1. GENERAL

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

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

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group and the Company have 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 Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 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 share of tax of associates has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in the following changes to the Group's and the Company's accounting policies:

The Group

Business combinations

In the current year, 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 and the goodwill and negative goodwill recognised and brought forward as at that date. The principal effects of the application of the transitional provisions in HKFRS 3 on the Group's financial statements are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions prior to 1st April, 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.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost

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.

Financial instruments

In the current year, 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 investments in 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 profit or loss for that period. From 1st January, 2005 onwards, the Group classifies and measures its investments in debt and equity securities in accordance with HKAS 39. "Trading securities" have been reclassified as investments held for trading under the category of "financial assets at fair value through profit or loss" while "other securities" have been reclassified as "available-for-sale investments". "Financial assets held for trading" and "available-for-sale investments" 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 investments", the cumulative unrealised gains or losses previously reported in equity continues to be held in equity. On subsequent disposal of such investments, the unrealised gains or losses remaining in equity will be transferred to profit or loss.

Hotel properties

In previous periods, the hotel properties of the Group were stated at valuation and no depreciation was provided on hotel properties held on leases of more than twenty years. It was the Group's practice to maintain its hotel properties in a continual state of sound repairs and maintenance. In the current period, the Group has applied HKAS 16 "Property, plant and equipment" using the cost model. HKAS 16 requires the residual value of the hotel properties to be measured at the amount the Group would currently obtain from disposal of the hotel properties, after deducting the estimated costs of disposal, if the hotel properties were already of the age and in the condition expected at the end of their respective useful lives.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Hotel properties *(Continued)*

Hong Kong Interpretation 2 "The Appropriate Accounting Policies for Hotel Properties" ("HK-Int 2") clarifies the accounting policy for owner-operated hotel properties. In the absence of any specific transitional provisions in HK-Int 21, the new accounting policy has been applied retrospectively. Upon the application of HKAS 16 and HK-Int 2, the Group reviewed the residual values of its hotel properties and, as a result, depreciation is provided on hotel properties and these changes are accounted for as a change in accounting policy in accordance with HKAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors." Accordingly, the previously recognized revaluation reserve has been derecognized against the carrying amounts of hotel properties and deferred tax liabilities retrospectively. Comparative figures have been restated.

Leasehold interest in land

In the current year, 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 included in property, plant and equipment and property under development are reclassified to prepaid lease payments for land 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 years, 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 year, 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 HKAS 40, 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 retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

Deferred taxes related to investment properties

In previous years, 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 year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" ("HK(SIC) 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 HK(SIC) 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 on the financial statements of the Group is set out in note 3.

The Company

Amounts due from subsidiaries

With respect to the interest-free non-current amounts due by subsidiaries as carried in the balance sheet of the Company, prior to the application of HKAS 39, such amounts were stated at nominal amounts less allowances. HKAS 39 requires such amounts to be measured at fair value on initial recognition, and subsequently at amortised cost determined using the effective interest method. The Company has applied the relevant transitional provisions in HKAS 39, as a result, the carrying amounts of the amounts due from subsidiaries as at 1st January, 2005 have been decreased by HK$6 million in order to state these amounts at amortised cost in accordance with HKAS 39. The carrying amount of the Company's investments in subsidiaries as at 1st January, 2005 has been correspondingly increased by HK$6 million and the Company's profit for the year has been increased by HK$6 million as a result of the recognition of the imputed interest income.

Other than as described above, the adoption of the new HKFRSs has had no material effect on the results and financial position of the Company.

3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

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

	Year ended 31st December, 2005							
	Before adoption of new HKFRSs	Effects of adoption of HKAS 16 & HK-Int 2	HKAS 17	HKAS 1	HKAS 40	HKFRS 3		After adoption of new HKFRSs
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	232,738	–	–	–	–	–		232,738
Cost of sales	(76,194)	–	–	–	–	–		(76,194)
Other service costs	(62,741)	–	–	–	–	–		(62,741)
	93,803							93,803
Discount on acquisition of subsidiaries	–	–	–	–	–	13,505	*a*	13,505
Increase in fair value of investment properties	–	–	–	–	13,800	–	*b & c*	13,800
Gain on disposal of an investment property	95,558	–	–	–	(95,558)	–	*c*	–
Other income	2,653	–	–	–	–	–		2,653
Loss on investments in securities	(1,814)	–	–	–	–	–		(1,814)
Depreciation and amortisation	(5,405)	(8,260)	(6,341)	–	–	–	*d*	(20,006)
Selling and marketing expenses	(3,873)	–	–	–	–	–		(3,873)
Administrative expenses	(21,681)	–	–	–	–	–		(21,681)
Finance costs	(17,202)	–	–	–	–	–		(17,202)
Share of losses of associates	(278)	–	–	46	–	–	*e*	(232)
Profit before taxation	141,761	(8,260)	(6,341)	46	(81,758)	13,505		58,953
Taxation	(8,064)	1,516	1,205	(46)	14,308	–		8,919
Profit for the year	133,697	(6,744)	(5,136)	–	(67,450)	13,505		67,872

