

Notes to the Accounts

1 Principal accounting policies

(a) Basis of preparation

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

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting this revised policy are set out below.

(b) Basis of consolidation

The consolidated accounts of the Group include the accounts of the Company and its subsidiaries made up to 31st March and the Group's share of post-acquisition profits less losses, and reserves, of its jointly controlled entities and associated companies.

The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective dates of acquisition and to the effective dates of disposal respectively.

The profit or loss on disposal of subsidiaries, jointly controlled entities or associated companies is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill/negative goodwill which remains unamortised, and those previously taken to reserves.

All material intra-group transactions and balances have been eliminated on consolidation.

(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 cost. Provision is made when the Directors consider that there is a long term impairment in value.

(d) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with other venturers undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's investments in jointly controlled entities are carried in the consolidated balance sheet at the Group's share of net assets. The Group continues to share losses incurred by jointly controlled entities, which is over and above the carrying amounts of the investments, to the extent that the Group has guaranteed obligations or other commitments of these jointly controlled entities.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost. Provision is made when the Directors consider that there is a long term impairment in value.

1 Principal accounting policies (continued)

(e) Associated companies

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long term and significant influence is exercised in its management. The Group's investments in associated companies are included in the consolidated balance sheet at the Group's share of net assets. The Group continues to share losses incurred by associated companies, which is over and above the carrying amounts of the investments, to the extent that the Group has guaranteed obligations or other commitments of these associated companies.

In the Company's balance sheet, investments in associated companies are carried at cost. Provision is made when the Directors consider that there is a long term impairment in value.

(f) 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, jointly controlled entities and associated companies at the effective date of acquisition.

Goodwill on acquisitions, which occurred on or prior to 31st March 2001, was taken directly to reserves. The carrying amount of goodwill, including those previously taken directly to reserves, is reviewed annually and provision is only made where, in the opinion of the Directors, there is a long term impairment in value.

Goodwill arising on acquisitions occurring after 31st March 2001 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.

(g) Other investments

Other investments 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 or 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.

Notes to the Accounts

1 Principal accounting policies (continued)

(h) Fixed assets

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and are held for investment purpose.

Investment properties held on leases of more than twenty years are stated at valuation. Independent professional valuations are carried out at intervals of not more than three years by independent valuers; in each of the intervening years, valuations are undertaken by either independent professional valuers or professionally qualified executives of the Group. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. Increases in valuation are credited to investment properties revaluation reserve; decreases are first set off against increases on earlier valuations on a portfolio basis and thereafter charged to the profit and loss account. Upon disposal of an investment property, the related revaluation surplus is released from the investment properties revaluation reserve and included in calculating the profit or loss on disposal.

No depreciation is provided in respect of investment properties held on leases of more than twenty years.

(ii) 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 held on leases of more than twenty years. It is the Group's practice to maintain hotel buildings in a continual state of sound repairs 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 is charged to the profit and loss account as incurred.

1 Principal accounting policies (continued)

(h) Fixed assets (continued)

(iii) Other properties

Other properties are interests in land and buildings other than investment or hotel properties and are stated at cost less accumulated depreciation and provision for significant impairment in value or carried at valuation.

In respect of land and buildings stated at valuation, independent professional valuations are carried out at intervals of not more than three years by independent valuers; in each of the intervening years, the Directors review the carrying value of the other properties and adjustment is made where there has been a material change. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to revenue reserve.

Depreciation is provided on other properties, using the straight line method, to write off their cost or valuation over their estimated useful lives as follows:

| | |
|----------------|--------------------------|
| Leasehold land | Unexpired term of leases |
| Buildings | 50 years |

Upon revaluation of other properties, the accumulated depreciation at the date of revaluation is eliminated against the cost of the other properties and the resulting net amount is restated to the revalued amount of the other properties. The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the changes in the carrying amount of the other properties as a result of a revaluation which is dealt with on the same basis as changes in valuation of the other properties as mentioned above.

(iv) Properties under development for investment

Properties under development for investment are stated at cost and are included in fixed assets. Cost comprises land at cost, construction costs, interest and other direct expenses capitalised. Provision is made when the Directors consider that there is a long term impairment in value. On completion, the properties are transferred to investment or hotel properties respectively.

No depreciation is provided on properties under development for investment.

(v) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and provision for significant impairment in value. Depreciation is provided on other fixed assets, using the straight line method, to write off their costs over their estimated useful lives of 4 to 10 years.

Profits or losses on disposal of other fixed assets are determined as the difference between the net disposal proceeds and the carrying amounts of the assets and are dealt with in the profit and loss account.

Notes to the Accounts

1 Principal accounting policies (continued)

(h) Fixed assets (continued)

(vi) Impairment of fixed assets

The carrying amounts of other fixed assets and properties which are stated at cost less accumulated depreciation are reviewed regularly. When the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts. Expected future cash flows have been discounted in determining the recoverable amount.

(i) Properties held for / under development for sale

Properties held for / under development for sale are included in current assets and comprise land at cost, construction costs, interest and other direct costs attributable to such properties and attributable profits taken to-date, less sales instalments received and allowances for any foreseeable losses.

When a development property is sold in advance of completion, profit is recognised over the course of the development and is computed each year as a proportion of the total estimated profit to completion; the proportion used being the lower of the proportion of the construction works completed and the proportion of sales proceeds received and receivable at the balance sheet date to total sales proceeds.

Where purchasers fail to pay the balance of the purchase price on completion and the Group exercises its entitlement to resell the property, sales deposits received in advance of completion which are forfeited are credited to operating profit; and any profits recognised up to the date of completion are written back.

(j) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises land at cost, construction costs, interest and other direct expenses capitalised during the course of development. Net realisable value is determined by the Directors based on prevailing market conditions.

(k) Hotel and restaurant inventories

Hotel and restaurant inventories comprise consumables and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis.

(l) 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.

1 Principal accounting policies (continued)

(m) 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 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.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

Opening revenue reserves at 1st April 2003 and 2002 have been increased by HK\$8,567,000 and HK\$2,076,000 respectively and the opening hotel properties revaluation reserves at 1st April 2003 and 2002 have been reduced by HK\$1,553,000 and HK\$1,429,000 respectively, which represent the unprovided net deferred tax assets and liabilities respectively. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$39,858,000 and HK\$38,728,000 respectively. The loss for the year ended 31st March 2003 has been reduced by HK\$6,491,000.

Notes to the Accounts

1 Principal accounting policies (continued)

(o) Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the Group and these benefits can be measured reliably on the following bases:

- (i) Properties held for / under development for sale
Revenue from sales of development properties for sale is recognised as set out in note (i) above.
- (ii) Completed properties held for sale
Revenue from sales of completed properties held for sale is recognised upon completion of the sale and purchase contracts.
- (iii) Investment properties
Rental income from investment properties is recognised on a straight line basis over the terms of the respective leases.
- (iv) Hotel, travel agency and management services businesses
Revenue from hotel and catering operations is recognised upon provision of services.

