

Notes to the Financial Statements

For the Year Ended 31st December, 2004

1. GENERAL

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

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

The directors consider the Company’s ultimate holding company to be Trillion Resources Limited, an international business company incorporated in the British Virgin Islands.

2. POTENTIAL IMPACT ARISING FROM RECENTLY ISSUED ACCOUNTING STANDARDS

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

As a result of the adoption of Hong Kong Financial Reporting Standard 3 “Business Combinations”, the negative goodwill, which is presented as a deduction from assets, will be derecognised and correspondingly, the net assets value of the Group will be increased. The Group has commenced considering the potential impact of the other new HKFRSs but is not yet in a position to quantify the effects of those new HKFRSs on the results of operations and financial position of the Group. The new HKFRSs will result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

Magnificent Estates Limited (“Magnificent”) became a subsidiary of the Company in 2001. On consolidation of Magnificent, 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. The shares in a listed subsidiary, Shun Ho Technology Holdings Limited (“Shun Ho Technology”), held by Magnificent’s subsidiary have been accounted for by Shun Ho Technology on the same basis. 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 together with the related securities revaluation reserve are recognised in retained profits.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill/negative goodwill

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

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

Goodwill arising on acquisitions on or after 1st January, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or after 1st January, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income over the expected useful life of the identifiable assets acquired.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

Interests in subsidiaries

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

Interests in associates

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

Investments in securities

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

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

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

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

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

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

Property, plant and equipment

Hotel properties and furnished suites

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

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

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

Other property, plant and equipment

Other property, plant and equipment are stated at cost or valuation less depreciation where appropriate and any identified impairment loss. Land and buildings reclassified from investment properties are stated at the fair value at the time when the reclassification took place, less subsequent depreciation and any identified impairment loss.

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

Other property, plant and equipment (Continued)

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

| | |
|-----------------------------------|----------------------------|
| Leasehold land | Over the term of the lease |
| Buildings | 2% per annum |
| Furniture, fixtures and equipment | 20% – 33½% per annum |
| Motor vehicles and vessels | 20% per annum |

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

Properties under development

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

Properties for sale

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

Inventories

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

Operating leases

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

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

Impairment

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

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment *(Continued)*

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

Foreign currencies

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

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

Taxation

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

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

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

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

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

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

Notes to the Financial Statements *(Continued)*

For the Year Ended 31st December, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Retirement benefit costs

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

Revenue recognition

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

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

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

Sales of investments are recognised when the sale becomes unconditional.

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

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

4. TURNOVER

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

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Income from operation of hotels and furnished suites | 51,405 | 32,851 |
| Property rentals | 15,470 | 20,480 |
| Proceeds from sale of properties | 109,803 | – |
| Proceeds from sale of trading securities | 8,341 | 14,674 |
| Interest income from | | |
| A property owning associate | 1,650 | 2,400 |
| Debt securities | 1,182 | 1,179 |
| Dividend income | 4 | 279 |
| | <u>187,855</u> | <u>71,863</u> |

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Segment information about these businesses is presented below:

Revenue and results

Year ended 31st December, 2004

| | Hospitality services <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> | Other operations <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|--|---|---|--|--|---------------------------------|
| TURNOVER | | | | | | |
| External | <u>51,405</u> | <u>17,120</u> | <u>109,803</u> | <u>9,527</u> | <u>–</u> | <u>187,855</u> |
| SEGMENT RESULTS | | | | | | |
| Operations | 20,697 | 18,699 | 32,949 | 2,862 | (132) | 75,075 |
| Gain on disposal of investment properties | <u>–</u> | <u>182,174</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>182,174</u> |
| | | | | | | 257,249 |
| Other income | | | | | | 195 |
| Unallocated corporate expenses | | | | | | <u>(18,244)</u> |
| Profit from operations | | | | | | 239,200 |
| Finance costs | | | | | | (2,756) |
| Share of profits of associates | – | 52,986 | – | – | – | <u>52,986</u> |
| Profit before taxation | | | | | | 289,430 |
| Income tax expense | | | | | | <u>(11,042)</u> |
| Profit before minority interests | | | | | | 278,388 |
| Minority interests | | | | | | <u>(151,973)</u> |
| Net profit for the year | | | | | | <u>126,415</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet

