

# 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 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 revised Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12") issued by the Hong Kong Society of Accountants. The effect of adopting this standard is set out in note 25.

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 and associated company 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.

### (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.

## **1 Principal accounting policies** (continued)

### **(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.

#### **(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 represent 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 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)

### (i) 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.

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.

### (j) 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.

### (k) 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.

### (l) 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.

### (m) 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)

### (n) 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.

### (o) 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.

### (p) 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.

## Notes to the Accounts

### 2 Turnover and segment information (continued)

#### Business segments

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Total HK\$'000
<b>Year ended 31st March 2004</b>				
Room rentals	<b>108,655</b>			
Food and beverages	<b>36,207</b>			
Ancillary services	<b>7,226</b>			
Rental income	<b>9,460</b>			
Segment revenue	<b>161,548</b>	<b>16,310</b>	<b>248,108</b>	<b>425,966</b>
Segment results	<b>61,801</b>	<b>(5,093)</b>	<b>(12,512)</b>	<b>44,196</b>
Unallocated corporate expenses				<b>(15,220)</b>
Operating profit				<b>28,976</b>
Interest income				<b>3,485</b>
Net investment gain				<b>807</b>
Finance costs				<b>(40,200)</b>
Share of loss of an associated company	–	–	<b>(712)</b>	<b>(712)</b>
Loss before taxation				<b>(7,644)</b>
Taxation				<b>(4,323)</b>
Loss attributable to shareholders				<b>(11,967)</b>

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services HK\$'000	Total HK\$'000
<b>Year ended 31st March 2003</b>					
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					(6,445)
Profit attributable to shareholders					5,713

## 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
<b>Year ended 31st March 2004</b>					
Segment assets	<b>3,196,943</b>	<b>14,559</b>	<b>39,578</b>	–	<b>3,251,080</b>
Other investments					<b>69,984</b>
Unallocated corporate assets					<b>66,993</b>
<b>Total assets</b>					<b>3,388,057</b>
Segment liabilities	<b>1,287,828</b>	<b>2,219</b>	<b>14,908</b>	–	<b>1,304,955</b>
Unallocated corporate liabilities					<b>76,660</b>
<b>Total liabilities</b>					<b>1,381,615</b>
Depreciation	<b>442</b>	<b>2,549</b>	<b>98</b>	–	<b>3,089</b>
Amortisation of goodwill	–	<b>1,394</b>	<b>2,412</b>	–	<b>3,806</b>
Capital expenditure					
Segment	<b>12</b>	<b>54</b>	<b>88</b>	–	<b>154</b>
Corporate					–
					<b>154</b>
<b>Year ended 31st March 2003</b>					
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					43,358
<b>Total assets</b>					<b>3,243,600</b>
Segment liabilities	1,330,649	2,539	8,637	–	1,341,825
Unallocated corporate liabilities					19,551
<b>Total liabilities</b>					<b>1,361,376</b>
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
					<b>765</b>

## Notes to the Accounts

### 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
<b>Year ended 31st March 2004</b>				
Hong Kong	<b>360,797</b>	<b>16,185</b>	<b>2,952,424</b>	<b>133</b>
Canada	<b>59,175</b>	<b>13,634</b>	<b>430,657</b>	–
Mainland China	<b>5,994</b>	<b>(843)</b>	<b>4,976</b>	<b>21</b>
	<b>425,966</b>	<b>28,976</b>	<b>3,388,057</b>	<b>154</b>
<b>Year ended 31st March 2003</b>				
Hong Kong	382,926	46,657	2,854,893	751
Canada	58,829	16,299	380,714	14
Mainland China	6,460	(789)	7,993	–
	448,215	62,167	3,243,600	765

### 3 Other charges

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Loss on disposal of an associated company	<b>9,129</b>	–
Amortisation of goodwill	<b>3,806</b>	3,806
	<b>12,935</b>	3,806

#### 4 Operating profit

	2004 HK\$'000	2003 HK\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Operating lease rental income for land and buildings	<b>9,460</b>	10,893
<b>Charging</b>		
Staff costs, including directors' emoluments (note 5)	<b>58,265</b>	69,956
Operating lease rental expense for land and buildings	<b>6,235</b>	6,187
Depreciation	<b>3,243</b>	5,283
Auditors' remuneration	<b>1,013</b>	950
Provision for bad and doubtful debts	<b>4,460</b>	151

#### 5 Staff costs

	2004 HK\$'000	2003 HK\$'000
Wages and salaries	<b>55,873</b>	67,373
Termination benefit	<b>276</b>	123
Retirement benefit costs (note (i))	<b>2,116</b>	2,460
	<b>58,265</b>	69,956

Note:

(i) Retirement benefit costs

	2004 HK\$'000	2003 HK\$'000
Gross contributions	<b>2,188</b>	2,491
Forfeitures utilised	<b>(72)</b>	(31)
Net contributions	<b>2,116</b>	2,460

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.



