

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2006

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 hotels, 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 consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1st January, 2007

² Effective for annual periods beginning on or after 1st January, 2009

³ Effective for annual periods beginning on or after 1st March, 2006

⁴ Effective for annual periods beginning on or after 1st May, 2006

⁵ Effective for annual periods beginning on or after 1st June, 2006

⁶ Effective for annual periods beginning on or after 1st November, 2006

⁷ Effective for annual periods beginning on or after 1st March, 2007

⁸ Effective for annual periods beginning on or after 1st January, 2008

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries 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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

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.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

Sales of securities are recognised when the sale becomes unconditional.

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

Dividend from investments is recognised when the Group's right to receive payment is established.

Interest from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 property is included in profit or loss for the period in which they arise.

An item of investment properties 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 item) is included in the consolidated 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. 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 item) is included in the consolidated income statement in the year in which the item is derecognised.

When an item of property, plant and equipment is transferred to investment property carried at fair value, if the carrying amount is increased, the surplus is credited directly to equity (property revaluation reserve). On subsequent disposal of the investment property, the revaluation surplus included in equity may be transferred to retained profits. The transfer from revaluation surplus to retained profits is not made through profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Subsidiaries

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

Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an investment in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated 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 net assets 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, 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.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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 held for sale

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

Inventories

Inventories, representing inventories 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. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 in the profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such 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 in the profit or loss immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheets 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 following 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. The accounting policies adopted in respect of each category of financial assets are set out below:

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.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity 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 equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Available-for-sale investments (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Loans and receivables

Loans and receivables (including trade and other receivables, trade balance due from an associate, amounts due from subsidiaries and bank balances and deposits) 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 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.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity 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. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income, included rentals invoiced in advance from properties let under operating leases, is recognised in the consolidated income statement on a straight-line basis over the terms of the relevant leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Prepaid lease payments

The prepaid lease payments represent upfront payment for land use rights and leasehold land which are initially recognised at cost and released to the consolidated income statement over the lease term on a straight-line basis.

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 respective 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 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.

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 Company (i.e. Hong Kong dollars) 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 exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

3. 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 the profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from 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.

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 profit or loss, 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 the Group's Mandatory Provident Fund Scheme and other defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

4. FINANCIAL INSTRUMENTS

a. Financial risk management objectives and policies

The Group's major financial instruments include equity and debt investments, borrowings, trade and other receivables, trade and other payables and bank balances. 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. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

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.

Interest rate risk

The Group's cash flow interest rate risk primarily relates to variable-rate bank loans (see Note 24). The Group currently does not have an interest rate hedging policy. However, the management closely monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Other price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, the Group is also exposed to equity and debt security price risk. Management will monitor the price movements of these assets and make investment decisions that are considered as appropriate.

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, 2006 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 management of 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 order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. 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 location is mainly in Hong Kong, Macau and the PRC, with exposure spread over a number of counterparties and customers.

The credit risk for pledged bank deposits and bank balances exposed is considered not significant as such amounts are placed with banks with high credit ratings.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

4. FINANCIAL INSTRUMENTS (Continued)

a. Financial risk management objectives and policies (Continued)

Liquidity risk

The Group had a net current liabilities of approximately HK\$191 million at 31st December, 2006 which include bank loans of approximately HK\$316 million. The management will monitor the cash flows of the Group and, upon maturity, arrange refinancing of the bank loans, where appropriate, to enable the Group to service repayment of these borrowings when due.

b. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid and ask prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximates their corresponding fair values.

