1. GENERAL

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

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

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

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 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 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 minority interests and 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 or negative goodwill recognised and brought forward as at that date. The principal effects of the application of transitional provisions in 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, any 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 consolidated balance sheet at 1st January, 2005 with a corresponding increase to retained profits in accordance with the relevant transitional provisions of HKFRS 3.

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

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 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 at fair value through profit or loss" 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 investment, 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.

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 2, 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 recognised revaluation reserve has been derecognised against the carrying amounts of hotel properties and deferred tax liabilities retrospectively. Comparative figures have been restated.

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

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.

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 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$4 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$4 million and the Company's profit for the year has been increased by HK$4 million as a result of the recognition of the imputed interest income.

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

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	Notes	After adoption of new HKFRSs
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
Turnover	232,213	–	–	–	–	–		232,213
Cost of sales	(74,390)	–	–	–	–	–		(74,390)
Other service costs	(62,868)	–	–	–	–	–		(62,868)
	94,955	–	–	–	–	–		94,955
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	14,862	–	–	–	–	(12,955)	*g*	1,907
Loss on investments in securities	(1,814)	–	–	–	–	–		(1,814)
Depreciation and amortisation	(5,626)	(8,296)	(12,194)	–	–	–	*d*	(26,116)
Selling and marketing expenses	(3,873)	–	–	–	–	–		(3,873)
Administrative expenses	(23,275)	–	–	–	–	–		(23,275)
Finance costs	(6,780)	–	–	–	–	–		(6,780)
Share of losses of associates	(268)	–	–	46	–	–	*e*	(222)
Profit before taxation	163,739	(8,296)	(12,194)	46	(81,758)	550		62,087
Taxation	(10,144)	1,452	2,134	(46)	14,308	–		7,704
Profit for the year	153,595	(6,844)	(10,060)	–	(67,450)	550		69,791
Attributable to:								
Shareholders of the Company	56,097							25,026
Minority interests	97,498							44,765
	153,595							69,791

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 HKAS 16 & HK-Int 2	HKAS 17	HKAS 1	HKAS 40		Other reclassifications	After adoption of new HKFRSs
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*	*HK$'000*
Turnover	187,855	–	–	–	–		–	187,855
Cost of sales	(93,303)	–	–	–	–		–	(93,303)
Other service costs	(29,544)	–	–	–	–		–	(29,544)
	65,008	–	–	–	–		–	65,008
Increase in fair value of investment properties	–	–	–	–	215,354	*b, c & f*	–	215,354
Gain on disposal of an investment property	182,174	–	–	–	(182,174)	*c & f*	–	–
Other income	14,609	–	–	–	–		(829)	13,780
Gain on investments in securities	–	–	–	–	–		829	829
Depreciation and amortisation	–	(4,640)	(10,257)	–	–	*d*	(1,629)	(16,526)
Selling and marketing expenses	(2,459)	–	–	–	–		–	(2,459)
Administrative expenses	(20,132)	–	–	–	–		1,629	(18,503)
Finance costs	(2,756)	–	–	–	–		–	(2,756)
Share of profits of associates	52,986	–	–	(1,705)	–	*e*	–	51,281
Profit before taxation	289,430	(4,640)	(10,257)	(1,705)	33,180			306,008
Taxation	(11,042)	812	1,907	1,705	(3,433)			(10,051)
Profit for the year	278,388	(3,828)	(8,350)	–	29,747			295,957
Attributable to:								
Shareholders of the Company	126,415							119,350
Minority interests	151,973							176,607
	278,388							295,957

Notes:

(a) Discount on acquisition recognised in profit and 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 gain or 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.

(g) Reversal of negative goodwill released to income.

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	HK(SIC) Int 21	As at 31st December, 2004 (as restated)	Effects of 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*
Balance sheet items								
Property, plant and equipment	1,182,215	(144,597)	(663,177)	(107,000)	–	267,441	–	267,441
Prepaid lease payments for land								
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)	35,917	6,350	–	(67,990)	(149,302)	–	(149,302)
Total effects on assets and liabilities		(108,680)	(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	(70,920)	(18,084)	–	(44,368)	888,069	68,363	956,432
Total effects on equity		(108,680)	(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	HK(SIC) Int 21	As at 1st January, 2004 (as restated)
	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	1,743	(12,587)	–	(42,988)	711,462
Total effects on equity		2,924	(18,847)	–	(68,555)	

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

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

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.