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

Management fee income is recognised when services are rendered.

- (v) Investment and others
Revenue from sale of securities is recognised when the significant risks and rewards of ownership have been transferred to the purchaser.

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

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

1 Principal accounting policies (continued)

(p) 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 of exchange 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, jointly controlled entities and associated companies 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 difference arising from the translation of net investments in these subsidiaries, jointly controlled entities and associated companies are dealt with as a movement in reserves.

(q) Borrowing costs

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

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

(r) Operating leases

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

(s) 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 in 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 property development and investment, hotel, travel agency and catering operations. Turnover comprises gross revenues from property sales, property leasing, hotel and travel agency, management services, investment and interest income.

Primary reporting format — business segments

The Group is organised into three main business segments, comprising property sales, property leasing and hotel and travel. There is no other significant identifiable separate business segments. Segment revenue from external customers is after elimination of inter-segment revenues. 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 fixed assets, other non-current assets, hotel inventories, properties, debtors, prepayments and other receivables and investments. Segment liabilities comprise mainly creditors, accruals, bank and other loans.

Notes to the Accounts

2 Turnover and segment information (continued)

Primary reporting format — business segments (continued)

| | Property sales 2004 HK\$'000 | Property leasing 2004 HK\$'000 | Hotel and travel 2004 HK\$'000 | Other operations 2004 HK\$'000 | Group 2004 HK\$'000 |
|-----------------------------------|---------------------------------------|---|---|---|---------------------------|
| Segment revenue | 167,813 | 53,155 | 425,966 | 78,724 | 725,658 |
| Contribution to segment results | (3,132) | 47,557 | 42,067 | 18,119 | 104,611 |
| Provisions and other charges | (20,074) | – | (11,542) | (63,363) | (94,979) |
| Unallocated corporate expenses | | | | | (38,759) |
| Operating loss | | | | | (29,127) |
| Finance costs | | | | | (106,785) |
| Share of results of | | | | | |
| Jointly controlled entities | (3,189) | – | – | – | (3,189) |
| Associated companies | (15,972) | 5,308 | (713) | (172) | (11,549) |
| Loss before taxation | | | | | (150,650) |
| Taxation credit | | | | | 2,310 |
| Loss after taxation | | | | | (148,340) |
| Minority interests | | | | | 6,338 |
| Loss attributable to shareholders | | | | | (142,002) |
| | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 |
| Segment revenue | 470,191 | 60,691 | 448,217 | 77,784 | 1,056,883 |
| Contribution to segment results | 48,158 | 54,303 | 66,128 | 9,785 | 178,374 |
| Provisions and other charges | (136,048) | – | (2,413) | (18,204) | (156,665) |
| Unallocated corporate expenses | | | | | (38,964) |
| Operating loss | | | | | (17,255) |
| Finance costs | | | | | (128,343) |
| Share of results of | | | | | |
| Jointly controlled entities | (33,031) | – | – | – | (33,031) |
| Associated companies | (108,142) | 7,265 | (1,158) | 17 | (102,018) |
| Loss before taxation | | | | | (280,647) |
| Taxation credit | | | | | 2,309 |
| Loss after taxation | | | | | (278,338) |
| Minority interests | | | | | 1,707 |
| Loss attributable to shareholders | | | | | (276,631) |

2 Turnover and segment information (continued)

Primary reporting format – business segments (continued)

| | Property sales 2004 HK\$'000 | Property leasing 2004 HK\$'000 | Hotel and travel 2004 HK\$'000 | Other operations 2004 HK\$'000 | Group 2004 HK\$'000 |
|---|---------------------------------------|---|---|---|---------------------------|
| Segment assets | 1,170,340 | 1,975,133 | 3,301,942 | 180,919 | 6,628,334 |
| Jointly controlled entities and associated companies | 372,959 | 188,052 | – | 10,906 | 571,917 |
| Unallocated assets | | | | | 108,281 |
| | | | | | 7,308,532 |
| Segment liabilities | 654,102 | 883,794 | 1,356,818 | 36,134 | 2,930,848 |
| Minority interests and loans | | | | | 770,840 |
| Unallocated liabilities | | | | | 139,264 |
| | | | | | 3,840,952 |
| Capital expenditure | 25 | – | 154 | 72 | 251 |
| Depreciation | 40 | 246 | 3,243 | 354 | 3,883 |
| | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 |
| Segment assets | 1,313,823 | 1,887,619 | 3,119,716 | 243,455 | 6,564,613 |
| Jointly controlled entities and associated companies | 463,521 | 169,859 | 11,842 | 164 | 645,386 |
| Unallocated assets | | | | | 113,373 |
| | | | | | 7,323,372 |
| Segment liabilities | 861,192 | 720,505 | 1,342,090 | 30,539 | 2,954,326 |
| Minority interests and loans | | | | | 740,734 |
| Unallocated liabilities | | | | | 193,960 |
| | | | | | 3,889,020 |
| Capital expenditure | 8 | 1,059 | 764 | 19 | 1,850 |
| Depreciation | 207 | 3,338 | 5,283 | 823 | 9,651 |

Notes to the Accounts

2 Turnover and segment information (continued)

Secondary reporting format – geographical segments

The activities of the Group are mainly based in Hong Kong. A summary of geographical segments is set out as follows:

| | Segment revenue 2004 HK\$'000 | Operating profit/(loss) 2004 HK\$'000 | Total assets 2004 HK\$'000 | Capital expenditure 2004 HK\$'000 |
|----------------|--|--|-------------------------------------|--|
| Hong Kong | 643,889 | (42,201) | 6,796,223 | 230 |
| Mainland China | 22,594 | (560) | 81,652 | 21 |
| Canada | 59,175 | 13,634 | 430,657 | – |
| | 725,658 | (29,127) | 7,308,532 | 251 |

| | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 | 2003 HK\$'000 |
|----------------|------------------|------------------|------------------|------------------|
| Hong Kong | 984,155 | (20,362) | 6,904,903 | 1,836 |
| Mainland China | 13,899 | (13,192) | 37,755 | – |
| Canada | 58,829 | 16,299 | 380,714 | 14 |
| | 1,056,883 | (17,255) | 7,323,372 | 1,850 |

3 Provisions and other charges

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Net provision for diminution in value of | | |
| Properties held for / under development for sale | (20,074) | (136,048) |
| Other properties | – | (5,307) |
| Unrealised losses on other investments | (11,963) | (7,780) |
| Provision for doubtful debts | (51,400) | (5,117) |
| Loss on disposal of an associated company | (9,129) | – |
| Amortisation of goodwill | (2,413) | (2,413) |
| | (94,979) | (156,665) |

