

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30th June, 2004

1. GENERAL

The Company is a public limited liability company incorporated in the Cayman Islands and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 33.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKICPA.

SSAP 12 (Revised) Income taxes

SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly.

As a result of this change in accounting policy, the balance of retained profits at 30th June, 2003 has been decreased by HK\$83,494,185 (at 30th June 2002: HK\$69,927,740, representing the cumulative effect of the change in policy on the results for periods prior to 1st July, 2002). The Group's interests in associates at 30th June, 2004 have been decreased by HK\$89,445,485 (at 30th June, 2003: HK\$81,516,208). This change in accounting policy has also resulted in an increase in taxation and share of taxation attributable to associates for the year ended 30th June, 2004 of HK\$49,536 (2003: HK\$899,199) and HK\$1,829,377 (2003: HK\$6,567,346), respectively. The goodwill arising from the acquisition of an associate for the year ended 30th June, 1997 has changed from negative goodwill of HK\$42,059,973 to goodwill of HK\$79,938,027 and the net amortisation charge of goodwill for the year ended 30th June, 2004 has been increased by HK\$6,099,900 (2003: HK\$6,099,900).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost conversion, as modified for the revaluation of investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th June each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisition is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Investments in subsidiaries

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

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balances sheet, interests in associates are stated at the Group's share of the net assets of the associates plus goodwill less any identified impairment loss.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Revenue recognition

Income from operations of a hotel and a club are recognised when services are provided.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Rental income under operating leases is recognised on a straight line basis over the period of the respective leases.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

(i) *Hotel properties*

Hotel properties are stated at cost and no depreciation is provided on hotel properties held on leases of more than twenty years. It is the Group's practice to maintain the properties in a continual state of sound repairs and maintenance, and accordingly, the Directors consider that depreciation is not necessary due to their high residual values. The related maintenance expenditure is dealt with in the income statement in the year of expenditure.

(ii) *Others*

Other assets include furniture and fixtures and hotel operating equipment and are stated at cost less depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of other assets over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Furniture and fixtures	10%-20%
Hotel operating equipment	20%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities *(Continued)*

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the year.

Hotel inventories

Hotel inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Deferred loan arrangement fees

Deferred loan arrangement fees represent expenses incurred in obtaining long-term secured bank loan facilities. Such expenses are deferred and amortised to the income statement over the repayment term of the loan on a straight line basis to provide a constant periodic rate of charge.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the subsidiaries and associates which are denominated in currencies other than Hong Kong dollars are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

4. TURNOVER

	2004 HK\$	2003 HK\$
Hotel operations	123,516,729	100,024,791
Club operations	6,780,593	6,375,803
Dividend income from investments in listed securities	4,015,960	4,015,960
Hotel management service fees and others	2,143,148	1,825,060
	<hr/> 136,456,430	<hr/> 112,241,614

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four operating divisions – hotel operations, club operations, investment holding and hotel management services. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Hotel operations	–	operate a hotel
Club operations	–	operate a club
Investment holding	–	investments in listed securities
Hotel management services	–	provide hotel management services

Segment information about these businesses is presented below.

INCOME STATEMENT

For the year ended 30th June, 2004

	Hotel operations <i>HK\$</i>	Club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Hotel management services <i>HK\$</i>	Consolidated <i>HK\$</i>
TURNOVER	123,516,729	6,780,593	4,015,960	2,143,148	136,456,430
RESULT					
Segment result	47,872,034	1,857,083	4,009,593	2,143,148	55,881,858
Unallocated corporate expenses					(2,978,830)
Profit from operations					52,903,028
Finance income					375,557
Finance costs					(23,800,725)
Results attributable to associates					90,620,823
Profit before taxation					120,098,683
Income tax expense					(24,576,465)
Net profit for the year					95,522,218

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET

At 30th June, 2004

	Hotel operations HK\$	Club operations HK\$	Investment holding HK\$	Consolidated HK\$
ASSETS				
Segment assets	1,999,756,387	2,956,991	237,200,930	2,239,914,308
Interests in associates				1,394,709,941
Unallocated corporate assets				<u>291,647,083</u>
Consolidated total assets				<u>3,926,271,332</u>
LIABILITIES				
Segment liabilities	15,102,772	965,484	6,000	16,074,256
Unallocated liabilities				<u>1,272,339,529</u>
Consolidated total liabilities				<u>1,288,413,785</u>

