SHUN HO RESOURCES HOLDINGS LIMITED
(順 豪 資 源 集 團 有 限 公 司)

Interim Report 2005

二零零五年中期報告

INTERIM RESULTS

The board of directors (the "Board") of Shun Ho Resources Holdings Limited (the "Company") announces that the unaudited consolidated profit of the Company and its subsidiaries (together the "Group") for the six months ended 30th June, 2005 amounted to approximately HK$46,778,000 (six months ended 30th June, 2004: HK$101,565,000) and the unaudited consolidated profit after minority interests of the Group for the period amounted to approximately HK$16,501,000 (six months ended 30th June, 2004: HK$49,370,000).

The results of the Group for the six months ended 30th June, 2005 and its financial position as at that date are set out in the condensed financial statements on pages 8 to 26 of this report.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 30th June, 2005 (30/6/2004: Nil).

REVIEW OF OPERATIONS

- For the six months ended 30th June, 2005, the Group achieved an unaudited consolidated net profit of approximately HK$46.8 million after netting off aggregate depreciation, which presented a decrease of about 53.9% as compared with the net profit of approximately HK$101.6 million for the corresponding period in 2004.

- In the preparation of the Group's interim financial statements for the six months ended 30th June, 2005 herein presented, the Company has adopted a number of new Hong Kong Accounting Standards, which are applicable for accounting periods beginning from 1st January, 2005. Some adverse impact on the Group's interim financial statements under review arising from the adoption of these new accounting standards are:

    1. The disposal of an investment property at 72 Mount Kellet Road, Hong Kong for HK$180 million which was acquired at the cost of HK$85 million in 1999. The net gain on disposal of approximately HK$95 million calculated based on the old Hong Kong Accounting Standards is not reported under the new Hong Kong Accounting Standards.

    2. Prior to 1st January, 2005, in accordance with the relevant accounting standards previously applicable, the Group's hotel properties were carried in the balance sheet at their open market value as appraised annually and not depreciated. Under the new accounting standards, these hotel properties are now stated at cost less depreciation resulting in a significant reduction in both the net assets value of the Group and hotel operating profits after netting off depreciation of the hotel properties.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the increase in turnover and net profit was due to the increase in disposal of development properties by the Company's major subsidiaries, Shun Ho Technology Holdings Limited ("Shun Ho Technology") and Magnificent Estates Limited ("Magnificent") and the increase in revenue derived from the Magnificent's hotel business.

The 317 rooms Ramada Hong Kong Hotel and the 262 rooms Best Western Hotel Taipa, Macau have both commenced business in March 2005. The profits from the two hotels will be better reflected in the second half of the financial year.

Operating income from the Ramada Hotel Kowloon increased from better occupancy rate and average room rate. Tenders for the extension construction of the hotel from 205 rooms to 305 rooms are under preparation.

In Shanghai PRC, the Magnificent International Hotel has continued to contribute profit to the Group.

Construction of the hotel development site at 633 King's Road was temporarily halted after the podium was completed. It is envisaged that the construction work will recommence in October 2005 and completion can be expected before the end of 2006.

During the period under review, the Group disposed of an investment property at 72 Mount Kellett Road, Hong Kong and substantially all of the houses at Villa Royale Sai Kung, the remaining one house was disposed of subsequent to the balance sheet date. Application is being prepared to increase the number of luxury houses from 5 to 10 at the site situated at Gold Coast Marina Tuen Mun. As to the Shun Ho Tower, the investment property enjoyed an overall occupancy of 95% during the period.

At 30th June, 2005, the Group's gearing ratio was approximately 25% (31/12/2004: 29.1%) in terms of external bank borrowings of HK$398.2 million (31/12/2004: HK$408.7 million) and funds employed (including net assets and minority interests) of HK$1,595.6 million (31/12/2004: HK$1,405.2 million). 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.

During the financial period under review, there was an increase of approximately 30% in the Group's staffing level as the acquisition of Best Western Hotel Taipa in Macau was completed in February 2005, and remuneration and benefit were set with reference to the market.

Looking ahead, the Board considers that the economic recovery in Hong Kong is well on its way. The implementation by the PRC Government of CEPA and the furtherance of relaxation of mainland travelers to visit Hong Kong helps stimulate further recovery. 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 recent rising property prices 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. As a whole, the Group will take a cautious approach in its business development.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the period.