4 Operating loss

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Operating loss is stated after crediting and charging the following: | | |
| Crediting | | |
| Forfeited deposits | 217 | 487 |
| Net rental income (note (a)) | 46,039 | 52,405 |
| Interest income | | |
| Debt securities | – | 1,658 |
| Others | 5,569 | 9,006 |
| Dividends from listed investments | 593 | 1,530 |
| Net realised gains on other investments | 11,956 | 4,062 |
| Charging | | |
| Operating lease rental expense for land and buildings | 6,235 | 6,187 |
| Amortisation of goodwill | 2,413 | 2,413 |
| Staff costs including Director's emoluments (note 7) | 78,319 | 92,437 |
| Depreciation | 3,883 | 9,651 |
| Auditors' remuneration | 2,720 | 2,864 |
| Loss on disposal of fixed assets | 68 | – |
| Net unrealised losses on other investments | 11,963 | 7,780 |

(a) Net rental income

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--------------------------|------------------|------------------|
| Gross rental income | | |
| Investment properties | 34,295 | 39,012 |
| Properties held for sale | 18,860 | 21,679 |
| | 53,155 | 60,691 |
| Outgoings | (7,116) | (8,286) |
| | 46,039 | 52,405 |

Notes to the Accounts

5 Finance costs

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Interest expense | | |
| Long term bank loans | 66,623 | 90,613 |
| Convertible bonds | 30,999 | 30,914 |
| Convertible notes | 2,218 | – |
| Loans from minority shareholders of subsidiaries | 3,443 | 3,116 |
| Short term bank loans and overdrafts | 12,136 | 11,722 |
| Other incidental borrowing costs | 6,167 | 6,296 |
| | 121,586 | 142,661 |
| Capitalised as cost of properties under development | | |
| Interest expense | (13,671) | (13,443) |
| Other incidental borrowing costs | (1,130) | (875) |
| | 106,785 | 128,343 |

To the extent funds are borrowed generally and used for the purpose of financing certain properties under development, the capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these properties under development is 5.5% (2003: 5.9%) per annum.

6 Directors' and senior management's emoluments

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

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Fees | 110 | 60 |
| Salaries, housing allowances and benefits in kind (note) | 18,660 | 21,982 |
| | 18,770 | 22,042 |

Note: Balance includes HK\$5,700,000 (2003: HK\$8,500,000) paid by subsidiaries of Asia Standard Hotel Group Limited ("Asia Standard Hotel"), a separately listed subsidiary of the Group.

6 Directors' and senior management's emoluments (continued)

The emoluments of individual Directors fell within the following bands:

| Emoluments band | Number | |
|-------------------------------|--------|------|
| | 2004 | 2003 |
| HK\$ nil – HK\$1,000,000 | 5 | 5 |
| HK\$1,500,001 – HK\$2,000,000 | 1 | – |
| HK\$2,000,001 – HK\$2,500,000 | 2 | 2 |
| HK\$3,000,001 – HK\$3,500,000 | 1 | – |
| HK\$3,500,001 – HK\$4,000,000 | – | 1 |
| HK\$4,000,001 – HK\$4,500,000 | – | 1 |
| HK\$8,500,001 – HK\$9,000,000 | 1 | 1 |

Emoluments paid to Independent Non-executive Directors amounted to HK\$110,000 (2003: HK\$60,000) during the year. None of the Directors has waived the right to receive their emoluments.

- (b) The five highest paid individuals in the Group for the year include five (2003: five) Directors whose emoluments are already reflected in the analysis presented above.

7 Staff costs

| | 2004 | 2003 |
|--|----------|----------|
| | HK\$'000 | HK\$'000 |
| Wages and salaries | 77,017 | 92,132 |
| Retirement benefits costs (note (a)) | 2,693 | 2,842 |
| | 79,710 | 94,974 |
| Capitalised under properties under development | (1,391) | (2,537) |
| | 78,319 | 92,437 |

Staff costs are stated inclusive of Directors' emoluments.

Note:

(a) Retirement benefits costs

| | 2004 | 2003 |
|----------------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Gross contributions | 2,847 | 3,221 |
| Forfeitures utilised | (154) | (379) |
| Net contributions | 2,693 | 2,842 |

The Group participate 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, contribution 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.

Notes to the Accounts

7 Staff costs (continued)

The Group also participates in the MPF scheme, which are 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% (2003: 5% and 4.95%) 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 2004, no forfeitures (2003: HK\$31,000) were available to reduce the Group's future contributions to the ORSO Scheme.

(b) Share options

The Company operated a share option scheme, which had expired on 22nd January 2002, whereby options may be granted to employees of the Group, including the executive directors, to subscribe for shares of the Company. The consideration to be paid on each grant of option was HK\$10.

Details of share options held under the expired scheme are as follows:

| Grantee | Expiry date | Exercise price | 2004 Number | 2003 Number |
|----------|-----------------|----------------|----------------|----------------|
| Director | 27th March 2005 | HK\$0.384 | 1,750,000 | 1,750,000 |

No share option was granted, exercised, cancelled nor lapsed during the year (2003: nil).

8 Taxation credit

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In the current year, the Hong Kong government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | 2004 HK\$'000 | 2003 HK\$'000 |
|---|------------------|------------------|
| Current taxation | | |
| Hong Kong profits tax | (140) | (70) |
| Over / (under) provisions in prior years | 915 | (1,796) |
| Deferred taxation | | |
| Relating to the origination and reversal of temporary differences | 1,819 | 5,411 |
| Resulting from an increase in tax rate | 1,634 | – |
| | 4,228 | 3,545 |
| Share of taxation attributable to | | |
| Jointly controlled entities | (287) | – |
| Associated companies | (1,631) | (1,236) |
| | 2,310 | 2,309 |

8 Taxation credit (continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

| | 2004 | 2003 |
|---|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Loss before taxation | 150,650 | 280,647 |
| Calculated at a taxation rate of 17.5% (2003: 16%) | 26,364 | 44,904 |
| Over / (under) provisions in prior years | 918 | (1,796) |
| Effect of different tax rates in other countries | 844 | 393 |
| Income not subject to taxation | 7,496 | 2,743 |
| Expenses not deductible for taxation purposes | (19,634) | (30,479) |
| Tax losses not recognised | (18,537) | (15,381) |
| Utilisation of previously unrecognised temporary differences | 5,226 | 3,191 |
| Recognition of previously unrecognised tax losses | 1,775 | 450 |
| Derecognition of deferred tax assets | (3,777) | – |
| Increase in opening net deferred tax assets resulting from an increase in tax rate | 1,464 | – |
| Others | 171 | (1,716) |
| Taxation credit | 2,310 | 2,309 |

9 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$53,041,000 (2003: HK\$20,580,000).

10 Dividends

No dividend was declared or proposed for the year (2003: nil).

11 Loss per share

The calculation of loss per share is based on loss attributable to shareholders of HK\$142,002,000 (2003: HK\$276,631,000) and on the weighted average of 4,109,301,376 (2003: 4,112,621,639) shares in issue during the year.