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.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Treasury shares

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

Business combinations

The acquisition of 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 January 2001 was held in reserves. On adoption of HKFRS 3, goodwill previously recognised in reserve 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.

As explained in Note 2, all negative goodwill as at 1st January, 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

Investments in subsidiaries

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease.

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.

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 liabilities for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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 investments are recognised when the sale becomes unconditional.

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

Dividend 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 and debt securities, bank loans, 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 bank loans 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 exposed to equity and debt security price risk. Management will monitor the price movements of these assets and make appropriate investment decision.

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

Market risk *(Continued)*

(iii) Cash flow interest rate risk

The Group's cash flow interest risk primarily relates to variable-rate bank loans (see Note 30). Management chosely monitors interest rate exposures and will consider entering into interest rate swap transactions to hedge significant interest rate risk should the need asset.

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 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$108 million at 31st December, 2005 which include bank loans of approximately HK$246 million. 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 revenue from operations of hotels and furnished suites, property rentals, proceeds from sale of properties and trading securities, interest and dividend income, and is analysed as follows:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Revenue from operations of hotels and furnished suites	**120,974**	51,405
Property rental income	**14,817**	15,470
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	**–**	4
	232,213	187,855

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 operations of hotels and furnished suites
Property investment	–	property letting
Property development and trading	–	development and trading of properties
Securities investment and trading	–	investment in and trading of listed securities

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*	Other operations *HK$'000*	Consolidated *HK$'000*
TURNOVER						
External	120,974	14,817	95,243	1,179	–	232,213
SEGMENT RESULTS						
Operations	27,509	11,475	23,434	109	–	62,527
Increase in fair value of investment properties	–	13,800	–	–	–	13,800
	27,509	25,275	23,434	109	–	76,327
Other income						1,907
Discount on acquisition of subsidiaries						13,505
Unallocated corporate expenses						(22,650)
Finance costs						(6,780)
Share of losses of associates						(222)
Profit before taxation						62,087
Taxation						7,704
Profit for the year						69,791

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

ASSETS AND LIABILITIES
At 31st December, 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*
ASSETS						
Segment assets	**992,258**	**898,748**	**21,279**	**23,380**	**–**	**1,935,665**
Interests in associates						**645**
Unallocated corporate assets						**102,640**
Consolidated total assets						**2,038,950**
LIABILITIES						
Segment liabilities	**13,252**	**6,425**	**856**	**80**	**–**	**20,613**
Unallocated corporate liabilities						**399,742**
Consolidated total liabilities						**420,355**

OTHER INFORMATION
Year ended 31st December, 2005

	Hospitality services *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*
Capital additions			
– property, plant and equipment	**145,376**	**–**	**–**
– investment properties	**–**	**110,000**	**–**
– property under development	**–**	**15,392**	**–**
Depreciation and amortisation	**24,675**	**141**	**–**

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

REVENUE AND RESULTS
Year ended 31st December, 2004

	Hospitality services	Property investment	Property development and trading	Securities investment and trading	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External	51,405	17,120	109,803	9,527	–	187,855
SEGMENT RESULTS						
Operations	5,800	18,699	32,949	2,862	(132)	60,178
Increase in fair value of investment properties	–	215,354	–	–	–	215,354
	5,800	234,053	32,949	2,862	(132)	275,532
Other income						195
Unallocated corporate expenses						(18,244)
Finance costs						(2,756)
Share of profits of associates	–	51,281	–	–	–	51,281
Profit before taxation						306,008
Taxation						(10,051)
Profit for the year						295,957

ASSETS AND LIABILITIES
At 31st December, 2004

	Hospitality services	Property investment	Property development and trading	Securities investment and trading	Other operations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Segment assets	1,115,147	616,869	181,820	25,191	22	1,939,049
Negative goodwill	(62,091)	(76,384)	(8,908)	–	–	(147,383)
Interests in associates	–	867	–	–	–	867
Unallocated corporate assets						199,957
Consolidated total assets						1,992,490
LIABILITIES						
Segment liabilities	6,962	6,471	2,233	469	–	16,135
Unallocated corporate liabilities						571,168
Consolidated total liabilities						587,303

8. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

OTHER INFORMATION
Year ended 31st December, 2004

	Hospitality services *HK$'000*	Property investment *HK$'000*	Other operations *HK$'000*
Capital additions			
– property, plant and equipment	147,335	73	–
– investment properties	–	35,080	–
– property under development	20,421	–	–
Deposit for acquisition of assets	20,000	–	–
Depreciation and amortisation	15,423	144	108