OTHER INFORMATION

For the year ended 30th June, 2004

	Hotel operations HK\$	Club operations HK\$	Consolidated HK\$
Capital additions	2,529,109	82,787	2,611,896
Depreciation	3,035,389	9,642	3,045,031

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

INCOME STATEMENT

For the year ended 30th June, 2003

	Hotel operations <i>HK\$</i>	Club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Hotel management services <i>HK\$</i>	Consolidated <i>HK\$</i> (As restated)
TURNOVER	100,024,791	6,375,803	4,015,960	1,825,060	112,241,614
RESULT					
Segment result	32,789,634	1,641,326	4,010,277	1,825,060	40,266,297
Unallocated corporate expenses					(3,058,225)
Profit from operations					37,208,072
Finance income					679,258
Finance costs					(37,048,690)
Results attributable to associates					48,429,081
Profit before taxation					49,267,721
Income tax expense					(14,775,714)
Net profit for the year					34,492,007

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET

At 30th June, 2003

	Hotel operations <i>HK\$</i>	Club operations <i>HK\$</i>	Investment holding <i>HK\$</i>	Consolidated <i>HK\$</i> (As restated)
ASSETS				
Segment assets	1,975,401,936	2,732,609	176,962,169	2,155,096,714
Interests in associates				1,322,239,245
Unallocated corporate assets				<u>290,436,862</u>
Consolidated total assets				<u>3,767,772,821</u>
LIABILITIES				
Segment liabilities	10,189,392	714,217	6,000	10,909,609
Unallocated liabilities				<u>1,272,703,354</u>
Consolidated total liabilities				<u>1,283,612,963</u>

OTHER INFORMATION

For the year ended 30th June, 2003

	Hotel operations <i>HK\$</i>	Club operations <i>HK\$</i>	Consolidated <i>HK\$</i>
Capital additions	2,085,951	1,735	2,087,686
Depreciation	2,845,665	6,548	2,852,213

(b) Geographical segments

All of the activities of the Group are based in Hong Kong and all of the Group's turnover, profit before taxation, assets and liabilities are derived from Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

6. PROFIT FROM OPERATIONS

	2004 HK\$	2003 HK\$
Profit from operations has been arrived at after charging:		
Directors' emoluments (note 9)	465,000	263,000
Other staff costs	36,527,395	37,039,937
Retirement benefits scheme contributions, excluding Directors	1,656,685	1,447,179
	<hr/>	<hr/>
Total staff costs	38,649,080	38,750,116
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Auditors' remuneration		
Current year	366,000	342,040
Under(over)provision in prior years	17,960	(8,040)
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	383,960	334,000
Cost of hotel inventories recognised as an expense	7,223,995	6,782,301
Depreciation of property, plant and equipment	3,045,031	2,852,213
Repairs and maintenance in respect of hotel properties	8,900,966	1,822,169
	<hr/>	<hr/>
and after crediting:		
Rental income in respect of premises, less zero outgoings (2003: HK\$12,250)	2,112,658	2,023,152
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7. FINANCE INCOME

	2004 HK\$	2003 HK\$
Interest income on:		
Advance to an associate	355,754	492,715
Bank deposits	19,803	186,543
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	375,557	679,258
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

8. FINANCE COSTS

	2004 HK\$	2003 HK\$
Interest on:		
Bank loans and overdrafts wholly repayable within five years	7,689,994	11,939,806
Other interest-bearing unsecured loans wholly repayable within five years	<u>14,797,218</u>	<u>23,678,421</u>
	22,487,212	35,618,227
Financing charges	<u>1,313,513</u>	<u>1,430,463</u>
	<u>23,800,725</u>	<u>37,048,690</u>

9. DIRECTORS' EMOLUMENTS

	2004 HK\$	2003 HK\$
Directors' fees		
Executives	51,000	125,000
Independent Non-executives	414,000	138,000
Other emoluments	–	–
	<u>465,000</u>	<u>263,000</u>
Total emoluments	<u>465,000</u>	<u>263,000</u>

During the year, the Independent Non-executive Directors received a director's fee of HK\$54,000 each and for those who acted as members of the Audit Committee, an additional fee of HK\$126,000 each was paid. No Director waived any emoluments in the year ended 30th June, 2004 (2003: Nil).

