Business and Financial Review

Shareholdings in Asia Standard International Group Limited ("Asia Standard")

Shareholdings in Asia Standard continue to remain the Group's significant investment. Shareholdings increased from 40.49% to 40.98% during the year.

Asia Standard became an associated company of the Group in January 2005, following a decrease of its shareholdings in Asia Standard to below 50%, the results and net assets since then were equity accounted for by the Group.

Asia Standard was an associated company for the whole financial year 2006 while it was consolidated as a subsidiary for 9 months in last year.

Result

With the turnover of Asia Standard no longer being consolidated, the Group's turnover for the year was reduced to HK$45 million, whilst it was HK$553 million last year.

The Group reported a profit attributable to shareholders of HK$56 million as compared to a loss of HK$52 million last year, which has been restated due to changes in various accounting policies during the year.

The directors do not recommend the payment of a final dividend (2005: final scrip distribution of HK4.3 cents per share).

New accounting policies

The Group adopted the new/revised financial reporting standards issued by the Hong Kong Institute of Certified Public Accountants which are effective for accounting periods commencing on or after 1st January 2005.

Most of these changes do not affect the Company and its subsidiaries directly, but indirectly affect the Group through the share of results and net assets of its major associated company, Asia Standard. The more important changes affecting the Group are:

1. Revaluation surplus of investment properties are recorded in the profit and loss account, instead of the revaluation reserve.
2. Deferred tax is to be provided on revaluation surplus of investment properties, notwithstanding that there is no capital gain tax applicable to Hong Kong.
3. Owner-operated hotel properties are stated at cost less accumulated depreciation, with annual depreciation charged to profit and loss account. In prior year, they are stated at open market values without depreciation charges.
4. Leasehold land on which these properties are situated is amortised over the lease period with annual amortisation charged to profit and loss account.
5. Share options granted are expensed over the vesting period.
6. Presale of properties will only be recognised upon completion. In prior years, stage completion method is adopted.

These changes in accounting policies have no impact on the Group's cash flow. However, the effect of all the changes is to increase the profit for the current year by HK$117 million and decrease the net asset value at year end by HK$532 million.

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Canaryside

Asia Orient Tower

Properties sales and leasing

Asia Standard achieved a HK$168 million profit attributable to shareholders compared with HK$279 million of last year, which has been restated in light of the new accounting policies. Turnover increased by 5% to HK$744 million from last year's HK$707 million.

In February 2006, the residential development Canaryside in Lei Yue Mun, was launched for presale, with 60% of its residential units sold. The development is now at superstructure stage and completion expected towards the end of 2006, when the second phase of sales campaign will commence. Profit from this sales were not recognised until completion of development as explained in the section 'new accounting policies' above, while development profit from Grosvenor Place was recorded last year, explaining a major reason for the decrease in profit.

Low-rise development in Ping Shan is about to complete and will be put to market in second half of year 2006.

Land premium for the luxury residential project at Castle Peak Road was paid and land exchange was processed, construction is at foundation stage. Land premium for mass residential project at Aberdeen was close to acceptance and tender for superstructure construction is in progress.

Asia Standard has over 1.1 million sq.ft gross floor area of properties under development.

Rental income improved by 6% compared with last year, with average occupancy increased from 89% to 91%. Unit rent has been rising and the full year effect is to be experienced in coming years. With continuing improving market environment, the investment properties portfolio recorded a revaluation surplus which was reflected in the profit and loss account.

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Hotel

Hotel performance for the year continue to be very promising as a result of economic expansion, opening of Disney Theme Park, various large scale conferences and exhibitions hosted by Hong Kong, and the addition of more PRC cities into the Individual Visit Scheme. Visitors' arrivals register a record high of 23 million, 7% higher than last year. Hong Kong based hotels achieved a combined revenue increment of 18% against that of last year, mostly due to increased room rate.

Empire Landmark in Canada also experienced a 14% revenue increase, with 6% attributable to exchange rate increment.

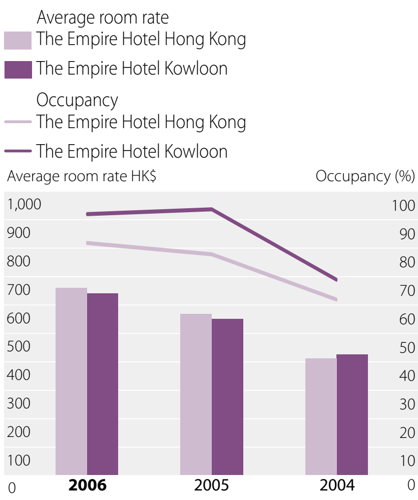
The Empire Hotel Hong Kong

Hotel group's gross operating profit increased by HK$31 million (30%) to HK$136 million. With the adoption of the new accounting policies, the hotel group reported a HK$21 million loss compared with HK$29 million profit (restated) of last year. Annual depreciation and amortisation charge of HK$73 million was provided for the hotel properties.

The hotel group's financial position was enhanced through the raising of HK$246 million new equity during the year and all were used to repay its bank borrowings.

In May 2006, it has completed a rights issue and raised HK$283 million further capital. The proceeds for the rights issue has also been applied towards loan repayment.

Average room rate and occupancy



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Financial review

The Group was at net cash position at both 31st March 2006 and 31st March 2005.

Following the adoption of new/revised accounting standards, net asset value of the Group at 31st March 2005 was restated and decreased by HK$433 million, due to the decrease in its share of net assets of Asia Standard, which is substantially the result of changing the carrying value of hotel buildings from fair value to cost less accumulated depreciation and amortisation of the underlying leasehold land. At 31st March 2006, the Group's net asset value rose to HK$1.67 billion, an increase of HK$100 million (6%) from last year's restated value of HK$1.57 billion.

In February 2006, the Group announced a rights issue in the proportion of 1 rights share for 2 then existing shares held at HK$1.30 each. The issue was completed in April 2006, increasing net asset value by net proceeds of HK$160 million.

Certain listed securities were pledged to secure general banking facilities of the Group. The Group did not provide any guarantees to banks and financial institutions on credit facilities to jointly controlled entities, associated companies and third parties.

Employees and remuneration policies

At 31st March 2006, the Group employed 201 full time employees with most of them working for building management and cleaning services. Their remuneration package, which commensurate with their job nature and experience level, include basic salary, annual bonus, retirement and other benefits.

Net assets