DIRECTORS' INTERESTS IN LISTED SECURITIES

As at 30th June, 2005, 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)*	71.2
Albert Hui Wing Ho	Beneficial owner	Personal	45,787	0.02
Fung Chi Keung	Beneficial owner	Personal	2,000	0.0007

Note:

Trillion Resources Limited and Mercury Fast Limited beneficially owned 154,006,125 shares and 62,602,700 shares of the Company respectively, representing 50.6% and 20.6% 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 ("Shun Ho Technology") *(Note 1)*	Interest of controlled corporations	Corporate	350,628,682	65.3
William Cheng Kai Man	Magnificent Estates Limited ("Magnificent Estates") *(Note 2)*	Interest of controlled corporations	Corporate	3,781,883,239	69.2
William Cheng Kai Man	Trillion Resources Limited ("Trillion Resources") *(Note 3)*	Beneficial owner	Personal	1	100
Fung Chi Keung	Shun Ho Technology *(Note 1)*	Beneficial owner	Personal	2,000	0.0004
Fung Chi Keung	Magnificent Estates *(Note 2)*	Beneficial owner	Personal	2,000	0.00004

Notes:

1. Shun Ho Technology, 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, 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, the Company's holding company, is a company incorporated in the British Virgin Islands.

Save as disclosed above and save for shares in subsidiaries held by a director in trust for their immediate holding companies, as at 30th June, 2005, 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 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 period.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2005, 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	20.6
Magnificent Estates *(Note 1)*	Interest of controlled corporations	62,602,700	20.6
Shun Ho Technology *(Note 1)*	Interest of controlled corporations	62,602,700	20.6
Trillion Resources *(Note 2)*	Beneficial owner and interest of controlled corporations	216,608,825	71.2
Liza Lee Pui Ling *(Note 3)*	Interest of spouse	216,608,825	71.2

Notes:

1. Magnificent Estates and Shun Ho Technology were taken to be interested in 62,602,700 shares of the Company ("Shares") owned by Mercury, a wholly-owned subsidiary of Magnificent Estates which in turn owned as to 69.2% by Shun Ho Technology and its subsidiaries.

2. Trillion Resources 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. Shun Ho Technology is directly and indirectly owned as to 65.3% by Omnico, which is in turn owned as to 100% by the Company, which is in turn directly and indirectly owned as to 71.2% by Trillion Resources. Trillion Resources is wholly-owned by Mr. William Cheng Kai Man.

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.

INDEPENDENT REVIEW

The interim results for the six months ended 30th June, 2005 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants, by Deloitte Touche Tohmatsu, whose independent review report is included on page 7 of this interim report. The interim results have also been reviewed by the Group's Audit Committee.

CORPORATE GOVERNANCE

(a) Compliance with the Code on Corporate Governance Practices

During the period, the Company has complied with the code provisions set out in the Code of Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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 27 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.

Code Provisions B.1.4 and C.3.4

Since the Company has not established its own website, the Company cannot make available the terms of reference of its remuneration committee and audit committee on its website. However, the terms of reference of the two committees are available on request. The Company will establish its website as soon as possible and will endeavour to comply with these code provisions.

(b) Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by the directors. Having made specific enquiry of all directors, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

By order of the Board

Peter Lee Yip Wah
Secretary

Hong Kong, 21st September, 2005

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

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

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 8 to 26.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21st September, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Notes	Six months ended **30.6.2005** *HK$'000* **(unaudited)**	30.6.2004 *HK$'000* (unaudited and restated)
Turnover	*4*	**141,432**	39,563
Cost of sales		**(66,481)**	(8,130)
Other service costs		**(28,381)**	(12,993)
		46,570	18,440
Discount on acquisition of subsidiaries	*17*	**13,505**	–
Gains arising from changes in fair value of investment properties		**3,800**	79,444
Other operating income		**292**	2,778
Losses arising from changes in fair value of securities		**(552)**	–
Unrealised holding gain on securities		**–**	338
Depreciation and amortisation		**(12,552)**	(7,913)
Selling and marketing expenses		**(3,561)**	–
Administrative expenses		**(9,817)**	(9,345)
Finance costs	*6*	**(3,365)**	(1,636)
Share of (losses) profits of associates		**(220)**	1,802
Profit before taxation	*7*	**34,100**	83,908
Taxation	*8*	**12,678**	17,657
Profit for the period		**46,778**	101,565
Attributable to:			
Equity holders of the parent		**16,501**	49,370
Minority interests		**30,277**	52,195
		46,778	101,565
		HK Cents	*HK Cents*
Earnings per share	*9*		
Basic		**6.8**	20.4