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, none (2003: none) of them was Director of the Company. The emoluments of the five (2003: five) individuals were as follows:

	2004 HK\$	2003 HK\$
Salaries and other emoluments	2,716,388	2,629,889
Contributions to retirement benefits scheme	<u>99,611</u>	<u>98,865</u>
	<u>2,815,999</u>	<u>2,728,754</u>

The aggregate emoluments of each of the five highest paid individuals in the Group were within the emolument band of less than HK\$1,000,000.

During the year, no emoluments were paid by the Group to the five highest paid individuals, including Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

11. RESULTS ATTRIBUTABLE TO ASSOCIATES

Results attributable to associates include amortisation of goodwill arising on the acquisition of an associate of HK\$12,515,100 (2003: HK\$12,515,100 as restated).

12. INCOME TAX EXPENSE

	2004 HK\$	2003 HK\$ (As restated)
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2003: 17.5%) on the estimated assessable profit		
Current year	6,388,027	791,677
Under(over)provision in prior years	38,775	(551,758)
	<u>6,426,802</u>	<u>239,919</u>
Deferred tax (note 28)		
Current year	49,536	798,064
Attributable to a change in tax rate	–	101,135
	<u>49,536</u>	<u>899,199</u>
Taxation attributable to the Company and its subsidiaries	6,476,338	1,139,118
Share of taxation attributable to associates	18,100,127	13,636,596
	<u>24,576,465</u>	<u>14,775,714</u>

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$	2003 HK\$
Profit before taxation	<u>120,098,683</u>	<u>49,267,721</u>
Tax at Hong Kong Profits Tax rate of 17.5%	21,017,270	8,621,851
Tax effect of results attributable to associates	51,340	2,971,364
Tax effect of expenses that are not deductible for tax purpose	4,170,251	4,903,147
Tax effect of income that are not taxable for tax purpose	(705,997)	(732,214)
Under(over)provision in prior years	38,775	(551,758)
Tax effect of tax losses not recognised	4,108	–
Utilisation of tax losses not previously recognised	–	(530,873)
Increase in opening deferred tax liabilities resulting from an increase in Hong Kong Profits Tax rate	–	101,135
Others	718	(6,938)
	<u>24,576,465</u>	<u>14,775,714</u>
Tax charge for the year		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

13. DIVIDENDS

	2004 HK\$	2003 HK\$
Final dividend for the year ended 30th June, 2003 paid – HK1 cent (2002: HK1 cent) per share	8,161,169	8,030,542
Interim dividend for the year ended 30th June, 2004 paid – HK1.5 cents (2003: HK1.5 cents) per share	12,300,928	12,126,341
	<u>20,462,097</u>	<u>20,156,883</u>

A final dividend of HK3 cents for the year ended 30th June, 2004 (2003: HK1 cent) per share has been proposed by the Directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of the earnings per share is based on the net profit for the year of HK\$95,522,218 (2003: HK\$34,492,007 as restated) and on the weighted average number of 818,656,812 (2003: 806,801,331) shares in issue during the year.

The adjustment to comparative earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	<i>HK cents</i>
Reconciliation of 2003 earnings per share:	
Reported figure before adjustments	5.96
Adjustments arising from the adoption of SSAP 12 (Revised)	(1.68)
	<u>4.28</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

15. PROPERTY, PLANT AND EQUIPMENT

	Hotel properties in Hong Kong held under long leases <i>HK\$</i>	Others <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP			
COST			
At 1st July, 2003	1,950,110,500	20,213,647	1,970,324,147
Additions	—	2,611,896	2,611,896
At 30th June, 2004	<u>1,950,110,500</u>	<u>22,825,543</u>	<u>1,972,936,043</u>
DEPRECIATION			
At 1st July, 2003	—	10,667,321	10,667,321
Provided for the year	—	3,045,031	3,045,031
At 30th June, 2004	<u>—</u>	<u>13,712,352</u>	<u>13,712,352</u>
NET BOOK VALUES			
At 30th June, 2004	<u>1,950,110,500</u>	<u>9,113,191</u>	<u>1,959,223,691</u>
At 30th June, 2003	<u>1,950,110,500</u>	<u>9,546,326</u>	<u>1,959,656,826</u>

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 <i>HK\$</i>	2003 <i>HK\$</i>
Unlisted shares, at cost	78	78
Advances to subsidiaries, less allowance	<u>3,031,745,098</u>	<u>2,967,584,054</u>
	<u>3,031,745,176</u>	<u>2,967,584,132</u>

Details of the principal subsidiaries at 30th June, 2004 are set out in note 33.