5. TURNOVER

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Income from operation of hotels	170,228	120,974
Property rental income	17,235	14,817
Interest from debt securities	1,268	1,179
Dividend income	40	–
Proceeds from sale of properties	–	95,243
	<u>188,771</u>	<u>232,213</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

6. 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
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, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External	<u>170,228</u>	<u>17,235</u>	<u>–</u>	<u>1,308</u>	<u>188,771</u>
SEGMENT RESULTS					
Operations	49,708	15,899	2,500	2,433	70,540
Increase in fair value of investment properties	<u>–</u>	<u>81,170</u>	<u>–</u>	<u>–</u>	<u>81,170</u>
	<u>49,708</u>	<u>97,069</u>	<u>2,500</u>	<u>2,433</u>	<u>151,710</u>
Other income					5,262
Gain on change in value of leasehold interest in land upon transfer to investment properties					2,804
Unallocated corporate expenses					(15,901)
Share of losses of associates					(195)
Finance costs					<u>(6,413)</u>
Profit before taxation					137,267
Taxation					<u>(23,361)</u>
Profit for the year					<u>113,906</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

CONSOLIDATED ASSETS AND LIABILITIES

At 31st December, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
ASSETS					
Segment assets	966,433	1,120,251	36,823	24,588	2,148,095
Interests in associates					554
Unallocated corporate assets					112,984
Consolidated total assets					<u>2,261,633</u>
LIABILITIES					
Segment liabilities	12,441	30,553	118	437	43,549
Unallocated corporate liabilities					486,464
Consolidated total liabilities					<u>530,013</u>

OTHER INFORMATION

Year ended 31st December, 2006

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions			
– property, plant and equipment	3,895	3	3,898
– property under development	–	148,970	148,970
Depreciation of property, plant and equipment and release of prepaid lease payments for land	<u>27,421</u>	<u>119</u>	<u>27,540</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

REVENUE AND RESULTS

Year ended 31st December, 2005

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER					
External	<u>120,974</u>	<u>14,817</u>	<u>95,243</u>	<u>1,179</u>	<u>232,213</u>
SEGMENT RESULTS					
Operations	27,509	11,475	23,434	109	62,527
Increase in fair value of investment properties	<u>–</u>	<u>13,800</u>	<u>–</u>	<u>–</u>	<u>13,800</u>
	<u>27,509</u>	<u>25,275</u>	<u>23,434</u>	<u>109</u>	<u>76,327</u>
Other income					15,412
Unallocated corporate expenses					(22,650)
Share of losses of associates					(222)
Finance costs					<u>(6,780)</u>
Profit before taxation					62,087
Taxation					<u>7,704</u>
Profit for the year					<u>69,791</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

CONSOLIDATED ASSETS AND LIABILITIES

At 31st December, 2005

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Property development and trading <i>HK\$'000</i>	Securities investment and trading <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
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					<u>2,038,950</u>
LIABILITIES					
Segment liabilities	13,252	6,425	856	80	20,613
Unallocated corporate liabilities					399,742
Consolidated total liabilities					<u>420,355</u>

OTHER INFORMATION

Year ended 31st December, 2005

	Hospitality services <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Capital additions			
– property, plant and equipment	145,376	–	145,376
– investment properties	–	110,000	110,000
– property under development	–	15,392	15,392
Depreciation of property, plant and equipment and release of prepaid lease payments for land			
	<u>24,675</u>	<u>141</u>	<u>24,816</u>

Geographical segments

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

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong	138,936	197,249
Macau	32,509	20,721
Other regions in the People's Republic of China (the "PRC")	17,326	14,243
	<u>188,771</u>	<u>232,213</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments (Continued)

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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment assets				
Hong Kong	1,893,244	1,674,686	152,358	36,028
Macau	277,928	275,158	747	233,714
Other regions in the PRC	89,907	88,461	740	1,289
Unallocated	554	645	–	–
	<u>2,261,633</u>	<u>2,038,950</u>	<u>153,845</u>	<u>271,031</u>

7. OTHER INCOME

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Included in other income are:		
Deposit from sale of properties forfeited	2,500	–
Interest on bank deposits	3,418	1,425
Gain on disposal of property, plant and equipment	170	–
Discount on acquisition of subsidiaries	–	13,505
	<u>6,088</u>	<u>14,930</u>