CONDENSED CONSOLIDATED BALANCE SHEET

AT 30TH JUNE, 2005

	Notes	**30.6.2005** **HK$'000** **(unaudited)**	31.12.2004 HK$'000 (audited and restated)
Non-current Assets			
Property, plant and equipment	*11*	**401,873**	267,441
Prepaid land lease payments		**829,485**	806,143
Investment properties	*11*	**550,000**	616,200
Property under development		**80,250**	70,535
Interests in associates		**647**	867
Investments in securities	*12*	**780**	780
Deposit for acquisition of assets		**–**	20,000
Negative goodwill		**–**	(147,383)
		1,863,035	1,634,583
Current Assets			
Inventories		**635**	397
Properties for sale		**19,926**	82,830
Investments in securities	*12*	**23,150**	23,702
Prepaid land lease payments		**13,759**	13,054
Trade and other receivables	*13*	**223,934**	101,145
Deposits and prepayments		**4,588**	2,555
Trade balance due from an associate		**6**	6
Bank balances and cash		**28,984**	134,218
		314,982	357,907
Current Liabilities			
Trade and other payables	*14*	**24,157**	14,818
Rental and other deposits received		**4,164**	4,087
Amount due to an associate	*20*	**2,269**	2,269
Tax liabilities		**13,549**	8,138
Bank loans – due within one year	*15*	**88,015**	92,904
		132,154	122,216
Net Current Assets		**182,828**	235,691
		2,045,863	1,870,274
Capital and Reserves			
Share capital	*16*	**152,184**	152,184
Share premium and reserves		**460,455**	364,934
Equity attributable to equity holders of the parent		**612,639**	517,118
Minority interests		**982,942**	888,069
Total equity		**1,595,581**	1,405,187
Non-current Liabilities			
Bank loans – due after one year	*15*	**310,185**	315,785
Deferred tax liabilities		**140,097**	149,302
		450,282	465,087
		2,045,863	1,870,274

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Attributable to equity holders of the parent										
	Share capital	**Share premium**	**Investment property revaluation reserve**	**Other property revaluation reserve**	**Securities revaluation reserve**	**Goodwill on consolidation**	**Retained profits**	**Own shares held by a subsidiary**	**Total**	**Minority interests**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31st December, 2004											
As originally stated	152,184	20,068	64,006	65,199	(12,252)	(6,991)	318,749	(12,834)	588,129	1,021,441	1,609,570
Effect of changes in accounting policies	–	–	(64,006)	(42,558)	–	–	35,553	–	(71,011)	(133,372)	(204,383)
As restated	152,184	20,068	–	22,641	(12,252)	(6,991)	354,302	(12,834)	517,118	888,069	1,405,187
Adjustments on adoption of HKFRS 3 *(note 3)*	–	–	–	–	–	6,991	72,029	–	79,020	68,363	147,383
At 1st January, 2005 (as restated)	152,184	20,068	–	22,641	(12,252)	–	426,331	(12,834)	596,138	956,432	1,552,570
Profit for the period	–	–	–	–	–	–	16,501	–	16,501	30,277	46,778
Total recognised income for the period	–	–	–	–	–	–	16,501	–	16,501	30,277	46,778
Dividend paid	–	–	–	–	–	–	–	–	–	(3,767)	(3,767)
At 30th June, 2005	152,184	20,068	–	22,641	(12,252)	–	442,832	(12,834)	612,639	982,942	1,595,581
At 1st January, 2004											
As originally stated	152,184	20,068	77,691	18,214	(12,252)	(6,991)	192,334	(12,834)	428,414	765,294	1,193,708
Effect of changes in accounting policies	–	–	(77,691)	4,427	–	–	42,618	–	(30,646)	(49,499)	(80,145)
As restated	152,184	20,068	–	22,641	(12,252)	(6,991)	234,952	(12,834)	397,768	715,795	1,113,563
Profit for the period	–	–	–	–	–	–	49,370	–	49,370	52,195	101,565
Total recognised income for the period	–	–	–	–	–	–	49,370	–	49,370	52,195	101,565
At 30th June, 2004	152,184	20,068	–	22,641	(12,252)	(6,991)	284,322	(12,834)	447,138	767,990	1,215,128

