

1 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of hotel properties and other investments and in accordance with accounting principles generally accepted in Hong Kong.

In the current year, the Group adopted and implemented the new Statement of Standard Accounting Practice No. 34 "Employee benefits" issued by the Hong Kong Society of Accountants. The adoption of this new standard has no material effect on the Group's results or net assets.

The principal accounting policies adopted in the preparation of these accounts are as follows:

(b) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and all of its subsidiaries made up to 31st March and the Group's share of post-acquisition profits less losses of its associated company.

The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective date of acquisition and up to the effective date of disposal respectively. The profit or loss on disposal of subsidiaries or associated company is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortised.

All significant intra-group transactions and balances have been eliminated.

(c) Subsidiaries

Subsidiaries are companies in which the Group has the power to exercise control governing the financial and operating policies of the companies. In the Company's balance sheet, investments in subsidiaries are carried at or below cost. Provision is made when, the Directors consider that there is long term impairment in value.

(d) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management. The Group's investment in the associated company is included in the consolidated balance sheet at the Group's share of net assets and goodwill (net of accumulated amortisation) on acquisition.

1 PRINCIPAL ACCOUNTING POLICIES (continued)**(e) Goodwill**

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the net assets of the acquired subsidiaries and associated company at the effective date of acquisition.

Goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the consolidated profit and loss account in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

(f) Fixed assets and depreciation**(i) Hotel properties**

Hotel properties are interests in land and buildings and their integral fixed plant, fixtures and fittings which are collectively used in the hotel operation. The initial cost of the hotel operating equipment (linen, silverware and chinaware) was included in the cost of hotel properties and subsequent additions or replacements are charged to the profit and loss account as incurred. Hotel properties are revalued annually based on independent professional valuations on an open market value basis. Changes in the values of hotel properties are dealt with as movements in the hotel properties revaluation reserve. If the reserve is insufficient to cover a revaluation deficit on an individual basis, the excess of the deficit is charged to the profit and loss account.

No depreciation is provided on hotel properties on leases of more than twenty years. It is the Group's practice to maintain hotel buildings in a continued state of sound repair and to make improvements thereto from time to time and accordingly the Directors consider that, given the estimated lives of the hotel properties, any depreciation charge would be insignificant due to their high residual value. Such expenditure on repairs and maintenance on hotel properties is charged to the profit and loss account as incurred.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Fixed assets and depreciation (continued)

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and provision for significant impairment in values, and are depreciated using the straight line method to write off their costs over their estimated useful lives of five years.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of fixed assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profit or loss on disposal of a fixed asset is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) Inventories

Inventories comprise primarily food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Other investments

Other investments comprise debt and equity securities and are stated in the balance sheet at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair values are recognised in the profit and loss account. Profits and losses on disposals of such investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(i) Borrowing costs

Borrowing costs incurred on hotel properties under development that necessarily take a substantial period of time to get ready for their intended use are capitalised as part of the cost of the properties.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

1 PRINCIPAL ACCOUNTING POLICIES (continued)**(j) Deferred taxation**

Deferred taxation is provided for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) Finance leases

Assets leased under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are classified as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments is capitalised as a fixed asset; the corresponding obligations, net of finance charges, is included under long term liabilities. Gross rental payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases.

(m) 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 payables, net of incentives received from the lessors, under such operating leases are charged to the profit and loss account on a straight line basis over the terms of the leases.

(n) Revenue recognition

Revenue from hotel and catering operations is recognised upon provision of services.

Operating lease rental income is recognised on a straight line basis over the term of the lease.

Management fee income is recognised when services are rendered.

Revenue from sale of air tickets and hotel reservation service is recognised when customers confirm the booking.

Interest income is recognised on a time proportion basis that takes into account the principal amounts outstanding and the effective interest rate applicable.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The profit and loss accounts of subsidiaries, denominated in foreign currencies are translated at the weighted average exchange rates during the year and balance sheets are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments are dealt with as a movement in reserves.

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to several defined contribution retirement benefit schemes which are available to employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Cash and cash equivalents

Cash and cash equivalents are stated in the balance sheet at cost.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

2 TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in hotel and catering services, travel agency operations and management services. Turnover represents gross revenue from hotel and catering services, travel agency operations and management services income.