No diluted loss per share is presented as the exercise of subscription rights attached to the share options and the conversion of the convertible bonds would not have a dilutive effect on the loss per share.

Notes to the Accounts

12 Fixed assets

| | Investment properties HK\$'000 | Hotel properties HK\$'000 | Other properties HK\$'000 | Properties under development HK\$'000 | Other fixed assets HK\$'000 | Total HK\$'000 |
|--|--------------------------------------|---------------------------------|---------------------------------|--|--------------------------------------|-------------------|
| Group | | | | | | |
| Cost or valuation | | | | | | |
| At 31st March 2003 | 1,281,800 | 3,010,620 | 85,707 | 42,470 | 56,362 | 4,476,959 |
| Translation differences | – | 44,544 | – | – | (16) | 44,528 |
| Reclassification | 74,954 | – | (74,954) | – | – | – |
| Additions | – | – | – | – | 251 | 251 |
| Disposals | – | – | – | – | (8,083) | (8,083) |
| Cost adjustment | – | 854 | – | (144) | – | 710 |
| Elimination against cost on revaluation | – | – | (246) | – | – | (246) |
| Surplus on revaluation | 66,246 | 111,532 | – | – | – | 177,778 |
| At 31st March 2004 | 1,423,000 | 3,167,550 | 10,507 | 42,326 | 48,514 | 4,691,897 |
| Accumulated depreciation and impairment | | | | | | |
| At 31st March 2003 | – | – | 1,995 | – | 51,392 | 53,387 |
| Translation differences | – | – | – | – | (12) | (12) |
| Charge for the year | – | – | 461 | – | 3,422 | 3,883 |
| Disposals | – | – | – | – | (8,015) | (8,015) |
| Elimination against cost on revaluation | – | – | (246) | – | – | (246) |
| At 31st March 2004 | – | – | 2,210 | – | 46,787 | 48,997 |
| Net book value | | | | | | |
| At 31st March 2004 | 1,423,000 | 3,167,550 | 8,297 | 42,326 | 1,727 | 4,642,900 |
| At 31st March 2003 | 1,281,800 | 3,010,620 | 83,712 | 42,470 | 4,970 | 4,423,572 |

12 Fixed assets (continued)

- (a) Investment properties comprise long term leasehold land and buildings of HK\$1,423,000,000 (2003: HK\$1,281,800,000) in Hong Kong. They were revalued by Vigers Hong Kong Limited, independent professional valuers, on an open market value basis as at 31st March 2004.
- (b) Hotel properties comprise long term leasehold land and buildings situated in Hong Kong of HK\$1,400,000,000 (2003: HK\$1,350,000,000), medium term leasehold land and buildings in Hong Kong of HK\$1,350,000,000 (2003: HK\$1,290,000,000) and freehold land and buildings situated in Canada of HK\$417,550,000 (2003: HK\$370,620,000). 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 2004 respectively.
- (c) In the current year, the gross floor area ("GFA") for internal use of a long term leasehold property has decreased to less than 15% of the total GFA of that property. Therefore, the portion previously classified as other properties has been reclassified to investment properties. Also included in other properties are long term leasehold land and buildings of HK\$2,440,000 (2003: HK\$2,782,000) and medium term leasehold land and buildings of HK\$5,857,000 (2003: HK\$5,730,000), both of which are stated at cost less accumulated depreciation and impairment. All these properties are located in Hong Kong.
- (d) Properties under development comprise long term leasehold land and buildings of HK\$42,326,000 (2003: HK\$42,470,000) in Hong Kong and are stated at cost.
- (e) The aggregate net book value of fixed assets pledged as securities for loans amounts to HK\$4,638,733,000 (2003: HK\$4,418,602,000).

13 Subsidiaries

| | 2004 | 2003 |
|---|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 1,229,076 | 1,229,076 |
| Amounts due by subsidiaries less provisions | 2,321,114 | 2,394,189 |
| | 3,550,190 | 3,623,265 |

The shares in a subsidiary are pledged to secure loan facilities granted to the Group.

Details of the principal subsidiaries are set out in note 36.

Notes to the Accounts

14 Jointly controlled entities

| | Group | |
|---|----------------|-----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net liabilities | (94,223) | (140,747) |
| Advances to jointly controlled entities less provisions | 308,217 | 327,667 |
| | 213,994 | 186,920 |

The shares in certain jointly controlled entities are pledged to secure loan facilities granted to those entities. Advances to jointly controlled entities amounting to HK\$261,027,000 (2003: HK\$265,697,000) are subordinated to the repayment of the loans of those jointly controlled entities.

Advances to jointly controlled entities are made to finance property development projects. The amounts are unsecured, interest free and have no fixed terms of repayment.

Details of the principal jointly controlled entities are set out in note 36.

15 Associated companies

| | Group | |
|--|----------------|----------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Share of net liabilities | (100,814) | (79,462) |
| Goodwill less amortisation | – | 11,974 |
| Advances to associated companies less provisions | 509,887 | 577,138 |
| Amounts due to associated companies | (51,150) | (51,184) |
| | 357,923 | 458,466 |

The shares in certain associated companies are pledged to secure the loan facilities granted to those companies. Advances to associated companies amounting to HK\$345,700,000 (2003: HK\$416,796,000) are subordinated to the repayment of the loans of those companies.

Advances to associated companies are made to finance property development projects. Except for an amount of HK\$8,565,000 (2003: HK\$125,000) due from an associated company which is interest bearing at prime rate, the remaining amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

Details of the principal associated companies are set out in note 36.

16 Long term investment

| | 2004 HK\$'000 | Group 2003 HK\$'000 |
|--------------------------------|------------------|---------------------------|
| Unlisted share, at cost | 1 | 1 |
| Advance to an investee company | 1,600 | 1,600 |
| | 1,601 | 1,601 |

Advance to an investee company is unsecured, interest free and has no fixed terms of repayment.

17 Goodwill

| | Group HK\$'000 |
|-----------------------------|-------------------|
| Cost | |
| At 31st March 2003 and 2004 | 24,643 |
| Accumulated amortisation | |
| At 31st March 2003 | 5,347 |
| Charge for the year | 2,413 |
| At 31st March 2004 | 7,760 |
| Net book value | |
| At 31st March 2004 | 16,883 |
| At 31st March 2003 | 19,296 |

18 Mortgage loans receivable

At 31st March 2004, mortgage loans receivable of HK\$14,518,000 (2003: HK\$16,438,000) in aggregate were pledged as security for the Group's long term loans.

19 Properties held for/under development for sale and completed properties held for sale

At 31st March 2004, properties amounting to HK\$1,416,374,000 (2003: HK\$1,478,614,000) were pledged to banks to secure certain banking facilities of the Group.