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Net cash from (used in) operating activities	**145,285**	(13,410)
Net cash used in investing activities	**(235,283)**	(88,204)
Net cash (used in) from financing activities	**(15,758)**	204,539
Net (decrease) increase in cash and cash equivalents	**(105,756)**	102,925
Cash and cash equivalents at beginning of the period	**134,073**	12,209
Cash and cash equivalents at end of the period	**28,317**	115,134
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**28,984**	115,284
Less: Pledged bank deposits	**(667)**	(150)
	28,317	115,134

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, which are measured at fair values.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates has been changed in accordance with HKAS 1 "Presentation of Financial Statements". The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in the following changes to the Group's accounting policies:

Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations", which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 on the Group's financial statements are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves while goodwill arising on acquisitions on or after that date was capitalised and amortised on a straight-line basis over its useful economic life. The Group has applied the relevant transitional provisions in HKFRS 3, in accordance with which goodwill previously recognised in reserves has been transferred to retained profits on 1st January, 2005. Goodwill arising on acquisitions on or after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was held in reserves while negative goodwill arising on acquisitions after that date was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. The Group has derecognised all negative goodwill carried in the balance sheet at 1st January, 2005 with a corresponding increase to retained profits in accordance with the relevant transitional provisions of HKFRS 3.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The adoption of HKAS 32 has had no impact on the presentation of the financial instruments in the Group's financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Previously, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 ("SSAP 24") issued by the HKICPA. Investments in debt or equity securities were classified as "trading securities" or "other securities" as appropriate and were measured at fair value. Unrealised gains or losses of "trading securities" were reported in the profit or loss for the period in which the gains or losses arose. Unrealised gains or losses of "other securities" were reported in equity until the securities were sold or determined to be impaired, at which time the cumulative gains or losses previously recognised in equity were included in the net profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. The "trading securities" have been reclassified as "financial assets held for trading" while the "other securities" have been reclassified as "available-for-sale financial assets". "Financial assets held for trading" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively.

Upon reclassification of the "other securities" as "available-for-sale financial assets", the cumulative unrealised gains or losses previously reported in equity continues to be held in equity. On subsequent disposal of such investment, the unrealised gains or losses remaining in equity will be transferred to the profit or loss.

Hotel properties

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-Int 2") clarifies the accounting policy for owner-operated hotel properties. In previous periods, the Group's hotel properties were carried at revalued amounts and were not subject to depreciation. HK-Int 2 requires owner-operated hotel properties to be classified as property, plant and equipment in accordance with HKAS 16 "Property, Plant and Equipment", and therefore be accounted for either using the cost model or the revaluation model. The Group has resolved to account for its hotel properties using the cost model. In the absence of any specific transitional provisions in HK-Int 2, the new accounting policy has been applied retrospectively. Comparative figures have been restated.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Leasehold interest in land

In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

Investment properties

In previous periods, investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. In the current period, the Group has, for the first time, applied HKAS 40 "Investment Property" and has elected to apply this standard retrospectively. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. Further, under HKAS40, if a portion of an owner-occupied property is held for rental purposes and can be sold separately, this portion of the property is accounted for separately as an investment property. Accordingly, certain properties held for rental purposes previously included in property, plant and equipment have been reclassified as investment properties.

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amounts of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" ("HKAS-Int 21") which removes the presumption that the carrying amounts of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS-Int 21, this change in accounting policy has been applied retrospectively. Comparative figures have been restated.

A summary of the effects of the aforementioned changes in accounting policies is set out in note 3.