8. FINANCE COSTS

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Interests on bank loans and overdrafts wholly repayable within five years	12,871	10,964
Less: Amount capitalised in property under development	(6,458)	(4,184)
	<u>6,413</u>	<u>6,780</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

9. PROFIT BEFORE TAXATION

	THE GROUP	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	2,420	1,254
Staff costs including directors' emoluments	58,250	49,718
Depreciation of property, plant and equipment	16,632	13,922
Release of prepaid lease payments for land	13,889	13,965
Less: amount capitalised and included in property under development	<u>(1,771)</u>	<u>(1,771)</u>
	12,118	12,194
(Gain) loss on disposal of property, plant and equipment	(170)	586
Share of taxation of associates (included in share of losses of associates)	90	(46)
Rental income in respect of investment properties under operating leases, less outgoings of HK\$574,000 (2005: HK\$349,000)	<u>(16,661)</u>	<u>(14,468)</u>

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

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

	Year ended 31st December, 2006				
	Directors' fees	Basic salaries, allowances and benefits-in-kind	Performance related bonus	Contributions to provident fund schemes	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Mr. William Cheng Kai Man	–	3,329	601	12	3,942
Mr. Albert Hui Wing Ho	–	1,032	85	12	1,129
Mr. Fung Chi Keung	–	642	52	12	706
Mr. David Cheng Kai Ho	–	–	–	–	–
Madam Mabel Lui Fung Mei Yee	50	–	–	–	50
Mr. Vincent Kwok Chi Sun	100	–	–	–	100
Mr. Chan Kim Fai	100	–	–	–	100
Mr. Hui Kin Hing	100	–	–	–	100
	<u>350</u>	<u>5,003</u>	<u>738</u>	<u>36</u>	<u>6,127</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Year ended 31st December, 2005				
	Directors' fees <i>HK\$'000</i>	Basic salaries, allowances and benefits-in-kind <i>HK\$'000</i>	Performance related bonus <i>HK\$'000</i>	Contributions to provident fund schemes <i>HK\$'000</i>	Total <i>HK\$'000</i>
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
	<u>338</u>	<u>4,931</u>	<u>807</u>	<u>36</u>	<u>6,112</u>

No directors waived any emoluments in the year ended 31st December, 2006 and 2005.

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

During the year ended 31st December, 2006 and 2005, no emolument was paid to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Employees' emoluments

Of the five individuals in the Group with the highest emoluments, three (2005: three) were directors of the Company, whose emoluments are included above. The emoluments of the remaining two individuals (2005: two individuals), whose emoluments are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Basic salaries, allowances and benefits-in-kind	1,026	984
Performance related bonus	255	75
Contributions to provident fund schemes	24	24
	<u>1,305</u>	<u>1,083</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

11. TAXATION

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
The taxation charge (credit) comprises:		
Current tax		
Hong Kong	7,956	8,373
(Over) underprovision in prior years:		
Hong Kong	(46)	–
Other jurisdictions	1,324	–
	1,278	–
Deferred tax (<i>note 27</i>)	14,127	(16,077)
	23,361	(7,704)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of estimated assessable profit for the year. Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Profit before taxation	137,267	62,087
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	24,022	10,865
Effect of share of taxation of associates	34	39
Tax effect of expenses not deductible for tax purpose	157	643
Tax effect of income not taxable for tax purpose	(619)	(2,819)
Underprovision in prior years	1,278	–
Tax effect of tax losses not recognised	366	1,578
Utilisation of tax losses previously not recognised	(3,970)	(1,071)
Reversal of tax effect on tax losses previously recognised (<i>note 27</i>)	1,727	–
Reversal of previously recognised deferred tax liabilities on disposal of an investment properties	–	(16,722)
Others	366	(217)
Taxation charge (credit)	23,361	(7,704)