At 31st March 2004, properties that were carried at net realisable values were HK\$721,712,000 (2003: HK\$830,539,000) and properties held for deployment in operating leases were HK\$538,212,000 (2003: HK\$516,212,000).

Notes to the Accounts

20 Debtors and prepayments

Debtors and prepayments include trade debtors, utility and other deposits, stakeholders' accounts, interest and other receivables and a housing loan of HK\$1,088,000 (2003: HK\$1,156,000) granted to a Director, Mr. Kwan Po Lam, Phileas, in March 1995. The loan is secured by a legal mortgage over the subject property, carries interest at 2% below prime rate (2003: 2% below prime rate) per annum and the principal is repayable by quarterly instalments of HK\$17,000 each. The maximum outstanding balance during the year was HK\$1,156,000 (2003: HK\$1,224,000). In 2003, there was also a receivable from a Director, Mr. Poon Jing of HK\$4,605,000 which related to a guarantee provided by Mr. Poon in respect of the net profit before interest and taxation of a subsidiary acquired by the Group from him.

Trade debtors amounted to HK\$36,789,000 (2003: HK\$33,260,000), all of which (2003: 81%) were aged under six months. 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 debtors, credit evaluations of customers are performed periodically.

21 Other investments

| | Group | |
|---------------------|---------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Equity securities | | |
| Listed in Hong Kong | 70,233 | 91,589 |
| Unlisted | – | 1,007 |
| | 70,233 | 92,596 |

22 Bank balances and cash

The balances include restricted bank balances of HK\$32,625,000 (2003: HK\$33,853,000) which are pledged to banks to secure certain banking facilities of the Group or required to be utilised for specific purposes.

23 Creditors and accruals

Creditors and accruals include trade creditors, rental and management fee deposits, interest and other payables, retentions payable of construction costs and various accruals. Trade creditors amounted to HK\$23,185,000 (2003: HK\$30,812,000), all of which (2003: 100%) were aged under six months.

24 Share capital

| | Number of shares | Amount HK\$'000 |
|-----------------------------|------------------------|--------------------|
| Shares of HK\$0.01 each | | |
| Authorised: | | |
| At 31st March 2003 and 2004 | 400,000,000,000 | 4,000,000 |

| | Number of shares | | Amount | |
|---------------------------------|----------------------|---------------|------------------|------------------|
| | 2004 | 2003 | 2004 HK\$'000 | 2003 HK\$'000 |
| Issued and fully paid: | | | | |
| At beginning of the year | 4,112,605,990 | 4,112,647,990 | 41,126 | 41,126 |
| Repurchase of own shares (note) | (3,356,000) | (42,000) | (33) | – |
| At end of the year | 4,109,249,990 | 4,112,605,990 | 41,093 | 41,126 |

Note:

During the year, the Company repurchased 3,356,000 (2003: 42,000) of its own shares on The Stock Exchange of Hong Kong Limited at an aggregate consideration of HK\$866,780 (2003: HK\$10,394). All the shares repurchased were subsequently cancelled. An amount equal to the nominal value of those shares of HK\$33,560 (2003: HK\$420) was transferred from the revenue reserve to capital redemption reserve.

Notes to the Accounts

25 Reserves

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Capital redemption reserve HK\$'000 | Revaluation reserve | | | Contributed surplus HK\$'000 | Revenue reserve HK\$'000 | Total HK\$'000 |
|---|---------------------------|-----------------------------|--|-----------------------------------|------------------------------|------------------------------|---------------------------------|-----------------------------|-------------------|
| | | | | Investment properties HK\$'000 | Hotel properties HK\$'000 | Other properties HK\$'000 | | | |
| Group | | | | | | | | | |
| At 31st March 2002 | | | | | | | | | |
| As previously reported | 533,090 | 362 | 43,835 | 655,150 | 427,952 | 30,706 | 2,670,292 | (258,775) | 4,102,612 |
| Change in accounting policy for deferred taxation | - | - | - | - | (1,429) | - | - | 2,076 | 647 |
| As restated | 533,090 | 362 | 43,835 | 655,150 | 426,523 | 30,706 | 2,670,292 | (256,699) | 4,103,259 |
| Translation differences | - | - | - | - | 578 | - | - | 11,441 | 12,019 |
| Repurchase of own shares | - | - | - | - | - | - | - | (10) | (10) |
| Reclassification | - | - | - | 8,688 | - | (8,688) | - | - | - |
| Deficit on revaluation | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| Gross | - | - | - | (220,681) | (161,696) | (10,110) | - | - | (392,487) |
| Taxation | - | - | - | - | (124) | - | - | - | (124) |
| Associated companies | - | - | - | (52,800) | - | - | - | - | (52,800) |
| Loss for the year | - | - | - | - | - | - | - | (276,631) | (276,631) |
| At 31st March 2003 | 533,090 | 362 | 43,835 | 390,357 | 265,281 | 11,908 | 2,670,292 | (521,899) | 3,393,226 |
| Company and subsidiaries | | | | | | | | | |
| Jointly controlled entities | - | - | - | - | - | - | - | (188,398) | (188,398) |
| Associated companies | - | - | - | 25,900 | - | - | - | (344,388) | (318,488) |
| | 533,090 | 362 | 43,835 | 390,357 | 265,281 | 11,908 | 2,670,292 | (521,899) | 3,393,226 |
| At 31st March 2003 | | | | | | | | | |
| As previously reported | 533,090 | 362 | 43,835 | 390,357 | 266,834 | 11,908 | 2,670,292 | (530,466) | 3,386,212 |
| Change in accounting policy for deferred taxation | - | - | - | - | (1,553) | - | - | 8,567 | 7,014 |
| As restated | 533,090 | 362 | 43,835 | 390,357 | 265,281 | 11,908 | 2,670,292 | (521,899) | 3,393,226 |
| Translation differences | - | - | - | - | 869 | - | - | 16,746 | 17,615 |
| Repurchase of own shares | - | - | 33 | - | - | - | - | (867) | (834) |
| Reclassification | - | - | - | 11,908 | - | (11,908) | - | - | - |
| Surplus on revaluation | | | | | | | | | |
| Subsidiaries | | | | | | | | | |
| Gross | - | - | - | 66,246 | 78,072 | - | - | - | 144,318 |
| Taxation | - | - | - | - | (356) | - | - | - | (356) |
| Associated companies | - | - | - | 14,520 | - | - | - | - | 14,520 |
| Loss for the year | - | - | - | - | - | - | - | (142,002) | (142,002) |
| At 31st March 2004 | 533,090 | 362 | 43,868 | 483,031 | 343,866 | - | 2,670,292 | (648,022) | 3,426,487 |
| Company and subsidiaries | | | | | | | | | |
| Jointly controlled entities | - | - | - | - | - | - | - | (191,874) | (191,874) |
| Associated companies | - | - | - | 40,420 | - | - | - | (357,568) | (317,148) |
| At 31st March 2004 | 533,090 | 362 | 43,868 | 483,031 | 343,866 | - | 2,670,292 | (648,022) | 3,426,487 |