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above on the results of operations of the Group for the current and the prior period are as follows:

	Six months ended 30th June, 2005							
	Before adoption of new HKFRSs	Effects of adoption of						After adoption of new HKFRSs
		HKAS 16	HKAS 17	HKAS 1	HKAS 40	HKFRS 3	*Notes*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Turnover	**141,432**	**–**	**–**	**–**	**–**	**–**		**141,432**
Cost of sales	**(66,481)**	**–**	**–**	**–**	**–**	**–**		**(66,481)**
Other service costs	**(28,381)**	**–**	**–**	**–**	**–**	**–**		**(28,381)**
	46,570							**46,570**
Discount on acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**13,505**	*a*	**13,505**
Gains arising from changes in fair value of investment properties	**–**	**–**	**–**	**–**	**3,800**	**–**	*b*	**3,800**
Gain on disposal of an investment property	**95,558**	**–**	**–**	**–**	**(95,558)**	**–**	**c**	**–**
Other operating income	**2,468**	**–**	**–**	**–**	**–**	**(2,176)**	*d*	**292**
Losses arising from changes in fair value of securities	**(552)**	**–**	**–**	**–**	**–**	**–**		**(552)**
Depreciation and amortisation	**(2,724)**	**(4,037)**	**(5,791)**	**–**	**–**	**–**	*e*	**(12,552)**
Selling and marketing expenses	**(3,561)**	**–**	**–**	**–**	**–**	**–**		**(3,561)**
Administrative expenses	**(9,817)**	**–**	**–**	**–**	**–**	**–**		**(9,817)**
Finance costs	**(3,365)**	**–**	**–**	**–**	**–**	**–**		**(3,365)**
Share of losses of associates	**(266)**	**–**	**–**	**46**	**–**	**–**	*f*	**(220)**
Profit before taxation	**124,311**	**(4,037)**	**(5,791)**	**46**	**(91,758)**	**11,329**		**34,100**

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

	Six months ended 30th June, 2004							
	Before adoption of new	Effects of adoption of						After adoption of new
	HKFRSs	HKAS 16	HKAS 17	HKAS 1	HKAS 40	HKFRS 3	*Notes*	HKFRSs
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Turnover	39,563	–	–	–	–	–		39,563
Cost of sales	(8,130)	–	–	–	–	–		(8,130)
Other service costs	(12,993)	–	–	–	–	–		(12,993)
	18,440							18,440
Gains arising from changes in fair value of investment properties	–	–	–	–	79,444	–	*b*	79,444
Gain on disposal of investment properties	181,854	–	–	–	(181,854)	–	*c*	–
Other operating income	2,778	–	–	–	–	–		2,778
Unrealised holding gain on securities	338	–	–	–	–	–		338
Depreciation and amortisation	(808)	(1,707)	(5,398)	–	–	–	*e*	(7,913)
Administrative expenses	(9,345)	–	–	–	–	–		(9,345)
Finance costs	(1,636)	–	–	–	–	–		(1,636)
Share of profits of associates	2,300	–	–	(498)	–	–	*f*	1,802
Profit before taxation	193,921	(1,707)	(5,398)	(498)	(102,410)	–		83,908

The disposal of an investment property during the period has given rise to a deferred tax credit of HK$20.2 million (six months ended 30th June, 2004: HK$18.5 million) under HKAS-Int 21 and the adoption of the new HKFRSs has given rise to an increase in deferred tax charge of HK$2.5 million (six months ended 30th June, 2004: deferred tax credit of HK$1.9 million), resulting in a net increase in tax credit of HK$17.7 million (six months ended 30th June, 2004: HK$20.4 million),

Notes:

(a) Discount on acquisition recognised in accordance with HKFRS 3.

(b) Changes in fair value of investment properties taken to income statement in accordance with HKAS 40.

(c) Transfer of the investment property revaluation reserve to retained profits upon adoption of HKAS 40 and reclassification of the resultant gain or loss as change in fair value of investment property, resulting in a reduction of the gain on disposal of investment properties.

(d) Release of negative goodwill to income reversed.

(e) Depreciation on hotel properties and amortisation of prepaid land lease payments provided.

(f) Reclassification of taxation attributable to associates.

