) During the year, the Company made unsecured advances to Shun Ho Technology, which carry interest chargeable at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 1% per annum and are repayable on demand. Interest receivable by the Company on such advances amounted to HK\$817,000 in respect of the year. At 31st December, 2007, advances to Shun Ho Technology amounted to HK\$14,656,000 remained outstanding.
- (b) During the year, administrative expenses amounted to HK\$125,000 were payable by the Company to Magnificent for services provided by Magnificent on a cost reimbursement basis.
- (c) At 31st December, 2007, the Company had amount due to Magnificent of HK\$29,000 which was unsecured, interest free and repayable on demand.

Further, Shun Ho Technology and its subsidiaries had the following transactions with Magnificent group of companies:

- (a) A property owned by a subsidiary of Shun Ho Technology was let to Magnificent. The net rental received from Magnificent for the year, which was mutually agreed, amounted to HK\$1,040,000.
- (b) During the year, Shun Ho Technology made unsecured advances to Magnificent and its subsidiary which carry interest chargeable at HIBOR plus 1% per annum and are repayable on demand. At 31st December, 2007, such advances amounted to HK\$530,871,000 remained outstanding. Interest receivable by Shun Ho Technology on such advances amounted to a total of HK\$22,693,000 in respect of the year.
- (c) During the year, expenses amounted to HK\$1,608,000 were payable by Shun Ho Technology to Magnificent for administrative services provided by Magnificent on a cost reimbursement basis.

Report of the Directors (Continued)

Save as disclosed herein:

- (i) no contracts of significance subsisted at any time during the year to which the Company, its holding company, any of its fellow subsidiaries or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited.

Amongst the directors who held office during the year, Mr. William Cheng Kai Man was indirectly interested in the share capital of the Company, Shun Ho Technology and Magnificent.

In the opinion of the directors not having an interest in those transactions, those transactions were carried out in the ordinary course of the Group's business on normal commercial terms.

MANAGEMENT CONTRACTS

No contracts of significance concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries were entered into during the year or subsisted at the end of the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate amount of purchases and sales attributable to the five largest suppliers and customers of the Group accounted for less than 30% in aggregate of the Group's total purchases and sales respectively.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in any of the Group's five largest customers or suppliers.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2007, the following persons (not being directors or chief executive of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Capacity	Number of shares	Approximate % of shareholding
Mercury Fast Limited ("Mercury")	Beneficial owner	62,602,700	20.57
Magnificent Estates Limited ("Magnificent") (Note 1)	Interest of controlled corporations	62,602,700	20.57
Shun Ho Technology Holdings Limited ("Shun Ho Technology") (Note 1)	Interest of controlled corporations	62,602,700	20.57
Trillion Resources Limited ("Trillion") (Note 2)	Beneficial owner and interest of controlled corporations	216,608,825	71.17
Liza Lee Pui Ling (Note 3)	Interest of spouse	216,608,825	71.17

Report of the Directors (Continued)

Notes:

1. Magnificent and Shun Ho Technology were taken to be interested in 62,602,700 shares of the Company (“Shares”) owned by Mercury as Mercury was a wholly-owned subsidiary of Magnificent which in turn owned as to 50.07% by Shun Ho Technology.
2. Shun Ho Technology was directly and indirectly owned as to 65.31% by Omnico, which was in turn owned as to 100% by the Company, which was in turn directly and indirectly owned as to 71.17% by Trillion. Trillion was wholly-owned by Mr. William Cheng Kai Man. Trillion beneficially owned 154,006,125 Shares and was taken to be interested in 62,602,700 Shares by virtue of its indirect interests in Mercury.
3. Madam Liza Lee Pui Ling was deemed to be interested in 216,608,825 Shares by virtue of the interest in such Shares of her spouse, Mr. William Cheng Kai Man, a director of the Company.

Save as disclosed above, there was no person, other than a director or chief executive of the Company, who has an interest or short position in the Shares and underlying Shares as recorded in the register required to be kept by the Company under section 336 of the SFO.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and with the knowledge of the directors, as was then at the date of this report, there is sufficient public float of not less than 25% of the Company’s issued shares as required under the Listing Rules.

AUDITOR

A resolution to re-appoint Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

William CHENG Kai Man
Chairman of the Meeting

Hong Kong, 18th April, 2008

Independent Auditor's Report



**TO THE SHAREHOLDERS OF
SHUN HO RESOURCES HOLDINGS LIMITED**
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Shun Ho Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 17 to 63 which comprise the consolidated and Company balance sheets as at 31st December, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and 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 the consolidated 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2007 and of the Group's profit 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 Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
18th April, 2008

Consolidated Income Statement

For the Year Ended 31st December, 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue	4	231,430	188,771
Cost of sales		(4,081)	(4,111)
Other service costs		(94,542)	(89,561)
Depreciation and release of prepaid lease payment for land		(27,461)	(27,421)
Gross profit		105,346	67,678
Revaluation surplus/increase in fair value of investment properties		922,619	81,170
Gain on change in value of leasehold interest in land upon transfer to investment properties	13(b)	–	2,804
Other income	6	11,902	8,888
(Loss) gain on fair value changes of investments held for trading		(2,091)	1,134
Administrative expenses		(24,980)	(17,799)
– Depreciation on property, plant and equipment		(3,945)	(1,329)
– Others		(21,035)	(16,470)
Impairment loss on recognised in respect of interest in an associate		(123)	–
Share of loss of an associate		(4)	(195)
Finance costs	7	(21,637)	(6,413)
Losses on disposal and deemed disposal of interests in a subsidiary	8	(79,221)	–
Profit before taxation	9	911,811	137,267
Income tax expense	11	(174,649)	(23,361)
Profit for the year		737,162	113,906
Attributable to:			
Shareholders of the Company		197,442	40,881
Minority interests		539,720	73,025
		737,162	113,906
Earnings per share		HK cents	HK cents
Basic	12	81.7	16.9

Consolidated Balance Sheet

At 31st December, 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	<i>13</i>	424,766	405,927
Prepaid lease payments for land	<i>14</i>	1,028,057	802,483
Investment properties	<i>15</i>	2,536,250	634,330
Property under development	<i>16</i>	39,718	234,897
Interest in an associate	<i>18</i>	–	554
Available-for-sale investments	<i>19</i>	780	780
Deposits on acquisition of land		4,694	–
		4,034,265	2,078,971
CURRENT ASSETS			
Inventories		689	615
Properties held for sale		21,534	15,505
Investments held for trading	<i>19</i>	20,931	23,022
Prepaid lease payments for land	<i>14</i>	12,065	13,835
Trade and other receivables	<i>20</i>	16,892	12,497
Other deposits and prepayments		4,930	4,398
Deposits on acquisition of land		–	19,500
Pledged bank deposits	<i>22</i>	110	110
Bank balances and cash	<i>22</i>	12,254	93,180
		89,405	182,662
CURRENT LIABILITIES			
Trade and other payables	<i>23</i>	42,646	43,098
Rental and other deposits received		21,489	7,026
Amount due to an associate	<i>32(a)</i>	–	2,269
Tax liabilities		6,929	5,665
Bank loans	<i>24</i>	873,550	315,743
		944,614	373,801
NET CURRENT LIABILITIES		(855,209)	(191,139)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,179,056	1,887,832
CAPITAL AND RESERVES			
Share capital	<i>25</i>	152,184	152,184
Share premium and reserves		709,373	510,730
Equity attributable to shareholders of the Company		861,557	662,914
Minority interests		2,000,238	1,068,706
TOTAL EQUITY		2,861,795	1,731,620
NON-CURRENT LIABILITY			
Deferred tax liabilities	<i>27</i>	317,261	156,212
		3,179,056	1,887,832

The consolidated financial statements on pages 17 to 63 were approved and authorised for issue by the Board of Directors on 18th April, 2008 and are signed on its behalf by:

Albert HUI Wing Ho
Director

William CHENG Kai Man
Director

Company Balance Sheet

At 31st December, 2007

	<i>Notes</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	13	–	–
Investments in subsidiaries	17	51,713	41,126
Amounts due from subsidiaries	17	227,952	227,258
		<u>279,665</u>	<u>268,384</u>
CURRENT ASSETS			
Other receivables		4	–
Other deposits and prepayments		168	167
Amounts due from subsidiaries	17	14,656	15,658
Bank balances and cash	22	11	11
		<u>14,839</u>	<u>15,836</u>
CURRENT LIABILITIES			
Other payables		444	503
Amounts due to subsidiaries	21	17,160	17,161
		<u>17,604</u>	<u>17,664</u>
NET CURRENT LIABILITIES			
		<u>(2,765)</u>	<u>(1,828)</u>
		<u>276,900</u>	<u>266,556</u>
CAPITAL AND RESERVES			
Share capital	25	152,184	152,184
Share premium and reserves	26	124,716	114,372
		<u>276,900</u>	<u>266,556</u>

Albert HUI Wing Ho
Director

William CHENG Kai Man
Director

Consolidated Statement of Changes in Equity

For the Year Ended 31st December, 2007

	Attributable to shareholders of the Company									
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i> <i>(Note (a))</i>	Securities revaluation reserve <i>HK\$'000</i> <i>(Note (b))</i>	Translation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Own shares held by a subsidiary <i>HK\$'000</i> <i>(Note (c))</i>	Total <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2006	152,184	20,068	22,641	(12,252)	–	451,357	(12,834)	621,164	997,431	1,618,595
Exchange differences arising on translation of foreign operations	–	–	–	–	808	–	–	808	1,502	2,310
Surplus on revaluation of properties upon reclassification to investment properties <i>(note 13(b))</i>	–	–	74	–	–	–	–	74	140	214
Deferred tax on revaluation of properties	–	–	(13)	–	–	–	–	(13)	(25)	(38)
Net income recognised directly in equity	–	–	61	–	808	–	–	869	1,617	2,486
Profit for the year	–	–	–	–	–	40,881	–	40,881	73,025	113,906
Total recognised income for the year	–	–	61	–	808	40,881	–	41,750	74,642	116,392
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(3,367)	(3,367)
At 31st December, 2006	152,184	20,068	22,702	(12,252)	808	492,238	(12,834)	662,914	1,068,706	1,731,620
Exchange differences arising on translation of foreign operations	–	–	–	–	1,201	–	–	1,201	1,290	2,491
Profit for the year	–	–	–	–	–	197,442	–	197,442	539,720	737,162
Total recognised income for the year	–	–	–	–	1,201	197,442	–	198,643	541,010	739,653
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(4,976)	(4,976)
Disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	230,441	230,441
Deemed disposal of interest in a subsidiary	–	–	–	–	–	–	–	–	165,057	165,057
At 31st December, 2007	152,184	20,068	22,702	(12,252)	2,009	689,680	(12,834)	861,557	2,000,238	2,861,795

Notes:

- (a) The property revaluation reserve is frozen upon the transfer and will be transferred to retained profits when the relevant properties are disposed of.
- (b) Included in securities revaluation reserve at 31st December, 2007 is the Group's share of a decrease in change in value of securities amounted to HK\$12,252,000 (2006: HK\$12,252,000) attributable to the securities held by an associate. The associate has become a subsidiary of the Company since 2001.
- (c) The own shares held by a subsidiary represents the carrying amount of shares in the Company held by an entity at the time the entity became a subsidiary of the Company.

Consolidated Cash Flow Statement

For the Year Ended 31st December, 2007

	2007 HK\$'000	2006 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	911,811	137,267
Adjustments for:		
Interest income from bank deposits	(2,010)	(3,418)
Finance costs	21,637	6,413
Share of loss of an associate	4	195
Losses on disposal and deemed disposal of interests in a subsidiary	79,221	–
Impairment loss recognised in respect of interest in an associate	123	–
Decrease (increase) in fair value of investments held for trading	2,091	(1,134)
Revaluation surplus/increase in fair value of investment properties	(922,619)	(81,170)
Gain on change in value of leasehold interest in land upon transfer to investment properties	–	(2,804)
Gain on disposal of property, plant and equipment	(9,320)	(170)
Depreciation of property, plant and equipment	19,341	16,632
Release of prepaid lease payments for land	12,065	12,118
	<hr/>	<hr/>
Operating cash flows before movements in working capital	112,344	83,929
(Increase) decrease in inventories	(74)	127
Increase in properties for sale	(6,029)	(332)
(Increase) decrease in trade and other receivables	(4,395)	2,190
Increase in other deposits and prepayments	(532)	(528)
Increase in deposits paid on acquisition of land	–	(19,500)
Decrease in trade balance due from an associate	–	14
Decrease in trade and other payables	(452)	(1,781)
Increase in rental and other deposits received	14,463	2,919
	<hr/>	<hr/>
Cash generated from operations	115,325	67,038
Hong Kong Profits Tax paid	(12,034)	(5,803)
Income tax of elsewhere paid	(302)	(1,324)
Interest from bank deposits received	2,010	3,418
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	104,999	63,329
INVESTING ACTIVITIES		
Purchase of investment properties	(526,339)	–
Balance paid for prepaid lease payment	(405,501)	–
Expenditure on property under development	(82,427)	(119,168)
Acquisition of property, plant and equipment	(12,942)	(4,875)
Deposits paid on acquisition of land	(4,694)	–
Proceeds from disposal of partial interest in a subsidiary	180,664	–
Proceeds from disposal of property, plant and equipment	9,389	458
Dividends received from an associate	427	–
Decrease in pledged bank deposits	–	13
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(841,423)	(123,572)

Consolidated Cash Flow Statement (Continued)

For the Year Ended 31st December, 2007

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
FINANCING ACTIVITIES		
New bank loans raised	835,300	96,000
Repayment of bank loans	(278,571)	(26,666)
Repayment to associate	(2,269)	–
Proceeds from placement of new shares of a subsidiary	139,000	–
Interest paid	(29,531)	(12,871)
Dividend paid to minority shareholders	(4,976)	(3,367)
Expenses incurred in relation to placement of new shares of a subsidiary	(3,397)	–
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	655,556	53,096
	<hr/>	<hr/>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(80,868)	(7,147)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	93,180	100,296
Effects of foreign exchange rate changes	(58)	31
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash	12,254	93,180
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Consolidated Financial Statements

For the Year ended 31st December, 2007

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 hotels, property investment, property development and trading, securities investment and trading, and treasury investment.

The directors consider the Company’s parent and ultimate holding company to be Trillion Resources Limited, an international business company incorporated in the British Virgin Islands (the “BVI”).

The address of the registered office and principal place of business of the Company is 3rd Floor, Shun Ho Tower, 24-30 Ice House Street, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”)

In the current year, the Group and the Company have applied, for the first time, the following new standard, amendment to Hong Kong Accounting Standards (“HKAS”), amendment and interpretations (“HK(IFRIC)-Int”) (new “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s and the Company’s financial year beginning on 1st January, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of new HKFRSs has resulted in the following areas:

- The impact of application of HKFRS 7 “Financial Instruments: Disclosures” has been to expand the disclosures provided in the consolidated financial statements regarding the Group’s and the Company’s financial instruments, especially on the sensitivity analysis to market risk.
- The impact of application of HKAS 1 (Amendment) “Capital Disclosures” has been to disclose information regarding its objectives, policies and processes for managing capital.

The application of the remaining new HKFRSs has had no material effect on how the results and financial position of the Group and the Company for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS(S)”) (Continued)

The Group and the Company have not early adopted the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions ³
HK(IFRIC) – Int 12	Service Concession Arrangements ⁴
HK(IFRIC) – Int 13	Customer Loyalty Programmes ⁵
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

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 March, 2007

⁴ Effective for annual periods beginning on or after 1st January, 2008

⁵ Effective for annual periods beginning on or after 1st July, 2008

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group and the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses have been eliminated on consolidation.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Treasury shares

Magnificent Estates Limited ("Magnificent") became a subsidiary of the Company in 2001. On consolidation, the shares in the Company held by a subsidiary of Magnificent have been accounted for using the treasury stock method whereby consolidated shareholders' equity is reduced by the carrying amount of the shares in the Company held by the said subsidiary at the date when Magnificent became a subsidiary of the Company. On disposal of the shares in the Company held by the said subsidiary, the difference between the sale consideration and the carrying amount of the shares disposed of together with the related securities revaluation reserve are recognised in retained profits.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Revenue from sale of properties held for sale in the ordinary course of business is recognised when all of the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to buyers, which is upon the execution of a binding sales agreement;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend from investments is recognised when the Group's right to receive payment is established.