## Notes to the Accounts

### 5 Staff costs (continued)

#### (i) Retirement benefit 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: 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 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 schemes.

#### (ii) Share option schemes

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 2004, no option has been granted under this share option scheme.

### 6 Directors' and senior management's emoluments

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

	2004 HK\$'000	2003 HK\$'000
Fees	60	40
Salaries and other emoluments	6,152	7,089
	<b>6,212</b>	<b>7,129</b>

The emoluments of individual Directors fell within the following bands:

	Number	
	2004	2003
Emolument bands		
Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	1
	<b>8</b>	<b>8</b>

(b) Emoluments paid to independent non-executive directors amounted to HK\$60,000 (2003: 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 (2003: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year, which fell between HK\$1,000,001 and HK\$2,000,000 (2003: between HK\$2,500,001 and HK\$3,000,000), amounted to HK\$1,200,000 (2003: HK\$3,000,000).

## 7 Interest income

	2004 HK\$'000	2003 HK\$'000
Interest income		
Bank deposits	73	128
Loans to third parties	3,412	1,928
	<b>3,485</b>	2,056

## 8 Net investment gain/(loss)

	2004 HK\$'000	2003 HK\$'000
Profit on realisation of other investments	12,178	525
Net unrealised loss on other investments	(11,963)	(7,275)
Dividend income from listed equity securities	592	1,530
Interest income from unlisted debt securities	–	1,158
	<b>807</b>	(4,062)

## 9 Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest expense		
Bank loans and overdrafts	36,066	45,263
Convertible notes	2,218	–
Finance lease obligations wholly repayable within five years	42	40
Other incidental borrowing costs	1,874	1,542
	<b>40,200</b>	46,845

## 10 Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the year (2003: Nil). In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for overseas and Mainland China taxation has been made as there are no assessable profits for the year (2003: Nil).

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
Under provision in prior years	30	210
Deferred taxation	1,622	2,940
Overseas tax		
Deferred taxation	2,671	4,107
Mainland China tax		
Deferred taxation	–	(812)
Taxation charge	<b>4,323</b>	6,445

## Notes to the Accounts

### 10 Taxation (continued)

The taxation on the Group's (loss)/profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(7,644)	12,158
Calculation at a taxation rate of 17.5% (2003: 16%)	(1,338)	1,945
Under provision in prior years	30	210
Effect of different taxation rates in other countries	(845)	(393)
Income not subject to taxation	(2,377)	(390)
Recognition of previously unrecognised temporary differences	(40)	(451)
Expenses not deductible for taxation purposes	3,182	1,173
Tax losses not recognised	6,866	2,635
Utilisation of previously unrecognised tax losses	(754)	–
Other temporary differences	(171)	1,716
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	(230)	–
Taxation charge	4,323	6,445

### 11 (Loss)/profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$4,268,000 (2003: loss of HK\$1,495,000).

### 12 Dividend

No interim dividend was declared for the year (2003: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31st March 2004 (2003: Nil).

### 13 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the consolidated loss attributable to shareholders of HK\$11,967,000 (2003: profit of HK\$5,713,000) and on the weighted average of 5,052,108,681 (2003: 5,052,168,928) shares in issue during the year ended 31st March 2004.

No diluted loss per share is presented as the conversion of the convertible notes would not have a dilutive effect on the loss per share.

## 14 Fixed assets

	Hotel properties HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
<b>Group</b>			
<b>Cost or valuation</b>			
At 31st March 2003	3,010,620	28,641	3,039,261
Exchange difference	44,544	(15)	44,529
Additions	–	154	154
Cost adjustment	854	–	854
Disposals	–	(186)	(186)
Surplus on revaluation	111,532	–	111,532
<b>At 31st March 2004</b>	<b>3,167,550</b>	<b>28,594</b>	<b>3,196,144</b>
<b>Accumulated depreciation</b>			
At 31st March 2003	–	23,335	23,335
Exchange difference	–	(12)	(12)
Charge for the year	–	3,243	3,243
Disposals	–	(124)	(124)
<b>At 31st March 2004</b>	<b>–</b>	<b>26,442</b>	<b>26,442</b>
<b>Net book value</b>			
<b>At 31st March 2004</b>	<b>3,167,550</b>	<b>2,152</b>	<b>3,169,702</b>
At 31st March 2003	3,010,620	5,306	3,015,926

- (a) Hotel properties comprise a long term leasehold property in Hong Kong of HK\$1,400,000,000 (2003: HK\$1,350,000,000), a medium term leasehold property in Hong Kong of HK\$1,350,000,000 (2003: HK\$1,290,000,000) and a freehold property 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 respectively, independent professional valuers, on an open market value basis as at 31st March 2004.
- (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\$242,000 (2003:HK\$290,000).
- (c) The aggregate net book value of fixed assets pledged as securities for loans of the Group amounts to HK\$3,167,550,000 (2003:HK\$3,010,620,000).