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

12. 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\$40,881,000 (2005: HK\$25,026,000) and on 241,766,050 (2005: 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.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Hotel buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles and vessels <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST					
At 1st January, 2005	9,975	260,699	9,783	3,416	283,873
Acquired on acquisition of subsidiaries	–	119,000	3,923	–	122,923
Other additions	–	–	20,365	2,351	22,716
Disposals	–	–	(512)	(508)	(1,020)
	<u>9,975</u>	<u>379,699</u>	<u>33,559</u>	<u>5,259</u>	<u>428,492</u>
At 31st December, 2005	9,975	379,699	33,559	5,259	428,492
Exchange adjustments	–	3,699	275	6	3,980
Additions	–	–	3,502	1,373	4,875
Reclassified from investment properties (note (a))	17,040	–	–	–	17,040
Reclassified to investment properties (note (b))	–	(1,320)	–	–	(1,320)
Disposals	–	–	–	(713)	(713)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(713)</u>	<u>(713)</u>
At 31st December, 2006	<u>27,015</u>	<u>382,078</u>	<u>37,336</u>	<u>5,925</u>	<u>452,354</u>
DEPRECIATION					
At 1st January, 2005	637	10,736	2,419	2,640	16,432
Provided for the year	200	8,296	5,037	389	13,922
Eliminated on disposals	–	–	(273)	(161)	(434)
	<u>–</u>	<u>–</u>	<u>(273)</u>	<u>(161)</u>	<u>(434)</u>
At 31st December, 2005	837	19,032	7,183	2,868	29,920
Exchange adjustments	–	429	30	5	464
Provided for the year	435	8,491	7,075	631	16,632
Eliminated on reclassification	–	(164)	–	–	(164)
Eliminated on disposals	–	–	–	(425)	(425)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(425)</u>	<u>(425)</u>
At 31st December, 2006	<u>1,272</u>	<u>27,788</u>	<u>14,288</u>	<u>3,079</u>	<u>46,427</u>
CARRYING AMOUNTS					
At 31st December, 2006	<u>25,743</u>	<u>354,290</u>	<u>23,048</u>	<u>2,846</u>	<u>405,927</u>
At 31st December, 2005	<u>9,138</u>	<u>360,667</u>	<u>26,376</u>	<u>2,391</u>	<u>398,572</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and equipment <i>HK\$'000</i>
THE COMPANY	
COST	
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	424
DEPRECIATION	
At 1st January, 2005, 31st December, 2005 and 31st December, 2006	(424)
CARRYING AMOUNT	
At 31st December, 2006 and 31st December, 2005	<u>—</u>

Notes:

- (a) Following the change in use of certain investment properties of the Group during the year, such properties with a carrying amount of HK\$17,040,000, being the fair value of the properties at the date of reclassification, have been reclassified to property, plant and equipment.
- (b) During the year, certain shopping area of hotel property, comprising leasehold interest in land and building with an aggregate fair value of HK\$10,200,000 was reclassified from property, plant and equipment and prepaid lease payments for land to investment properties. The fair value of such building and prepaid lease payments for land at the date of reclassification was determined by reference to a valuation carried out by Dudley Surveyors Limited, independent qualified professional valuers not connected with the Group. The difference between the aggregate fair value of such building and prepaid lease payments for land and their aggregate carrying value amounted to HK\$3,018,000. Of which, an amount of HK\$2,804,000 attributable to the prepaid lease payments for land has been credited to the consolidated income statement and the remaining balance of HK\$214,000 attributable to the building has been dealt with in property revaluation reserve.
- (c) The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:
- | | |
|---|--|
| Hotel buildings and other land
and buildings | 50 years or over the remaining term of land lease,
whichever is the shorter |
| Furniture, fixtures and equipment | 20% – 33 $\frac{1}{3}$ % |
| Motor vehicles and vessels | 20% |
- (d) An analysis of the carrying amounts of the Group's hotel buildings, which are situated on leasehold land, is set out below:

	THE GROUP	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
In Hong Kong		
On long lease	139,405	142,303
Under medium-term lease	48,544	51,329
In Macau under medium-term lease	113,922	116,571
In the PRC under medium-term lease	52,419	50,464
	<u>354,290</u>	<u>360,667</u>

Land and buildings are situated on land in Hong Kong on long lease.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

14. PREPAID LEASE PAYMENTS FOR LAND

The prepaid lease payments comprise:

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
Land in Hong Kong on		
Long lease	455,507	458,093
Medium-term lease	299,880	315,682
	<u>755,387</u>	<u>773,775</u>
Land in Macau on medium-term lease	29,677	30,367
Land in the PRC on medium-term lease	31,254	32,091
	<u>816,318</u>	<u>836,233</u>
Analysed for reporting purposes as:		
Non-current asset	802,483	822,489
Current asset	13,835	13,744
	<u>816,318</u>	<u>836,233</u>

15. INVESTMENT PROPERTIES

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
FAIR VALUE		
At the beginning of the year	560,000	616,200
Acquired on acquisition of subsidiaries	–	110,000
Reclassified to property, plant and equipment (<i>note 13(a)</i>)	(17,040)	–
Reclassified from hotel buildings and prepaid lease payments (<i>note 13(b)</i>)	10,200	–
Disposals	–	(180,000)
Increase in fair value recognised in consolidated income statement	81,170	13,800
	<u>634,330</u>	<u>560,000</u>

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

	2006 HK\$'000	2005 HK\$'000
Land and buildings in Hong Kong on land held		
On long leases	381,330	336,300
Under medium-term leases	127,000	108,900
Land and buildings in Macau on land held under medium-term leases	126,000	114,800
	<u>634,330</u>	<u>560,000</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

15. INVESTMENT PROPERTIES (Continued)

The fair value of the Group's investment properties at 31st December, 2006 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 location. 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\$613 million (2005: HK\$470 million) were rented out under operating leases at the balance sheet date.

16. PROPERTY UNDER DEVELOPMENT

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
At cost		
At the beginning of the year	85,927	70,535
Additions	148,970	15,392
	<u>234,897</u>	<u>85,927</u>
At the end of the year	<u>234,897</u>	<u>85,927</u>

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

Included in the carrying amount of the properties are interest expenses of HK\$12,083,000 (2005: HK\$5,625,000) capitalised.

17. INVESTMENTS IN/AMOUNTS DUE FROM SUBSIDIARIES

	THE COMPANY	
	2006	2005
	HK\$'000	HK\$'000
INVESTMENTS IN SUBSIDIARIES		
Cost of investment, unlisted	<u>41,126</u>	<u>29,851</u>
AMOUNTS DUE FROM SUBSIDIARIES LESS ALLOWANCE	<u>227,258</u>	<u>226,766</u>

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 the adoption of HKAS 39 issued by the HKICPA, the amounts due from subsidiaries at 31st December, 2006 are reduced by HK\$11.3 million and are carried at amortised cost using the effective interest method, less any identified impairment losses, with a corresponding increase in investments in subsidiaries which are regarded as deemed contribution by the Company to these subsidiaries. The effective interest rate on the amounts due from subsidiaries in respect of the year is Hong Kong Interbank Offered Rate plus 1%.

Particulars regarding the principal subsidiaries at 31st December, 2006 are set out in note 34.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Cost of investments, unlisted	123	123
Share of post-acquisition profits less losses	431	522
	<u>554</u>	<u>645</u>

The unlisted investment at 31st December, 2006 represents the Group's 50% equity interest in Lucky Country Development Limited, a company incorporated and operating in Hong Kong which was inactive during the year.