At 31st December, 2004

| | Hospitality services HK\$'000 | Property investment HK\$'000 | Property development and trading HK\$'000 | Securities investment and trading HK\$'000 | Other operations HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-------------------------------------|------------------------------------|--|---|---------------------------------|--------------------------|
| ASSETS | | | | | | |
| Segment assets | 1,400,807 | 509,869 | 181,820 | 25,191 | 22 | 2,117,709 |
| Interests in associates | – | 867 | – | – | – | 867 |
| Unallocated corporate assets | | | | | | 199,957 |
| Negative goodwill | (62,091) | (76,384) | (8,908) | – | – | (147,383) |
| Consolidated total assets | | | | | | <u>2,171,150</u> |
| LIABILITIES | | | | | | |
| Segment liabilities | 6,962 | 6,471 | 2,233 | 469 | – | 16,135 |
| Unallocated corporate liabilities | | | | | | 545,445 |
| Consolidated total liabilities | | | | | | <u>561,580</u> |

Other information

Year ended 31st December, 2004

| | Hospitality services HK\$'000 | Property investment HK\$'000 | Other operations HK\$'000 |
|-----------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| Capital additions | | | |
| – property, plant and equipment | 383,335 | 73 | – |
| – properties under development | 18,651 | – | – |
| – investment properties | – | 15,081 | – |
| Deposit for acquisition of assets | 20,000 | – | – |
| Depreciation and amortisation | <u>523</u> | <u>144</u> | <u>108</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Revenue and results

Year ended 31st December, 2003

| | Hospitality services HK\$'000 | Property investment HK\$'000 | Property development and trading HK\$'000 | Securities investment and trading HK\$'000 | Other operations HK\$'000 | Consolidated HK\$'000 |
|---|-------------------------------------|------------------------------------|--|---|---------------------------------|--------------------------|
| TURNOVER | | | | | | |
| External | <u>32,851</u> | <u>22,880</u> | <u>–</u> | <u>16,132</u> | <u>–</u> | <u>71,863</u> |
| SEGMENT RESULTS | | | | | | |
| Operations | 9,413 | 24,659 | – | 8,290 | (141) | 42,221 |
| Loss on disposal of an investment property | <u>–</u> | <u>(26,165)</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(26,165)</u> |
| | | | | | | 16,056 |
| Other income | | | | | | 158 |
| Unallocated corporate expenses | | | | | | <u>(17,965)</u> |
| Loss from operations | | | | | | (1,751) |
| Finance costs | | | | | | (3,071) |
| Share of profits of associates | – | 4,017 | – | – | – | <u>4,017</u> |
| Loss before taxation | | | | | | (805) |
| Income tax expense | | | | | | <u>(8,409)</u> |
| Loss before minority interests | | | | | | (9,214) |
| Minority interests | | | | | | <u>6,416</u> |
| Net loss for the year | | | | | | <u>(2,798)</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Balance sheet

At 31st December, 2003

| | Hospitality services HK\$'000 | Property investment HK\$'000 | Property development and trading HK\$'000 | Securities investment and trading HK\$'000 | Other operations HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-------------------------------------|------------------------------------|--|---|---------------------------------|--------------------------|
| ASSETS | | | | | | |
| Segment assets | 809,820 | 590,162 | 149,067 | 25,258 | 129 | 1,574,436 |
| Interests in associates | – | 93,300 | – | – | – | 93,300 |
| Unallocated corporate assets | | | | | | 78,239 |
| Negative goodwill | (62,193) | (77,642) | (17,498) | – | – | (157,333) |
| Consolidated total assets | | | | | | <u>1,588,642</u> |
| LIABILITIES | | | | | | |
| Segment liabilities | 7,819 | 4,905 | 2,723 | 448 | – | 15,895 |
| Unallocated corporate liabilities | | | | | | <u>379,039</u> |
| Consolidated total liabilities | | | | | | <u>394,934</u> |