Interest from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Transfer from investment property to property, plant and equipment will be made when there is a change in use, evidenced by commencement of owner occupation. For the transfer from investment properties carried at fair value to owner-occupied property, the property's deemed cost for subsequent accounting are determined by reference to its fair value at the date of change in use. Property interests held under operating lease previously classified as an investment property and accounted for as if it were a finance lease shall continue to account for the lease as a finance lease, even if subsequent event changes the nature of the property interest so that it is no longer classified as investment property.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment including land and building held for use in supply of services or for administrative purposes are stated at cost or deemed cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Property under development, which represents buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Property being constructed or developed for future use as an investment property carried at fair value

Property that is being constructed or developed for future use as an investment property is classified as property under development and carried at cost less recognised impairment loss until construction or development is complete, at which time it is reclassified to and subsequently accounted for as investment property. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Investments in subsidiaries

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

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an investment in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit and loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Properties held for sale

Completed properties held 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 direct attributable expenses. Net realisable value, representing the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale, is determined by the management based on prevailing market conditions.

Inventories

Inventories, representing inventories of food and beverages, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

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. An impairment loss is recognised in the profit or loss immediately.

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 in the profit or loss immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheets when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at fair value through profits or loss ("FVTPL"), available-for-sale investments and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL comprise financial assets held for trading. A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Loans and receivables

Loans and receivables (including trade and other receivables, other deposits, amounts due from subsidiaries, pledged bank deposits, bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sales equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 to 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from subsidiaries, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When such receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities (including trade and other payables, rental and other deposits received, amount due to an associate, amounts due to subsidiaries and bank loans) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating lease, included rentals invoiced in advance from properties let under operating leases, is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Leasehold land and building

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for the leasehold land included in the investment properties held to earn rental and/or for capital appreciation.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year ended 31st December, 2007

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 profit as reported in the consolidated 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 the 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment 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 profit or loss, 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. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to the Group's Mandatory Provident Fund Scheme ("the MPF") and other defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

4. REVENUE

Revenue represents the aggregate of income from operation of hotels, property rental income, interest and dividend income, and is analysed as follows:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Income from operation of hotels	197,658	170,228
Property rental income	32,341	17,235
Interest income from debt securities	1,351	1,268
Dividend income	80	40
	<u>231,430</u>	<u>188,771</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
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 Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

Segment information about these businesses is presented below:

REVENUE AND RESULTS

At 31st December, 2007

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External	<u>197,658</u>	<u>32,341</u>	<u>–</u>	<u>1,431</u>	<u>231,430</u>
SEGMENT RESULTS					
Operations	74,037	29,112	–	(660)	102,489
Revaluation surplus/increase in fair value of investment properties	<u>–</u>	<u>922,619</u>	<u>–</u>	<u>–</u>	<u>922,619</u>
	<u>74,037</u>	<u>951,731</u>	<u>–</u>	<u>(660)</u>	<u>1,025,108</u>
Other income					11,902
Unallocated corporate expenses					(103,435)
Impairment loss on recognised in respect of interest in an associate					(123)
Share of loss of an associate					(4)
Finance costs					<u>(21,637)</u>
Profit before taxation					911,811
Income tax expense					<u>(174,649)</u>
Profit for the year					<u>737,162</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

CONSOLIDATED ASSETS AND LIABILITIES

At 31st December, 2007

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	945,702	3,067,069	26,249	22,504	4,061,524
Unallocated corporate assets					62,146
Consolidated total assets					<u>4,123,670</u>
LIABILITIES					
Segment liabilities	14,485	37,728	4,694	421	57,328
Unallocated corporate liabilities					1,204,547
Consolidated total liabilities					<u>1,261,875</u>

OTHER INFORMATION

Year ended 31st December, 2007

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions			
– property, plant and equipment	1,031	185	1,216
– investment properties	–	526,339	526,339
– property under development	–	93,651	93,651
Depreciation of property, plant and equipment and release of prepaid lease payments for land	<u>27,461</u>	<u>761</u>	<u>28,222</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

REVENUE AND RESULTS

Year ended 31st December, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE					
External	<u>170,228</u>	<u>17,235</u>	<u>–</u>	<u>1,308</u>	<u>188,771</u>
SEGMENT RESULTS					
Operations	49,708	15,899	2,500	2,433	70,540
Increase in fair value of investment properties	<u>–</u>	<u>81,170</u>	<u>–</u>	<u>–</u>	<u>81,170</u>
	<u>49,708</u>	<u>97,069</u>	<u>2,500</u>	<u>2,433</u>	151,710
Other income					5,262
Gain on change in value of leasehold interest in land upon transfer to investment properties					2,804
Unallocated corporate expenses					(15,901)
Share of loss of an associate					(195)
Finance costs					<u>(6,413)</u>
Profit before taxation					137,267
Income tax expense					<u>(23,361)</u>
Profit for the year					<u>113,906</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segments (Continued)

CONSOLIDATED ASSETS AND LIABILITIES

At 31st December, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	966,433	1,120,251	36,823	24,588	2,148,095
Interests in associates					554
Unallocated corporate assets					112,984
Consolidated total assets					<u>2,261,633</u>
LIABILITIES					
Segment liabilities	12,441	30,553	118	437	43,549
Unallocated corporate liabilities					486,464
Consolidated total liabilities					<u>530,013</u>

OTHER INFORMATION

Year ended 31st December, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions			
– property, plant and equipment	3,896	2	3,898
– property under development	–	148,970	148,970
Depreciation of property, plant and equipment and release of prepaid lease payments for land			
	<u>27,421</u>	<u>119</u>	<u>27,540</u>

Geographical segments

The following is an analysis of the Group's revenue by geographical markets:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Hong Kong	169,112	138,936
Macau	41,968	32,509
Other regions in the People's Republic of China (the "PRC")	20,350	17,326
	<u>231,430</u>	<u>188,771</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

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

	Carrying amounts of segment assets		Additions to property, plant and equipment, investment properties and property under development	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets				
Hong Kong	3,687,498	1,780,260	620,950	151,381
Macau	283,701	277,928	94	747
Other regions in the PRC	90,325	89,907	162	740
	<u>4,061,524</u>	<u>2,148,095</u>	<u>621,206</u>	<u>152,868</u>

6. OTHER INCOME

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
Included in other income are:		
Interest on bank deposits	2,010	3,418
Gain on disposal of property, plant and equipment	9,320	170
Deposit from sale of properties forfeited	–	2,500
Others	572	2,800
	<u>11,902</u>	<u>8,888</u>

7. FINANCE COSTS

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
Interests on bank loans wholly repayable within five years	29,531	12,871
Less: amount capitalised in property under development	(7,894)	(6,458)
	<u>21,637</u>	<u>6,413</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

8. LOSSES ON DISPOSAL AND DEEMED DISPOSAL OF INTERESTS IN A SUBSIDIARY

On 23rd February, 2007, the Company disposed of 579,000,000 ordinary shares in Magnificent, a subsidiary of the Company, representing 10.6% of the total issued share capital of Magnificent, at HK\$0.205 per ordinary share.

Pursuant to a subscription agreement dated 30th April, 2007 entered into between Magnificent and its minority shareholder, 500,000,000 new ordinary shares of HK\$0.01 each of Magnificent were issued at a price of HK\$0.278 per new ordinary share. The transaction, constitutes as a deemed disposal of interests in Magnificent, was completed on 21st June, 2007.

In addition, on 8th August, 2007, the Company disposed of a further of 216,000,000 ordinary shares in Magnificent, representing 3.62% of the total issued share capital of Magnificent, at HK\$0.30 per ordinary share.

As a result of the above transactions, the total losses recognised on disposal and deemed disposal of partial interests in a subsidiary amounted to HK\$79,221,000 (2006: nil).