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

Results

	Year ended 31st December,	
	2006	2005
	HK\$'000	HK\$'000
Turnover	<u>-</u>	<u>-</u>
Loss for the year	<u>(390)</u>	<u>(444)</u>
Loss for the year attributable to the Group	<u>(195)</u>	<u>(222)</u>

Financial Position

	At 31st December,	
	2006	2005
	HK\$'000	HK\$'000
Current assets	1,108	3,077
Current liabilities	-	(1,787)
Net assets	<u>1,108</u>	<u>1,290</u>
Net assets attributable to the Group	<u>554</u>	<u>645</u>

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENTS HELD FOR TRADING

	THE GROUP			
	Non-current Available-for-sale investments		Current Investments held for trading	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Listed securities at fair value (<i>note a</i>)				
Equity securities listed in Hong Kong	–	–	107	107
Debt securities listed outside Hong Kong	–	–	22,915	21,781
Unlisted equity investments (<i>note b</i>)	780	780	–	–
	<u>780</u>	<u>780</u>	<u>23,022</u>	<u>21,888</u>

Notes:

- (a) The fair value of listed securities is determined by reference to quoted market bid price.
- (b) The unlisted equity investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

20. TRADE AND OTHER RECEIVABLES/TRADE BALANCE DUE FROM AN ASSOCIATE

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

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	10,270	13,383
31 – 60 days	1,646	716
Over 60 days	581	602
	<u>12,497</u>	<u>14,701</u>
Analysed for reporting as:		
Trade and other receivables	12,497	14,687
Trade balance due from an associate	–	14
	<u>12,497</u>	<u>14,701</u>

21. AMOUNT DUE FROM A SUBSIDIARY /AMOUNT DUE TO SUBSIDIARIES

The amount due from a subsidiary, which is unsecured and carries interest chargeable at HIBOR plus a specified margin, is repayable within one year from the balance sheet date.

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

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

The pledged bank deposits carry fixed interest rate of 3% per annum and represent deposits pledged to a bank to secure short-term banking facilities granted to the Group.

Bank balances carry interest at prevailing market interest rates ranging from 2% to 3% per annum.

23. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2006 HK\$'000	2005 HK\$'000
0 – 30 days	37,030	14,153
31 – 60 days	892	322
Over 60 days	5,176	7,490
	<u>43,098</u>	<u>21,965</u>

24. BANK LOANS

The Group's bank loans are variable-rate borrowings which carry interests at commercial lending rates. Substantially all of the bank loans are denominated in Hong Kong dollar, the functional currency of the relevant subsidiaries, and carry interests HIBOR plus 0.65% to 1.5% in respect of both of the years presented. The bank loan denominated in foreign currency amounted to HK\$19,000,000 (2005: HK\$21,698,000). 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.

As at the balance sheet date, the undrawn bank loan facilities of the Group amounted to an aggregate of approximately HK\$537 million (2005: HK\$509 million).

25. SHARE CAPITAL

	Number of shares 2006 & 2005 '000	Nominal value 2006 & 2005 HK\$'000
Ordinary shares of HK\$0.5 each		
Authorised		
At the beginning and the end of the year	<u>400,000</u>	<u>200,000</u>
Issued and fully paid		
At the beginning and the end of the year	<u>304,369</u>	<u>152,184</u>

At 31st December, 2006, the Company's 62,603,000 (2005: 62,603,000) issued shares with an aggregate nominal value of HK\$31,301,000 (2005: HK\$31,301,000) were held by a subsidiary of Magnificent. In accordance with the Hong Kong Companies Ordinance, members of the Group who are shareholders of the Company have no right to vote at meetings of the Company.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

26. SHARE PREMIUM AND RESERVE

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
At 1st January, 2005	20,068	79,888	99,956
Profit for the year	—	3,192	3,192
At 31st December, 2005	20,068	83,080	103,148
Profit for the year	—	11,224	11,224
At 31st December, 2006	20,068	94,304	114,372