Other information

Year ended 31st December, 2003

| | Hospitality services HK\$'000 | Property investment HK\$'000 | Other operations HK\$'000 |
|---------------------------------|-------------------------------------|------------------------------------|---------------------------------|
| Capital additions | | | |
| – property, plant and equipment | 380 | 375 | – |
| – properties under development | 241,967 | – | – |
| – investment properties | – | 3,477 | – |
| Depreciation and amortisation | <u>471</u> | <u>114</u> | <u>108</u> |

Geographical segments

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Hong Kong | 173,075 | 60,203 |
| Other regions in the People's Republic of China (the "PRC") | <u>14,780</u> | <u>11,660</u> |
| | <u>187,855</u> | <u>71,863</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

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

| | Carrying amounts of assets | | Additions to investment properties, property, plant and equipment and properties under development | |
|----------------|-------------------------------|------------------|--|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Segment assets | | | | |
| Hong Kong | 2,047,478 | 1,390,362 | 418,108 | 273,461 |
| The PRC | 122,805 | 104,980 | 417 | 380 |
| Unallocated | 867 | 93,300 | – | – |
| | <u>2,171,150</u> | <u>1,588,642</u> | <u>418,525</u> | <u>273,841</u> |

6. OTHER OPERATING INCOME

| | THE GROUP | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Unrealised gain on trading securities | 890 | 1,124 |
| Realised gain on other securities | – | 3,001 |
| | <u>890</u> | <u>4,125</u> |
| Gain on investments in securities | 890 | 4,125 |
| Negative goodwill recognised | 13,247 | 4,206 |
| | <u>13,247</u> | <u>4,206</u> |

7. PROFIT (LOSS) FROM OPERATIONS

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Profit (loss) from operations has been arrived at after charging (crediting): | | |
| Auditors' remuneration | 1,054 | 1,039 |
| Staff costs including directors' emoluments | 26,703 | 24,116 |
| Depreciation of property, plant and equipment | 1,629 | 1,659 |
| Realised gain on trading securities | (1,347) | (2,708) |
| Rental income from investment properties, less outgoings of HK\$1,000,000 (2003: HK\$1,285,000) | (14,470) | (19,195) |
| Dividends from listed securities | (4) | (279) |
| | <u>(4)</u> | <u>(279)</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

8. FINANCE COSTS

| | THE GROUP | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Interests on bank loans and overdrafts wholly repayable within five years | 5,421 | 3,307 |
| Less: Amount capitalised on | | |
| Properties under development | (1,378) | (236) |
| Hotel property under refurbishment | (1,287) | — |
| | <u>2,756</u> | <u>3,071</u> |

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

9. SHARE OF PROFITS OF ASSOCIATES

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

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

| | THE GROUP | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| (a) Directors' emoluments | | |
| Directors' fees | 128 | 100 |
| Other emoluments to executive directors | | |
| Salaries and other benefits | 6,923 | 5,484 |
| Contributions to provident fund scheme | 38 | 36 |
| Total emoluments | <u>7,089</u> | <u>5,620</u> |

The directors' fees of HK\$128,000 (2003: HK\$100,000) disclosed above were payable to the independent non-executive directors.

The emoluments of the directors are within the following bands.

| | 2004 Number of directors | 2003 Number of directors |
|--------------------------------|--------------------------------|--------------------------------|
| Nil to HK\$1,000,000 | 5 | 3 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| HK\$2,500,001 to HK\$3,000,000 | — | 1 |
| HK\$3,500,001 to HK\$4,000,000 | 1 | — |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

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

| | THE GROUP | |
|--|------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Salaries and other benefits | 510 | 1,105 |
| Contributions to provident fund scheme | 12 | 24 |
| | <u>522</u> | <u>1,129</u> |