9. PROFIT BEFORE TAXATION

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	2,231	2,420
Staff costs including directors' emoluments	53,647	58,250
Depreciation of property, plant and equipment	19,341	16,632
Release of prepaid lease payments for land	15,395	13,889
Less: amount capitalised and included in property under development	(3,330)	(1,771)
	<u>12,065</u>	<u>12,118</u>
Operating lease rental in respect of rented equipment	331	202
Rental income in respect of investment properties under operating leases, less outgoings of HK\$2,297,000 (2006: HK\$432,000)	(30,044)	(16,803)
	<u>(30,044)</u>	<u>(16,803)</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to the Company's directors are as follows:

	Year ended 31st December, 2007				
	Directors' fees <i>HK\$'000</i>	Basic salaries, allowances and benefits-in-kind <i>HK\$'000</i>	Performance related bonus <i>HK\$'000</i>	Contributions to provident fund schemes <i>HK\$'000</i>	Total <i>HK\$'000</i>
Mr. William Cheng Kai Man	–	3,154	721	12	3,887
Mr. Albert Hui Wing Ho	–	1,128	330	12	1,470
Mr. Fung Chi Keung (resigned on 19th March, 2007)	–	174	52	3	229
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	50	–	–	–	50
Mr. Vincent Kwok Chi Sun	116	–	–	–	116
Mr. Chan Kim Fai	100	–	–	–	100
Mr. Hui Kin Hing	100	–	–	–	100
	366	4,456	1,103	27	5,952
	Year ended 31st December, 2006				
	Directors' fees <i>HK\$'000</i>	Basic salaries, allowances and benefits-in-kind <i>HK\$'000</i>	Performance related bonus <i>HK\$'000</i>	Contributions to provident fund schemes <i>HK\$'000</i>	Total <i>HK\$'000</i>
Mr. William Cheng Kai Man	–	3,329	601	12	3,942
Mr. Albert Hui Wing Ho	–	1,032	85	12	1,129
Mr. Fung Chi Keung	–	641	53	12	706
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	50	–	–	–	50
Mr. Vincent Kwok Chi Sun	100	–	–	–	100
Mr. Chan Kim Fai	100	–	–	–	100
Mr. Hui Kin Hing	100	–	–	–	100
	350	5,002	739	36	6,127

No directors waived any emoluments in the year ended 31st December, 2007 and 2006.

The performance related bonus payable to the executive directors is determined based on the performance of the individual directors.

During the year ended 31st December, 2007 and 2006, no emolument was paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, two (2006: three) were directors of the Company, whose emoluments are included above. The emoluments of the remaining three individuals (2006: two individuals), whose emoluments are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Basic salaries, allowances and benefits-in-kind	1,835	1,026
Contributions to provident fund schemes	36	24
Performance related bonus	418	255
	<u>2,289</u>	<u>1,305</u>

11. INCOME TAX EXPENSE

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
The taxation charge comprises:		
Current tax		
Hong Kong	11,473	7,956
PRC	61	–
Other jurisdiction	1,457	–
	<u>12,991</u>	<u>7,956</u>
Under(over)provision in prior years:		
Hong Kong	609	(46)
Other jurisdiction	–	1,324
	<u>609</u>	<u>1,278</u>
Deferred tax (note 27)		
Current year	161,576	14,127
Attributable to a change in tax rate	(527)	–
	<u>161,049</u>	<u>14,127</u>
	<u>174,649</u>	<u>23,361</u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Notes to the Consolidated Financial Statements (Continued)

For the Year ended 31st December, 2007

11. INCOME TAX EXPENSE (Continued)

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Profit before taxation	911,811	137,267
Tax at the domestic income tax rate of 17.5% (2006: 17.5%)	159,567	24,022
Tax effect of share of results of an associate	1	34
Tax effect of expenses not deductible for tax purpose	14,806	157
Tax effect of income not taxable for tax purpose	(2,273)	(619)
Underprovision in prior years	609	1,278
Tax effect of tax losses not recognised	3,650	366
Utilisation of tax losses previously not recognised	(1,048)	(3,970)
Effect of different tax rates of subsidiary operating in other jurisdiction	(258)	–
Reversal of tax effect on tax losses previously recognised	–	1,727
Decrease in opening deferred tax liability resulting from an decrease in applicable tax rate	(527)	–
Others	122	366
Income tax expense	174,649	23,361

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to shareholders of the Company of HK\$197,442,000 (2006: HK\$40,881,000) and on 241,766,000 (2006: 241,766,000) shares in issue during the year. The number of shares adopted in the calculation of the earnings per share has been arrived at after eliminating the shares in the Company held by a subsidiary.

Diluted earnings per share for both years are not shown as there were no potential dilutive ordinary shares subsisted during both of the years presented.

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2007

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Hotel buildings <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					
At 1st January, 2006	9,975	379,699	33,559	5,259	428,492
Exchange adjustments	–	3,698	275	7	3,980
Additions	–	–	3,502	1,373	4,875
Transferred from investment properties (<i>note a</i>)	17,040	–	–	–	17,040
Transferred to investment properties (<i>note b</i>)	–	(1,320)	–	–	(1,320)
Disposals	–	–	–	(713)	(713)
At 31st December, 2006	27,015	382,077	37,336	5,926	452,354
Exchange adjustments	–	3,802	93	–	3,895
Additions	–	–	1,656	11,286	12,942
Transferred from investment properties (<i>note a</i>)	21,670	–	–	–	21,670
Disposals	–	–	(51)	(196)	(247)
At 31st December, 2007	48,685	385,879	39,034	17,016	490,614
DEPRECIATION					
At 1st January, 2006	837	19,032	7,183	2,868	29,920
Exchange adjustments	–	429	30	5	464
Provided for the year	435	8,491	7,075	631	16,632
Eliminated on transfer	–	(164)	–	–	(164)
Eliminated on disposals	–	–	–	(425)	(425)
At 31st December, 2006	1,272	27,788	14,288	3,079	46,427
Exchange adjustments	–	211	46	1	258
Provided for the year	932	8,480	7,260	2,669	19,341
Eliminated on disposals	–	–	(48)	(130)	(178)
At 31st December, 2007	2,204	36,479	21,546	5,619	65,848
CARRYING AMOUNTS					
At 31st December, 2007	46,481	349,400	17,488	11,397	424,766
At 31st December, 2006	25,743	354,289	23,048	2,847	405,927

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

14. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments comprise:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Land in Hong Kong on		
Long leases	517,764	455,507
Medium-term leases	462,944	299,880
	<u>980,708</u>	<u>755,387</u>
Land in Macau on medium-term leases	28,997	29,677
Land in the PRC on medium-term leases	30,417	31,254
	<u>1,040,122</u>	<u>816,318</u>
Analysed for reporting purposes as:		
Non-current asset	1,028,057	802,483
Current asset	12,065	13,835
	<u>1,040,122</u>	<u>816,318</u>

15. INVESTMENT PROPERTIES

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
FAIR VALUE		
At the beginning of the year	634,330	560,000
Additions	526,339	–
Reclassified to property, plant and equipment (<i>note 13a</i>)	(21,670)	(17,040)
Reclassified from property under development (<i>note 16</i>)	288,830	–
Reclassified from hotel buildings and prepaid lease payments for land (<i>note 13b</i>)	–	10,200
Reclassified from prepaid lease payments for land	185,802	–
Revaluation surplus upon completion of the development	784,842	–
Increase in fair value recognised in consolidated income statement	137,777	81,170
	<u>2,536,250</u>	<u>634,330</u>
At the end of the year		

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

15. INVESTMENT PROPERTIES (Continued)

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

	2007 HK\$'000	2006 HK\$'000
Land and buildings in Hong Kong on land held:		
On long leases	1,646,350	381,330
Under medium-term leases	757,600	127,000
Land and buildings in Macau held under medium-term leases	132,300	126,000
	<u>2,536,250</u>	<u>634,330</u>

During the year, development cost totalling HK\$288,830,000 and prepaid lease payments for land of HK\$185,802,000 were transferred from the balances of property under development and prepaid lease payments for land, respectively, to investment properties upon the completion of the development of certain investment properties. The fair value of such investment properties at the date of transfer was determined by reference to a valuation carried out by Century 21 Surveyors Limited. The valuation was arrived at by reference to market evidence of transaction price for similar properties. The difference (revaluation surplus) between the fair value of such investment properties and its aggregate costs upon completion of the development amounted to HK\$784,842,000 has been recognised in the consolidated income statement.

