Notes to the financial statements

1 Basis of preparation

The financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties, which are carried at fair value and in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 5.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 Principal accounting policies

(a) Change in accounting policies

Commencing from 1st April 2005, the Group adopted the new/revised standards and interpretations of HKFRS set out below, which are relevant to its operations and have significant effect on the financial statements. The comparatives have been amended as required, in accordance with the relevant provisions of these new/revised standards and interpretations.

HKAS 1	Presentation of Financial Statements
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HK-Int 3	Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2 Principal accounting policies (continued)

(a) Change in accounting policies (continued)

(i) Presentation of Financial Statements

HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities, associated companies and other disclosures.

(ii) Hotel properties

The adoption of HKAS 16 and HKAS 40 has resulted in a change in the accounting policy for the Group's hotel properties, which are now stated at cost less accumulated depreciation and impairment loss. In prior years, hotel properties were stated at valuation and were not depreciated.

(iii) Leasehold land in Hong Kong

The adoption of revised HKAS 17 and HK-Int 4 has resulted in a change in the accounting policy relating to the reclassification of leasehold land to prepaid operating leases. The up-front prepayments made for the leasehold land are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was stated at cost.

(iv) Goodwill

The adoption of HKAS 36, HKAS 38 and HKFRS 3 results in a change in the accounting policy for goodwill. The Group ceased amortisation of goodwill from 1st April 2005; accumulated amortisation as at 31st March 2005 has been eliminated with a corresponding decrease in the cost of goodwill and from the year ended 31st March 2006 onwards, goodwill is tested at least annually for impairment, as well as when there is an indication of impairment.

(v) Financial instruments

The adoption of HKASs 32 and 39 has resulted in a change in the classification of financial assets at fair value through profit or loss and the measurement of financial liabilities.

While there is no change in their measurement basis and the treatment of subsequent fair value changes, financial assets at fair value through profit or loss were previously classified as other investments.

Borrowings are now recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowing using the effective interest method. Borrowings were previously carried at cost.

The adoption has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

Notes to the financial statements

2 Principal accounting policies (continued)

(a) Change in accounting policies (continued)

(vi) Investment properties

The adoption of revised HKAS 40 has resulted in a change in the accounting policy in respect of which the changes in fair values of investment properties are recorded in the profit and loss account as part of other income. In prior years, the changes in fair value were credited or charged to revaluation reserve.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred income tax liabilities arising from the revaluation of investment properties. Such deferred income tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use.

(vii) Share options

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. The Group now expenses the cost of share options in the profit and loss account whereas no cost was recognised in the past.

(viii) Pre-completion sale of development properties

The adoption of HK-Int 3 has resulted in a change in the accounting policy for the revenue recognition of pre-completion sale of development properties. The stage of completion method would no longer be used to recognise revenue from pre-completion sale of development properties and revenue is now recognised after the completion of those properties.

The adoption of new/revised HKASs 2, 7, 8, 10, 21, 23, 24, 27, 28, 31, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All the new/revised standards and interpretations adopted by the Group require retrospective application other than those stated below:

(a) HKAS 39 – the adjustments to recognise all derivatives at fair value and to remeasure those financial assets or financial liabilities are adjusted to the opening balance of the revenue reserve at 1st April 2005;

(b) HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested on 1st April 2005;

(c) HKFRS 3 and HK-Int 3 – prospectively after the adoption date.

2 Principal accounting policies (continued)

(a) Change in accounting policies (continued)

A summary of effects of the change in accounting policies between the Statements of Standard Accounting Practices in effect until 31st March 2005 (the "Old Hong Kong Accounting Standards") and the new HKFRS which has been applied in the financial statements for the year ended 31st March 2006 is set out in note 3.

Certain new standards and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning or after 1st April 2006 or later periods but which the Group has not early adopted, as follows:

(a) HKAS 39 and HKFRS 4 (Amendment) – Financial Guarantee Contracts (effective from 1st April 2006);

(b) HKFRS 7 – Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statement – Capital Disclosures (effective from 1st April 2007).

These new standard and amendments have no material effect on the Group's financial statements.

(b) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and all its subsidiaries made up to 31st March.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

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 and any related exchange reserve.