The advances to subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the amounts will not be received in the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

17. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$ (As restated)	2004 HK\$	2003 HK\$
Unlisted shares, at cost	–	–	25	25
Share of net assets	1,195,681,437	1,110,695,641	–	–
Goodwill (Note)	199,028,504	211,543,604	–	–
	1,394,709,941	1,322,239,245	25	25
 Note:				
		Goodwill HK\$	Negative goodwill HK\$	Total HK\$
COST/GROSS AMOUNT				
At beginning of the year				
– as previously stated		170,362,727	(42,059,973)	128,302,754
– prior period adjustments (note 2)		79,938,027	42,059,973	121,998,000
As restated and at end of the year		250,300,754	–	250,300,754
AMORTISATION				
At beginning of the year				
– as previously stated		12,777,300	(13,669,500)	(892,200)
– prior period adjustments (note 2)		25,979,850	13,669,500	39,649,350
– as restated		38,757,150	–	38,757,150
Charge for the year		12,515,100	–	12,515,100
At end of the year		51,272,250	–	51,272,250
CARRYING AMOUNTS				
At end of the year		199,028,504	–	199,028,504
At beginning of the year (as restated)		211,543,604	–	211,543,604
The amortisation period adopted for goodwill is 20 years.				

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

17. INTERESTS IN ASSOCIATES (Continued)

Details of the associates at 30th June, 2004 are as follows:

Name of company	Place of incorporation/ operation	Class of shares held	Proportion of nominal value of issued share capital held by the Company		Principal activities
			Directly	Indirectly	
Asian Glory Limited	British Virgin Islands	Ordinary	–	25%	Investment holding
Bestown Property Limited	Hong Kong	Ordinary	–	25%	Hotel owner
Greenroll Limited	Hong Kong	Ordinary	–	50%	Hotel owner
Regent Step Investment Limited	Hong Kong	Ordinary	25%	–	Provision of financial services

Notes:

- (a) All associates are unlisted.
- (b) The financial statements of Greenroll Limited are not audited by Deloitte Touche Tohmatsu.
- (c) Results and affairs of the Group's significant associates are set out in note 34.

18. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004 HK\$	2003 HK\$
Other securities:		
Equity securities listed in Hong Kong, at cost	379,514,424	379,514,424
Revaluation deficit	(142,321,796)	(202,561,194)
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Market value of listed securities	237,192,628	176,953,230
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

19. TRADE AND OTHER RECEIVABLES

The Group maintains a defined credit policy. An aged analysis of trade receivables is as follows:

	THE GROUP	
	2004 HK\$	2003 HK\$
Trade receivables		
0-30 days	3,239,800	929,589
31-60 days	538,515	22,728
61-90 days	398,612	25,336
Over 90 days	80	22,470
	<hr/>	<hr/>
	4,177,007	1,000,123
Other receivables	2,053,374	2,077,009
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	6,230,381	3,077,132
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20. BALANCES WITH ASSOCIATES

The amounts of the Group are unsecured and have no fixed repayment terms.

At 30th June, 2004, the balances due from associates include an amount of HK\$290,715,748 (2003: HK\$286,245,176) which is interest-bearing at cost of fund plus a margin of 0.1225% per annum and the remaining balances are interest-free. The amount due to an associate is interest-free.