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

	Year ended 31st December, 2004								
	Before adoption of new HKFRSs	Effects of adoption of						Other reclassifications	After adoption of new HKFRSs and other reclassifications
		HKAS 16 & HK-Int 2	HKAS 17	HKAS 1	HKAS 40	HKFRS 3			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
Turnover	186,243	–	–	–	–	–		–	186,243
Cost of sales	(95,497)	–	–	–	–	–		–	(95,497)
Other service costs	(29,250)	–	–	–	–	–		–	(29,250)
	61,496								61,496
Discount on acquisition of subsidiaries	–	–	–	–	–	–		–	–
Increase in fair value of investment properties	20,207	–	–	–	117,026	–	*b & f*	–	137,233
Gain on disposal of an investment property	1,642	–	–	–	(1,642)	–	*f*	–	–
Other income	2,550	–	–	–	–	–		(364)	2,186
Gain on investments in securities	–	–	–	–	–	–		364	364
Depreciation and amortisation	–	(4,605)	(5,603)	–	–	–	*d*	(742)	(10,950)
Selling and marketing expenses	(2,459)	–	–	–	–	–			(2,459)
Administrative expenses	(18,081)	–	–	–	–	–		742	(17,339)
Finance costs	(5,346)	–	–	–	–	–			(5,346)
Share of profits of associates	52,950	–	–	(1,705)	–	–	*e*		51,245
Profit before taxation	112,959	(4,605)	(5,603)	(1,705)	115,384	–			216,430
Taxation	(10,724)	1,010	1,110	1,705	(21,344)	–			(28,243)
Profit for the year	102,235	(3,595)	(4,493)	–	94,040	–			188,187

Notes:

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

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

(c) The gain on disposal includes the surplus on prior years' revaluation of investment properties transferred from reserve which is adjusted to retained profits upon adoption of HKAS 40 and the resultant loss on disposal is reported as change in fair value of investment properties.

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

(e) Reclassification of taxation attributable to associates.

(f) Reclassification of gain on disposal of investment properties as increase in fair value of investment properties.

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				As at 31st December, 2004 (as restated)	Effects of adoption of HKFRS 3	As at 1st January, 2005 (as restated)
		HKAS 16 & HK-Int 2	HKAS 17	HKAS 40	HK (SIC) Int 21			
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items								
Property, plant and equipment	1,118,117	(289,874)	(465,440)	(107,000)	–	255,803	–	255,803
Prepaid lease payments for land								
Non-current	–	–	586,106	–	–	586,106	–	586,106
Current	–	–	7,480	–	–	7,480	–	7,480
Investment properties	509,200	–	–	107,000	–	616,200	–	616,200
Property under development	260,618	–	(190,082)	–	–	70,536	–	70,536
Deferred tax liabilities	(116,271)	62,784	11,228	–	(69,810)	(112,069)	–	(112,069)
Total effects on assets and liabilities		(227,090)	(50,708)	–	(69,810)		–	
Retained profits	322,988#	(20,723)	(50,708)	121,512	(69,810)	303,259	(45,723)	257,536
Investment property revaluation reserve	90,512	–	–	(90,512)	–	–	–	–
Other property revaluation reserve (in relation to hotel properties)	237,367	(206,367)	–	(31,000)	–	–	–	–
Goodwill on consolidation	(45,723)	–	–	–	–	(45,723)	45,723	–
Total effects on equity		(227,090)	(50,708)	–	(69,810)		–	

\# The retained profits shown above include dividend reserve previously presented as a separate item in reserves.

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

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					As at 1st January, 2004 (as restated)
		HKAS 16	HK-Int 2	HKAS 17	HKAS 40	HK (SIC) Int 21	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Retained profits	220,753	(17,128)	–	(46,215)	6,128	(48,466)	115,072
Investment property revaluation reserve	2,128	–	–	–	(2,128)	–	–
Other property revaluation reserve (in relation to hotel properties and furnished suites)	102,157	–	(98,157)	–	(4,000)	–	–
Total effects on equity		(17,128)	(98,157)	(46,215)	–	(48,466)	

The Group has not early adopted the following new standards, amendments and interpretations that have been issued but are not yet effective.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1st January, 2007.
2 Effective for annual periods beginning on or after 1st January, 2006.
3 Effective for annual periods beginning on or after 1st December, 2005.
4 Effective for annual periods beginning on or after 1st March, 2006.

The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the financial statements of the Group.

With respect to the financial statements of the Company, it is anticipated that the application of the new standards, amendments and interpretations, except for HKAS 39 and HKFRS 4 (Amendments) "Financial guarantee contracts", would not give rise to a material impact on the financial statements of the Company. HKAS 39 and HKFRS 4 (Amendments) require financial guarantee contracts be initially recognised at fair value. The Company is not yet in a position to quantify the overall effect of HKAS 39 and HKFRS 4 (Amendments) on the results of operations and financial position of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Business combinations

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st April 2001 was held in reserves. On adoption of HKFRS 3, goodwill previously recognised in reserves has been transferred to retained profits on 1st January, 2005.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which the agreement date is on or after 1st January, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

Investments in subsidiaries

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

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

Investment properties

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

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

Property under development

Property under development is stated at cost less any identified impairment loss. Cost includes development expenditure, borrowing costs capitalised and other attributable expenses.