11. INCOME TAX EXPENSE

| | THE GROUP | |
|---|---------------|--------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| Hong Kong Profits Tax | <u>7,693</u> | <u>1,503</u> |
| Deferred tax (note 25) | | |
| Current year | 1,644 | 1,690 |
| Attributable to a change in tax rate | <u>-</u> | <u>4,403</u> |
| | <u>1,644</u> | <u>6,093</u> |
| Taxation attributable to the Company and subsidiaries | 9,337 | 7,596 |
| Share of Hong Kong Profits Tax of associates | <u>1,705</u> | <u>813</u> |
| | <u>11,042</u> | <u>8,409</u> |

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

11. INCOME TAX EXPENSE (Continued)

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

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Profit (loss) before taxation | <u>289,430</u> | <u>(805)</u> |
| Tax at the domestic income tax rate of 17.5% (2003: 17.5%) | 50,650 | (141) |
| Tax effect of expenses that are not deductible in determining taxable profit | 591 | 4,740 |
| Tax effect of income that is not taxable in determining taxable profit | (34,755) | (1,798) |
| Tax effect of tax losses not recognised | 2,112 | 1,032 |
| Utilisation of tax losses previously not recognised | (924) | (1,453) |
| Effect of a change in tax rate on deferred tax liabilities brought forward | – | 4,403 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | – | 632 |
| Effect of share of taxation of associates | (7,568) | 110 |
| Others | <u>936</u> | <u>884</u> |
| Income tax expense | <u>11,042</u> | <u>8,409</u> |

12. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings/loss per share is based on the net profit for the year of HK\$126,415,000 (2003: net loss of HK\$2,798,000) and on 241,766,050 (2003: 241,766,050) shares in issue during the year. The number of shares adopted in the calculation of the earnings/loss per share has been arrived at after eliminating the shares in the Company held by a subsidiary.

Diluted earnings per share for the year are not shown as there were no potential dilutive ordinary shares outstanding during the year. Diluted earnings per share for the prior year are not shown as the exercise prices of the outstanding warrants and share options issued/granted by the Company's listed subsidiaries, Shun Ho Technology and Magnificent, are higher than the average market prices for shares in that year.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT

| | <u>Land and buildings</u> | | | | |
|--|--|-------------------------------------|--|---|--|
| | Hotel properties and furnished suites | Property for own use | Furniture, fixtures and equipment | Motor vehicles and vessels | Total |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE GROUP | | | | | |
| COST OR VALUATION | | | | | |
| At 1st January, 2004 | 560,000 | 66,500 | 8,053 | 3,313 | 637,866 |
| Additions | 382,375 | – | 1,802 | 616 | 384,793 |
| Disposals | – | – | (608) | (513) | (1,121) |
| Surplus on revaluation | 167,625 | – | – | – | 167,625 |
| | <u>1,110,000</u> | <u>66,500</u> | <u>9,247</u> | <u>3,416</u> | <u>1,189,163</u> |
| At 31st December, 2004 | 1,110,000 | 66,500 | 9,247 | 3,416 | 1,189,163 |
| DEPRECIATION | | | | | |
| At 1st January, 2004 | – | 1,666 | 1,786 | 2,879 | 6,331 |
| Provided for the year | – | 759 | 613 | 257 | 1,629 |
| Eliminated on disposals | – | – | (516) | (496) | (1,012) |
| | <u>–</u> | <u>2,425</u> | <u>1,883</u> | <u>2,640</u> | <u>6,948</u> |
| At 31st December, 2004 | – | 2,425 | 1,883 | 2,640 | 6,948 |
| NET BOOK VALUES | | | | | |
| At 31st December, 2004 | <u>1,110,000</u> | <u>64,075</u> | <u>7,364</u> | <u>776</u> | <u>1,182,215</u> |
| At 31st December, 2003 | <u>560,000</u> | <u>64,834</u> | <u>6,267</u> | <u>434</u> | <u>631,535</u> |
| | | | | | Furniture, fixtures and equipment <i>HK\$'000</i> |
| THE COMPANY | | | | | |
| COST | | | | | |
| At 1st January, 2004 and 31st December, 2004 | | | | | 424 |
| DEPRECIATION | | | | | |
| At 1st January, 2004 and 31st December, 2004 | | | | | <u>(424)</u> |
| NET BOOK VALUES | | | | | |
| At 31st December, 2004 and 31st December, 2003 | | | | | <u>–</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The following is an analysis of the carrying amounts of the Group's land and buildings:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Hotel properties in Hong Kong | | |
| On long lease | 500,000 | – |
| On medium-term lease | 480,000 | 450,000 |
| Hotel property in the PRC on medium-term lease | 130,000 | – |
| Furnished suites in the PRC on medium-term lease | – | 110,000 |
| | <u>1,110,000</u> | <u>560,000</u> |
| Property for own use in Hong Kong on long lease | 64,075 | 64,834 |
| | <u><u>1,174,075</u></u> | <u><u>624,834</u></u> |