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

27. 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 <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2005	116,019	28,573	5,710	(1,000)	149,302
Acquisition of subsidiaries	8,822	—	—	—	8,822
(Credit) charge to consolidated 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
Charge to equity for the year	—	38	—	—	38
(Credit) charge to consolidated income statement	(1,276)	14,727	(1,213)	1,889	14,127
At 31st December, 2006	122,279	28,766	5,931	(764)	156,212

At the balance sheet date, the Group had unused tax losses of HK\$37,057,000 (2005: HK\$77,704,000) available to offset against future profits. A deferred tax asset has been recognised in respect of such losses to the extent of HK\$3,542,000 (2005: HK\$13,743,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$33,515,000 (2005: HK\$63,961,000) due to the unpredictability of future profit streams. Substantially all of the unrecognised tax losses may be carried forward indefinitely.

During the year, the unused tax losses brought forward of the Group of HK\$21,736,000 was not agreed by the tax authorities as available for off-setting future assessable profits. Out of such losses, an amount of HK\$13,144,000 had been recognised as deferred tax asset in prior years. Accordingly, the deferred tax asset previously recognised on such losses amounted to HK\$1,727,000 was reversed during the year.

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

28. 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. Details are as follows:

	<i>HK\$'000</i>
Acquiree's carrying amount of net assets before combination	190,463
Fair value adjustments	64,696
	<hr/>
Fair value of net assets acquired	255,159
Discount on acquisition	(13,505)
	<hr/>
	241,654
	<hr/> <hr/>
Total consideration satisfied by:	
Cash	241,654
	<hr/> <hr/>
Net cash outflow arising on acquisition	
Cash consideration	241,654
Less: Deposit on acquisition paid in prior year	(20,000)
	<hr/>
	221,654
	<hr/> <hr/>

29. PROJECT COMMITMENTS

At the balance sheet date, the Group had outstanding commitments contracted for but not provided in the consolidated financial statements in respect of the following:

	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Property development expenditure	50,761	204,865
	<hr/> <hr/>	<hr/> <hr/>
(b) Acquisition of land for development	175,500	–
	<hr/> <hr/>	<hr/> <hr/>
(c) Expenditures for hotel improvements	132	–
	<hr/> <hr/>	<hr/> <hr/>

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

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

30. OPERATING LEASE COMMITMENTS

The Group as lessor

Rental income from investment properties earned during the year is HK\$17,235,000 (2005: HK\$14,817,000). The properties under leases have committed tenants for one to nine years from the balance sheet date 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:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Within one year	16,791	10,956
More than one year but not more than five years	20,429	12,074
Over five years	12,597	–
	49,817	23,030

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

31. PLEDGE OF ASSETS

At 31st December, 2006, the bank loan facilities of the Group, which were utilised to the extent of approximately HK\$316 million (2005: HK\$246 million), were secured by the following:

- (a) Leasehold interest in land and buildings and property, plant and equipment of the Group with an aggregate carrying amount of HK\$1,178 million (2005: HK\$1,133 million) and HK\$5 million (2005: HK\$5 million);
- (b) assignment of the Group's rentals and hotel revenue respectively; and
- (c) pledge of the listed securities held by subsidiaries with an aggregate market value of approximately HK\$23 million (2005: HK\$95 million) and the bank deposits of the Group with a carrying amount of approximately HK\$110,000 (2005: HK\$123,000). The pledged listed securities include shares of the Company held by a subsidiary of Magnificent as detailed in note 25 and shares in the Company's listed subsidiary, Shun Ho Technology Holdings Limited, held by the subsidiary of Magnificent.

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

32. 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 (limited to HK\$12,000 per annum of each individual employee) 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 consolidated income statement amounted to HK\$1,589,000 (2005: HK\$1,288,000). The forfeited contributions under the Group's defined contribution retirement scheme are immaterial.

33. RELATED PARTY TRANSACTIONS

Other than as disclosed above, the Group 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, interest free and repayable on demand. At 31st December, 2006, the amount due to Lucky Country amounted to HK\$2,269,000 (2005: HK\$2,269,000) remained outstanding.
- (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 all the key personnel of the Group, amounted to HK\$6,127,000 (2005: HK\$6,112,000).

