These notes form an integral part of and should be read in conjunction with the accompanying accounts.

1. Principal Activities

The principal activities of the Company comprise those of investment holding and the provision of consultancy services.

Following the restructuring of the Group and the disposal of its hotel and property interests during the year (note 7), the principal activities of its subsidiaries have changed and comprise those of investment holding, e-business enablement, provision of hospitality solutions, hotel management services, reservation services, recreation and entertainment services, insurance sales and risk management services, accounting and payroll services and procurement services.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in note 5 to the accounts.

2. Summary of Significant Accounting Policies

(a) *Statement of Compliance*

These accounts have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) *Basis of Preparation of the Accounts*

The accounts are prepared in accordance with the historical cost convention modified by the revaluation of investment properties and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) *Basis of Consolidation*

(i) The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(ii) For the acquisition of subsidiaries which are accounted for under the purchase method, fair values are assigned to the assets, principally properties, owned by the subsidiaries at the date of acquisition as determined by the directors based on independent professional valuation. Any excess or deficiency of the purchase consideration over the fair values assigned to the net assets acquired is accounted for as goodwill or reserve on consolidation. Goodwill arising on consolidation is written off directly to reserves. For acquisition of subsidiaries which meet the criteria for merger relief, merger accounting is applied.

(iii) On disposal of a subsidiary during the year, any attributable amount of purchased goodwill which has previously been dealt with as a movement on Group reserves is included in the calculation of the profit or loss on disposal.

2. Summary of Significant Accounting Policies (cont'd)

(d) *Fixed Assets and Depreciation*

(i) Hotel properties are stated at cost.

No amortisation is provided on freehold land. Leasehold land is depreciated on a straight line basis over the unexpired period of the lease.

No depreciation is provided on freehold hotel properties, or hotel buildings on leases with 20 years or more to run at the balance sheet date, or on integral fixed plant and machinery. It is the Group's policy to maintain the hotel properties (including integral plant and machinery) in such condition that their value is not diminished by the passage of time. Accordingly, the Directors consider that the residual values of these assets are such that any depreciation would be immaterial. All hotel buildings on leases with less than 20 years to run are depreciated over the unexpired period of the lease.

(ii) Investment properties with an unexpired lease term of more than 20 years are revalued annually and are stated at professional valuation on an open market basis. The net surplus or deficit on revaluation is taken on a portfolio basis to the investment properties revaluation reserve except when the total of the revaluation reserve is not sufficient to cover a deficit, in which case the amount by which the deficit exceeds the amount in the revaluation reserve is charged to the profit and loss account. On disposal of an investment property, the revaluation reserve in respect of the property is taken to the profit and loss account for the year.

Investment properties with an unexpired lease term of 20 years or less are stated at valuation and are depreciated over their remaining leasehold lives.

(iii) Chinaware, glassware, linen, kitchen and bar utensils are included as other equipment and are stated at cost. Major expenditure arising from any increase in capacity of the hotel operations is capitalised whilst replacements are charged to the profit and loss account.

(iv) Construction in progress is stated at cost, less any provisions considered necessary by the Directors. Cost comprises construction costs, borrowing costs and other related expenses incurred in the construction. No depreciation is provided on such properties and capitalisation of borrowing costs and other related expenses cease when substantially all the activities necessary to prepare the asset for its intended use are complete.

(v) Fixed assets other than the above items, are stated at cost less depreciation which is calculated on a straight line basis over their estimated useful lives at the following annual rates:

Freehold properties	– 1% to 2%
Plant, machinery and other equipment (comprising principally non-integral hotel plant and machinery, furniture and fixtures, office equipment and motor vehicles)	– 6% to 33.33%

(vi) The gain or loss arising on disposal of fixed assets other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement on reserves.

2. Summary of Significant Accounting Policies (cont'd)

(d) *Fixed Assets and Depreciation (cont'd)*

(vii) The carrying amounts of fixed assets other than investment properties, are reviewed annually to determine whether they are in excess of their recoverable amounts at the balance sheet date. If the carrying amount exceeds the recoverable amount, the asset is written down to the lower amount. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

(e) *Investments in Subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investments in subsidiaries in the Company’s balance sheet are stated at cost less any provisions for diminution in value which are other than temporary as determined by the directors for each subsidiary individually. Any such provisions are recognised as an expense in the profit and loss account.

(f) *Associates*

(i) An associate is a company in which the Group or Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

(ii) Investment in associate is stated at cost. Provision for diminution in value is made when, in the opinion of the Directors, there has been a decline, other than temporary, in the value of the investment.

(iii) The Group's share of the post-acquisition results of associates for the year is included in the consolidated profit and loss account. The Group's share of their net assets (plus share of any of their goodwill not yet written off) is included in the consolidated balance sheet. Any goodwill or reserve arising on the acquisition of associates is taken directly to reserves. The results of associates are included in the Company's profit and loss account to the extent of dividends declared payable by the associates.