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

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

Had the Group's hotel properties and furnished suites not been revalued, they would have been included in the financial statements at the historical cost of approximately HK\$953,387,000 (2003: HK\$571,012,000).

The Group's property for own use, which was reclassified from investment properties in 2001, is carried at its open market value, on an existing use basis, at 31st December, 2000 as valued by Dudley Surveyors Limited, an independent firm of property valuers, less subsequent depreciation.

Other property, plant and equipment are carried at cost less depreciation.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

14. INVESTMENT PROPERTIES

| | THE GROUP | |
|--------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| At valuation | | |
| At beginning of the year | 588,200 | 643,700 |
| Additions | 15,081 | 3,477 |
| Disposals | (204,800) | (78,000) |
| Increase on revaluation | 110,719 | 19,023 |
| | <u>509,200</u> | <u>588,200</u> |

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

| | THE GROUP | |
|------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Land and buildings in Hong Kong on | | |
| Long leases | 494,000 | 383,400 |
| Medium-term leases | 15,200 | 204,800 |
| | <u>509,200</u> | <u>588,200</u> |

The investment properties of the Group were revalued on 31st December, 2004 on an open market value basis by Dudley Surveyors Limited, an independent firm of property valuers. This valuation gave rise to an increase of HK\$110,719,000 (2003: HK\$19,023,000) which, after adjusting for minority interests, has been credited to reserve.

The investment properties of the Group with an aggregate carrying amount of approximately HK\$461 million (2003: HK\$519 million) were rented out under operating leases at the balance sheet date.

15. PROPERTIES UNDER DEVELOPMENT

| | THE GROUP | |
|--|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| At cost | | |
| At beginning of the year | 241,967 | 121,335 |
| Additions | 18,651 | 269,604 |
| Transferred to properties for sale on completion | — | (148,972) |
| | <u>260,618</u> | <u>241,967</u> |

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

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

16. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|--|----------------|----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 14,015 | 14,015 |
| Amounts due from subsidiaries less allowance | 240,138 | 239,219 |
| | <u>254,153</u> | <u>253,234</u> |

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

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

17. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|--|------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Unlisted associates | | |
| Share of net assets | 867 | 8,514 |
| Amount due from an associate (note 30) | – | 84,786 |
| | <u>867</u> | <u>93,300</u> |

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

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

Operating results

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

17. INTERESTS IN ASSOCIATES (Continued)

Financial position

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

18. INVESTMENTS IN SECURITIES

| | Other securities (non-current) | | Trading securities (current) | |
|--|-----------------------------------|-------------------|---------------------------------|-------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| THE GROUP | | | | |
| Listed securities at market value | | | | |
| Equity securities listed in Hong Kong | – | – | 107 | 1,229 |
| Debt securities listed outside Hong Kong | – | – | 23,595 | 22,766 |
| Unlisted equity investments | 780 | 780 | – | – |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| | 780 | 780 | 23,702 | 23,995 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

19. NEGATIVE GOODWILL

| | THE GROUP <i>HK\$'000</i> |
|----------------------------|-------------------------------------|
| GROSS AMOUNT (Note) | |
| At 1st January, 2004 | 163,098 |
| Additions | <u>3,297</u> |
| At 31st December, 2004 | <u>166,395</u> |
| RELEASED TO INCOME | |
| At 1st January, 2004 | 5,765 |
| Amount released to income | <u>13,247</u> |
| At 31st December, 2004 | <u>19,012</u> |
| CARRYING AMOUNT | |
| At 31st December, 2004 | <u>147,383</u> |
| At 31st December, 2003 | <u>157,333</u> |

Note: The negative goodwill at 1st January, 2004 was arisen from the acquisition of additional interests in Magnificent in prior years. During the year, a wholly-owned subsidiary of the Company acquired from a subsidiary of the Company's 69.2% owned subsidiary, Magnificent, a 0.5% interest in Shun Ho Technology, which gave rise to a negative goodwill of HK\$3,297,000.