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January 2005 are summarised below:

	As at 31st December, 2004 (as originally stated)	Effects of adoption of HKAS 16	HK-Int 2	HKAS 17	HKAS 40	HKAS-Int 21	As at 31st December, 2004 (as restated)	Adjustments on adoption of HKFRS 3	As at 1st January, 2005 (as restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items									
Property, plant and equipment	1,182,215	(10,735)	(133,862)	(663,177)	(107,000)	–	267,441	–	267,441
Prepaid land lease payments									
Non-current	–	–	–	806,143	–	–	806,143	–	806,143
Current	–	–	–	13,054	–	–	13,054	–	13,054
Investment properties	509,200	–	–	–	107,000	–	616,200	–	616,200
Property under development	260,618	–	–	(190,083)	–	–	70,535	–	70,535
Negative goodwill	(147,383)	–	–	–	–	–	(147,383)	147,383	–
Deferred tax liabilities	(123,579)	2,486	33,431	6,350	–	(67,990)	(149,302)	–	(149,302)
Total effects on assets and liabilities		(8,249)	(100,431)	(27,713)	–	(67,990)		147,383	
Retained profits	318,749	(2,866)	–	(9,629)	71,670	(23,622)	354,302	72,029	426,331
Investment property revaluation reserve	64,006	–	–	–	(64,006)	–	–	–	–
Other property revaluation reserve (in relation to hotel properties)	65,199	–	(34,894)	–	(7,664)	–	22,641	–	22,641
Goodwill on consolidation	(6,991)	–	–	–	–	–	(6,991)	6,991	–
Minority interests	1,021,441	(5,383)	(65,537)	(18,084)	–	(44,368)	888,069	68,363	956,432
Total effects on equity		(8,249)	(100,431)	(27,713)	–	(67,990)		147,383	

The financial effects of the application of the new HKFRSs to the Group's equity at 1st January, 2004 are summarised below:

	As at 1st January, 2004 (as originally stated)	Effects of adoption of HKAS 16	HK-Int 2	HKAS 17	HKAS 40	HKAS-Int 21	As at 1st January, 2004 (as restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Retained profits	192,334	(1,509)	–	(6,260)	75,954	(25,567)	234,952
Investment property revaluation reserve	77,691	–	–	–	(77,691)	–	–
Other property revaluation reserve (in relation to hotel properties and furnished suites)	18,214	–	2,690	–	1,737	–	22,641
Minority interests	765,294	(3,116)	4,859	(12,587)	–	(38,655)	715,795
Total effects on equity		(4,625)	7,549	(18,847)	–	(64,222)	

The Group has not early adopted other new HKFRSs which are not yet effective for the current period.

4. TURNOVER

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	*HK$'000*
Income from operation of hotel and furnished suites	**44,438**	21,755
Property rentals	**7,906**	8,219
Proceeds from sale of properties	**88,503**	–
Proceeds from sale of trading securities	**–**	8,097
Interest from		
Debt securities	**585**	588
A property owning associate	**–**	900
Dividends from listed securities	**–**	4
	141,432	39,563

5. SEGMENT INFORMATION

Business segment

The Group's primary format for reporting segment information is business segment. The turnover and contribution of the Group in respect of the interim period were derived from the following businesses:

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

5. **SEGMENT INFORMATION *(Continued)***

Business segment *(Continued)*

Segment information about these businesses is presented below:

Six months ended 30th June, 2005

	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	**44,438**	**7,906**	**88,503**	**585**	**–**	**141,432**
SEGMENT RESULTS						
Operations	**1,313**	**5,685**	**22,056**	**33**	**(31)**	**29,056**
Gains arising from changes in fair value of investment properties	**–**	**3,800**	**–**	**–**	**–**	**3,800**
	1,313	**9,485**	**22,056**	**33**	**(31)**	**32,856**
Other income						**292**
Discount on acquisition of subsidiaries	**13,505**	**–**	**–**	**–**	**–**	**13,505**
Unallocated corporate expenses						**(8,968)**
Finance costs						**(3,365)**
Share of losses of associates						**(220)**
Profit before taxation						**34,100**

5. SEGMENT INFORMATION *(Continued)*

Business segment ***(Continued)***

Six months ended 30th June, 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* (restated)
TURNOVER						
External	21,755	9,119	–	8,689	–	39,563
SEGMENT RESULTS						
Operations	1,794	9,786	–	1,718	(67)	13,231
Gains arising from changes in fair value of investment properties	–	79,444	–	–	–	79,444
	1,794	89,230	–	1,718	(67)	92,675
Other income						85
Unallocated corporate expenses						(9,018)
Finance costs						(1,636)
Share of profits of associates	–	1,802	–	–	–	1,802
Profit before taxation						83,908