Geographical segments

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

	2005 ***HK$'000***	2004 *HK$'000*
Hong Kong	**197,249**	173,075
Macau	**20,721**	–
Other regions in the People's Republic of China (the "PRC")	**14,243**	14,780
	232,213	187,855

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 amount of assets		**Additions to property, plant and equipment, investment properties and property under development**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets				
Hong Kong	**1,674,686**	1,914,110	**36,028**	203,876
Macau	**275,158**	–	**233,714**	–
The PRC	**88,461**	77,513	**1,289**	417
Unallocated	**645**	867	**–**	–
	2,038,950	1,992,490	**271,031**	204,293

9. (LOSS) GAIN ON INVESTMENTS IN SECURITIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
(Decrease) increase in fair value of		
Investment held for trading	**(1,814)**	–
Trading securities	**–**	829
	(1,814)	829

10. FINANCE COSTS

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Interests on bank loans wholly repayable within five years	**10,964**	5,421
Less: Amount capitalised on:		
Property under development	**(4,184)**	(1,378)
Hotel property under refurbishment	**–**	(1,287)
	6,780	2,756

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 that 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	**1,254**	1,054
Staff costs including directors' emoluments	**49,718**	26,703
Depreciation of property, plant and equipment	**13,922**	5,708
Prepaid lease payments for land		
Prepaid lease payments amortised	**13,965**	12,589
Less: amount capitalised on property under development	**(1,771)**	(1,771)
	12,194	10,818
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$349,000 (2004: HK$1,000,000)	**(14,468)**	(14,470)
Interest on bank deposits	**(1,425)**	(24)
Negative goodwill released to other income	**–**	(13,247)
Dividends from listed securities	**–**	(4)
Realised gain on trading securities	**–**	(1,347)

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 *HK$'000*	**Basic salaries, allowances and benefits-in-kind** *HK$'000*	**Performance related bonus** *HK$'000*	**Contributions to provident fund schemes** *HK$'000*	**Total** *HK$'000*
Mr. William Cheng Kai Man	**–**	**3,228**	**600**	**12**	**3,840**
Mr. Albert Hui Wing Ho	**–**	**1,053**	**162**	**12**	**1,227**
Mr. Fung Chi Keung	**–**	**650**	**45**	**12**	**707**
Mr. David Cheng Kai Ho	**–**	**–**	**–**	**–**	**–**
Madam Mabel Lui Fung Mei Yee	**50**	**–**	**–**	**–**	**50**
Mr. Vincent Kwok Chi Sun	**88**	**–**	**–**	**–**	**88**
Mr. Chan Kim Fai	**100**	**–**	**–**	**–**	**100**
Mr. Hui Kin Hing	**100**	**–**	**–**	**–**	**100**
	338	**4,931**	**807**	**36**	**6,112**

	Year ended 31st December, 2004				
	Directors' fees *HK$'000*	Basic salaries, allowances and benefits-in-kind *HK$'000*	Performance related bonus *HK$'000*	Contributions to provident fund schemes *HK$'000*	Total *HK$'000*
Mr. William Cheng Kai Man	–	3,663	–	12	3,675
Mr. Jim Wong Tin Yue	–	1,858	–	7	1,865
Mr. Albert Hui Wing Ho	–	1,053	–	12	1,065
Mr. Fung Chi Keung	–	349	–	7	356
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	50	–	–	–	50
Mr. Vincent Kwok Chi Sun	54	–	–	–	54
Mr. Chan Kim Fai	24	–	–	–	24
	128	6,923	–	38	7,089

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

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

(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*
Basic salaries, allowances and benefits-in-kind	**984**	510
Performance related bonus	**75**	–
Contributions to provident fund schemes	**24**	12
	1,083	522

14. TAXATION

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
The taxation (credit) charge represents:		
Current tax		
Hong Kong Profits Tax	**8,373**	7,693
Deferred tax *(note 31)*	**(16,077)**	2,358
	(7,704)	10,051

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	**62,087**	306,008
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	**10,865**	53,551
Tax effect of expenses that are not deductible in determining taxable profit	**643**	479
Tax effect of income that is not taxable in determining taxable profit	**(2,819)**	(2,876)
Reversal of previously recognised deferred tax liabilities on disposal of investment properties	**(16,722)**	(31,880)
Tax effect of tax losses not recognised	**1,578**	2,112
Utilisation of tax losses previously not recognised	**(1,071)**	(924)
Effect of share of taxation of associates	**39**	(8,974)
Others	**(217)**	(1,437)
Taxation (credit) charge	**(7,704)**	10,051

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to shareholders of the Company of HK$25,026,000 (2004: HK$119,350,000) and on 241,766,050 (2004: 241,766,050) shares in issue during the year. The number of shares adopted in the calculation of the earnings per share has been arrived at after eliminating the shares in the Company held by a subsidiary.