25 Reserves (continued)

| | Share premium HK\$'000 | Capital reserve HK\$'000 | Capital redemption reserve HK\$'000 | Revaluation reserve | | | Contributed surplus HK\$'000 | Revenue reserve HK\$'000 | Total HK\$'000 |
|---------------------------|---------------------------|-----------------------------|--|-----------------------------------|------------------------------|------------------------------|---------------------------------|-----------------------------|-------------------|
| | | | | Investment properties HK\$'000 | Hotel properties HK\$'000 | Other properties HK\$'000 | | | |
| Company | | | | | | | | | |
| At 31st March 2002 | 531,939 | – | 43,835 | – | – | – | 2,684,451 | 308,473 | 3,568,698 |
| Repurchase of own shares | – | – | – | – | – | – | – | (10) | (10) |
| Loss for the year | – | – | – | – | – | – | – | (20,580) | (20,580) |
| At 31st March 2003 | 531,939 | – | 43,835 | – | – | – | 2,684,451 | 287,883 | 3,548,108 |
| Repurchase of own shares | – | – | 33 | – | – | – | – | (867) | (834) |
| Loss for the year | – | – | – | – | – | – | – | (53,041) | (53,041) |
| At 31st March 2004 | 531,939 | – | 43,868 | – | – | – | 2,684,451 | 233,975 | 3,494,233 |

The investment property revaluation reserve includes an amount of HK\$50,000,000 (2003: HK\$50,000,000) in respect of an investment property which was transferred to property under development for sale in 2001.

The revenue reserve is distributable. Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus and the capital redemption reserve are also distributable. Accordingly, total distributable reserves of the Company amount to HK\$2,962,294,000 (2003: HK\$3,016,169,000) as at 31st March 2004.

26 Convertible notes

On 15th April 2003, Asia Standard Hotel 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 Asia Standard Hotel 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. Asia Standard Hotel shall redeem the outstanding principal amount of convertible notes not already converted or redeemed with accrued interest on the maturity date.

27 Convertible bonds

On 7th January 2002, Asia Standard International Capital Limited ("ASICL"), a wholly owned subsidiary of the Company, issued HK\$290,000,000 convertible bonds to Westrata Investment Limited ("Westrata"), a substantial shareholder of the Company. The bonds bear interest at 7% per annum payable semi-annually in arrears and are guaranteed by the Company. In March 2003, the bond had been transferred from Westrata to Grosvenor Limited ("Grosvenor"), an indirect subsidiary of Grosvenor Group Limited (formerly known as Grosvenor Group Holdings Limited).

Grosvenor has the option to convert the bonds into fully paid shares of HK\$0.01 each of the Company at a conversion price of HK\$0.45 per share, subject to adjustment, at any time between 7th January 2002 and 7th January 2007. ASICL may redeem all or part of the bonds at any time on or after 7th January 2002, subject to certain conditions, together with accrued interest. Unless previously converted or redeemed, the bonds will be redeemed on 7th January 2007 at a redemption price equal to 118.3% of the principal amount together with accrued interest.

Provision of HK\$23,700,000 (2003: HK\$13,057,000) for the premium payable has been made in the accounts so as to provide a constant periodic rate of charge to the profit and loss account over the term of the bonds.

Notes to the Accounts

28 Long term loans

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Bank loans, secured | | | | |
| Repayable within one year | 118,446 | 316,085 | 15,652 | 15,000 |
| Repayable between one and two years | 145,220 | 509,317 | 2,960 | 23,800 |
| Repayable between two and five years | 751,362 | 660,233 | 8,880 | – |
| Repayable after five years | 1,332,634 | 1,025,626 | 5,160 | – |
| | 2,347,662 | 2,511,261 | 32,652 | 38,800 |
| Current portion included in current liabilities | (118,446) | (316,085) | (15,652) | (15,000) |
| | 2,229,216 | 2,195,176 | 17,000 | 23,800 |

Subsequent to the year end, the Group refinanced bank loans outstanding at 31st March 2004 of approximately HK\$1,469 million (2003: HK\$118 million). The terms of repayment at 31st March 2004 in respect of these bank loans have been reclassified according to the new loan agreements. As a result, the amount of liabilities which has been excluded from current liabilities amounts to approximately HK\$65 million (2003: HK\$115 million).

29 Deferred taxation

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Group

Deferred tax liabilities

| | Accelerated tax depreciation | | Revaluation of properties | | Deferred assets | | Fair value adjustments on acquisitions | | Total | |
|--------------------------|---------------------------------|------------------|------------------------------|------------------|------------------|------------------|---|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| At beginning of the year | (87,417) | (76,368) | (2,218) | (2,041) | (878) | (1,177) | (46,195) | (57,343) | (136,708) | (136,929) |
| (Charged) / credited to | | | | | | | | | | |
| profit and loss account | (15,694) | (10,649) | – | – | 229 | 299 | (5,162) | 11,148 | (20,627) | 798 |
| Charged to equity | – | – | (509) | (177) | – | – | – | – | (509) | (177) |
| Exchange differences | (2,543) | (400) | (266) | – | – | – | – | – | (2,809) | (400) |
| At end of the year | (105,654) | (87,417) | (2,993) | (2,218) | (649) | (878) | (51,357) | (46,195) | (160,653) | (136,708) |

29 Deferred taxation (continued)

Deferred tax assets

| | Accelerated accounting depreciation | | Provisions | | Tax losses | | Total | |
|-------------------------------------|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| At beginning of the year | 290 | 83 | 310 | 310 | 137,238 | 132,432 | 137,838 | 132,825 |
| Credited to profit and loss account | 138 | 207 | 310 | – | 23,632 | 4,406 | 24,080 | 4,613 |
| Exchange differences | – | – | – | – | 728 | 400 | 728 | 400 |
| At end of the year | 428 | 290 | 620 | 310 | 161,598 | 137,238 | 162,646 | 137,838 |

Company

Deferred tax assets

| | Tax losses | |
|-------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| At beginning of the year | – | – |
| Credited to profit and loss account | 9,199 | – |
| At end of the year | 9,199 | – |

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$429 million (2003: HK\$344 million) to carry forward against future taxable income. These tax losses of HK\$359 million (2003: HK\$292 million) have no expiry date and the balance will expire at various dates up to and including 2011 (2003: 2010).

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes related to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

| | Group | | Company | |
|--------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Deferred tax assets | 55,388 | 39,858 | 9,199 | – |
| Deferred tax liabilities | (53,395) | (38,728) | – | – |
| | 1,993 | 1,130 | 9,199 | – |

Notes to the Accounts

30 Minority interests and loans

| | Group | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Minority interests | 672,350 | 637,832 |
| Loans from minority shareholders of subsidiaries, unsecured | 98,490 | 102,902 |
| | 770,840 | 740,734 |

Loans from minority shareholders are to finance property projects of subsidiaries and have no specific terms of repayment. Loans of HK\$86,570,000 (2003: HK\$83,482,000) bear interest at 1.5% (2003: 1.5%) above prime rate and the remaining balance is interest free.