Geographical segment

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

	Six months ended	
	30.6.2005 ***HK$'000***	30.6.2004 *HK$'000*
Hong Kong	**128,254**	33,467
Other regions in the People's Republic of China	**13,178**	6,096
	141,432	39,563

6. FINANCE COSTS

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts, and other loans wholly repayable within five years	**4,789**	2,188
Less: Amount capitalised on properties under development	**(1,424)**	(552)
	3,365	1,636

7. PROFIT BEFORE TAXATION

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	*HK$'000*
		(restated)
Profit before taxation has been arrived at after charging (crediting):		
Amortisation of prepaid land lease payments	**6,954**	6,561
Less: Amortisation capitalised on property under development	**(885)**	(885)
	6,069	5,676
Depreciation of property, plant and equipment	**6,483**	2,237
Share of tax of associates (included in share of results of associates)	**(46)**	498
Negative goodwill included in other operating income	**–**	(2,795)

8. TAXATION

	Six months ended	
	30.6.2005	30.6.2004
	HK$'000	*HK$'000*
		(restated)
The taxation (credit) charge comprises:		
Current tax		
Hong Kong Profits Tax	**5,349**	2,326
Deferred tax		
Current period	**(18,027)**	(19,983)
	(12,678)	(17,657)

Hong Kong Profits Tax is calculated at 17.5% (six months ended 30th June, 2004: 17.5%) of the estimated assessable profit for the period.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to equity holders of the parent of HK$16,501,000 (six months ended 30th June, 2004: HK$49,370,000) and on 241,766,050 (six months ended 30th June, 2004: 241,766,050) shares in issue during the period. 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.

As a result of the change in accounting policies as described in note 2 above, the earnings per share for the corresponding prior period has been adjusted as follows:

	HK Cents
Basic earnings per share for the six months ended 30th June, 2004	
Reported figure before adjustments	38.4
Adjustments arising from changes in accounting policies	(18.0)
Restated	20.4

10. DIVIDENDS

The directors have resolved not to declare an interim dividend in respect of the year (2004: Nil).

11. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group acquired a hotel property and an investment property through the acquisition of subsidiaries, details of which are set out in note 17.

The Group's investment properties at 30th June, 2005 were revalued by Dudley Surveyors Limited, a firm of independent property valuers.

During the period, the Group disposed of an investment property for a consideration of HK$180,000,000 (six months ended 30th June, 2004: HK$281,660,000). The sale consideration to the extent of HK$18,000,000 has been received by the Group up to 30th June, 2005 and the remaining balance was fully settled subsequent to that date.

12. INVESTMENTS IN SECURITIES

	Available-for-sale financial assets (non-current)		**Financial assets held for trading (current)**	
	30.6.2005	31.12.2004	**30.6.2005**	31.12.2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed securities at market value				
Equity securities listed in Hong Kong	**–**	–	**133**	107
Debt securities listed outside Hong Kong	**–**	–	**23,017**	23,595
Unlisted investments	**780**	780	**–**	–
	780	780	**23,150**	23,702

The "available-for-sale financial assets" and the "financial assets held for trading" were previously classified as "other securities" and "trading securities" respectively.

13. TRADE AND OTHER RECEIVABLES

Except for an average credit period of 30 to 60 days granted to travel agencies and customers of the hotel 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:

	30.6.2005	31.12.2004
	HK$'000	*HK$'000*
0 – 30 days	**222,633**	100,759
31 – 60 days	**680**	25
Over 60 days	**621**	361
	223,934	101,145

14. TRADE AND OTHER PAYABLES

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

	30.6.2005	31.12.2004
	HK$'000	*HK$'000*
0 – 30 days	**13,785**	8,395
31 – 60 days	**1,398**	633
Over 60 days	**8,974**	5,790
	24,157	14,818

15. BANK LOANS

During the period, the Group obtained new bank loans totalling HK$15,000,000 and repaid bank loans totalling HK$25,000,000. The outstanding bank loans carry interest at prevailing market rates.