Primary reporting format - business segments

The Group is organised into three main business segments:

Hotel operation	– hotel operation in Hong Kong and Canada
Catering services	– restaurant operation in Hong Kong and Mainland China
Travel agency	– sale of air tickets and hotel reservation service

There is no other significant identifiable separate business segment. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by business segments and the secondary reporting is by geographical segments. Segment assets consist primarily of fixed assets, inventories, debtors and prepayments and mainly exclude the associated company and other investments. Segment liabilities comprise mainly creditors, accruals and long term liabilities.

2 TURNOVER AND SEGMENT INFORMATION (continued)**Business segments**

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services* HK\$'000	Total HK\$'000
Year ended 31st March 2003					
Room rentals	128,543				
Food and beverages	37,155				
Ancillary services	9,804				
Rental income	10,893				
Segment revenue	186,395	19,598	237,627	4,595	448,215
Segment results	81,260	(4,737)	(2,352)	1,464	75,635
Unallocated corporate expenses					(13,468)
Operating profit					62,167
Interest income					2,056
Net investment loss					(4,062)
Finance costs					(46,845)
Share of loss of an associated company	-	-	(1,158)	-	(1,158)
Profit before taxation					12,158
Taxation					(210)
Profit attributable to shareholders					11,948

* Operation was discontinued in August 2002 upon disposal of the relevant subsidiaries to a fellow subsidiary (note 28 (vi))

2 TURNOVER AND SEGMENT INFORMATION (continued)**Business segments (continued)**

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services HK\$'000	Total HK\$'000
Year ended 31st March 2002					
Room rentals	99,904				
Food and beverages	39,856				
Ancillary services	9,933				
Rental income	5,604				
Segment revenue	155,297	1,802	255,608	12,177	424,884
Segment results	48,505	(317)	(2,396)	282	46,074
Unallocated corporate expenses					(8,380)
Operating profit					37,694
Interest income					788
Net investment gain					3,390
Finance costs					(23,409)
Profit before taxation					18,463
Taxation					(477)
Profit attributable to shareholders					17,986

2 TURNOVER AND SEGMENT INFORMATION (continued)**Business segments (continued)**

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services HK\$'000	Total HK\$'000
Year ended 31st March 2003					
Segment assets	3,038,115	18,502	39,436	–	3,096,053
Associated company	–	–	11,842	–	11,842
Other investments					92,347
Unallocated corporate assets					38,819
Total assets					<u>3,239,061</u>
Segment liabilities	1,330,649	2,539	8,637	–	1,341,825
Unallocated corporate liabilities					963
Total liabilities					<u>1,342,788</u>
Depreciation	550	4,183	176	115	5,024
Amortisation of goodwill	–	1,394	2,412	–	3,806
Capital expenditure					
Segment	733	–	3	3	739
Corporate					26
					<u>765</u>
Year ended 31st March 2002					
Segment assets	3,245,124	24,570	46,024	6,157	3,321,875
Other investments					87,227
Unallocated corporate assets					125,924
Total assets					<u>3,535,026</u>
Segment liabilities	1,367,469	2,466	20,636	5,940	1,396,511
Unallocated corporate liabilities					30,741
Total liabilities					<u>1,427,252</u>
Depreciation	370	314	207	335	1,226
Amortisation of goodwill	–	116	2,935	–	3,051
Capital expenditure					
Segment	102,004	–	203	1,502	103,709
Corporate					700
					<u>104,409</u>

2 TURNOVER AND SEGMENT INFORMATION (continued)**Secondary reporting format - geographical segments**

The Group's business segments operating in various geographical areas are as follows:

- Hong Kong – all the Group's business segments
- Canada – hotel and catering
- Mainland China – catering

Geographical segments

	Turnover HK\$'000	Operating profit/(loss) HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Year ended 31st March 2003				
Hong Kong	382,926	46,657	2,851,166	751
Canada	58,829	16,299	380,714	14
Mainland China	6,460	(789)	7,181	–
	448,215	62,167	3,239,061	765
Year ended 31st March 2002				
Hong Kong	356,878	17,085	3,177,167	103,371
Canada	67,490	20,699	348,758	1,038
Mainland China	516	(90)	9,101	–
	424,884	37,694	3,535,026	104,409