## Notes to the Accounts

### 15 Goodwill

	HK\$'000
<b>Cost</b>	
At 31st March 2004 and 31st March 2003	38,581
<b>Accumulated amortisation</b>	
At 31st March 2003	6,857
Charge for the year	3,806
<b>At 31st March 2004</b>	<b>10,663</b>
<b>Net book value</b>	
At 31st March 2004	27,918
At 31st March 2003	31,724

### 16 Associated company

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	–	(132)
Goodwill on acquisition less amortisation	–	11,974
	–	11,842

In September 2003, the Group disposed of an associated company which was engaged in travel agency services for a consideration of HK\$2 million.

### 17 Subsidiaries

	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	<b>1,543,450</b>	1,499,040
Amounts due to subsidiaries	<b>(14,274)</b>	(12,411)
	<b>1,529,176</b>	1,486,629

Details of the principal subsidiaries are set out in note 32.

## 18 Long term investment

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Advance to an investee company	1,600	1,600
	<b>1,601</b>	1,601

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

## 19 Other investments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities		
Listed in Hong Kong	69,984	91,340
Unlisted	–	1,007
	<b>69,984</b>	92,347

## 20 Debtors and prepayments

- (a) An ageing analysis of trade receivables net of provision for doubtful debts, which are included in debtors and prepayments, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 day to 60 days	28,693	17,591
61 days to 120 days	2,716	3,198
More than 120 days	3,339	3,159
	<b>34,748</b>	23,948

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.

- (b) Included in debtors and prepayments are loans receivable of HK\$45,000,000 (2003: HK\$3,000,000) which are unsecured, interest bearing at 2% above prime rate (2003: 8%) per annum, and repayable in September 2004 (2003: September 2003).
- (c) As at 31st March 2003, an amount of HK\$4,605,000 receivable from a Director of the Company was included in debtors and prepayments.

## Notes to the Accounts

### 21 Bank balances and cash

The balances include restricted bank balances of HK\$6,000,000 (2003: HK\$6,000,000) which are pledged to a bank to secure the banking facilities.

### 22 Creditors and accruals

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 day to 60 days	17,323	11,985
61 days to 120 days	3,801	4,622
More than 120 days	1,283	1,315
	<b>22,407</b>	<b>17,922</b>

### 23 Convertible notes

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.

### 24 Share capital

	Number of shares of HK\$0.02 per share	HK\$'000
<b>Authorised:</b>		
At 31st March 2003 and 2004	25,000,000,000	500,000
<b>Issued and fully paid:</b>		
At 31st March 2002	5,052,218,681	101,044
Repurchase of own shares (note (i))	(110,000)	(2)
At 31st March 2003 and 2004	5,052,108,681	101,042

- (i) In October 2002, the Company repurchased 110,000 of its own shares on the Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled.

## 25 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
<b>Group</b>						
At 31st March 2002						
As previously reported	299,784	899,333	568,875	(13,517)	252,255	2,006,730
Change in accounting policy with respect to deferred taxation	–	–	(2,041)	–	(5,596)	(7,637)
As restated	299,784	899,333	566,834	(13,517)	246,659	1,999,093
Translation difference	–	–	826	16,344	–	17,170
Repurchase of own shares	(14)	–	–	–	–	(14)
Deficit on revaluation						
Gross	–	–	(240,603)	–	–	(240,603)
Taxation	–	–	(177)	–	–	(177)
Profit for the year attributable to shareholders	–	–	–	–	5,713	5,713
At 31st March 2003	299,770	899,333	326,880	2,827	252,372	1,781,182
Company and subsidiaries	299,770	899,333	326,880	2,827	253,530	1,782,340
Associated company	–	–	–	–	(1,158)	(1,158)
	299,770	899,333	326,880	2,827	252,372	1,781,182
At 31st March 2003						
As previously reported	299,770	899,333	329,098	2,827	264,203	1,795,231
Change in accounting policy with respect to deferred taxation	–	–	(2,218)	–	(11,831)	(14,049)
As restated	299,770	899,333	326,880	2,827	252,372	1,781,182
Translation difference	–	–	1,240	23,921	–	25,161
Surplus on revaluation						
Gross	–	–	111,532	–	–	111,532
Taxation	–	–	(508)	–	–	(508)
Loss for the year attributable to shareholders	–	–	–	–	(11,967)	(11,967)
At 31st March 2004	<b>299,770</b>	<b>899,333</b>	<b>439,144</b>	<b>26,748</b>	<b>240,405</b>	<b>1,905,400</b>