The carrying amount of negative goodwill, other than the portion attributable to properties held for sale, is recognised to income on a straight-line basis over a period of approximately 40 years, being the average useful life of the properties carried by Magnificent and Shun Ho Technology and their respective subsidiaries for long term purposes. The negative goodwill attributable to the properties held for sale is released to income upon disposal of such properties.

20. TRADE AND OTHER RECEIVABLES

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

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

| | THE GROUP | |
|--------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 30 days | 100,759 | 1,941 |
| 31 – 60 days | 25 | 101 |
| Over 60 days | <u>361</u> | 489 |
| | <u>101,145</u> | <u>2,531</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

21. TRADE AND OTHER PAYABLES

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

| | THE GROUP | |
|--------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| 0 – 30 days | 8,395 | 10,180 |
| 31 – 60 days | 633 | 263 |
| Over 60 days | 5,790 | 5,787 |
| | <u>14,818</u> | <u>16,230</u> |

22. SHARE CAPITAL

| | THE GROUP AND THE COMPANY | |
|--|--|---|
| | Number of shares 2004 & 2003 '000 | Nominal value 2004 & 2003 HK\$'000 |
| Ordinary shares of HK\$0.5 each | | |
| Authorised: | | |
| At beginning and end of the year | <u>400,000</u> | <u>200,000</u> |
| Issued and fully paid: | | |
| At beginning and end of the year | <u>304,369</u> | <u>152,184</u> |

There was no change in the share capital of the Company for both years presented.

At 31st December, 2004, the Company's 62,602,700 (2003: 62,602,700) issued shares with an aggregate nominal value of HK\$31,301,350 (2003: HK\$31,301,350) were held by a subsidiary of Magnificent. In accordance with the Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

23. SHARE PREMIUM AND RESERVES

| | Share premium HK\$'000 | Investment property revaluation reserve HK\$'000 | Other property revaluation reserve HK\$'000 | Securities revaluation reserve HK\$'000 | Goodwill on consolidation HK\$'000 | Retained profits HK\$'000 | Own shares held by a subsidiary HK\$'000 | Total HK\$'000 |
|--|------------------------------|--|---|--|--|---------------------------------|---|-------------------|
| THE GROUP | | | | | | | | |
| At 1st January, 2003 | 20,068 | 71,619 | 18,741 | (12,252) | (6,991) | 195,132 | (12,834) | 273,483 |
| Increase on revaluation of properties less minority interests | - | 6,539 | - | - | - | - | - | 6,539 |
| Deferred tax liability arising on a change in tax rate | - | (319) | (527) | - | - | - | - | (846) |
| Released to income on disposal | - | (148) | - | - | - | - | - | (148) |
| Net loss for the year | - | - | - | - | - | (2,798) | - | (2,798) |
| At 31st December, 2003 | 20,068 | 77,691 | 18,214 | (12,252) | (6,991) | 192,334 | (12,834) | 276,230 |
| Increase on revaluation of properties less minority interests | - | 37,735 | 58,249 | - | - | - | - | 95,984 |
| Deferred tax liability arising on revaluation of properties | - | - | (11,264) | - | - | - | - | (11,264) |
| Released to income on disposal of properties | - | (50,883) | - | - | - | - | - | (50,883) |
| - The Group | - | (537) | - | - | - | - | - | (537) |
| - An associate | - | - | - | - | - | - | - | - |
| Net profit for the year | - | - | - | - | - | 126,415 | - | 126,415 |
| At 31st December, 2004 | <u>20,068</u> | <u>64,006</u> | <u>65,199</u> | <u>(12,252)</u> | <u>(6,991)</u> | <u>318,749</u> | <u>(12,834)</u> | <u>435,945</u> |