3 OTHER CHARGES

	2003 HK\$'000	2002 HK\$'000
Pre-opening expenses of Empire Hotel Kowloon	–	4,041
Amortisation of goodwill	3,806	3,051
	3,806	7,092

4 OPERATING PROFIT

	2003 HK\$'000	2002 HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Operating lease rental income for land and buildings	10,893	5,604
Charging		
Staff costs, including Directors' emoluments (note 5)	69,956	66,465
Operating lease rental expense for land and buildings	6,187	2,674
Depreciation	5,283	1,414
Auditors' remuneration	950	806
Loss on disposal of fixed assets	–	1,025

5 STAFF COSTS

	2003 HK\$'000	2002 HK\$'000
Wages and salaries	67,373	63,782
Termination benefit	123	533
Retirement benefit costs (note (i))	2,460	2,150
	69,956	66,465

Notes:

- (i) Retirement benefit costs

	2003 HK\$'000	2002 HK\$'000
Gross contributions	2,491	2,557
Forfeitures utilised	(31)	(407)
Net contributions	2,460	2,150

The Group participates in three types of defined contribution schemes for employees, namely the Mandatory Provident Fund ("MPF") Scheme and Occupational Retirement Scheme Ordinance ("ORSO") Scheme in Hong Kong and Canada Pension Plan ("CPP") in Canada.

In Hong Kong, the Group participates in several defined contribution schemes under the ORSO which are available to employees joining before 1st December 2000. Under these schemes, contributions of 5% of the employee's monthly salaries are made by the employees and by the Group. The Group's contributions may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

5 STAFF COSTS (continued)

The Group also participates in the MPF scheme which is available to all employees not joining the ORSO schemes in Hong Kong and in the CPP organised by the Canadian Government for all employees in Canada. Monthly contributions to the MPF scheme and CPP are made equal to 5% and 4.95% (2002: 4.7%), respectively, of the employee's relevant income in accordance with the local legislative requirements.

The Group's contributions to all these schemes are expensed as incurred. The assets of all these retirement schemes are held separately from those of the Group in independently administered funds.

As at 31st March 2003, forfeitures of HK\$31,000 (2002: HK\$96,000) were available to reduce the Group's future contributions to the ORSO schemes.

(ii) Share options

The Company has a share option scheme whereby options may be granted to employees of the Group including the executive directors, to subscribe for shares of the Company. Consideration to be paid on each grant of option is HK\$1. As at 31st March 2003, no option has been granted under this share option scheme.

Asia Standard International Group Limited ("ASI") and Asia Orient Holdings Limited ("Asia Orient"), its holding companies, operate share option schemes whereby options may be granted to employees of the Group, including the executive directors, to subscribe for shares of ASI and Asia Orient respectively. The consideration to be paid on each grant of option varies between HK\$1 and HK\$10.

Details of share options held are as follows:

Grantee	Expiry date	Exercise price	Number	
			2003	2002
ASI				
Director of subsidiaries	27th March 2005	HK\$0.384	1,750,000	1,750,000
Asia Orient				
Directors of the Company and/or subsidiaries	13th February 2010	HK\$17.33	1,200,000	1,200,000
Former Director of the Company	21st January 2004	HK\$17.33	300,000	300,000
			1,500,000	1,500,000

No share option was granted, exercised, cancelled, or lapsed during the year (2002: Nil).