The fair value of the Group's investment properties at 31st December, 2007 has been arrived at on the basis of a valuation carried out on that date by Dudley Surveyors Limited, an independent qualified professional valuers not connected with the Group, who have appropriate qualifications and recent experience in the valuation of similar properties in the relevant location. The valuation report on these properties is signed by a director of Dudley Surveyors Limited who is a member of The Hong Kong Institute of Valuers ("HKIS"), and the valuation, which is prepared in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by HKIS, was arrived at by adopting the direct comparison approach making reference to the recent transactions of similar properties under the prevailing property market conditions.

All of the Group's leasehold interests in land held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The investment properties of the Group with an aggregate carrying amount of approximately HK\$2,530 million (2006: HK\$613 million) were rented out under operating leases at the balance sheet date.

16. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
At cost		
At the beginning of the year	234,897	85,927
Additions	93,651	148,970
Transferred to investment properties (note 15)	(288,830)	–
	<u>39,718</u>	<u>234,897</u>

The Group's property under development is situated in Hong Kong on long lease.

Included in the carrying amounts of the property under development at the end of the year are interest expenses of HK\$4,828,000 (2006: HK\$12,803,000) capitalised.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

17. INVESTMENTS IN/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2007	2006
	HK\$'000	HK\$'000
INVESTMENTS IN SUBSIDIARIES		
Cost of investment, unlisted	<u>51,713</u>	<u>41,126</u>
AMOUNTS DUE FROM SUBSIDIARIES	<u>242,608</u>	<u>242,916</u>
Analysed for reporting purpose as:		
Non-current asset	<u>227,952</u>	<u>227,258</u>
Current asset	<u>14,656</u>	<u>15,658</u>
	<u>242,608</u>	<u>242,916</u>

The amounts due from subsidiaries are interest free and unsecured with no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within next twelve months from the balances sheet date, accordingly are classified as non-current. The interest-free amount is measured at amortised cost using the effective interest method, less any identified impairment losses. The carrying amounts of these amounts due from subsidiaries at 31st December, 2007 are reduced by HK\$10.6 million (2006: HK\$11.3 million), with a corresponding increase in investments in subsidiaries as deemed contribution by the Company to these subsidiaries. The effective interest rate on the amounts due from subsidiaries in respect of the year is 5.3% (2006: 5.2%) per annum.

Particulars regarding the principal subsidiaries at 31st December, 2007 and 2006 are set out in note 33.

18. INTEREST IN AN ASSOCIATE

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
Cost of investments, unlisted	123	123
Impairment loss recognised	(123)	–
Share of post-acquisition profits/losses, net of dividend received	–	431
	<u>–</u>	<u>554</u>

The unlisted investment at 31st December, 2007 represents the Group's 50% equity interest in Lucky Country Development Limited, a company incorporated and operating in Hong Kong which was inactive during the year.

The Group has recognised an impairment loss of HK\$123,000 in the current year as the directors expect that the associate will be liquidated within 12 months from the balance sheet date and the cost of investment in the associate will not be recoverable in the future.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

	THE GROUP			
	Available-for-sale investments		Investments held for trading	
	Non-current		Current	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed securities at fair value (<i>note a</i>)				
Equity securities listed in Hong Kong	–	–	240	107
Debt securities listed outside Hong Kong	–	–	20,691	22,915
Unlisted equity investments (<i>note b</i>)	780	780	–	–
	780	780	20,931	23,022

Notes:

- (a) The fair value of listed securities is determined by reference to quoted market bid price.
- (b) The unlisted equity investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

20. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
0-30 days	11,670	9,132
31-60 days	2,304	1,676
Over 60 days	1,268	403
	<u>15,242</u>	<u>11,211</u>
Analysed for reporting as:		
Trade receivables	15,242	11,211
Other receivables	1,650	1,286
	<u>16,892</u>	<u>12,497</u>

Before accepting any new customer, the Group has assessed its credit quality and defined credit rating limits. The limit attributed to customers are reviewed every year that 76% (2006: 81%) of the trade receivables are neither past due nor impaired, and no impairment has been made to trade receivables, as the directors believe that the amounts are with good credit quality.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$3,572,000 (2006: HK\$2,079,000) which are past due at the reporting date for which the Group has not provided for impairment loss, taking into account the past default experience. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2007	2006
	HK\$'000	HK\$'000
31-60 days	2,304	1,676
Over 60 days	1,268	403
Total	<u>3,572</u>	<u>2,079</u>

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured, interest free and repayable on demand.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits carry interest at the prevailing market interest rates ranging from 1% to 2.2% (2006: 3%) per annum and represent deposits pledged to a bank to secure short-term banking facilities granted to the Group.

Bank balances carry interest at prevailing market interest rates ranging from 1.5% to 3% (2006: 2% to 3%) per annum.

23. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
0-30 days	9,307	4,150
31-60 days	986	745
Over 60 days	3,536	1,704
	<u>13,829</u>	<u>6,599</u>
Analysed for reporting as:		
Trade payables	13,829	6,599
Other payables	28,817	36,499
	<u>42,646</u>	<u>43,098</u>

The average credit period on purchase of goods is 30 days. The Group has financial risk management policies in place to ensure that all payables within credit timeframe.

24. BANK LOANS

	THE GROUP	
	2007 HK\$'000	2006 HK\$'000
Secured		
Bank loans due within one year shown under current liabilities	<u>873,550</u>	<u>315,743</u>

All the Group's bank loans are variable-rate borrowings, denominated in functional currency of the relevant subsidiaries and carry interests at HIBOR plus 0.65% to 1.5% in respect of both of the years presented. The bank loans are secured over certain of the Group's properties and are repayable within one year from the balance sheet date. Interest on substantial amount of the bank loans is repriced monthly. Effective interest rate is 5.0% (2006: 4.9%) per annum.

At the balance sheet date, the undrawn bank loan facilities of the Group amounted to an aggregate of approximately HK\$386 million (2006: HK\$636 million).

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

25. SHARE CAPITAL

	Number of shares 2007 & 2006 '000	Nominal value 2007 & 2006 HK\$'000
Ordinary shares of HK\$0.5 each		
Authorised		
At the beginning and the end of the year	<u>400,000</u>	<u>200,000</u>
Issued and fully paid		
At the beginning and the end of the year	<u>304,369</u>	<u>152,184</u>

At 31st December, 2007 and 2006, the Company's 62,603,000 (2006: 62,603,000) issued shares with an aggregate nominal value of HK\$31,301,000 (2006: HK\$31,301,000) were held by a subsidiary of Magnificent. In accordance with the Hong Kong Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

26. SHARE PREMIUM AND RESERVES

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY			
At 1st January, 2006	20,068	83,080	103,148
Profit for the year	<u>—</u>	<u>11,224</u>	<u>11,224</u>
At 31st December, 2006	20,068	94,304	114,372
Profit for the year	<u>—</u>	<u>10,344</u>	<u>10,344</u>
At 31st December, 2007	<u>20,068</u>	<u>104,648</u>	<u>124,716</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

27. DEFERRED TAX LIABILITIES

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

THE GROUP

	Business combination <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2006	123,555	14,001	7,144	(2,653)	142,047
Charge to equity for the year	–	38	–	–	38
(Credit) charge to consolidated income statement	(1,276)	14,727	(1,213)	1,889	14,127
At 31st December, 2006	122,279	28,766	5,931	(764)	156,212
(Credit) charge to consolidated income statement	(1,276)	161,458	8,141	(6,747)	161,576
Effect of change in tax rate	–	–	(527)	–	(527)
At 31st December, 2007	121,003	190,224	13,545	(7,511)	317,261

At the balance sheet date, the Group had unused tax losses of HK\$68,323,000 (2006: HK\$43,811,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK\$42,920,000 (2006: HK\$3,542,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$25,403,000 (2006: HK\$40,269,000) due to the unpredictability of future profit streams. Substantially all of the unrecognised tax losses may be carried forward indefinitely.