21. TRADE AND OTHER PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2004 HK\$	2003 HK\$
Trade payables		
0-30 days	2,486,464	2,271,132
31-60 days	302,534	48,267
61-90 days	–	7,179
Over 90 days	–	60,647
	<hr/>	<hr/>
	2,788,998	2,387,225
Other payables	5,789,885	6,913,970
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	8,578,883	9,301,195
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NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

22. SHARE CAPITAL

	Number of ordinary shares of HK\$1 each		Nominal value	
	2004	2003	2004 HK\$	2003 HK\$
Authorised:				
At beginning and end of the year	3,000,000,000	3,000,000,000	3,000,000,000	3,000,000,000
Issued and fully paid:				
At beginning of the year	816,116,939	803,054,199	816,116,939	803,054,199
Shares issued pursuant to scrip dividend schemes for final dividend in respect of the year ended 30th June, 2003/2002	3,944,914	5,368,586	3,944,914	5,368,586
Shares issued pursuant to scrip dividend schemes for interim dividend in respect of the year ended 30th June, 2004/2003	3,636,985	7,694,154	3,636,985	7,694,154
At end of the year	823,698,838	816,116,939	823,698,838	816,116,939

On 18th December, 2003 and 19th May, 2004, pursuant to scrip dividend schemes, the Company issued and allotted a total of 3,944,914 shares and 3,636,985 shares of HK\$1 each at an issue price of HK\$1.872 and HK\$3.085 each to the shareholders who elected to receive shares of the Company in lieu of cash for the 2003 final and 2004 interim dividends in respect of the years ended 30th June, 2003 and 2004, respectively. These shares rank pari passu in all respects with the existing shares.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

23. RESERVES

	Share premium <i>HK\$</i>	Distributable reserve <i>HK\$</i>	Retained profits <i>HK\$</i>	Total <i>HK\$</i>
THE COMPANY				
At 1st July, 2002	56,327,968	1,823,877,078	265,617,663	2,145,822,709
Shares issued at premium	4,326,112	–	–	4,326,112
Share issue expenses	(211,750)	–	–	(211,750)
Net profit for the year	–	–	20,885,141	20,885,141
Dividends paid	–	–	(20,156,883)	(20,156,883)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2003	60,442,330	1,823,877,078	266,345,921	2,150,665,329
Shares issued at premium	11,023,065	–	–	11,023,065
Share issue expenses	(206,794)	–	–	(206,794)
Net profit for the year	–	–	66,229,150	66,229,150
Dividends paid	–	–	(20,462,097)	(20,462,097)
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th June, 2004	71,258,601	1,823,877,078	312,112,974	2,207,248,653

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands and the provisions of the Company's Articles of Association, the share premium of the Company is available for distribution or paying dividends to the shareholders provided that immediately following the distribution or the payment of dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

The distributable reserve of the Company represents the difference between the underlying net tangible assets of the subsidiaries acquired by the Company and the nominal value of the share capital issued by the Company pursuant to a group reorganisation in 1995. Under the Companies Law (Revised) of the Cayman Islands, the distributable reserve is available for distribution to shareholders.

The reserves available for distribution to the shareholders by the Company at 30th June, 2004 amounted to HK\$2,207,248,653 (2003: HK\$2,150,665,329).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2004

24. BANK LOANS AND OTHER BORROWINGS

	THE GROUP	
	2004 HK\$	2003 HK\$
Bank loans	609,704,543	481,948,292
Other interest-bearing unsecured loans	277,010,017	402,171,491
Bank overdrafts	254,686	–
	886,969,246	884,119,783
Represented by:		
Secured	492,967,479	364,956,542
Unsecured	394,001,767	519,163,241
	886,969,246	884,119,783
The maturity of the above bank loans and other borrowings is as follows:		
On demand or within one year	219,064,354	185,276,417
More than one year, but not exceeding two years	669,451,767	425,971,491
More than two years, but not exceeding five years	–	275,450,000
	888,516,121	886,697,908
Less: Deferred loan arrangement fees (<i>note 25</i>)	(1,546,875)	(2,578,125)
	886,969,246	884,119,783
Less: Amount due within one year shown under current liabilities	(218,033,104)	(184,245,167)
Amount due after one year	668,936,142	699,874,616

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

25. DEFERRED LOAN ARRANGEMENT FEES

	THE GROUP	
	2004 HK\$	2003 HK\$
COST		
At beginning and end of the year	<u>4,125,000</u>	<u>4,125,000</u>
AMORTISATION		
At beginning of the year	1,546,875	515,625
Charge for the year	<u>1,031,250</u>	<u>1,031,250</u>
At end of the year	<u>2,578,125</u>	<u>1,546,875</u>
CARRYING VALUE	<u>1,546,875</u>	<u>2,578,125</u>

26. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and have no fixed repayment terms. The amounts will not be repaid within twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