16. SHARE CAPITAL

	30.6.2005 & 31.12.2004	
	Number of shares	**Nominal value**
	'000	*HK$'000*
Ordinary shares of HK$0.5 each:		
Authorised	400,000	200,000
Issued and fully paid	304,369	152,184

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

At 30th June, 2005, 62,602,700 (31.12.2004: 62,602,700) issued shares of the Company with an aggregate nominal value of HK$31,301,350 (31.12.2004: HK$31,301,350) were held by a subsidiary of the Company's listed subsidiary, Magnificent Estates Limited. 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.

17. ACQUISITION OF SUBSIDIARIES

In February 2005, the Group acquired the entire issued share capital of Yuki Resources Ltd. ("Yuki") and Longluck Investments Limited and the amount due by Yuki to its former shareholder for a total cash consideration of approximately HK$242 million. The sole asset of Yuki is its investment in 100% interest in Grand – Invest & Development Company Limited, a company which owns and operates a hotel in Macau. This transaction has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquirees' carrying amount	**Fair value adjustments**	**Fair value**
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Hotel and investment properties	186,482	73,518	260,000*
Other property, plant and equipment	3,923	–	3,923
Trade and other receivables	1,420	–	1,420
Trade and other payables	(1,362)	–	(1,362)
Deferred tax liabilities	–	(8,822)	(8,822)
	190,463	64,696	255,159
Discount on acquisition			(13,505)#
Total consideration, satisfied by cash			241,654
Net cash outflow arising on acquisition			
Cash consideration paid			241,654

* The fair value of the hotel and investment properties is included in the consolidated balance sheet as follows:

	HK$'000
Property, plant and equipment	119,000
Prepaid land lease payments	31,000
Investment properties	110,000
	260,000

The discount on acquisition arose from the fair value adjustment regarding the hotel and investment properties acquired.

The acquirees contributed approximately HK$6 million to the Group's turnover and a loss before taxation of approximately HK$2.4 million to the Group's operating results for the period.

If the acquisition had been completed on 1st January, 2005, the acquirees would have contributed approximately HK$6 million to the Group's turnover and a loss before taxation of approximately HK$3.4 million to the Group's operating results for the period. This information is for illustrative purposes only and is not necessarily indicative of the turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st January, 2005, nor is it intended to be a projection of future results.

18. PROJECT COMMITMENTS

At the balance sheet date, the Group had outstanding commitments as follows:

	30.6.2005	31.12.2004
	HK$'000	*HK$'000*
Property development expenditure		
Authorised but not contracted for	**260,000**	260,000
Contracted but not provided for in the financial statements	**6,753**	4,653
Expenditure for hotel improvements contracted but not provided for in the financial statements	**–**	3,995

19. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At the balance sheet date, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK$398 million (31.12.2004: HK$409 million), were secured by the following:

- hotel properties of the Group together with related assets with an aggregate carrying amount of approximately HK$864 million (31.12.2004: HK$848 million as restated) and other properties of the Group with an aggregate carrying amount of HK$269 million (31.12.2004: HK$530 million as restated);
- assignment of rentals and hotel revenue;
- pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying amount of approximately HK$338 million (31.12.2004: HK$399 million); and
- pledge of the listed securities with an aggregate market value of approximately HK$117 million (31.12.2004: HK$100 million) and the bank deposits with an aggregate carrying amount of HK$667,000 (31.12.2004: HK$145,000) held by subsidiaries.

20. RELATED PARTY TRANSACTIONS

During the period, the Group had an amount due to an associate, Lucky Country Development Limited ("Lucky Country"), which is unsecured and interest free, with no fixed repayment terms. The amount due from Lucky Country of HK$2,269,000 (31.12.2004: HK$2,269,000) remained outstanding at 30th June, 2005.

During the six month period ended 30th June, 2004, the Group had made advances to Lucky Country. Such advances amounted to approximately HK$85,186,000, which were unsecured with no fixed repayment terms, were outstanding at 30th June, 2004. The advances to the extent of HK$60,000,000 carried interest chargeable at the rate of 3% per annum with the remaining balance interest free. Interest charged by the Group on such advances in respect of the period ended 30th June, 2004 amounted to HK$900,000.