31 Capital commitments

| | Group | | Company | |
|-----------------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Contracted but not provided for | – | 11,698 | – | – |
| Authorised but not contracted for | – | – | – | – |
| | – | 11,698 | – | – |

32 Operating lease arrangements

(a) Lessor

The Group leases out certain properties under operating leases which typically run for lease terms between 1 and 10 years.

At 31st March 2004, the future aggregate minimum rental receipts receivable under non-cancellable operating leases were as follows:

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| In respect of land and buildings | | |
| Within one year | 56,881 | 57,066 |
| In the second to fifth year inclusive | 59,968 | 48,707 |
| After the fifth year | 7,915 | 10,031 |
| | 124,764 | 115,804 |

32 Operating lease arrangements (continued)

(b) Lessee

At 31st March 2004, the future aggregate minimum lease payments payable under non-cancellable operating leases were as follows:

| | Group | |
|---------------------------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| In respect of land and buildings | | |
| Within one year | 3,110 | 6,386 |
| In the second to fifth year inclusive | 6,898 | 8,746 |
| After the fifth year | – | 864 |
| | 10,008 | 15,996 |

Subsequent to the year end, a subsidiary has renewed a lease agreement. As a result, the future aggregate minimum lease payments payable within one year and in the second to fifth years inclusive should increase by HK\$2,082,000 and HK\$5,814,000 respectively.

33 Contingent liabilities

(a) Guarantee

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Guarantees for the banking and loan facilities of: | | | | |
| Subsidiaries | – | – | 1,101,235 | 1,217,819 |
| Jointly controlled entities | 146,693 | 211,027 | 146,693 | 211,027 |
| Associated companies | 97,068 | 269,080 | 97,068 | 269,080 |
| Third parties | 1,785 | 1,886 | – | – |
| Guarantee for the convertible bonds issued by a subsidiary | – | – | 290,000 | 290,000 |
| | 245,546 | 481,993 | 1,634,996 | 1,987,926 |

- (b) In May 2003, the Group received a writ in which the plaintiff, a purchaser of a property developed by the Group in 1997, sought to claim damages and rescission of the sale and purchase transaction on the alleged grounds that the said property consideration had been grossly overvalued. Management has engaged legal representatives to vigorously contest the proceedings. The proceeding is still in an early stage and in the opinion of the Directors, based on professional advice, it is unlikely that there will be any significant adverse effect to the overall financial position of the Group.

Notes to the Accounts

34 Notes to consolidated cash flow statement

(a) Reconciliation of loss before taxation to net cash generated from operations

| | 2004 | 2003 |
|--|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Loss before taxation | (150,650) | (280,647) |
| Share of profits less losses of | | |
| Jointly controlled entities | 3,189 | 33,031 |
| Associated companies | 11,549 | 102,018 |
| Depreciation | 3,883 | 9,651 |
| Amortisation of goodwill | 2,413 | 2,413 |
| Loss on disposal of fixed assets | 68 | – |
| Net realised and unrealised losses on other investments | 7 | 3,718 |
| Loss on disposal of an associated company | 9,129 | – |
| Net provision for diminution in value of | | |
| Properties under development / held for sale | 20,074 | 136,048 |
| Other properties | – | 5,307 |
| Dividends from listed investments | (593) | (1,530) |
| Interest income | (5,569) | (10,664) |
| Interest expense | 101,748 | 122,922 |
| Operating (loss) / profit before working capital changes | (4,752) | 122,267 |
| (Increase) / decrease in mortgage loans receivable | (12,839) | 13,209 |
| Decrease in properties held for / under development for sale (excluding interest expense capitalised) | 111,089 | 247,751 |
| Decrease in hotel and restaurant inventories | 295 | 791 |
| (Increase) / decrease in debtors and prepayments | (5,014) | 74,046 |
| Increase / (decrease) in creditors and accruals | 21,349 | (22,277) |
| Net cash generated from operations | 110,128 | 435,787 |

(b) Disposal of subsidiaries

| | 2004 | 2003 |
|-----------------------------|----------|----------|
| | HK\$'000 | HK\$'000 |
| Net assets disposed of: | | |
| Fixed assets | – | 434 |
| Debtors and prepayments | – | 7,473 |
| Bank balances and cash | – | 4,017 |
| Creditors and accruals | – | (7,878) |
| Taxation | – | 83 |
| Cash consideration received | – | 4,129 |

34 Notes to consolidated cash flow statement (continued)

(b) Disposal of subsidiaries (continued)

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

| | 2004 | 2003 |
|------------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Cash consideration received | – | 4,129 |
| Bank balances and cash disposed of | – | (4,017) |
| | – | 112 |

(c) Analysis of changes in financing

| | Share capital (including premium and redemption reserve) | Convertible bonds and notes | Long term loans | Short term bank loans | Restricted bank balances | Minority interests and loans | Total |
|---|--|-----------------------------------|-----------------------|--------------------------------|--------------------------------|------------------------------------|------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 31st March 2002 | 618,051 | 290,000 | 2,767,478 | 124,250 | (8,293) | 811,945 | 4,603,431 |
| Exchange differences | – | – | 12,634 | – | – | 2,308 | 14,942 |
| Minority interests' share of loss | – | – | – | – | – | (1,707) | (1,707) |
| Minority interests' share of revaluation reserve | – | – | – | – | – | (71,986) | (71,986) |
| Repurchase of own shares | 10 | – | – | – | – | – | 10 |
| Net cash from / (used in) financing activities | (10) | – | (268,851) | (74,250) | (25,560) | 174 | (368,497) |
| At 31st March 2003 | 618,051 | 290,000 | 2,511,261 | 50,000 | (33,853) | 740,734 | 4,176,193 |
| Exchange differences | – | – | 17,152 | – | – | 7,549 | 24,701 |
| Minority interests' share of profit | – | – | – | – | – | (6,338) | (6,338) |
| Minority interests' share of revaluation reserve | – | – | – | – | – | 33,307 | 33,307 |
| Repurchase of own shares | 867 | – | – | – | – | – | 867 |
| Net cash from / (used in) financing activities | (867) | 46,000 | (180,751) | 1,000 | 1,228 | (4,412) | (137,802) |
| At 31st March 2004 | 618,051 | 336,000 | 2,347,662 | 51,000 | (32,625) | 770,840 | 4,090,928 |

35 Subsequent event

Certain purchasers of a property developed by a subsidiary of the Group had taken legal action in prior years against the subsidiary for the delay of completion of the property. They have sought to rescind the sale and purchase transactions which occurred in 1997 and 1998 in the total consideration of HK\$53.8 million and claimed damages. On the other hand, the subsidiary had issued a writ to 11 of those purchasers to counter claim damages on grounds that they had acted jointly to disrupt the construction progress of the development. Judgement was given on 30th June 2004 in favour of the purchasers and additional provision attributed to the Group of HK\$30 million has been made as a result of the judgement.