6 INTEREST INCOME

	2003 HK\$'000	2002 HK\$'000
Interest income		
Bank deposits	128	576
Loans to third parties	1,928	212
	2,056	788

7 NET INVESTMENT (LOSS)/GAIN

	2003 HK\$'000	2002 HK\$'000
Profit on realisation of other investments	525	22,405
Net unrealised loss on other investments	(7,275)	(22,185)
Dividend income from listed equity securities	1,530	670
Interest income from unlisted debt securities	1,158	2,500
	(4,062)	3,390

8 FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest expense		
Bank loans and overdrafts	45,263	64,650
Finance lease obligations not wholly repayable within five years	40	36
Other incidental borrowing costs	1,542	2,476
	46,845	67,162
Amount capitalised in cost of hotel property under development	–	(43,753)
	46,845	23,409

9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amount of emoluments payable to Directors of the Company during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Fees	40	40
Salaries and other emoluments	7,089	4,184
	7,129	4,224

The emoluments of individual Directors fell within the following bands:

	Number	
	2003	2002
Emolument bands		
HK\$Nil - HK\$1,000,000	6	7
HK\$1,500,001 - HK\$2,000,000	-	1
HK\$2,000,001 - HK\$2,500,000	1	-
HK\$2,500,001 - HK\$3,000,000	1	1
	8	9

- (b) Emoluments paid to independent non-executive directors amounted to HK\$40,000 (2002: HK\$40,000) during the year. None of the Directors have waived the right to receive their emoluments.
- (c) The five highest paid individuals in the Group for the year include four (2002: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2002: two) individual during the year, which fell between HK\$2,500,001 and HK\$3,000,000 (2002: individually below HK\$1,000,000), amounted to HK\$3,000,000 (2002: HK\$1,399,000 in aggregate).

10 TAXATION

	2003 HK\$'000	2002 HK\$'000
Current year provision	–	462
Under provision in prior years	210	15
	210	477

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the year (2002: 16% on the estimated assessable profits). No provision for overseas taxation has been made as there are no assessable overseas profits for the year (2002: Nil).

Tax losses available at 31st March 2003 to reduce future taxable profits of subsidiaries to which they relate amounted to approximately HK\$461 million (2002:HK\$436 million). No deferred taxation has been provided as there are no material timing differences which would result in a liability payable or asset recoverable in the foreseeable future.

The surplus on revaluation of the Hong Kong hotel properties does not constitute a timing difference for deferred tax purposes as realisation of the revaluation surplus would not result in a tax liability. Realisation of the surplus on revaluation of the Canadian hotel property would give rise to a taxation liability in Canada, which would amount to approximately HK\$2.1 million at 31st March 2003 (2002: HK\$2.0 million). No provision has been made in the accounts for this liability as the property is held for the long term and management has no intention to dispose of the property in the foreseeable future.

During the year, the Canada Customs and Revenue Agency (the "CCRA") issued to a subsidiary notices of assessment in respect of non-resident withholding taxes of approximately HK\$4.4 million on certain interest payments and bank charges. The subsidiary has filed an objection against the assessment with the CCRA. Such objection is currently under review by the CCRA and outcome is not known yet. However, based on professional advice, the Directors consider that no provision is required to be made.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$1,495,000 (2002: loss of HK\$2,064,000).

12 DIVIDEND

No interim dividend was declared for the year (2002: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31st March 2003 (2002: Nil).

13 EARNINGS PER SHARE

The calculation of earnings per share is based on the consolidated profit attributable to shareholders of HK\$11,948,000 (2002: HK\$17,986,000) and on the weighted average of 5,052,168,928 (2002: 5,052,215,587) shares in issue during the year ended 31st March 2003.

14 FIXED ASSETS

	Hotel properties HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Group			
Cost or valuation			
At 31st March 2002	3,221,040	30,267	3,251,307
Exchange difference	29,580	39	29,619
Additions	603	162	765
Disposals of subsidiaries	–	(1,827)	(1,827)
Deficit on revaluation	(240,603)	–	(240,603)
At 31st March 2003	3,010,620	28,641	3,039,261
Accumulated depreciation			
At 31st March 2002	–	19,426	19,426
Exchange difference	–	20	20
Charge for the year	–	5,283	5,283
Disposals of subsidiaries	–	(1,394)	(1,394)
At 31st March 2003	–	23,335	23,335
Net book value			
At 31st March 2003	3,010,620	5,306	3,015,926
At 31st March 2002	3,221,040	10,841	3,231,881