## Notes to the Accounts

### 25 Reserves (continued)

As a result of the adoption of the revised SSAP 12, the opening revenue reserve at 1st April 2003 and 2002 have been reduced by HK\$11,831,000 and HK\$5,596,000 respectively and the opening hotel properties revaluation reserve at 1st April 2003 and 2002 have been reduced by HK\$2,218,000 and HK\$2,041,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$4,539,000 and HK\$18,588,000 respectively. The profit for the year ended 31st March 2003 has been reduced by HK\$6,235,000.

	Share premium HK\$'000	Contributed surplus HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
<b>Company</b>				
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
Loss for the year attributable to shareholders	–	–	(4,268)	(4,268)
<b>At 31st March 2004</b>	<b>299,770</b>	<b>1,088,229</b>	<b>(6,936)</b>	<b>1,381,063</b>

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\$1,081,293,000 (2003: HK\$1,085,561,000).

### 26 Long term liabilities

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, secured (note a)		
Repayable within one year	43,220	62,017
Repayable within one to two years	41,220	271,016
Repayable within two to five years	223,661	310,049
Repayable after five years	952,541	656,628
	<b>1,260,642</b>	1,299,710
Obligations under finance leases wholly repayable within five years (note b)	406	449
	<b>1,261,048</b>	1,300,159
Current portion included in current liabilities	(43,311)	(62,094)
	<b>1,217,737</b>	1,238,065

- (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.

## 26 Long term liabilities (continued)

(b) At 31st March 2004, the Group's finance lease liabilities were repayable as follows:

	Present value		Minimum payment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	91	77	121	112
In the second year	99	84	121	112
In the third to fifth year	216	243	239	282
After the fifth year	–	45	–	45
	<b>406</b>	449	<b>481</b>	551

(c) Subsequent to the year end, the Group refinanced a bank loan outstanding at 31st March 2004 amounting to HK\$582,000,000 and revised the repayment terms of another bank loan. The terms of repayment at 31st March 2004 in respect of these bank loans have been reclassified according to the new bank loan agreements. As a result, the amount of liabilities which has been excluded from current liabilities amounts to HK\$236,000,000 (2003: Nil).

## 27 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates.

The movement of the net deferred tax liabilities account is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of the year	14,049	7,637
Exchange difference	2,082	–
Charged to profit and loss account	4,293	6,235
Charged to equity	508	177
At end of the year	<b>20,932</b>	14,049

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

	Accelerated tax	Revaluation of	Total
	depreciation	hotel properties	
	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>			
<b>Deferred tax liabilities</b>			
At 31st March 2002	73,431	2,041	75,472
Exchange difference	400	–	400
Charged to profit and loss account	9,462	–	9,462
Charged to equity	–	177	177
At 31st March 2003	83,293	2,218	85,511
Exchange differences	2,543	266	2,809
Charged to profit and loss account	13,873	–	13,873
Charged to equity	–	508	508
At 31st March 2004	<b>99,709</b>	<b>2,992</b>	<b>102,701</b>

## Notes to the Accounts

### 27 Deferred taxation (continued)

	Accelerated accounting depreciation HK\$'000	Tax losses HK\$'000	Provision HK\$'000	Total HK\$'000
<b>Group</b>				
<b>Deferred tax assets</b>				
At 31st March 2002	84	67,747	4	67,835
Exchange difference	–	400	–	400
Credited to profit and loss account	206	3,021	–	3,227
At 31st March 2003	290	71,168	4	71,462
Exchange differences	–	727	–	727
Credited to profit and loss account	138	9,007	435	9,580
<b>At 31st March 2004</b>	<b>428</b>	<b>80,902</b>	<b>439</b>	<b>81,769</b>

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current tax assets with current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting are shown separately on the balance sheet.

	Group	
	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	<b>(3,814)</b>	(4,539)
Deferred tax liabilities	<b>24,746</b>	18,588
	<b>20,932</b>	14,049

Deferred 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 approximately HK\$97 million (2003: HK\$61 million) to carry forward against future taxable income. These tax losses of approximately HK\$27 million (2003: HK\$9 million) have no expiry date and the balance will expire at various dates up to and including 2011 (2003: 2010).