When the leasehold property is in the course of development, the leasehold land component is classified as prepaid lease payments for land and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided in respect of the leasehold land is included as part of the cost of the property under development.

Properties for sale

Properties held for sale are carried at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, borrowing costs capitalised and other attributable expenses. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale, 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the categories set out below. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Investments held for trading

Trading securities are classified as investments held for trading under the category of financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, trade balances due from shareholders and an associate, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale investments are recognised in profit or loss. Impairment losses on available-for-sale investments will not reverse in profit or loss in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities (including, trade and other payables, advances from a shareholder, amount due to an associate and bank loans) are measured at amortised cost, using the effective interest method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Equity instruments

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

Operating leases

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

Rental expenses under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease.

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 loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is 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 base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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 to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Retirement benefit costs

Payments to 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 completed properties are recognised on the execution of a binding sales agreement.

Sales of securities are recognised when the sale becomes unconditional.

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Fair value of investment properties

Investment properties are carried in the consolidated balance sheet at 31st December, 2005 at their fair value of HK$560 million. The fair value was determined by reference to a valuation on these properties conducted by an independent firm of professional property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the income statement and the carrying amount of these properties included in the balance sheet.

Impairment loss on property, plant and equipment

Property, plant and equipment are reviewed by management for possible impairment when events or changes in operating environment indicate that the carrying amounts of such assets may not be fully recoverable. In determining the recoverable amounts of these assets, expected cash flows to be generated by the assets are discounted to their present value, which involves significant level of judgement relating to future revenue and operating costs. When a decline in an asset's recoverable amount has occurred, the carrying amount is reduced to its estimated recoverable amount.

Impairment of development and trading properties

Included in the consolidated balance sheet at 31st December, 2005 are property under development and properties for sale with an aggregate carrying amount of HK$101 million. Management assessed the recoverability of these assets based on an estimation of the recoverable amount of the underlying properties which involves, inter-alia, considerable analyses of current market price of properties of a comparable standard and location or a forecast of cash flows, and any further construction costs to be incurred to complete the development. If the actual recoverable amount of the properties are less than expected as a result of an adverse change in market condition or an escalation of cost, impairment losses may result.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, borrowings, trade receivables, trade payables and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Certain subsidiaries of the Company have foreign currency revenue, which expose the Group to foreign currency risk. In addition, certain borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

(ii) Other price risk

The Group's investments in securities are measured at fair value at each balance sheet date. Therefore, other than interest rate risk, the Group is also exposed to equity and debt security price risk. Management will monitor the price movements of these assets and make appropriate investment decisions.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Market risk *(Continued)*

(iii) Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans (see Note 29). Management closely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the need arise.

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet and the Company's balance sheet respectively. The Group reviews the recoverable amount of each individual balance of receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC, with exposure spread over a number of counterparties and customers.

The credit risk on the Group's liquid funds, including bank deposits and listed debt securities, is limited because the majority of the counterparties are banks or corporations with high credit standing.

Liquidity risk

The Group had a net current liabilities of approximately HK$420 million at 31st December, 2005 which include bank loans and advances from a shareholder of approximately HK$246 million and HK$227 million respectively. Management will monitor the cash flows of the Group and, upon maturity, arrange refinancing of the bank loans and advances from the shareholder, where appropriate, to enable the Group to service repayment of these borrowings when due.

7. TURNOVER

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Income from operation of hotels and furnished suites	**120,973**	51,405
Property rental income	**14,817**	13,858
Proceeds from sale of properties	**95,243**	109,803
Proceeds from sale of trading securities	**–**	8,341
Interest from		
Debt securities	**1,179**	1,182
A property owning associate	**–**	1,650
Dividend income	**526**	4
	232,738	186,243

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Segment information about these businesses is presented below:

REVENUE AND RESULTS
Year ended 31st December, 2005

	Hospitality services *HK$'000*	Property investment *HK$'000*	Property development and trading *HK$'000*	Securities investment and trading *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External	**120,973**	**14,817**	**95,243**	**1,705**	**232,738**
SEGMENT RESULTS					
Operations	**32,516**	**12,347**	**21,630**	**(109)**	**66,384**
Increase in fair value of investment properties	**–**	**13,800**	**–**	**–**	**13,800**
	32,516	**26,147**	**21,630**	**(109)**	**80,184**
Other income					**1,035**
Discount on acquisition of subsidiaries					**13,505**
Unallocated corporate expenses less amounts reimbursed by related companies					**(18,337)**
Finance costs					**(17,202)**
Share of losses of associates					**(232)**
Profit before taxation					**58,953**
Taxation					**8,919**
Profit for the year					**67,872**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

BALANCE SHEET
At 31st December, 2005

	Hospitality services *HK$'000*	Property investment *HK$'000*	Property development and trading *HK$'000*	Securities investment and trading *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	**824,434**	**835,398**	**21,279**	**96,237**	**1,777,348**
Interests in associates					**359**
Unallocated corporate assets					**20,288**
Consolidated total assets					**1,797,995**
LIABILITIES					
Segment liabilities	**13,252**	**6,385**	**856**	**80**	**20,573**
Unallocated corporate liabilities					**586,588**
Consolidated total liabilities					**607,161**