27. AMOUNT DUE TO AN ASSOCIATE

The amount due to an associate of the Group is unsecured, interest-bearing and has no fixed repayment terms. The amount will not be repaid within twelve months from the balance sheet date and accordingly, the amount is classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

28. DEFERRED TAXATION

The following are the major deferred tax liability and (asset) recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$</i>	Tax losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st July, 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	1,078,778	–	1,078,778
	<hr/>	<hr/>	<hr/>
– as restated	1,078,778	–	1,078,778
Charge (credit) to income statement during the year	945,111	(147,047)	798,064
Effect of change in tax rate	101,135	–	101,135
	<hr/>	<hr/>	<hr/>
At 30th June, 2003	2,125,024	(147,047)	1,977,977
(Credit) charge to income statement during the year	(97,511)	147,047	49,536
	<hr/>	<hr/>	<hr/>
At 30th June, 2004	2,027,513	–	2,027,513

At 30th June, 2004, the Group had unused tax losses of approximately HK\$1,552,000 (2003: HK\$1,528,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

At 30th June, 2004, the Group had deductible temporary differences of approximately HK\$5,168,000 (2003: HK\$5,168,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

29. PLEDGE OF ASSETS

- (a) The Group has pledged its hotel properties having a net book value of HK\$1,950,110,500 (2003: HK\$1,950,110,500) and listed securities at market value of HK\$237,192,628 (2003: HK\$176,953,230) and pledged by way of floating charges in other assets of HK\$47,864,399 (2003: HK\$23,530,850) to banks to secure long-term loan facilities granted to the Group;
- (b) The Group has pledged its time deposit of HK\$1,371,931 (2003: HK\$1,367,679) to secure a letter of guarantee issuance facilities; and
- (c) The investments in certain subsidiaries of the Company have been pledged to banks or financial institutions to secure loan facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

30. OPERATING LEASE ARRANGEMENTS

The Group as lessor

Property rental income earned during the year was HK\$2,112,658 (2003: HK\$2,035,402). The properties held have committed tenants for the coming year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$	2003 HK\$
Within one year	597,525	2,002,822
In the second to fifth year inclusive	–	597,525
	<u>597,525</u>	<u>2,600,347</u>

31. CONTINGENT LIABILITIES

At the balance sheet date, the Group and the Company had contingent liabilities as follows:

	THE GROUP		THE COMPANY	
	2004 HK\$	2003 HK\$	2004 HK\$	2003 HK\$
Guarantees given to banks, in respect of loan facilities utilised by:				
– subsidiaries	–	–	611,506,104	484,526,417
– an associate	234,500,000	248,500,000	234,500,000	248,500,000
	<u>234,500,000</u>	<u>248,500,000</u>	<u>846,006,104</u>	<u>733,026,417</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

32. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into significant transactions with related parties as follows:

		THE GROUP	
	Notes	2004 HK\$	2003 HK\$
Interest expenses paid to an associate	(i)	3,711,068	8,214,723
Hotel management fee received from an associate	(ii)	1,193,148	1,000,000

Mr. Robert Ng Chee Siong was interested in these transactions as a Director of the above related companies.

Notes:

- (i) The interest expenses were chargeable at commercial rate.
- (ii) The relevant management fee income was a fixed annual management fee of HK\$1,000,000 plus an incentive fee of 10% of the amount that the actual gross operating profit ("GOP") for the fiscal year exceeds the forecast GOP in the annual business plan.
- (b) During the year, the Group made advances totaling HK\$4,470,572 (2003: HK\$1,413,785) to its 25% owned associate, Regent Step Investment Limited ("Regent Step"), to finance the loan on-lent to Bestown Property Limited ("Bestown"), which is the owner of the Royal Pacific Hotel. Both Regent Step and Bestown are of the same shareholding structure. The advances are unsecured, bear interest at cost of fund plus a margin of 0.1225% per annum and have no fixed repayment term. The advances made are proportional to the Group's shareholding interest in Regent Step, the remaining share interests in which are held by a connected party to the Company by virtue of Mr. Ng Teng Fong being a substantial shareholder of the Company.
- (c) At 30th June, 2004, the Group had the outstanding balances with related parties as follows:
- (i) Details of amounts with associates are set out in notes 20 and 27.
- (ii) The Group had contingent liabilities in respect of loan facilities utilised by an associate amounting to HK\$234,500,000 (2003: HK\$248,500,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