### 28 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	
	2004 HK\$'000	2003 HK\$'000
Within one year	<b>10,218</b>	10,628
In the second to fifth years inclusive	<b>24,931</b>	27,926
After the fifth year	<b>7,915</b>	10,031
	<b>43,064</b>	48,585

As at 31st March 2004, the Company had no operating lease receipts (2003: Nil).

## 28 Operating lease arrangements (continued)

### (b) Lessee

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	4,792	5,906
In the second to fifth years inclusive	12,712	8,346
After the fifth year	–	864
	<b>17,504</b>	15,116

As at 31st March 2004, the Company had no operating lease payments (2003: Nil).

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 have been increased by HK\$2,082,000 and HK\$5,814,000 respectively.

## 29 Contingent liabilities

	Company	
	2004	2003
	HK\$'000	HK\$'000
Guarantees by the Company for the loans and banking facilities of subsidiaries	<b>1,264,583</b>	1,299,710

As at 31st March 2004, the Group had no contingent liabilities (2003: Nil).

## 30 Related party transactions

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

	2004	2003
	HK\$'000	HK\$'000
(i) Operating lease rental expense for land and buildings to fellow subsidiaries	(463)	(684)
(ii) Hotel revenue from intermediate holding company and a fellow subsidiary	17	44
(iii) Management services income from fellow subsidiaries	–	1,601
(iv) Management services expenses to fellow subsidiaries	(821)	(728)
(v) Disposal of subsidiaries to a fellow subsidiary	–	4,129
(vi) Receivable from a Director	–	4,605

## Notes to the Accounts

### 30 Related party transactions (continued)

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, were subject to terms agreed by the parties involved, which were at fixed fees.
- (iv) Management services expenses, including cleaning, repair and maintenance, are subject to terms agreed by the parties involved, which are at fixed fees.
- (v) In August 2002, the Group disposed of 100% of the entire issued share capital of three subsidiaries which were engaged in property management, cleaning services and providing mechanical and electrical services, to a fellow subsidiary, at a total consideration based on the aggregate net asset value of these subsidiaries.
- (vi) 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.

The net profit before interest and taxation of JBC for the year ended 31st March 2003 was HK\$294,000. Accordingly, Mr. Poon Jing was required to pay an amount equal to the shortfall of HK\$4,706,000 to the Group. The amount receivable of HK\$4,605,000 was fully settled during the year.

### 31 Notes to consolidated cash flow statement

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

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(7,644)	12,158
Share of loss of an associated company	712	1,158
Loss on disposal of an associated company	9,129	–
Depreciation	3,243	5,283
Interest income	(3,485)	(3,214)
Dividend income	(592)	(1,530)
Finance costs	40,200	46,845
Profit on realisation of other investments	(12,178)	(525)
Net unrealised loss on other investments	11,963	7,275
Loss on disposal of fixed assets	62	–
Amortisation of goodwill	3,806	3,806
Operating profit before working capital changes	45,216	71,256
Decrease in inventories	295	791
Increase in debtors and prepayments	(45,968)	(6,046)
Increase/(decrease) in creditors and accruals	2,526	(8,093)
Net cash generated from operations	2,069	57,908

### 31 Notes to consolidated cash flow statement (continued)

#### (b) Disposal of subsidiaries

	<b>2004</b>	2003
	<b>HK\$'000</b>	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:

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Cash consideration received	–	4,129
Bank balances and cash disposed of (excluding balances held in trust)	–	(4,017)
	–	112

#### (c) Analysis of changes in financing during the year

	Share capital, share premium, contributed surplus HK\$'000	Restricted bank balances HK\$'000	Finance lease payable HK\$'000	Convertible notes HK\$'000	Long term bank loans HK\$'000	Total HK\$'000
At 31st March 2002	1,300,161	–	469	–	1,335,653	2,636,283
Net cash used in 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
Net cash (used in)/						
from financing	–	–	(77)	46,000	(56,220)	(10,297)
Changes in exchange rates	–	–	34	–	17,152	17,186
At 31st March 2004	<b>1,300,145</b>	<b>(6,000)</b>	<b>406</b>	<b>46,000</b>	<b>1,260,642</b>	<b>2,601,193</b>

## Notes to the Accounts

### 32 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 ("PRC")</i>		
Shanghai Hong Hua T.G.I. Friday's Restaurant Co. Ltd. (95% owned) #	Catering operation	RMB17,384,640

\* Operates in Canada

# Operates in PRC, corporative joint venture

### 33 Ultimate holding company

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

### 34 Approval of accounts

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