14 FIXED ASSETS (continued)

- (a) Hotel properties comprise a long term leasehold property in Hong Kong of HK\$1,350,000,000 (2002:HK\$1,480,000,000), a medium term leasehold property in Hong Kong of HK\$1,290,000,000 (2002:HK\$1,400,000,000) and a freehold property in Canada of HK\$370,620,000 (2002:HK\$341,040,000). The hotel properties in Hong Kong and Canada were revalued by Knight Frank and Grant Thornton Management Consultants, independent professional valuers, on an open market value basis as at 31st March 2003 respectively.
- (b) All other fixed assets are stated at cost less accumulated depreciation. The net book value of the fixed assets held by the Group under finance leases amounted to HK\$290,000 (2002:HK\$347,000).
- (c) The aggregate net book value of fixed assets pledged as securities for loans of the Group amounted to HK\$3,010,620,000 (2002:HK\$3,221,040,000).

15 GOODWILL

	Group HK\$'000
Cost	
At 31st March 2002	43,287
Cost adjustment (note)	(4,706)
At 31st March 2003	38,581
Accumulated amortisation	
At 31st March 2002	3,051
Charge for the year	3,806
At 31st March 2003	6,857
Net book value	
At 31st March 2003	31,724
At 31st March 2002	40,236

Note:

On 6th April 2001, the Group acquired the entire share capital of JBC Travel Company Limited ("JBC") at a consideration of HK\$36,000,000 from Hong Kong Enterprise International Limited, a company owned by Mr. Poon Jing, a Director of the Company.

Mr. Poon has provided a guarantee to the Group that the net profit before interest and taxation of JBC as stated in the audited accounts of JBC for the year ended 31st March 2002 and 2003 shall not be less than HK\$5,000,000 for each of such respective years. The net profit before interest and taxation of JBC for the year ended 31st March 2003 was HK\$294,000 (2002: HK\$856,000). Accordingly, Mr. Poon is required to pay an amount equal to the shortfall of HK\$4,706,000 (2002: HK\$4,144,000) to the Group. The amount receivable of HK\$4,605,000 is included under debtors at 31st March 2003 (2002: HK\$4,144,000) (note 20).

16 ASSOCIATED COMPANY

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	(132)	–
Goodwill on acquisition less amortisation	11,974	–
	11,842	–

In June 2002, the Group acquired 50% of the share capital of Eastern Tours (China) Limited, a company which is engaged in travel agency services. The resulting goodwill is amortised using the straight line method over its estimated life of ten years. The associated company is incorporated and operates in Hong Kong.

17 SUBSIDIARIES

	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	1,499,040	1,491,550
Amounts due to subsidiaries	(12,411)	(3,419)
	1,486,629	1,488,131

Details of the principal subsidiaries are set out in note 30.

18 LONG TERM INVESTMENT

	Group	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	1	1
Advance to an investee company	1,600	1,000
	1,601	1,001

Advance to an investee company is unsecured, interest free and has no fixed terms of repayment. As at 31st March 2002, the balance was included under debtors and has been reclassified to long term investment to conform with the current year's presentation.

19 OTHER INVESTMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity securities		
Listed in Hong Kong	91,340	36,720
Unlisted	1,007	1,007
	92,347	37,727
Debt securities	–	49,500
	92,347	87,227

20 DEBTORS AND PREPAYMENTS

An ageing analysis of trade receivables, which are included in debtors and prepayments, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 60 days	17,591	20,626
61 days to 120 days	3,198	1,347
More than 120 days	3,159	2,940
	23,948	24,913

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade receivables, credit evaluations of customers are performed periodically.

Included in debtors and prepayments is an amount of HK\$4,605,000 (2002: HK\$4,144,000) receivable from a Director of the Company (note 28 (viii)).

21 BANK BALANCES AND CASH

The balances include restricted bank balances of HK\$6,000,000 (2002: Nil) which is a fixed charge in favour of a bank as required by the loan agreement. In addition, as at 31st March 2002, bank balances of HK\$29,704,000 were held in trust in respect of buildings managed by the Group on behalf of third parties.