The following table lists the subsidiaries of the Company at 30th June, 2004 which, in the opinion of the Directors, principally affected the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Name of company	Place of incorporation/ operation	Class of shares held/ issued capital	Proportion of nominal value of issued/registered capital held by the Company	Principal activities
Direct subsidiary				
Active Finance Limited	Hong Kong	Ordinary HK\$2	100%	Provision of financial services
Aldrich Worldwide Holdings Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Allied Joy Limited	Hong Kong	Ordinary HK\$2	100%	Provision of nominee services
Asian Statesman Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Halliwell Ltd.	Cayman Islands	Ordinary US\$1	100%	Investment holding
Island Pacific Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
Sheridan Holdings Ltd.	Cayman Islands	Ordinary US\$1	100%	Investment holding
Sino Fortune Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Sino March Assets Ltd.	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Toby Investments Limited	Cayman Islands	Ordinary US\$1	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 30th June, 2004

33. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operation	Class of shares held/ issued capital	Proportion of nominal value of issued/registered capital held by the Company	Principal activities
Indirect subsidiary				
Bosco Limited	British Virgin Islands	Ordinary US\$1	100%	Investment holding
Bright Tower (HK) Limited	Hong Kong	Ordinary HK\$2	100%	Club and café operations
China Asia Property Limited	Hong Kong	Ordinary HK\$2	100%	Hotel owner
City Garden Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
R.P. Hotel Limited	Hong Kong	Ordinary HK\$2	100%	Hotel management
Speed Advance Limited	Republic of Liberia/ Hong Kong	Registered/ Bearer shares US\$1	100%	Share investment
Wellrich International Ltd.	Republic of Liberia/ Hong Kong	Registered/ Bearer shares US\$1	100%	Share investment

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 30th June, 2004

34. RESULTS AND AFFAIRS OF THE GROUP'S SIGNIFICANT ASSOCIATES

The following details have been extracted from the audited financial statements of Greenroll Limited which have been adjusted to conform with the Group's accounting policies, and from the audited consolidated financial statements of Asian Glory Limited and its subsidiary, Bestown Property Limited.

	Greenroll Limited		Asian Glory Limited	
	2004 HK\$	2003 HK\$ (As restated)	2004 HK\$	2003 HK\$ (As restated)
Results for the year				
Turnover	480,127,000	370,144,000	185,546,155	158,034,833
Profit before taxation	169,609,000	99,690,000	73,301,928	44,179,872
Profit before taxation attributable to the Group	84,804,500	49,845,000	18,325,482	11,044,968
Financial position				
Non-current assets	3,375,862,000	3,380,422,000	2,050,070,841	2,047,703,919
Current assets	177,175,000	93,864,000	105,337,963	81,502,840
Current liabilities	(158,400,000)	(126,511,000)	(71,866,376)	(69,068,301)
Non-current liabilities	(1,017,176,780)	(1,110,140,880)	(2,055,927,476)	(2,092,795,728)
Net assets (liabilities)	2,377,460,220	2,237,634,120	27,614,952	(32,657,270)
Net assets (liabilities) attributable to the Group	1,188,730,110	1,118,817,060	6,903,738	(8,164,318)

The Inland Revenue Department (the "IRD") initiated tax inquiries for the years of assessment 1994/95 to 2002/03 on a wholly-owned subsidiary, Bestown Property Limited ("Bestown") of the Group's associate, Asian Glory Limited ("AGL"). Notices of assessment for additional tax in an aggregate amount of approximately HK\$133,062,000 were issued to Bestown for the years under review and objections were properly lodged with the IRD by Bestown. The effective share of the additional tax attributable to the Group as at 30th June, 2004 is estimated to be approximately HK\$33,265,000. In the opinion of the management of Bestown, as the tax inquiries are still at the preliminary stage of fact finding and the process is likely to continue for some time, the ultimate outcome of the tax inquiries cannot presently be determined by the management of Bestown with an acceptable degree of reliability, and accordingly, no provision for any liabilities that may result has been made in the financial statements of Bestown.

The Directors of the Company have taken note of the above matters and have made due inquiries. Nothing has come to the attention of the Board of Directors of the Company which indicates that there has been material subsequent development or change in status in respect of the above matters.