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

15. EARNINGS PER SHARE *(Continued)*

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

	2005	2004
	HK cents	*HK cents*
Figures before adjustments	**23.2**	52.3
Adjustments arising from the changes in accounting policies *(see Note 3)*	**(12.8)**	(2.9)
Report/restated	**10.4**	49.4

16. PROPERTY, PLANT AND EQUIPMENT

	Hotel buildings	**Other building**	**Furniture, fixtures and equipment**	**Motor vehicles and vessels**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
THE GROUP					
COST					
At 1st January, 2004	114,325	9,975	8,589	3,313	136,202
Additions	146,374	–	1,802	616	148,792
Disposals	–	–	(608)	(513)	(1,121)
At 31st December, 2004	260,699	9,975	9,783	3,416	283,873
Acquired on acquisition of subsidiaries *(Note 32)*	119,000	–	3,923	–	122,923
Other additions	–	–	20,365	2,351	22,716
Disposals	–	–	(512)	(508)	(1,020)
At 31st December, 2005	**379,699**	**9,975**	**33,559**	**5,259**	**428,492**
DEPRECIATION					
At 1st January, 2004	6,096	439	2,322	2,879	11,736
Provided for the year	4,640	198	613	257	5,708
Eliminated on disposals	–	–	(516)	(496)	(1,012)
At 31st December, 2004	10,736	637	2,419	2,640	16,432
Provided for the year	8,296	200	5,037	389	13,922
Eliminated on disposals	–	–	(273)	(161)	(434)
At 31st December, 2005	**19,032**	**837**	**7,183**	**2,868**	**29,920**
CARRYING AMOUNTS					
At 31st December, 2005	**360,667**	**9,138**	**26,376**	**2,391**	**398,572**
At 31st December, 2004	249,963	9,338	7,364	776	267,441

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

	Furniture, fixtures and equipment
	HK$'000
THE COMPANY	
COST	
At 1st January, 2005 and 31st December, 2005	424
DEPRECIATION	
At 1st January, 2005 and 31st December, 2005	(424)
NET BOOK VALUES	
At 31st December, 2005 and 31st December, 2004	–

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

Hotel and other buildings	50 year or over the remaining term of land lease, whichever is the shorter
Furniture, fixtures and equipment	20%-33⅓%
Motor vehicles and vessels	20%

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

	2005	2004
	HK$'000	*HK$'000*
In Hong Kong		
On long lease	**142,303**	145,285
Under medium-term lease	**51,329**	52,898
In Macau under medium-term lease	**116,571**	–
In the PRC under medium-term lease	**50,464**	51,780
	360,667	249,963

The other building is situated on land in Hong Kong on long leases.

17. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments comprise:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Land in Hong Kong on		
Long leases	**458,093**	460,671
Medium-term leases	**315,682**	325,598
	773,775	786,269
Land in Macau on medium-term leases	**30,367**	–
Land in the PRC on medium-term leases	**32,091**	32,928
	836,233	819,197
Analysed for reporting purposes as:		
Non-current asset	**822,489**	806,143
Current asset	**13,744**	13,054
	836,233	819,197

18. INVESTMENT PROPERTIES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of the year	**616,200**	648,200
Acquired on acquisition of subsidiaries *(Note 32)*	**110,000**	–
Additions	**–**	35,080
Disposals	**(180,000)**	(282,434)
Increase in fair value recognised in income statement	**13,800**	215,354
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 held under medium-term leases	**114,800**	–
	560,000	616,200

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.

18. INVESTMENT PROPERTIES *(Continued)*

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.

19. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At beginning of the year	**70,535**	50,114
Additions	**15,392**	20,421
At end of the year	**85,927**	70,535

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

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

20. INVESTMENTS IN/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
INVESTMENTS IN SUBSIDIARIES		
Cost of investment, unlisted	**29,851**	14,015
AMOUNTS DUE FROM SUBSIDIARIES LESS ALLOWANCE	**226,766**	240,138

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

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

21. INTERESTS IN ASSOCIATES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Cost of investments, unlisted	**123**	123
Share of post-acquisition profits less losses	**522**	744
	645	867

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	**–**	15,965
(Loss) profit for the year	**(444)**	102,562
(Loss) profit for the year attributable to the Group	**(222)**	51,281

FINANCIAL POSITION

	At 31st December,	
	2005	2004
	HK$'000	*HK$'000*
Current assets	**3,077**	8,309
Current liabilities	**(1,787)**	(6,575)
Net assets	**1,290**	1,734
Net assets attributable to the Group	**645**	867

22. INVESTMENTS IN SECURITIES

	THE GROUP			
	Non-current		Current	
	Available-for-sale investments 2005 *HK$'000*	Other securities 2004 *HK$'000*	**Investments held for trading 2005** *HK$'000*	Trading securities 2004 *HK$'000*
Listed securities at fair value				
Equity securities listed in Hong Kong	**–**	–	**107**	107
Debt securities listed outside Hong Kong	**–**	–	**21,781**	23,595
Unlisted investments	**780**	780	**–**	–
	780	780	**21,888**	23,702

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

23. NEGATIVE GOODWILL

	THE GROUP *HK$'000*
GROSS AMOUNT	
At 1st January, 2004	163,098
Additions	3,297
At 31st December, 2004	166,395
RELEASED TO INCOME	
At 1st January, 2004	5,765
Amount released to income	13,247
At 31st December, 2004	19,012
CARRYING AMOUNT	
At 31st December, 2004	147,383
Derecognised *(Note 3)*	(147,383)
At 1st January, 2005 and 31st December, 2005	–

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 trade and other receivables at the balance sheet date:

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**13,369**	100,759
31 – 60 days	**716**	25
Over 60 days	**602**	361
	14,687	101,145

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 values.

25. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amount due from a subsidiary, which is unsecured and carries interest at HIBOR plus a specified margin, is repayable on demand.

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

The directors consider that the carrying amounts of the amounts due from/to subsidiaries at 31st December, 2005 approximate their respective fair values.

26. 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	**14,153**	8,395
31 – 60 days	**322**	633
Over 60 days	**7,490**	5,790
	21,965	14,818

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

27. OTHER FINANCIAL ASSETS AND LIABILITIES

Other financial assets include trade balance due from 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 amount due to an associate.

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

28. SHARE CAPITAL

	THE GROUP AND THE COMPANY	
	Number of shares 2005 & 2004	**Nominal value 2005 & 2004**
	'000	*HK$'000*
Ordinary shares of HK$0.5 each		
Authorised		
At the beginning and end of the year	400,000	200,000
Issued and fully paid		
At the beginning and end of the year	304,369	152,184

At 31st December, 2005, the Company's 62,603,000 (2004: 62,603,000) issued shares with an aggregate nominal value of HK$31,302,000 (2004: HK$31,302,000) were held by a subsidiary of Magnificent. In accordance with the Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

29. SHARE PREMIUM AND RESERVES

	Share premium	**Retained profits**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
THE COMPANY			
At 1st January, 2004	20,068	80,744	100,812
Loss for the year	–	(856)	(856)
At 31st December, 2004	20,068	79,888	99,956
Profit for the year	–	3,192	3,192
At 31st December, 2005	**20,068**	**83,080**	**103,148**

The directors do not recommend the payment of a dividend in respect of the year.

THE GROUP

The own shares held by a subsidiary included in the Group's reserves represent the carrying amount of shares in the Company held by a subsidiary.

30. 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: Amount 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 substantially all 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 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 31st December 2005, the undrawn bank loan facilities of the Group amounted to an aggregate of approximately HK$509 million.

31. 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 1 January, 2004 (as restated)	117,522	22,679	7,743	(1,000)	146,944
Charge (credit) to income statement	(1,503)	5,894	(2,033)	–	2,358
At 31st December, 2004	116,019	28,573	5,710	(1,000)	149,302
Acquisition of subsidiaries	8,822	–	–	–	8,822
Charge (credit) to income statement	(1,286)	(14,572)	1,434	(1,653)	(16,077)
At 31st December, 2005	**123,555**	**14,001**	**7,144**	**(2,653)**	**142,047**

At the balance sheet date, the Group had unused tax losses of HK$77,704,000 (2004: HK$53,827,000) 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$63,961,000 (2004: HK$150,797,000) due to the unpredictability of future profit streams. Substantially all of the unrecognised tax losses may be carried forward indefinitely.