OTHER INFORMATION
Year ended 31st December, 2005

	Hospitality services *HK$'000*	Property investment *HK$'000*
Capital additions		
– property, plant and equipment	**145,376**	**–**
– investment properties	**–**	**110,000**
– property under development	**–**	**15,391**
Depreciation and amortisation	**19,327**	**141**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

REVENUE AND RESULTS
Year ended 31st December, 2004

	Hospitality services *HK$'000*	Property investment *HK$'000*	Property development and trading *HK$'000*	Securities investment and trading *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External	51,405	15,508	109,803	9,527	186,243
SEGMENT RESULTS					
Operations	6,338	15,085	21,337	2,336	45,096
Increase in fair value of investment properties	–	137,233	–	–	137,233
	6,338	152,318	21,337	2,336	182,329
Other income					168
Unallocated corporate expenses less amounts reimbursed by related companies					(11,966)
Finance costs					(5,346)
Share of (losses) profits of associates	(40)	51,285			51,245
Profit before taxation					216,430
Taxation					(28,243)
Profit for the year					188,187

BALANCE SHEET
At 31st December, 2004

	Hospitality services *HK$'000*	Property investment *HK$'000*	Property development and trading *HK$'000*	Securities investment and trading *HK$'000*	Consolidated *HK$'000*
ASSETS					
Segment assets	941,995	616,861	183,624	102,430	1,844,910
Interests in associates	(283)	874			591
Unallocated corporate assets					135,844
Consolidated total assets					1,981,345
LIABILITIES					
Segment liabilities	6,946	6,427	2,233	104	15,710
Unallocated corporate liabilities					830,094
Consolidated total liabilities					845,804

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION
Year ended 31st December, 2004

	Hospitality services *HK$'000*	Property investment *HK$'000*
Capital additions		
– property, plant and equipment	147,335	32
– investment properties	–	35,080
– property under development	20,422	–
Deposit for acquisition of assets	20,000	–
Depreciation and amortisation	10,731	130

Geographical segments

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

	2005 ***HK$'000***	2004 *HK$'000*
Hong Kong	**197,774**	171,463
Macau	**20,721**	–
Other regions in the People's Republic of China (the "PRC")	**14,243**	14,780
	232,738	186,243

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

	Carrying amounts of assets		**Additions to property, plant and equipment, investment properties and property under development**	
	2005 ***HK$'000***	2004 *HK$'000*	**2005** ***HK$'000***	2004 *HK$'000*
Segment assets				
Hong Kong	**1,434,017**	1,891,417	**36,025**	203,873
Macau	**275,158**	–	**233,714**	–
The PRC	**88,461**	89,336	**1,289**	417
Unallocated	**359**	592	**–**	–
	1,797,995	1,981,345	**271,028**	204,290

9. (LOSS) GAIN ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
(Decrease) increase in fair value of		
Investments held for trading	**(1,814)**	–
Trading securities	**–**	829
Realised loss on other securities	**–**	(465)
	(1,814)	364

10. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Interests on borrowings wholly repayable within five years		
Bank loans and overdrafts	**10,964**	5,421
Other loans	**10,422**	2,590
	21,386	8,011
Less: Amount capitalised on		
Property under development	**(4,184)**	(1,378)
Hotel property under refurbishment	**–**	(1,287)
	17,202	5,346

The borrowing costs capitalised during the year were calculated at the Hong Kong Inter-bank Offered Rate ("HIBOR") plus a specified margin.

11. SHARE OF (LOSSES) PROFITS OF ASSOCIATES

The share of profits of associates of the prior year includes the Group's attributable share of the gain of HK$48,176,000 arising from an increase in fair value of an associate's investment property which was sold during the year.

12. PROFIT BEFORE TAXATION

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	**734**	517
Staff costs including directors' emoluments	**47,827**	24,537
Depreciation of property, plant and equipment	**13,665**	5,347
Prepaid lease payments for land		
Lease payments amortised	**8,112**	7,374
Less: amount capitalised on property under development	**(1,771)**	(1,771)
	6,341	5,603
Loss on disposal of property, plant and equipment	**586**	–
Share of taxation of associates (included in share of losses/profits of associates)	**(46)**	1,705
Rental income in respect of investment properties under operating leases, less outgoings of HK$239,000 (2004: HK$839,000)	**(14,578)**	(13,019)
Interest on bank deposits	**(554)**	(23)
Dividends from listed securities	**(526)**	(4)
Realised gain on trading securities	**–**	(787)

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Year ended 31st December, 2005				
	Directors' fees	Basic salaries, allowances and benefits-in-kind	Performance related bonus	Contributions to provident fund schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. William Cheng Kai Man	–	2,653	492	12	3,157
Mr. Albert Hui Wing Ho	–	813	133	12	958
Mr. Fung Chi Keung	–	483	37	12	532
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	17	–	–	–	17
Mr. Vincent Kwok Chi Sun	35	–	–	–	35
Mr. Chan Kim Fai	33	–	–	–	33
Mr. Hui Kin Hing	33	–	–	–	33
	118	3,949	662	36	4,765