Notes to the Consolidated Financial Statements (Continued)

For the Year Ended 31st December, 2006

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

All the principal subsidiaries are incorporated and operating in Hong Kong except as otherwise indicated. None of the subsidiaries had any debt securities outstanding at 31st December, 2006 or at any time during the year.

Name of subsidiary	Paid up issued/registered ordinary capital		Proportion of nominal value of issued ordinary share/ registered capital held by		Principal activities
	Number of shares	Par value	Company %	Subsidiary %	
Babenna Limited	2	HK\$10	–	100	Investment holding
Beautiful Sky Investment Limited	2	HK\$1	–	100	Property development
City Wealth Limited	2	HK\$1	–	100	Property investment
Claymont Services Limited (i)	1	US\$1	–	100	Investment holding
Good Taylor Limited	2	HK\$1	–	100	Investment holding
Grand-Invest & Development Company Limited (ii)	100,000	MOP1	–	100	Hotel investment and operations
Harbour Rich Industrial Limited	10,000	HK\$1	–	100	Property development
Himson Enterprises Limited (i)	1	US\$1	–	100	Investment holding
Himson Enterprises Limited	2	HK\$1	–	100	Property investment
Houston Venture Limited	2	HK\$1	–	100	Property investment
Houston Venture Limited (i)	1	US\$1	–	100	Investment holding
Joes River Limited	2	HK\$1	–	100	Property investment
Longham Investment Limited	2	HK\$1	–	100	Investment holding
Longham Investment Limited (i)	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	Hotel investment and operations
Mercury Fast Limited	2	HK\$1	–	100	Securities trading and investment holding
New Champion Developments Limited (i)	1	US\$1	–	100	Yacht leasing
Noblesse International Limited (i)	1	US\$1	–	100	Property investment
Omnico Company Inc (iv)	1	US\$1	100	–	Investment holding
Shun Ho Capital Properties Limited (i)	1	US\$1	–	100	Investment holding
Shun Ho Construction Holdings Limited	2	HK\$10	–	100	Investment holding
Shun Ho (Lands Development) Limited (i)	10	US\$1	–	100	Investment holding
Shun Ho Technology Holdings Limited	537,076,602	HK\$0.5	–	50.2	Investment holding
Shanghai Shun Ho (Lands Development) Limited (i)	1	US\$1	–	100	Investment holding
Shanghai Shun Ho Property Development Co., Ltd. (iii)	Registered capital	US\$4,950,000	–	100	Hotel investment and operations
Silver Courage Company Limited	2	HK\$10	–	100	Property investment
South Point Investments Limited (i)	1	US\$1	–	100	Investment holding
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 operations

(i) Incorporated in the British Virgin Islands

(ii) Incorporated and operating in Macau

(iii) Sino foreign co-operative joint venture enterprise established and operating in the PRC

(iv) Incorporated in the Republic of Liberia

Notes to the Consolidated Financial Statements *(Continued)*

For the Year Ended 31st December, 2006

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

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.

35. POST BALANCE SHEET EVENTS

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

- (a) In February 2007, the Company's subsidiary disposed of 579,000,000 shares in Magnificent, representing approximately 10.6% of its total issued share capital, for an aggregate consideration of HK\$118,695,000.
- (b) On 7th March, 2007, a subsidiary of the Company entered into a provisional agreement with an independent third party for the acquisition of a property in Hong Kong for a consideration of HK\$500 million. The acquisition is not yet completed up to the date of approval of these consolidated financial statements.
- (c) On 18th April, 2007, another subsidiary of the Company entered into an agreement with an independent third party for the acquisition of a property in Hong Kong for a consideration of HK\$230 million. The acquisition is not yet completed up to the date of approval of these consolidated financial statements.