In prior year, the unused tax losses brought forward of the Group of HK\$21,736,000, which represented the depreciation allowances and deductible expenses claimed, was not agreed by the tax authorities as available for off-setting future assessable profits. Out of such losses, an amount of HK\$13,144,000 had been recognised as deferred tax asset in prior years. Accordingly, a deferred tax asset previously recognised on such losses amounted to HK\$1,727,000 was reversed during prior year.

28. PROJECT COMMITMENTS

At the balance sheet date, the Group had outstanding commitments contracted for but not provided in the consolidated financial statements in respect of the following:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
(a) Property development expenditure	<u>16,537</u>	<u>50,761</u>
(b) Acquisition of land for development	<u>89,186</u>	<u>175,500</u>
(c) Expenditures for hotel improvements	<u>–</u>	<u>132</u>

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

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

29. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year is HK\$32,341,000 (2006: HK\$17,235,000). The properties under leases have committed tenants for one to nine years from the balance sheet date 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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	43,280	16,791
More than one year but not more than five years	52,740	20,429
Over five years	3,116	12,597
	<u>99,136</u>	<u>49,817</u>

The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of rented equipment under non-cancellable operating leases which fall due as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	102	1,117
More than one year but not more than five years	7	–
	<u>109</u>	<u>1,117</u>

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

30. PLEDGE OF ASSETS

At 31st December, 2007, the bank loan facilities of the Group were secured by the following:

- (a) leasehold interest in land, investment properties and property under development and property, plant and equipment of the Group with carrying amount of HK\$775 million (2006: HK\$563 million), HK\$2,047 million (2006: HK\$141 million), HK\$40 million (2006: HK\$235 million) and HK\$187 million (2006: 193 million), respectively;
- (b) assignment of the Group's rentals and hotel revenue; and
- (c) pledge of the listed securities with an aggregate market value of approximately HK\$21 million (2006: HK\$23 million) and the bank deposits with a carrying amount of HK\$110,000 (2006: HK\$110,000) held by subsidiaries. The pledged listed securities represent the debt securities held by a subsidiary of Magnificent as detailed in note 19.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

31. RETIREMENT BENEFIT PLANS

The Group operates a MPF 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 (limited to HK\$12,000 per annum of each individual employee) 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 paid and payable to the schemes by the Group in respect of the year which were charged to the consolidated income statement amounted to HK\$1,747,000 (2006: HK\$1,589,000). The forfeited contributions under the Group's defined contribution retirement scheme are immaterial.

32. RELATED PARTY TRANSACTIONS

Other than as disclosed above, the Group and the Company had the following transactions and balances with related parties during the year:

- (a) At 31st December, 2006, the Group had an amount due to its associate, Lucky Country Development Limited ("Lucky Country") which was unsecured, interest free and repayable on demand. At 31st December, 2006, the amount due to Lucky Country was HK\$2,269,000.
- (b) The compensation of key management personnel paid or payable by the Group in respect of the year was as follows:

	2007	2006
	HK\$'000	HK\$'000
Short-term benefits	5,925	6,091
Post-employment benefits	27	36
	5,952	6,127

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

All the principal subsidiaries are incorporated and operating in Hong Kong except as otherwise indicated. None of the subsidiaries had any debt securities outstanding at 31st December, 2007 or at any time during the year.

Name of subsidiary	Paid up issued ordinary share/ registered capital		Proportion of nominal value of issued ordinary share/ registered capital held by				Principal activities
	Number of shares	Par value	2007		2006		
			Company %	Subsidiary %	Company %	Subsidiary %	
Babenna Limited	2	HK\$10	–	100	–	100	Investment holding
Beautiful Sky Investment Limited	2	HK\$1	–	100	–	100	Property development
City Wealth Limited	2	HK\$1	–	100	–	100	Property investment
Claymont Services Limited (i)	1	US\$1	–	100	–	100	Investment holding
Good Taylor Limited	2	HK\$1	–	100	–	100	Investment holding
Grand-Invest & Development Company Limited (ii)	100,000	MOP1	–	100	–	100	Hotel investment and operation
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	–	100	Property development
Himson Enterprises Limited	2	HK\$1	–	100	–	100	Property investment
Himson Enterprises Limited (i)	1	US\$1	–	100	–	100	Investment holding
Hotel Taipa Limited	2	HK\$10	–	100	–	100	Property development
Houston Venture Limited	2	HK\$1	–	100	–	100	Property investment
Houston Venture Limited (i)	1	US\$1	–	100	–	100	Investment holding
Joes River Limited	2	HK\$1	–	100	–	100	Property investment
Longham Investment Limited	2	HK\$1	–	100	–	100	Investment holding
Longham Investment Limited (i)	1	US\$1	–	100	–	100	Investment holding
Magnificent Estates Limited	5,964,700,883	HK\$0.01	–	50.1	–	69.2	Investment holding and provision of management services
Magnificent International Hotel Limited	2	HK\$1	–	100	–	100	Hotel investment and operation
Mercury Fast Limited	2	HK\$1	–	100	–	100	Securities dealings and investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	–	100	Vessel leasing
Noblesse International Limited (i)	1	US\$1	–	100	–	100	Property investment
Omnico Company Inc (iv)	1	US\$1	100	–	100	–	Investment holding
Shanghai Shun Ho (Lands Development) Limited (i)	1	US\$1	–	100	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (iii)	Registered capital	US\$4,950,000	–	100	–	100	Hotel investment and operation
Shun Ho Capital Properties Limited (i)	1	US\$1	–	100	–	100	Investment holding
Shun Ho (Lands Development) Limited (i)	10	US\$1	–	100	–	100	Investment holding
Shun Ho Construction Holdings Limited	2	HK\$10	–	100	–	100	Investment holding
Shun Ho Technology Holdings Limited	537,076,602	HK\$0.5	50.2	15.1	50.2	15.1	Investment holding
Shun Ho Real Estate Limited	2	HK\$1	–	100	–	100	Property development
Silver Courage Company Limited	2	HK\$10	–	100	–	100	Property investment
South Point Investments Limited (i)	1	US\$1	–	100	–	100	Investment holding
Tennyland Limited	2	HK\$10	–	100	–	100	Property investment
Trans-Profit Limited	1,000,000	HK\$1	–	100	–	100	Property investment
United Assets Company Limited	2,000,000	HK\$1	–	100	–	100	Hotel investment and operation

(i) Incorporated in the BVI

(ii) Incorporated and operating in Macau

(iii) Sino foreign co-operative joint venture established and operating in the PRC

(iv) Incorporated in the Republic of Liberia

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

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.

34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes the bank loans disclosed in note 24 (net of bank balances and cash) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained profit as disclosed in consolidated statement of changes in equity.

The management of the Group reviews the capital structure periodically. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Currently, the management use short term funding to finance its acquisition of investment properties, expenditure on prepaid lease payments and properties under development to minimise the finance costs. The Group will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

There are no significant changes on the Group's approach to capital management during the year.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	THE GROUP	
	2007	2006
	HK\$'000	HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	30,767	108,731
Investments held for trading	20,931	23,022
Available-for-sale investments	780	780
	<u>52,478</u>	<u>132,533</u>
Financial liabilities		
Amortised cost	<u>909,030</u>	<u>353,882</u>
	THE COMPANY	
	2007	2006
	HK\$'000	HK\$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	<u>242,623</u>	<u>242,927</u>
Financial liabilities		
Amortised cost	<u>17,160</u>	<u>17,161</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The management of the Group and the Company manages the financial risk relating to the operations through the monitoring procedures. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group and the Company do not enter into derivative financial instruments for hedging or speculative purpose.

There has been no significant change to the Group's and Company's exposure to market risks or the manner in which it manages and measures.

(i) Foreign currency risk management

Certain subsidiaries of the Company have investment held for trading denominated in United States dollars, which is other than the functional currency of the relevant group entity (i.e. Hong Kong dollars), which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amount of the Group's and the Company's foreign currency denominated monetary assets at the reporting date is as follows:

	THE GROUP	
	Assets	
	2007	2006
	HK\$'000	HK\$'000
United States dollars	<u>20,691</u>	<u>22,915</u>

Foreign currency sensitivity

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented below represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies. The analysis is preformed on the same basis for 2006.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(i) Foreign currency risk management (Continued)

The following table indicates the approximate change in the Group's profit or loss in response to reasonably possible changes in the foreign exchange rates to which the Group have significant exposure at the balance sheet date.