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

Included in the reserves of the Group are the Group's share of the retained profits of associates amounted to HK\$258,000 (2003: HK\$1,445,000).

| Share premium HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|------------------------------|---------------------------------|-------------------|
|------------------------------|---------------------------------|-------------------|

THE COMPANY

| | | | |
|------------------------|---------------|---------------|---------------|
| At 1st January, 2003 | 20,068 | 81,207 | 101,275 |
| Net loss for the year | - | (463) | (463) |
| At 31st December, 2003 | 20,068 | 80,744 | 100,812 |
| Net loss for the year | - | (856) | (856) |
| At 31st December, 2004 | <u>20,068</u> | <u>79,888</u> | <u>99,956</u> |

The Company's reserves available for distribution to shareholders at 31st December, 2004 represent retained profits of HK\$79,888,000 (2003: HK\$80,744,000). The directors do not recommend the payment of a dividend in respect of the year (2003: Nil).

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

24. BANK LOANS

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

The bank loans carry interest at commercial lending rates.

25. DEFERRED TAX LIABILITIES

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

THE GROUP

| | Accelerated tax depreciation | Revaluation of properties | Hotel property (Note) | Total |
|--------------------------------|---|--|--------------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1st January, 2003 | 5,907 | 30,452 | 44,800 | 81,159 |
| Charge to income statement | 1,690 | – | – | 1,690 |
| Effect of a change in tax rate | | | | |
| – charge to income statement | 1,688 | – | 2,715 | 4,403 |
| – charge to equity | – | 2,268 | – | 2,268 |
| At 31st December, 2003 | 9,285 | 32,720 | 47,515 | 89,520 |
| Charge to income statement | 1,644 | – | – | 1,644 |
| Charge to equity | – | 32,415 | – | 32,415 |
| At 31st December, 2004 | 10,929 | 65,135 | 47,515 | 123,579 |

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

At the balance sheet date, the Group had unused tax losses of HK\$50,355,000 (2003: HK\$43,670,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. Substantially all the unrecognised tax losses may be carried forward indefinitely.

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

26. PROJECT COMMITMENTS

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

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

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

27. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year amounted to approximately HK\$15,470,000 (2003: HK\$20,480,000). The properties under leases have committed tenants for one to three years without termination options granted to tenants.

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

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| Within one year | 9,556 | 14,372 |
| In the second to fifth years inclusive | <u>3,852</u> | <u>4,307</u> |
| | <u>13,408</u> | <u>18,679</u> |

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

27. OPERATING LEASE COMMITMENTS (Continued)

The Group as lessee

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Lease payments for office premises paid under operating leases during the year | <u>173</u> | <u>161</u> |

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

28. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

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

- (a) hotel property and other properties of the Group with carrying amounts of approximately HK\$980 million (2003: HK\$450 million) and HK\$533 million (2003: HK\$530 million) respectively;
- (b) pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying amount of approximately HK\$399 million (2003: HK\$367 million);
- (c) assignment of the rentals and hotel revenue of a subsidiary; and
- (d) pledge of listed securities and bank deposits held by subsidiaries with an aggregate carrying amounts of approximately HK\$100 million (2003: HK\$49 million) and HK\$145,000 (2003: HK\$126,000) respectively.

29. RETIREMENT BENEFIT PLANS

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

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

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

30. RELATED PARTY TRANSACTIONS

During the year, a subsidiary, Claymont Services Limited ("Claymont"), made unsecured advances to its associate, Lucky Country Development Limited, with no fixed repayment terms. Such advances to the extent of HK\$60,000,000 (2003: HK\$60,000,000) carried interest chargeable at the rate of 3% (2003: 3% to 5%) per annum with the remaining balance interest free. Interest receivable by Claymont on such advances amounted to HK\$1,650,000 (2003: HK\$2,400,000). The amount due from this associate was fully repaid during the year.