Notes to the Accounts

36 Principal subsidiaries, jointly controlled entities and associated companies

Listed below are the principal subsidiaries, jointly controlled entities and associated companies which, in the opinion of the Directors, principally affect the results and/or net assets of the Group.

Subsidiaries

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

| Name | Principal activity | Issued and fully paid ordinary share capital except otherwise stated |
|--|-----------------------------|--|
| <i>Incorporated in Hong Kong</i> | | |
| Asia Standard (Beijing) Company Limited | Investment holding | HK\$2 |
| Asia Standard Development (Holdings) Limited | Investment holding | HK\$10 and non-voting deferred share capital of HK\$362,892,949 |
| Asia Standard Development (Real Estate Agencies) Limited | Real estate agency services | HK\$2 |
| Asia Standard Finance Company Limited | Financing services | HK\$1,000,000 |
| Asia Standard International Limited * | Investment holding | HK\$1,214,916,441 |
| Asia Standard Management Services Limited | Management services | HK\$2 |
| Asia Standard Project Management Company Limited | Project management | HK\$2 |
| Barinet Company Limited | Property development | HK\$1,000 |
| Crystal Rich Limited | Property development | HK\$2 |
| Free Ocean Investments Limited | Property development | HK\$2 |
| Full Union Development Limited | Property development | HK\$2 |
| Get Rich Enterprises Limited (80% owned) | Property development | HK\$2 |
| Glory Ocean Limited | Property development | HK\$2 |
| Goodview Express Holdings Limited | Property trading | HK\$2 |
| Grace Profit Enterprises Limited (70.04% owned) | Restaurant operation | HK\$2 |
| Hoi Chak Properties Limited | Property investment | HK\$10 and non-voting deferred share capital of HK\$2 |
| Honest Engineering Limited (80% owned) | Construction | HK\$100 |
| Hugetop Holdings Limited | Property development | HK\$2 |
| JBC Travel Company Limited (70.04% owned) | Travel Agency | HK\$2,500,000 |
| Kelpoint Limited | Property development | HK\$2 |
| Mark Honour Limited (90% owned) | Property development | HK\$10 |
| Master Asia Enterprises Limited | Property development | HK\$10,000 |

36 Principal subsidiaries, jointly controlled entities and associated companies (continued)

| Name | Principal activity | Issued and fully paid ordinary share capital except otherwise stated |
|---|-----------------------|--|
| <i>Incorporated in Hong Kong (continued)</i> | | |
| Mega Royal Limited | Property development | HK\$2 |
| Morning Gay Investments Limited | Property development | HK\$100 |
| Ocean Victory Investment Limited | Property trading | HK\$2 |
| Paramount Shine Limited | Property development | HK\$2 |
| Perfect Wave Limited (70.04% owned) | Restaurant operation | HK\$2 |
| Rich Kinghood Limited | Property development | HK\$2 |
| Stone Pole Limited (70.04% owned) | Hotel holding | HK\$10 |
| Tilpifa Company Limited | Property investment | HK\$10 and non-voting deferred share capital of HK\$10,000 |
| Trade Hope Limited | Property development | HK\$2 |
| Union Rich Resources Limited (80% owned) | Property development | HK\$2 |
| Vinstar Development Limited (70.04% owned) | Hotel holding | HK\$2 |
| Waliway Limited | Property holding | HK\$100 |
| Way Link Holdings Limited (90% owned) | Property trading | HK\$2 |
| Winfast Engineering Limited | Construction | HK\$2 |
| <i>Incorporated in Bermuda</i> | | |
| Asia Standard Hotel Group Limited (70.04% owned) | Investment holding | HK\$101,042,000 |
| <i>Incorporated in the British Virgin Islands</i> | | |
| Bondax Holdings Limited | Investment holding | US\$1 |
| Enrich Enterprises Ltd (70.04% owned)** | Hotel holding | US\$1 |
| Global Gateway Corp. (70.04% owned)** | Hotel operation | US\$1 |
| Glory Ventures Enterprises Inc. (70.04% owned)** | Hotel holding | US\$1 |
| Goldrite Investments Limited | Investment holding | US\$1 |
| Greatime Limited (70.04% owned) | Securities investment | US\$1 |
| Master Venture Limited | Property development | US\$1 |
| <i>Incorporated in the Cayman Islands</i> | | |
| Asia Standard International Capital Limited * | Financing services | US\$2 |

* Direct subsidiary of the Company

** Operates in Canada

Notes to the Accounts

36 Principal subsidiaries, jointly controlled entities and associated companies (continued)

Jointly controlled entities

(Unless indicated otherwise, they are all incorporated and operated in Hong Kong.)

| Name | Principal activity | Group equity interest |
|---|----------------------|-----------------------|
| Auburntown Limited | Property development | 30% |
| Bai Hui Real Estate Company Limited | Investment holding | 23.5% |
| Capital Pacific Development Limited | Investment holding | 50% |
| Goldmax International Limited (incorporated in the British Virgin Islands) | Investment holding | 50.1% |
| Ocean Champion Development Limited | Property development | 50% |
| Sheenity Enterprises Limited | Property development | 50% |
| Weststar Enterprises Limited | Property development | 50.1% |
| Wideway Limited | Financing services | 50% |

Associated companies

(Unless indicated otherwise, they are all incorporated and operated in Hong Kong.)

| Name | Principal activity | Group equity interest |
|---|-----------------------|-----------------------|
| Allwin Assets Limited (incorporated in the British Virgin Islands) | Investment holding | 20% |
| Bai Hui Group Company Limited | Investment management | 35% |
| Excel Billion Holdings Limited | Property development | 50% |
| Gallop Worldwide Limited (incorporated in the British Virgin Islands) | Investment holding | 50% |
| Home Kent Enterprise Limited | Property development | 50% |
| Ocean Strong Industrial Limited | Property development | 50% |
| Perfect Pearl Company Limited | Property investment | 33% |
| Sheen Finance Limited | Financing services | 50% |
| Super Location Limited | Property development | 50% |
| 漁陽房地產開發（深圳）有限公司 # (incorporated in the People's Republic of China ("PRC")) | Property development | 26.32% |

Wholly owned Foreign Enterprise operates in the PRC

37 Ultimate holding company

In the opinion of the Directors, the ultimate holding company is Asia Orient Holdings Limited, a company incorporated in Bermuda and listed in Hong Kong.

38 Approval of accounts

The accounts were approved by the Board of Directors on 19th July 2004.