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

	Year ended 31st December, 2004				
	Directors' fees	Basic salaries, allowances and benefits-in-kind	Performance related bonus	Contributions to provident fund schemes	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. William Cheng Kai Man	–	3,010	–	12	3,022
Mr. Jim Wong Tin Yue	–	1,474	–	7	1,481
Mr. Albert Hui Wing Ho	–	813	–	12	825
Mr. Fung Chi Keung	–	286	–	7	293
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	40	–	–	–	40
Mr. Vincent Kwok Chi Sun	41	–	–	–	41
Mr. Chan Kim Fai	8	–	–	–	8
	89	5,583	–	38	5,710

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

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, three (2004: four) were directors of the Company whose emoluments are included above. The emoluments of the remaining two individuals (2004: one individual), whose emoluments are individually below HK$1,000,000, are as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**807**	299
Contributions to provident fund scheme	**24**	12
Performance related incentive payments	**62**	–
	893	311

14. TAXATION

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
The taxation (credit) charge represents:		
Current tax		
Hong Kong Profits Tax	**6,834**	6,389
Deferred tax *(note 30)*	**(15,753)**	21,854
	(8,919)	28,243

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The taxation (credit) charge for the year can be reconciled to the profit before taxation as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Profit before taxation	**58,953**	216,430
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	**10,317**	37,875
Tax effect of expenses that are not deductible in determining taxable profit	**381**	578
Tax effect of income that is not taxable in determining taxable profit	**(2,667)**	(96)
Reversal of previously recognised deferred tax liabilities on disposal of an investment property	**(16,722)**	(1,627)
Tax effect of tax losses not recognised	**1,570**	1,920
Utilisation of tax losses previously not recognised	**(841)**	(863)
Effect of share of taxation of associates	**41**	(8,968)
Others	**(998)**	(576)
Taxation (credit) charge	**(8,919)**	28,243

15. DIVIDEND

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Proposed final dividend of HK0.2 cents (2004: HK0.15 cents) per share	**10,929**	8,197

The final dividend of HK0.2 cents (2004: HK0.15 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

16. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK$67,872,000 (2004: HK$188,187,000) and on 5,464,700,883 (2004: 5,464,700,883) ordinary shares in issue during the year.

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

The following table summarises the impact on basic earnings per share as a result of the changes in accounting policies as described in notes 2 and 3:

	2005 ***HK Cents***	2004 *HK Cents*
Figures before adjustments	2.45	1.87
Adjustments arising from the changes in accounting policies *(see Notes 2 and 3)*	(1.21)	1.57
Reported/restated	**1.24**	**3.44**

17. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings *HK$'000*	**Furniture, fixtures and equipment** *HK$'000*	**Motor vehicles and vessels** *HK$'000*	**Total** *HK$'000*
THE GROUP				
COST				
At 1st January, 2004	127,167	16,530	16,745	160,442
Additions	146,374	1,798	616	148,788
Disposals	–	(41)	(513)	(554)
At 31st December, 2004	273,541	18,287	16,848	308,676
Acquired on acquisition of subsidiaries *(note 32)*	119,000	3,923	–	122,923
Other additions	–	20,363	2,351	22,714
Disposals	–	(512)	(508)	(1,020)
At 31st December, 2005	**392,541**	**42,061**	**18,691**	**453,293**
DEPRECIATION				
At 1st January, 2004	21,250	10,493	16,311	48,054
Provided for the year	4,605	486	256	5,347
Eliminated on disposals	–	(32)	(496)	(528)
At 31st December, 2004	25,855	10,947	16,071	52,873
Provided for the year	8,260	5,015	390	13,665
Eliminated on disposals	–	(273)	(161)	(434)
At 31st December, 2005	**34,115**	**15,689**	**16,300**	**66,104**
CARRYING AMOUNTS				
At 31st December, 2005	**358,426**	**26,372**	**2,391**	**387,189**
At 31st December, 2004	247,686	7,340	777	255,803

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Furniture, fixtures and equipment *HK$'000*	Motor vehicles and vessels *HK$'000*	Total *HK$'000*
THE COMPANY			
COST			
At 1st January, 2004	101	2,658	2,759
Additions	9	–	9
At 31st December, 2004	110	2,658	2,768
Additions	10	260	270
At 31st December, 2005	**120**	**2,918**	**3,038**
DEPRECIATION			
At 1st January, 2004	74	2,470	2,544
Provided for the year	12	71	83
At 31st December, 2004	86	2,541	2,627
Provided for the year	12	84	96
At 31st December, 2005	**98**	**2,625**	**2,723**
CARRYING AMOUNTS			
At 31st December, 2005	**22**	**293**	**315**
At 31st December, 2004	24	117	141

An analysis of the carrying amounts of the Group's hotel buildings, which are situated on leasehold land, is set out below:

	2005 ***HK$'000***	2004 *HK$'000*
In Hong Kong		
On long lease	**141,593**	144,533
Under medium-term lease	**49,798**	51,373
In Macau under medium-term lease	**116,571**	–
In the PRC under medium-term lease	**50,464**	51,780
	358,426	247,686

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Hotel buildings	50 years or over the remaining term of land lease, whichever is the shorter
Furniture, fixtures and equipment	20%-33$^{1}/_{3}$%
Motor vehicles and vessels	20%

18. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments comprise:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Land in Hong Kong on		
Long lease	**403,911**	405,935
Medium-term lease	**150,104**	154,723
	554,015	560,658
Land in Macau on medium-term lease	**30,367**	–
Land in the PRC on medium-term lease	**32,091**	32,928
	616,473	593,586
Analysed for reporting purposes as:		
Non-current asset	**608,304**	586,106
Current asset	**8,169**	7,480
	616,473	593,586

19. INVESTMENT PROPERTIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of the year	**616,200**	478,200
Additions	**–**	35,080
Acquired on acquisition of subsidiaries *(note 32)*	**110,000**	–
Disposals	**(180,000)**	(34,313)
Increase in fair value recognised in income statement	**13,800**	137,233
At end of the year	**560,000**	616,200

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

	2005	2004
	HK$'000	*HK$'000*
Land and buildings in Hong Kong on land held		
On long leases	**336,300**	516,000
Under medium-term leases	**108,900**	100,200
Land and buildings in Macau under medium-term leases	**114,800**	–
	560,000	616,200

19. INVESTMENT PROPERTIES *(Continued)*

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

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

The investment properties of the Group with an aggregate carrying amount of approximately HK$470 million (2004: HK$597 million) were rented out under operating leases at the balance sheet date.

20. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
At cost		
At beginning of the year	**70,536**	50,114
Additions	**15,391**	20,422
At end of the year	**85,927**	70,536

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

Included in the carrying amount of the property are interest expense of HK$5,625,000 (2004: HK$1,441,000) capitalised.

21. INVESTMENTS IN/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
INVESTMENTS IN SUBSIDIARIES		
Unlisted shares, at cost less impairment losses	**149,281**	112,521
AMOUNTS DUE FROM SUBSIDIARIES LESS ALLOWANCE	**1,256,942**	1,038,131

The amounts due from subsidiaries are unsecured with no fixed repayment terms. In the opinion of the directors, the amounts will not be repayable within one year, accordingly are classified as non-current. Such amounts to the extent of HK$619 million (2004: HK$8.3 million) carry interests chargeable at Hong Kong Interbank Offered Rate ("HIBOR") plus 1% with the remaining balance interest free. Upon adoption of HKAS 39 on 1st January, 2005, the amounts due from subsidiaries are carried at amortised cost using the effective interest method, less any identified impairment losses. The effective interest rate on the amounts due from subsidiaries in respect of the year is HIBOR plus 1%.

The directors consider that the carrying amount of the amounts due from subsidiaries at 31st December, 2005 approximates their fair value.

Particulars regarding the principal subsidiaries at 31st December, 2005 are set out in note 38.

22. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Cost of investments, unlisted	**123**	123
Share of post-acquisition profits less losses	**236**	468
	359	591

Particulars regarding the associates at 31st December, 2005 are set out in note 39.

The summarised financial information in respect of the Group's associates is set out below.

RESULTS

	Year ended 31st December,	
	2005	2004
	HK$'000	*HK$'000*
Turnover	**120**	15,965
(Loss) profit for the year	**(464)**	102,490
(Loss) profit for the year attributable to the Group	**(232)**	(51,245)

FINANCIAL POSITION

	At 31st December,	
	2005	2004
	HK$'000	*HK$'000*
Current assets	**3,077**	8,309
Current liabilities	**(2,359)**	(7,127)
Net assets	**718**	1,182
Net assets attributable to the Group	**359**	591

23. INVESTMENTS IN SECURITIES

	The Group			
	Non-current		Current	
	Available-for-sale investments	Other securities	**Investments held for trading**	Trading securities
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Listed securities at fair value				
Equity securities listed in Hong Kong	**72,958**	77,340	**9**	9
Debt securities listed outside Hong Kong	**–**	–	**21,782**	23,596
Unlisted investments	**780**	780	**–**	–
	73,738	78,120	**21,791**	23,605

	The Company	
	Available-for-sale investments	Other securities
	2005	2004
	HK$'000	*HK$'000*
Non-current		
Unlisted investments	**780**	780

The fair value of listed securities is determined by reference to quoted market bid price.

The Group's non-current equity securities listed in Hong Kong include approximately 15.07% (2004: 15.07%) interest in Shun Ho Technology and approximately 20.57% (2004: 20.57%) interest in Shun Ho Resources, both are public companies incorporated and listed in Hong Kong. The principal activities of Shun Ho Technology and Shun Ho Resources and their respective subsidiaries are investment and operation of hotels and furnished suites, property investment, property development and trading, securities investment and trading, and treasury investment.

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

24. TRADE AND OTHER RECEIVABLES

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**13,006**	100,655
31 - 60 days	**716**	25
Over 60 days	**389**	152
	14,111	100,832

The directors consider that the carrying amount of trade and other receivables of the Group and the Company at 31st December, 2005 approximates their fair value.

25. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 - 30 days	**13,560**	7,552
31 - 60 days	**323**	633
Over 60 days	**6,186**	4,489
	20,069	12,674

The directors consider that the carrying amount of trade and other payables of the Group and the Company at 31st December, 2005 approximates their fair value.

26. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets include trade balances due from a shareholder and an associate, and bank balances and cash. Bank balances and cash comprise short term bank deposits at prevailing market interest rates ranging from 2% to 3% per annum.

Other financial liabilities include advance from a shareholder and amount due to an associate.