	THE GROUP			
	2007	Effect on profit or (loss) HK\$'000	2006	Effect on profit or (loss) HK\$'000
Strength (weaken) in currency against functional currency	1%	171	1%	189
United States dollars	(1%)	(171)	(1%)	(189)
Hong Kong dollars (note)	5%	(674)	5%	(812)
	(5%)	674	(5%)	812

Note: This is mainly attributable to the exposure on Hong Kong dollars denominated outstanding amount due to immediate holding company in the subsidiary with the functional currency in Renminbi. This inter-company balance is eliminated in consolidation level.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

THE COMPANY

The carrying amounts of the Company's monetary assets and monetary liabilities are denominated in the Company's functional currency. In management's opinion, the Company does not have significant foreign currency exposure at the balance sheet date.

(ii) Interest rate risk management

The Group and the Company have exposures to cash flow interest rate risk as its pledged bank deposits, bank balances and bank loans are subject to floating interest rate. All bank loans bear interests on floating rates and matured within one year. The Group and the Company currently do not have any interest rate hedging policy. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure. The Group's interest rate risk is mainly concentrated on the fluctuation of HIBOR on advance from a shareholder and bank loans.

The Group's and the Company's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(ii) Interest rate risk management (Continued)

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments including pledged bank deposits, bank balances and bank loans at the balance sheet date. For variable-rate financial instruments, the analysis is prepared assuming the amount of financial instruments outstanding at the balance sheet date is outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the possible change in interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2007 would decrease/increase by HK\$3,552,000 (2006: HK\$918,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate financial instruments.

No sensitivity analysis is performed as the Company does not have significant interest rate exposure at the balance sheet date.

(iii) Other price risks

The Group is exposed to price risks arising from investments held for trading.

Other price sensitivity

The sensitivity analyses below have been determined based on the exposure to price risks at the reporting date. If the market price of the investments held for trading had been 10% higher/lower while all other variables were held constant:

- profit for the year ended 31st December, 2007 would increase/decrease by HK\$1,708,000 (2006: HK\$1,891,000) for the Group. This is mainly due to changes in fair value of investments held for trading.

The Company does not have significant other price risk exposure at the balance sheet date.

(iv) Credit risk management

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and the Company's balance sheet, respectively.

The Group's and the Company's credit risk is primarily attributable to trade receivables, other receivables and amounts due from subsidiaries. In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(iv) Credit risk management (Continued)

The Group and the Company have no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(v) Liquidity risk management

The Group had a net current liabilities of approximately HK\$855 million at 31st December, 2007 which include bank loans of approximately HK\$874 million. The management closely monitors the cash flows of the Group and, upon maturity, would arrange refinancing of the bank loans. At the balance sheet date, the available banking facilities of the subsidiaries amounted to approximately HK\$1,260 million, of which was utilised to the extent of approximately HK\$874 million. As the aggregate market value of the Group's investment properties, hotel properties, property under development and properties for sales is higher than the existing available banking facilities, the directors of the Company considered that additional bank facilities can be obtained upon the request of the Group by further pledge the Group's assets given the current economic environments. Accordingly, the directors of the Company are of the opinion that the Group's liquidity risk is minimal.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

THE GROUP

	Weighted average effective interest rate %	0-30 days HK\$'000	31-60 days HK\$'000	Over 60 days HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2007						
Non-interest bearing	-	22,463	1,427	11,590	35,480	35,480
Variable interest rate instruments	5.02	757,722	119,659	-	877,381	873,550
		<u>780,185</u>	<u>121,086</u>	<u>11,590</u>	<u>912,861</u>	<u>909,030</u>

	Weighted average effective interest rate %	0-30 days HK\$'000	31-60 days HK\$'000	Over 60 days HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2006						
Non-interest bearing	-	26,018	1,545	10,576	38,139	38,139
Variable interest rate instruments	4.94	135,696	181,375	-	317,071	315,743
		<u>161,714</u>	<u>182,920</u>	<u>10,576</u>	<u>355,210</u>	<u>353,882</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

(v) Liquidity risk management (Continued)

The Company had net current liabilities of approximately HK\$3 million at 31st December, 2007 which includes amounts due to subsidiaries of approximately HK\$17 million. The management closely monitors the cash flows of the Company and, upon maturity, would arrange refinancing of the amounts due to subsidiaries. The directors of the Company consider that banking facilities can be obtained by the Company by further pledge of the Group's assets. Accordingly, the directors of the Company are of the opinion that the Company's liquidity risk is minimal.

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

THE COMPANY

	0-30 days HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
2007			
Non-interest bearing	<u>17,160</u>	<u>17,160</u>	<u>17,160</u>
		Total	Carrying
	0-30 days HK\$'000	undiscounted cash flows HK\$'000	amount HK\$'000
2006			
Non-interest bearing	<u>17,161</u>	<u>17,161</u>	<u>17,161</u>

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2007

35. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

36. POST BALANCE SHEET EVENT

On 31st December, 2007, a subsidiary of the Company entered into a provisional agreement with an independent third party for the acquisition of a property in Hong Kong at a consideration of HK\$94 million.

The acquisition has not yet been completed up at the date of approval of these consolidated financial statements.

Financial Summary

	For the year ended 31st December,				
	2003 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
CONSOLIDATED RESULTS					
Revenue	<u>71,863</u>	<u>187,855</u>	<u>232,213</u>	<u>188,771</u>	<u>231,430</u>
Operating profit (loss)	(4,822)	254,727	62,309	137,462	911,815
Share of profit (loss) of associates	<u>4,017</u>	<u>51,281</u>	<u>(222)</u>	<u>(195)</u>	<u>(4)</u>
Profit (loss) before taxation	(805)	306,008	62,087	137,267	911,811
Income tax expense	<u>(8,409)</u>	<u>(10,051)</u>	<u>7,704</u>	<u>(23,361)</u>	<u>(174,649)</u>
Profit (loss) before minority interests	(9,214)	295,957	69,791	113,906	737,162
Minority interests	<u>6,416</u>	<u>(176,607)</u>	<u>(44,765)</u>	<u>(73,025)</u>	<u>(539,720)</u>
Profit (loss) for the year	<u>(2,798)</u>	<u>119,350</u>	<u>25,026</u>	<u>40,881</u>	<u>197,442</u>

	As at 31st December,				
	2003 HK\$'000	2004 HK\$'000 (Restated)	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000
CONSOLIDATED NET ASSETS					
Property, plant and equipment	631,535	267,441	398,572	405,927	424,766
Prepaid lease payments for land	–	806,143	822,489	802,483	1,028,057
Investment properties	588,200	616,200	560,000	634,330	2,536,250
Properties under development	241,967	70,535	85,927	234,897	39,718
Interests in associates	93,300	867	645	554	–
Other assets	780	20,780	780	780	5,474
Negative goodwill	(157,333)	(147,383)	–	–	–
Net current assets (liabilities)	8,404	235,691	(107,771)	(191,139)	(855,209)
Long-term bank loans	(123,625)	(315,785)	–	–	–
Deferred tax liabilities	(89,520)	(149,302)	(142,047)	(156,212)	(317,261)
Minority interests	<u>(765,294)</u>	<u>(888,069)</u>	<u>(997,431)</u>	<u>(1,068,706)</u>	<u>(2,000,238)</u>
Net assets	<u>428,414</u>	<u>517,118</u>	<u>621,164</u>	<u>662,914</u>	<u>861,557</u>

Note:

The results for all years prior to 2004 are stated on the basis of the company's former accounting policies, which were changed with effect from 1st January, 2005 (with 2004 figures restated). Figures prior to 2004 have not been restated as it is not practicable to quantify the effects for those earlier years.