(g) *Other Investments in Securities*

The Group’s and the Company’s policies for investments in securities other than investment in subsidiaries and associates are as follows:

(i) Investments held on a continuing basis for an identified long-term purpose are classified as "investment securities". Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as an expense in the profit and loss account, such provisions being determined for each investment individually.

(ii) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair value. Changes in fair value are recognised in the profit and loss account as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer’s margin.

(iii) Provisions against the carrying value of investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the forseeable future.

(iv) Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

2. Summary of Significant Accounting Policies (cont'd)

(h) *Deferred Expenditure*

Deferred expenditure comprises mainly:

(i) fees paid for the management of hotels which are amortised over the periods of the management contracts; and

(ii) discount and related expenses associated with the issue of loans and non-guaranteed notes, which are amortised over the duration of these borrowings.

These costs are written off directly to the profit and loss account if it is determined that there will not be any expected future benefits arising from them.

(i) *Development Properties*

Development properties are stated at the lower of cost and estimated net realisable value, net of progress billing. Cost of development properties includes borrowing costs and other related expenditure incurred during the period of construction. Net realisable value is determined by reference to the Directors' view, based on prevailing market conditions.

(j) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) *Leased Assets*

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Finance Leases

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts over the shorter of the period of the leases or the estimated useful lives of the assets as set out in note 2(d) above. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2. Summary of Significant Accounting Policies (cont'd)

(k) *Leased Assets (cont'd)*

(ii) Operating Leases

Rents receivable or payable under operating leases are accounted for in the profit and loss account on a straight line basis over the periods of the respective leases.

(l) *Deferred Taxation*

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

In addition, deferred taxation in the consolidated balance sheet includes the potential income tax liability arising from the accumulated revaluation surplus of investment properties.

(m) *Revenue Recognition*

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Revenue arising from hotel and leisure operations, hotel management services, reservation distribution, marketing, consulting, purchasing and technology outsourcing is recognised when the relevant services are provided.

(ii) Revenue arising from insurance and risk management services is recognised based on the net amount retained or the amount billed to the customer less the amount paid to suppliers.

(iii) Rental in respect of properties is recognised on an accrual basis evenly over the periods of the respective tenancies.

(iv) Profits from sale of land are recognised on a completed contract basis. Profits from sale of development properties are recognised on a percentage of completion basis. In respect of profits from the sale of development properties, these are brought into the financial statements only in respect of sale agreements finalised and to the extent that such profits relate to the progress of the construction work.

(v) Interest income is accrued on a time-apportioned basis on the principal outstanding at the rate applicable.

(vi) Dividend income from investments other than associates is recognised when the shareholder's right to receive payment is established.

2. Summary of Significant Accounting Policies (cont'd)

(n) *Foreign Currency Translation*

(i) Monetary assets and liabilities in foreign currencies are translated into the reporting currency of the Company and its subsidiaries at rates of exchange ruling at the balance sheet date and transactions in foreign currencies during the year are translated at rates ruling on the transaction dates. Foreign currency assets, being equity investments or other long term non-monetary assets, the holding or the use or the subsequent disposal of which will generate receipts in a foreign currency, hedged by forward foreign exchange contracts are translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account, except those arising from the translation at closing rates of non-monetary foreign currency assets hedged by forward foreign exchange contracts and the gains and losses on those forward contracts (to the extent of exchange differences arising on the foreign currency assets), which are taken directly to reserves.

(ii) Assets and liabilities of overseas subsidiaries are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date while the results are translated into Hong Kong dollars at the average exchange rates for the year. Exchange differences arising thereon are taken directly to reserves.

(iii) Exchange differences arising from the translation of inter-company balances which represent extension of interests by the Company in its subsidiaries are taken to reserves in the consolidated accounts.

(o) *Software Costs*

Cost incurred to develop or obtain software that allows for access or conversion of old data by new systems is capitalised. Software purchased from third parties is capitalised if the related software under development has reached technological feasibility or if there are alternative future uses for the purchased software. Technological feasibility is attained when software products reach Beta release. These capitalised software costs will be amortised over the lesser of 3 years or the useful life of the software.

Costs incurred prior to the establishment of technological feasibility are charged to product development expense. Costs incurred in connection with business process reengineering are expensed as incurred.

In addition, costs of materials, consultant, interest and payroll related costs for employees incurred in developing internal use computer software is capitalised once technological feasibility is attained. Costs incurred prior to the establishment of technological feasibility are charged to general and administrative expense.

(p) *Borrowing Costs*

Borrowing costs are expensed in the profit and loss account in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(q) *Pension Costs*

The amount charged to the profit and loss account in respect of defined benefit schemes is the estimated cost of providing the benefits accrued in the year, adjusted to reflect adjustments resulting from changes to assumptions made previously. The cost is calculated by reference to triennial actuary reports using the projected benefit method so as to spread the cost of providing the guaranteed benefits over the remaining useful service lives of the employees concerned. Any difference between amounts charged to the profit and loss account and contributions paid to pension schemes is included in prepayments or other creditors in the balance sheet.

Contributions to defined contribution schemes are charged to the profit and loss account as incurred.