22 CREDITORS AND ACCRUALS

An ageing analysis of trade payables, which are included in creditors and accruals, is as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Within 60 days	11,985	26,431
61 days to 120 days	4,622	3,745
More than 120 days	1,315	2,664
	17,922	32,840

23 SHARE CAPITAL

	Number of shares of HK\$0.02 per share	HK\$'000
Authorised:		
At 31st March 2002 and 2003	25,000,000,000	500,000
Issued and fully paid:		
At 31st March 2001	5,052,212,433	101,044
Exercise of warrants (note (i))	6,248	–
At 31st March 2002	5,052,218,681	101,044
Repurchase of own shares (note (ii))	(110,000)	(2)
At 31st March 2003	5,052,108,681	101,042

(i) On 26th September 2000, a bonus issue of warrants was made on the basis of one warrant for every five shares of HK\$0.02 each held. Each warrant entitles its holder to subscribe for fully paid shares of the Company at an initial subscription price of HK\$0.24 per share, subject to adjustment, from the date of issue of the warrants of 27th September 2000 to 8th October 2001 (both dates inclusive). During 2002, a total of 6,248 shares were issued upon the exercise of warrants. The remaining 999,988,104 unexercised warrants lapsed upon expiry on 8th October 2001.

(ii) During the year, the Company repurchased 110,000 of its own shares on the Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled.

24 RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Hotel properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
Group						
At 31st March 2001	299,783	899,333	469,018	(12,073)	234,269	1,890,330
Translation difference	–	–	(332)	(1,444)	–	(1,776)
Exercise of warrants	1	–	–	–	–	1
Surplus on revaluation	–	–	100,189	–	–	100,189
Profit for the year attributable to shareholders	–	–	–	–	17,986	17,986
At 31st March 2002	299,784	899,333	568,875	(13,517)	252,255	2,006,730
Company and subsidiaries	299,784	899,333	568,875	(13,517)	252,255	2,006,730
At 31st March 2002	299,784	899,333	568,875	(13,517)	252,255	2,006,730
Translation difference	–	–	826	16,344	–	17,170
Repurchase of own shares	(14)	–	–	–	–	(14)
Deficit on revaluation	–	–	(240,603)	–	–	(240,603)
Profit for the year attributable to shareholders	–	–	–	–	11,948	11,948
At 31st March 2003	299,770	899,333	329,098	2,827	264,203	1,795,231
Company and subsidiaries	299,770	899,333	329,098	2,827	265,361	1,796,389
Associated company	–	–	–	–	(1,158)	(1,158)
	299,770	899,333	329,098	2,827	264,203	1,795,231

24 RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Hotel properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
Company						
At 31st March 2001	299,783	1,088,229	–	–	891	1,388,903
Exercise of warrants	1	–	–	–	–	1
Loss for the year attributable to shareholders	–	–	–	–	(2,064)	(2,064)
At 31st March 2002	299,784	1,088,229	–	–	(1,173)	1,386,840
Repurchase of own shares	(14)	–	–	–	–	(14)
Loss for the year attributable to shareholders	–	–	–	–	(1,495)	(1,495)
At 31st March 2003	299,770	1,088,229	–	–	(2,668)	1,385,331

The revenue reserve is distributable. Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is also distributable. Accordingly, the total distributable reserves of the Company amount to HK\$1,085,561,000 (2002: HK\$1,087,056,000).

25 LONG TERM LIABILITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank loans, secured (note a)		
Repayable within one year	62,017	40,333
Repayable within one to two years	271,016	64,495
Repayable within two to five years	310,049	479,485
Repayable after five years	656,628	751,340
	1,299,710	1,335,653
Obligations under a finance lease not wholly repayable within five years (note b)	449	469
	1,300,159	1,336,122
Current portion included in current liabilities	(62,094)	(40,405)
	1,238,065	1,295,717

(a) The bank loans are secured by mortgages of the Group's hotel properties (note 14(c)), floating charges over all the assets of certain subsidiaries and corporate guarantees given by the Company.

(b) At 31st March 2003, the Group's finance lease liabilities were repayable as follows:

	Present value		Minimum payment	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	77	72	112	106
In the second year	84	75	112	106
In the third to fifth year	243	243	282	298
After the fifth year	45	79	45	83
	449	469	551	593

26 OPERATING LEASE ARRANGEMENTS

(a) Lessor

The Group leases out certain part of its hotel properties under operating leases which typically run for lease terms between 2 and 9 years.