The directors consider that the carrying amounts of these financial assets and liabilities approximate their respective fair values.

27. SHARE CAPITAL

	THE GROUP AND THE COMPANY			
	2005		2004	
	Number of shares	**Nominal value**	Number of shares	Nominal value
	'000	***HK$'000***	*'000*	*HK$'000*
Ordinary shares of HK$0.01 each				
Authorised:				
At beginning and end of the year	**80,000,000**	**800,000**	80,000,000	800,000
Issued and fully paid:				
At beginning and end of the year	**5,464,701**	**54,647**	5,464,701	54,647

28. SHARE PREMIUM AND RESERVES

	Share premium	**Special capital reserve**	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
THE COMPANY				
At 1st January, 2004	210,640	612,477	88,138	911,255
Loss for the year	–	–	(6,202)	(6,202)
At 31st December, 2004	210,640	612,477	81,936	905,053
Profit for the year	–	–	35,160	35,160
At 31st December, 2005	210,640	612,477	117,096	940,213

When sanctioning the reduction in the nominal value of the Company's shares in 1999, the High Court of the Hong Kong Special Administrative Region stipulated that the credit arising on the reduction be transferred to a special capital reserve, and that the reserve, which may be reduced by any increase in the issued share capital and share premium of the Company resulting from an issue of shares for cash or other new consideration or upon a capitalisation of distributable reserves, is not regarded as realised profit and distributable until all of the liabilities of the Company as at 22nd September, 1999, the date on which the reduction of share capital took effect, are settled. The liabilities of the Company at that date have not yet been fully settled at 31st December, 2005, accordingly the special capital reserve was not considered distributable.

29. BANK LOANS

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Secured bank loans repayable		
Within one year	**246,409**	92,904
More than one year, but not exceeding two years	**–**	137,065
More than two years, but not exceeding five years	**–**	178,720
	246,409	408,689
Less: Amounts due within one year included in current liabilities	**(246,409)**	(92,904)
	–	315,785

The Group's bank loans are variable-rate borrowings which carry interests at commercial lending rates. A substantial portion of the bank loans are denominated in Hong Kong dollars, the functional currency of the relevant subsidiaries, and carry interests at HIBOR plus 0.75% to 1% in respect of both of the years presented. The bank loans are secured over certain of the Group's properties and are repayable within one year from the balance sheet date. Interest on a substantial amount of the bank loans is repricing monthly.

The directors consider that the carrying amount of the bank loans at 31st December, 2005 approximates their fair value.

As at the balance sheet date, the undrawn bank loan facilities of the Group amounted to an aggregate of approximately HK$509 million.

30. DEFERRED TAX LIABILITIES

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

THE GROUP

	Business combination	**Revaluation of properties**	**Accelerated tax depreciation**	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January, 2004 (as restated)	86,665	(2,551)	7,101	(1,000)	90,215
(Credit) charge to income statement	(858)	23,816	(1,104)	–	21,854
At 31st December, 2004	85,807	21,265	5,997	(1,000)	112,069
Acquisition of subsidiaries	8,822	–	–	–	8,822
(Credit) charge to income statement	(962)	(14,572)	1,434	(1,653)	(15,753)
At 31st December, 2005	**93,667**	**6,693**	**7,431**	**(2,653)**	**105,138**

At the balance sheet date, the Group had unused tax losses of HK$72,096,000 (2004: HK$46,855,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK$13,743,000 (2004: HK$3,030,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK$58,353,000 (2004: HK$43,825,000) due to the unpredictability of future profit streams. Substantially all the unrecognised tax losses may be carried forward indefinitely.

31. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free with no fixed repayment terms. The directors consider that the carrying amount of the amounts due to subsidiaries approximates their fair value.

32. ACQUISITION OF SUBSIDIARIES

In February 2005, the Group acquired 100% of the 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 consideration of 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 acquisition has been accounted for using the purchase method. The amount of discount arising as a result of the acquisition was HK$13,505,000.

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

	Acquiree's carrying amount before combination *HK$'000*	**Fair value adjustments** *HK$'000*	**Fair value** *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)
			241,654
Total consideration satisfied by:			
Cash			241,654

	HK$'000
Net cash outflow arising on acquisition	
Cash consideration	241,654
Less: Deposit on acquisition paid in prior year	(20,000)
	221,654

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

* 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 lease payments for land	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 HK$20.7 million to the Group's turnover and a profit before taxation of HK$4.3 million to the Group's operating results for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1st January, 2005, the turnover of the Group for the year would have been HK$233 million and the Group's profit for the year would have been HK$67 million. The proforma information is for illustrative purposes only and is not necessarily an indication of the turnover and results 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.