Particulars of Major Properties

At 31st December, 2007

A. HOTEL PROPERTIES

Location	Type of use	Approx. gross floor area (sq.m.)	Lease term	Group's attributable interest
Ramada Hong Kong Hotel 308 Des Voeux Road West Hong Kong	Hotel	14,402	Long lease	100%
Ramada Hotel Kowloon Nos. 73-75 Chatham Road South Tsimshatsui, Kowloon	Hotel	7,767	Medium-term lease	100%
Best Western Hotel Taipa, Macau Estrada Governador Nobre Carvalho No. 822 Taipa, Macau SAR	Hotel	19,479	Medium-term lease	100%
Magnificent International Hotel No. 381 Xizang South Road Shanghai City	Hotel	10,522	Medium-term lease	100%

B. PROPERTIES HELD FOR INVESTMENT

Location	Type of use	Approx. gross floor area (sq.m.)	Lease term	Group's attributable interest
Shun Ho Tower 24-30 Ice House Street Central, Hong Kong	Commercial	5,130	Long lease	100%
No. 633 King's Road North Point, Hong Kong	Commercial	24,023	Long lease	100%
19-23 Austin Avenue Tsimshatsui Kowloon, Hong Kong	Commercial	8,547	Long lease	100%

C. PROPERTIES HELD FOR SALE

Location	Type of use	Approx. gross floor area (sq.m.)	Lease term	Group's attributable interest
R.P. of Section A of Lot No. 665 at Tuen Mun, New Territories Hong Kong	Residential	1,115	Medium-term lease	100%

Particulars of Major Properties (Continued)

At 31st December, 2007

D. PROPERTY UNDER DEVELOPMENT

Location	Type of use	Approx. gross floor area (sq.ft.)	Approx. site area (sq.ft.)	Stage of completion at 31st December, 2007	Expected date of completion	Lease term	Group's attributable interest
30-40 Bowrington Road Causeway Bay Hong Kong	Hotel	63,135	4,209	Under demolition work	2010	Long lease	100%
239-247 Queen's Road West Hong Kong	Hotel	69,641	4,643	Under foundation work	2010	Long lease	100%

Property Portfolio

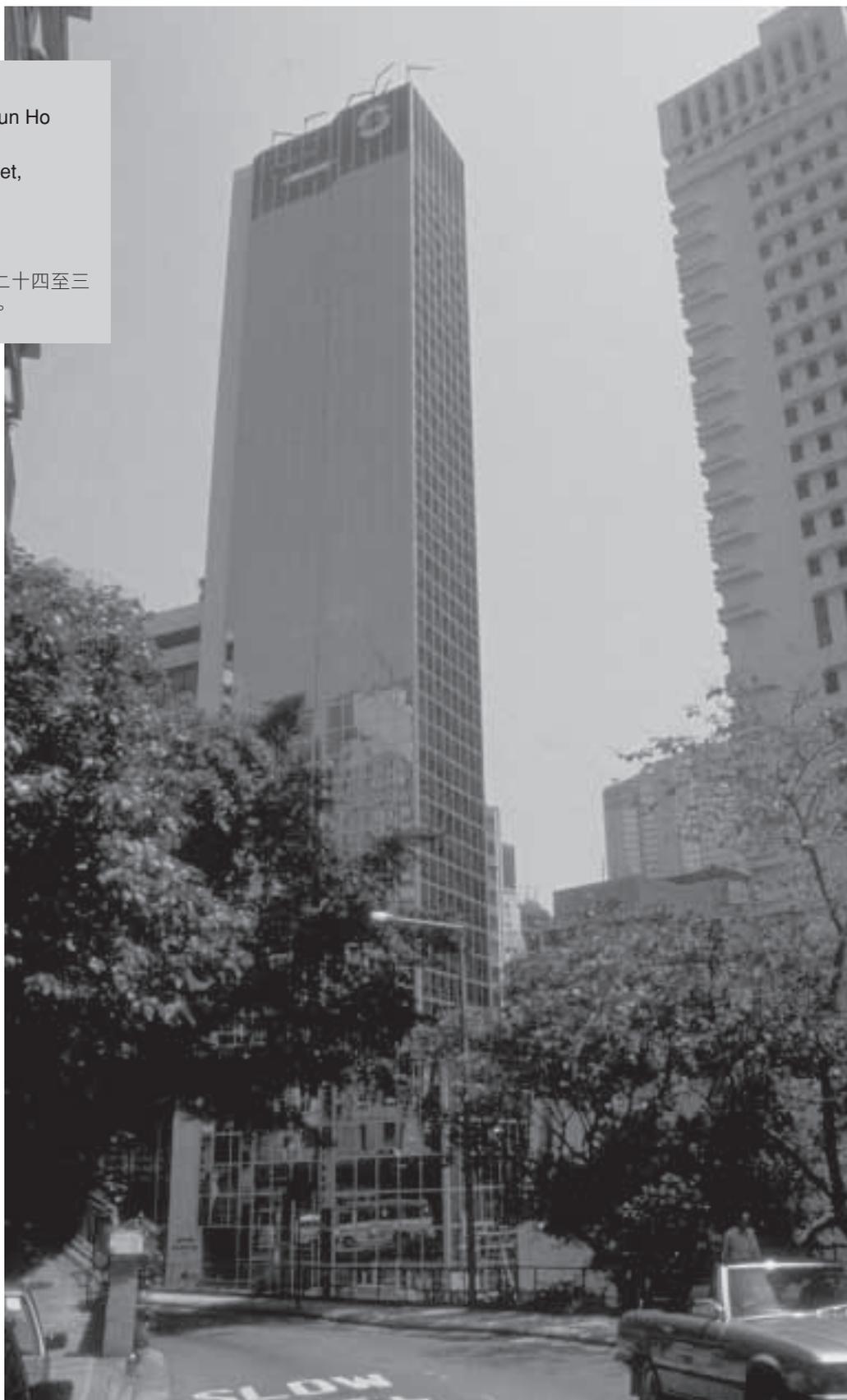
物業組合

Shun Ho Tower

Head office of the Shun Ho Group located at 24-30 Ice House Street, Central, Hong Kong.

順豪商業大廈

位於香港中環雪廠街二十四至三十號之順豪集團總部。



Property Portfolio 物業組合

Ramada Hotel Kowloon

A 205 guest-room (permission was obtained to increase to 305 guest-room) hotel, is excellently located at the heart of Tsimshatsui shopping centre providing good recurring income.

九龍華美達酒店

位於尖沙咀購物中心之優越地帶，擁有二百零五間（已獲批准增加至三百零五間）客房並提供良好經常性收入。





Ramada Hong Kong Hotel
308 Des Voeux Road West,
Hong Kong.
It comprises 330
guest-room, a restaurant,
banquet facilities and
carparks.

香港華美達酒店
香港德輔道西三百零八號。
該酒店包括三百三十間客
房、一間餐廳、宴會設施及
停車場。

Property Portfolio

物業組合

Best Western Hotel Taipa, Macau

Estrada Governador Nobre Carvalho No.822, Macau SAR. It comprises 262 guest-room, 3 restaurants, swimming pool with gym, conference rooms, retail podium and carparks, the ground floor shop was leased to Mocha Slot Management Limited.

澳門格蘭酒店

澳門氹仔嘉樂庇總督大馬路822號。該酒店包括二百六十二間客房、三間餐廳、游泳池、健身室、會議室、零售商場及停車場，地下商舖已租予摩卡角子管理有限公司。





Magnificent International Hotel

A 234-room and a shopping arcade located at the busy Xizang Road, Shanghai.

華美國際酒店

位於上海西藏路繁忙地帶，擁有二百三十四個單位及購物中心。



An elevation design of the building.
擴初設計大樓外貌。



**633 King's Road,
Hong Kong**
Recently completed Grade
A office building.

香港英皇道六百三十三號
最近落成之甲級商廈。

Property Portfolio 物業組合

A 4-star hotel re-development
at 19-23 Austin Avenue,
Tsimshatsui, Kowloon.

九龍尖沙咀柯士甸路
十九至二十三號重建為
四星級酒店之項目。



Property Portfolio

物業組合

A 4-star hotel development
at 30-40 Bowrington Road,
Causeway Bay, Hong Kong.

香港銅鑼灣寶靈頓道
三十至四十號重建為
四星級酒店之項目。



Property Portfolio

物業組合

A 4-star hotel of 435 rooms
development at Queen's Road
West, Hong Kong.

位於香港皇后大道西之四星級四
百三十五間房之酒店發展項目。



Property Portfolio

物業組合

A completed five luxury houses
at Gold Coast, New Territories.

位於新界黃金海岸經已完成之五
間豪華房屋。