The future aggregate minimum lease receipts receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	10,628	9,722	–	–
In the second to fifth years inclusive	27,926	28,528	–	–
After the fifth year	10,031	8,997	–	–
	48,585	47,247	–	–

(b) Lessee

Future aggregate minimum lease payments payable under non-cancellable operating leases in respect of land and buildings are as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	5,906	6,849	–	–
In the second to fifth years inclusive	8,346	13,120	–	–
After the fifth year	864	3,148	–	–
	15,116	23,117	–	–

27 CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees for the loans and banking facilities of subsidiaries	–	–	1,299,710	1,335,653

28 RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions during the year:

	2003 HK\$'000	2002 HK\$'000
(i) Operating lease rental expense for land and buildings to fellow subsidiaries	(684)	(1,972)
(ii) Hotel revenue from intermediate holding company and a fellow subsidiary	44	203
(iii) Management services income from fellow subsidiaries	1,601	2,742
(iv) Property development cost to a fellow subsidiary	–	(4,333)
(v) Purchase of subsidiaries from a fellow subsidiary	–	(23,975)
(vi) Disposal of subsidiaries to a fellow subsidiary	4,129	–
(vii) Purchase of a subsidiary from a related company	–	(36,000)
(viii) Receivable from a Director	4,605	4,144

Notes:

- (i) Rental expense is subject to terms agreed by the parties involved, which is at a monthly fixed fee.
- (ii) Hotel revenue is charged at prices and terms no less than those charged to other third party customers.
- (iii) Management services income, including repair and maintenance, cleaning, property management and administration, are subject to terms agreed by the parties involved, which are at fixed fees.
- (iv) Property development cost was payable in accordance with the terms of the construction contract and by reference to the stage of completion of the construction work.
- (v) On 6th March 2002, the Group acquired the entire issued share capital of and all shareholder's loans to Perfect Wave Limited and Grace Profit Enterprises Limited at a consideration of HK\$15,900,000 and HK\$8,075,000 respectively, from Asia Standard Catering Limited, a wholly-owned subsidiary of ASI. The acquired companies are engaged in the operation of restaurants in Hong Kong and Shanghai.
- (vi) In August 2002, the Group disposed of 100% of the entire issued share capital of three subsidiaries which are engaged in property management, cleaning services and providing mechanical and electrical services, to a wholly-owned subsidiary of Asia Orient, at a total consideration based on the aggregate net asset value of these subsidiaries.

28 RELATED PARTY TRANSACTIONS (continued)

Notes: (continued)

- (vii) On 6th April, 2001, the Group acquired the entire issued share capital of JBC Travel Company Limited ("JBC") at a consideration of HK\$36,000,000, from Hong Kong Enterprise International Limited, a company owned by Mr. Poon Jing, a Director of the Company. Mr. Poon Jing has provided a guarantee to the Group that the net profit before interest and taxation of JBC as stated in the audited accounts of JBC for the year ended 31st March 2002 and 2003 shall not be less than HK\$5,000,000 for each of such respective years.
- (viii) The net profit before interest and taxation of JBC for the year ended 31st March 2003 was HK\$294,000 (2002: HK\$856,000). Accordingly, Mr. Poon Jing is required to pay an amount equal to the shortfall of HK\$4,706,000 (2002: HK\$4,144,000) to the Group. The amount receivable of HK\$4,605,000 is included under debtors as at 31st March 2003 (2002: HK\$4,144,000).

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation to net cash generated from operations**

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	12,158	18,463
Share of loss of an associated company	1,158	–
Depreciation	5,283	1,414
Interest income	(3,214)	(3,288)
Dividend income	(1,530)	(670)
Finance cost	46,845	23,409
Profit on realisation of other investments	(525)	(22,405)
Unrealised loss on other investments	7,275	22,185
Loss on disposal of fixed assets	–	1,025
Amortisation of goodwill	3,806	3,051
Operating profit before working capital changes	71,256	43,184
Decrease/(increase) in inventories	791	(303)
Increase in debtors and prepayments	(6,046)	(1,068)
(Decrease)/increase in creditors and accruals	(8,093)	1,008
Decrease in amounts due to fellow subsidiaries	–	(7,633)
Net cash generated from operations	57,908	35,188