33. PROJECT COMMITMENTS

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

	2005 ***HK$'000***	2004 *HK$'000*
(a) Property development expenditure		
Authorised but not contracted for	**–**	260,000
Contracted but not provided for	**204,865**	4,653
(b) Expenditures for hotel improvements contracted but not provided for	**–**	3,995

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

34. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year amounted to HK$14,817,000 (2004: HK$13,858,000). The properties under leases have committed tenants for one to five 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:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**10,956**	9,556
In the second to fifth year inclusive	**12,074**	3,852
	23,030	13,408

The Group as lessee

	2005	2004
	HK$'000	*HK$'000*
Minimum lease payments for office premises paid under operating leases during the year	**1,213**	1,213

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

35. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

At 31st December, 2005, the bank loan facilities of subsidiaries, which were utilised to the extent of approximately HK$246 million (2004: HK$409 million), were secured by the following:

(a) guarantees issued by the Company amounted to approximately HK$734 million (2004: HK$824 million);

(b) leasehold interests in land and buildings of the Group with an aggregate carrying amount of HK$968 million (2004: HK$1,208 million);

(c) pledge of shares in and subordination of loans due from subsidiaries with an aggregate carrying amount of approximately HK$369 million (2004: HK$347 million);

(d) assignment of the Group's rentals and hotel revenue; and

(e) pledge of the listed securities held by the Group with an aggregate carrying amount of HK$95 million (2004: HK$100 million).

36. RETIREMENT BENEFIT PLANS

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

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

The contributions payable to the schemes by the Group in respect of the year which were charged to the income statement amounted to HK$1,288,000 (2004: HK$1,085,000). The forfeited contributions under the Group's defined contribution retirement scheme which had been suspended are immaterial.

37. RELATED PARTY TRANSACTIONS

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

	2005	2004
	HK$'000	*HK$'000*
Shun Ho Technology and its subsidiaries		
Rental expenses	**1,040**	1,040
Interest expenses on advances to the Group *(note a)*	**10,422**	2,590
Corporate management fees for administrative facilities received	**1,467**	1,452
Web advertising expenses	**288**	288
Dividend income	**526**	–
Advances due by the Group at end of the year *(note a)*	**227,469**	299,522
Trade balance due to the Group at end of the year *(note b)*	**900**	645
Shun Ho Resources		
Corporate management fees for administrative facilities received	**150**	150
Trade balance due to the Group at end of the year *(note b)*	**913**	723
Associates		
Marketing expenses	**120**	480
Interest income *(note c)*	**–**	1,650
Trade balance due to the Group at end of the year *(note b)*	**405**	374
Balance due by the Group at end of the year *(note c)*	**2,269**	2,269
Compensation of key management personnel *(note d)*	**4,765**	5,710

Notes:

(a) The advances to the Group, which are unsecured and carry interest at HIBOR plus a specified margin, are repayable on demand.

(b) The amounts are unsecured, interest free and repayable on demand.

(c) The amount due from an associate, Lucky Country, was unsecured with no fixed repayment terms. Such advances carried interest chargeable at the rate of 3% per annum. The amount due from this associate was fully repaid during the year ended 31st December, 2004.

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 (2004: HK$2,269,000) remained outstanding at the balance sheet date.

(d) Substantially all of the compensation of key management personnel comprised of short term benefits attributable to such personnel.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

All the principal subsidiaries are incorporated and operating principally in Hong Kong except otherwise indicated. None of the subsidiaries had any debt securities outstanding at 31st December, 2005 or at any time during the year.

Name of subsidiary	Paid up issued ordinary share/ registered capital: Number of shares	Paid up issued ordinary share/ registered capital: Par value	Proportion of nominal value of issued ordinary share/ registered capital held by: Company %	Proportion of nominal value of issued ordinary share/ registered capital held by: Subsidiaries %	Principal activities
Babenna Limited	2	HK$10	100	–	Investment holding
City Wealth Limited	2	HK$1	–	100	Property investment
Claymont Services Limited *(i)*	1	US$1	100	–	Investment holding
Grand-Invest & Development Company Limited *(iii)*	100,000	MOP1	–	100	Hotel investment
Harbour Rich Industrial Limited	10,000	HK$1	–	100	Property development
Himson Enterprises Limited *(i)*	1	US$1	–	100	Investment holding
Houston Venture Limited *(i)*	1	US$1	100	–	Investment holding
Houston Venture Limited (formerly On Sea Limited)	2	HK$1	100	–	Investment holding
Joes River Limited	2	HK$1	100	–	Investment holding
Longham Investment Limited (formerly Joligance Limited)	2	HK$1	100	–	Investment holding
Longham Investment Limited *(i)*	1	US$1	–	100	Investment holding
Longluck Investments Limited *(i)*	1	US$1	–	100	Investment holding
Magnificent International Hotel Limited	2	HK$1	100	–	Property investment
Mercury Fast Limited	2	HK$1	100	–	Securities dealings and investment holding
New Champion Developments Limited *(i)*	1	US$1	–	100	Vessel leasing
Shun Ho Capital Properties Limited *(i)*	1	US$1	100	–	Investment holding
Shun Ho Construction (Holdings) Limited	2	HK$10	100	–	Investment holding
Shanghai Shun Ho (Lands Development) Limited *(i)*	1	US$1	100	–	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. *(ii)*	Registered capital	US$4,950,000	–	100	Hotel investment
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	Hotel investment and investment holding
Yuki Resources Ltd. *(i)*	1	US$1	–	100	Investment holding

(i) Incorporated in the British Virgin Islands
(ii) Wholly foreign owned enterprise established and operating principally in the PRC
(iii) Incorporated and operating in Macau.

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

39. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong.

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

40. COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies and to conform with the current year's presentation.