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 approximately HK$242 million. The sole asset of Yuki is its investment in 100% equity 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	**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)
			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

* 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 relating to 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.

32. ACQUISITION OF SUBSIDIARIES *(Continued)*

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$70 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	2004
	HK$'000	*HK$'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$15,470,000). 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 years inclusive	**12,074**	3,852
	23,030	13,408

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

35. PLEDGE OF ASSETS

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

(a) leasehold interest in land and buildings of the Group with an aggregate carrying amount of HK$1,133 million (2004: HK$1,378 million);

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

(c) pledge of the listed securities with an aggregate market value of approximately HK$95 million (2004: HK$100 million) and bank deposit with a carrying amount of HK$123,000 (2004: HK$145,000).

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

(a) During the year, the Group had an amount due to its associate, Lucky Country Development Limited ("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.

In the prior year, a subsidiary, Claymont Services Limited ("Claymont"), made unsecured advances to Lucky Country, which carried interest chargeable at the rate of 3% per annum. Interest receivable by Claymont on such advances in the prior year amounted to HK$1,650,000. The amount due from this associate was fully repaid during that year.

(b) The compensation of key management personnel paid or payable by the Group in respect of the year, substantially all of which comprised of short term benefits attributable to such personnel, amounted to HK$6,112,000 (2004: HK$7,089,000).

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

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

Name of subsidiary	Paid up issued ordinary share/ registered capital Number of shares	Par value	Proportion of nominal value of issued ordinary share/registered capital held by Company %	Subsidiaries %	Principal activities
Omnico Company Inc. (i)	1	US$1	100	–	Investment holding
Shun Ho Technology Holdings Limited	537,076,602	HK$0.5	–	50.2	Investment holding
Duplexway Limited	2	HK$1	–	100	Property investment
Good Taylor Limited	2	HK$1	–	100	Investment holding
Noblesse International Limited (ii)	1	US$1	–	100	Property investment
Shun Ho (Lands Development) Limited (ii)	10	US$1	–	100	Investment holding
South Point Investments Limited (ii)	1	US$1	–	100	Investment holding
Babenna Limited	2	HK$10	–	100	Investment holding
City Wealth Limited	2	HK$1	–	100	Property investment
Claymont Services Limited *(ii)*	1	US$1	–	100	Investment holding
Grand-Invest & Development Company Limited *(iv)*	100,000	MOP1	–	100	Hotel investment
Gainwell Holdings Limited	2	HK$1	–	100	Property investment
Harbour Rich Industrial Limited	10,000	HK$1	–	100	Property development
Himson Enterprises Limited *(ii)*	1	US$1	–	100	Investment holding
Houston Venture Limited (formerly On Sea Limited)	2	HK$1	–	100	Property investment
Houston Venture Limited *(ii)*	1	US$1	–	100	Investment holding
Joes River Limited	2	HK$1	–	100	Property investment
Longham Investment Limited	2	HK$1	–	100	Property investment
(formerly Joligance Limited)	2	HK$1	–	100	Investment holding
Longham Investment Limited *(ii)*	1	US$1	–	100	Investment holding
Longluck Investments Limited *(ii)*	1	US$1	–	100	Investment holding
Magnificent Estates Limited	5,464,700,883	HK$0.01	–	69.2	Investment holding and provision of management services
Magnificent International Hotel Limited	2	HK$1	–	100	Property investment
Mercury Fast Limited	2	HK$1	–	100	Securities trading and investment holding
New Champion Developments Limited *(i)*	1	US$1	–	100	Vessel leasing
Shun Ho Capital Properties Limited *(ii)*	1	US$1	–	100	Investment holding
Shun Ho Construction Holdings Limited	2	HK$10	–	100	Investment holding
Shanghai Shun Ho (Lands Development Limited *(ii)*	1	US$1	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. *(iii)*	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 Republic of Liberia
(ii) Incorporated in the British Virgin Islands
(iii) Wholly foreign owned enterprise established and operating principally in the PRC
(iv) Incorporated and operating in Macau.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

In addition to the percentage shareholding in Shun Ho Technology Holdings Limited disclosed above, at 31st December, 2005, approximately 15.07% of the issued share capital of Shun Ho Technology Holdings Limited was held by a subsidiary of Magnificent Estates Limited.

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 and assets of the Group.

39. PARTICULARS OF ASSOCIATES

All the associates are incorporated and operating in Hong Kong.

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

40. COMPARATIVE FIGURES

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