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)**(b) Acquisition of subsidiaries**

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	–	8,000
Inventories	–	1,406
Debtors and prepayments	–	14,860
Bank balances and cash	–	22,433
Creditors and accruals	–	(25,688)
Bank overdrafts	–	(8,367)
Taxation	–	(100)
	–	12,544
Goodwill	–	47,431
Cash consideration	–	59,975

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	–	59,975
Bank balances and cash acquired	–	(22,433)
Bank overdrafts	–	8,367
Net cash outflow in respect of the purchase of subsidiaries	–	45,909

29 NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Disposal of subsidiaries**

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of		
Fixed assets	433	–
Debtors and prepayments	7,473	–
Tax recoverable	83	–
Bank balances and cash	4,017	–
Creditors and accruals	(7,877)	–
Cash consideration received	4,129	–

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2003 HK\$'000	2002 HK\$'000
Cash consideration received	4,129	–
Bank balances and cash disposed of (excluding balances held in trust)	(4,017)	–
	112	–

(d) Analysis of changes in financing

	Share capital, share premium, contributed surplus HK\$'000	Restricted bank balances HK\$'000	Finance lease payable HK\$'000	Long term bank loans HK\$'000	Total HK\$'000
At 31st March 2001	1,300,160	–	392	1,167,660	2,468,212
Net cash inflow/(outflow) from financing	1	–	(59)	170,878	170,820
Inception of finance lease	–	–	136	–	136
Changes in exchange rates	–	–	–	(2,885)	(2,885)
At 31st March 2002	1,300,161	–	469	1,335,653	2,636,283
Net cash outflow from financing	(16)	(6,000)	(50)	(48,576)	(54,642)
Changes in exchange rates	–	–	30	12,633	12,663
At 31st March 2003	1,300,145	(6,000)	449	1,299,710	2,594,304

30 PRINCIPAL SUBSIDIARIES

A list of the Group's principal subsidiaries which are in the opinion of the Directors, principally affect the results and/or net assets of the Group, are as follows:

(Unless indicated otherwise, they are indirectly wholly owned by the Group and have their principal place of operation in Hong Kong)

Name	Principal activity	Issued and fully paid ordinary share capital / registered capital
<i>Incorporated in Hong Kong</i>		
Asia Standard Hotel (Holdings) Limited	Investment holding	HK\$2
Grace Profit Enterprises Limited	Investment holding	HK\$2
JBC Travel Company Limited	Travel agency	HK\$2,500,000
Perfect Wave Limited	Catering operation	HK\$2
Stone Pole Limited	Hotel investment and operation	HK\$10
Vinstar Development Limited	Hotel investment and operation	HK\$2
<i>Incorporated in the British Virgin Islands</i>		
Empire Hotel Investment Limited	Investment holding	US\$1
Enrich Enterprises Limited*	Hotel investment	US\$1
Global Gateway Corp.*	Hotel operation	US\$1
Glory Ventures Enterprises Inc.*	Hotel investment	US\$1
Greatime Limited	Securities investment	US\$1
Superite Limited	Securities investment	US\$1
<i>Incorporated in the People's Republic of China</i>		
Shanghai Hong Hua TGIF Restaurant Co. Limited (95% owned) #	Catering operation	RMB17,384,640

* Operates in Canada

Operates in Mainland China, equity joint venture

31 ULTIMATE HOLDING COMPANY

The Directors regard Asia Orient Holdings Limited, incorporated in Bermuda and listed in Hong Kong, as being the ultimate holding company.

32 SUBSEQUENT EVENT

On 15th April 2003, the Company completed a placing of convertible notes of the principal amount of HK\$46,000,000, which bears interest at Hong Kong prime rate per annum payable semi-annually in arrears. Each holder of the notes has the option to convert the notes into fully paid shares of HK\$0.02 each of the Company at a conversion price of HK\$0.25 per share, subject to adjustment, at any time from the date of issue to the last business date preceding the maturity date of 18 months from the date of issue. The Company shall redeem the outstanding principal amount of convertible notes not already converted or redeemed with accrued interest on the maturity date.

33 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 22nd July 2003.