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

| Name of subsidiary | Paid up issued/registered ordinary capital | | Proportion of nominal value of issued/ registered ordinary capital held by | | Principal activities |
|--|---|--|---|-------------------|--|
| | Number of shares | Par value | Company % | Subsidiaries % | |
| Omnico Company Inc. (i) | 1 | US\$1 | 100 | – | Investment holding |
| Shun Ho Technology Holdings Limited | 537,076,602 | HK\$0.5 | – | 50.2 | Investment holding |
| Duplexway Limited | 2 | HK\$1 | – | 100 | Property investment |
| Good Taylor Limited | 2 | HK\$1 | – | 100 | Investment holding |
| Noblesse International Limited (ii) | 1 | US\$1 | – | 100 | Property investment |
| Shun Ho (Lands Development) Limited (ii) | 10 | US\$1 | – | 100 | Investment holding |
| South Point Investments Limited (ii) | 1 | US\$1 | – | 100 | Investment holding |
| Babenna Limited | 2 | HK\$10 | – | 100 | Investment holding |
| City Wealth Limited | 2 | HK\$1 | – | 100 | Property investment |
| Claymont Services Limited (ii) | 1 | US\$1 | – | 100 | Investment holding |
| Gainwell Holdings Limited | 2 | HK\$1 | – | 100 | Property investment |
| Harbour Rich Industrial Limited | 10,000 | HK\$1 | – | 100 | Property development |
| Himson Enterprises Limited (i) | 1 | US\$1 | – | 100 | Investment holding |
| Houston Venture Limited (ii) | 1 | US\$1 | – | 100 | Investment holding |
| Joes River Limited | 2 | HK\$1 | – | 100 | Property investment |
| Joligance Limited | 2 | HK\$1 | – | 100 | Investment holding |
| Longham Investment Limited (ii) | 1 | US\$1 | – | 100 | Investment holding |
| Magnificent Estates Limited | 5,464,700,883 | HK\$0.01 | – | 69.2 | Investment holding and provision of management services |
| Magnificent International Hotel Limited | 2 | HK\$1 | – | 100 | Property investment |
| Mercury Fast Limited | 2 | HK\$1 | – | 100 | Securities trading and investment holding |
| New Champion Developments Limited (ii) | 1 | US\$1 | – | 100 | Vessel leasing |
| Shanghai Shun Ho Property Development Co., Ltd. (iii) | | US\$4,950,000 (registered capital) | – | 100 | Investment in and operations of hotel |
| Silver Courage Company Limited | 2 | HK\$10 | – | 100 | Property investment |
| Tennyland Limited | 2 | HK\$10 | – | 100 | Property investment |
| Trans-Profit Limited | 1,000,000 | HK\$1 | – | 100 | Property investment |
| United Assets Company Limited | 2,000,000 | HK\$1 | – | 100 | Investment in and operations of hotel |

(i) Incorporated in the Republic of Liberia

(ii) Incorporated in the British Virgin Islands

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

Notes to the Financial Statements (Continued)

For the Year Ended 31st December, 2004

31. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

In addition to the percentage shareholding in Shun Ho Technology Holdings Limited disclosed above, at 31st December, 2004, approximately 15.07% of the issued share capital of Shun Ho Technology was held by a subsidiary of Magnificent.

The directors are of the opinion that a complete list of the particulars of all 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 and assets of the Group.

32. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong.

| Name of company | Place of incorporation and operation | Proportion of nominal value of issued ordinary capital held by the Group % | Principal activity |
|-----------------------------------|--------------------------------------|--|---------------------|
| Lucky Country Development Limited | Hong Kong | 50 | Property investment |
| Beautiful Sky Investment Limited | Hong Kong | 50 | Inactive |

33. POST BALANCE SHEET EVENTS

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

- (a) The acquisition of the company which owns and operates a hotel in Macau, as referred to in note 26(d), was completed.
- (b) The Group entered into a provisional agreement in April 2005 for the disposal of an investment property for a consideration of HK\$180 million. This property is carried in the consolidated balance sheet as at 31st December, 2004 at the open market value of HK\$200 million.