Notes to the financial statements

2 Principal accounting policies (continued)

(b) Basis of consolidation (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Subsidiaries

Subsidiaries are all entities (including special purpose entities) in which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(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. Investments in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly controlled entities includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

2 Principal accounting policies (continued)

(d) Jointly controlled entities (continued)

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(e) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

Notes to the financial statements

2 Principal accounting policies (continued)

(f) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair values of the Group's share of the net identifiable assets of the acquired subsidiaries, jointly controlled entities and associated companies at the date of acquisition. Goodwill on acquisition of a foreign operation is treated as an asset of the foreign operation and translated at closing rate.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisitions of jointly controlled entities and associated companies is included in investments in jointly controlled entities and associated companies respectively. Goodwill is tested at least annually for impairment, as well as when there is an indication of impairment and carried at cost less accumulated impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment losses recognised on goodwill are not reversed.

(g) Financial assets

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Notes to the financial statements

2 Principal accounting policies (continued)

(g) Financial assets (continued)

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the profit and loss account in the period in which they arise.

The fair values of financial instruments trade in active markets is based on quoted market price at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair values of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of derivative instruments are recognised immediately in the profit and loss account.

Notes to the financial statements

2 Principal accounting policies (continued)

(h) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Hotel and other buildings	Shorter of 50 years or the remaining lease period of the land on which the buildings is located
Other equipment	3 $^{1}/_{3}$ to 10 years

Freehold land is not depreciated.

No depreciation is provided for buildings under development.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Principal accounting policies (continued)

(j) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment properties are measured initially at its cost, including related transaction costs. After initial recognition, investment properties are carried at fair value and are valued at least annually by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. Changes in fair values are recognised in the profit and loss account.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

(k) Properties held for/under development for sale

Properties held for/under development for sale are included in current assets and comprise leasehold land at amortised cost, construction costs, interest and other direct costs attributable to such properties and allowances for any foreseeable losses.

(l) Completed properties held for sale

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises leasehold land at amortised 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.

(m) 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.

Notes to the financial statements

2 Principal accounting policies (continued)

(n) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Trade and other receivables in the balance sheet are stated net of such provision.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) 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.

2 Principal accounting policies (continued)

(q) Employee benefits (continued)

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity over the remaining vesting period.

(r) Deferred income tax

Deferred income tax 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 financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income 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 income tax 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 is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(s) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is recognised as follows:

(i) Properties

Revenue from sales of properties is recognised upon completion of the sale and purchase contracts.

(ii) Investment properties

Rental income from investment properties is recognised on a straight line basis over the terms of the respective leases.

Notes to the financial statements

2 Principal accounting policies (continued)

(s) Revenue recognition (continued)

(iii) 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.

(iv) Investment and others

Revenue from sale of financial assets 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 using the effective interest method.

Dividend income is recognised when the right to receive payment is established.

(t) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Notes to the financial statements

2 Principal accounting policies (continued)

(t) Foreign currency translation (continued)

(iii) Group companies (continued)

(b) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations and of borrowings, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(u) 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 recognised in the profit and loss account in the year in which they are incurred.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership and retained by the lessors are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessors), are charged in the profit and loss account on a straight line basis over the period of the lease.

(w) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts.

(x) Related parties

Related parties are individuals and companies, including subsidiary, fellow subsidiary, jointly controlled entities and associated companies and key management (including close members of their families), where the individual, company or group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Notes to the financial statements

3 Summary of effects of the change in accounting policies

(a) Effects of the change in accounting policies on consolidated profit and loss account

Year ended 31st March 2006	Profit attributable to shareholders of the Company HK$'000	Basic EPS HK cents
Reported under the Old Hong Kong Accounting Standards	**(112,207)**	**(2.22)**
HKAS 16		
Increase in rental income	**1,518**	**0.03**
Increase in administrative expense	**(472)**	**(0.01)**
Increase in depreciation	**(50,493)**	**(0.99)**
Revaluation deficit of a hotel property	**14,438**	**0.28**
Decrease in loss on deemed disposal of interest in a listed subsidiary	**120,125**	**2.37**
Renovation costs of hotel property capitalised	**22,162**	**0.44**
Decrease in income tax expense	**9,836**	**0.19**
Decrease in profit attributable to minority interests	**1,662**	**0.03**
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	**(29,071)**	**(0.57)**
Decrease in loss on deemed disposal of interest in a listed subsidiary	**26,851**	**0.53**
Increase in interest expense	**(2,281)**	**(0.04)**
Increase in income tax expense	**(855)**	**(0.02)**
Decrease in share of profits less losses of		
Jointly controlled entities	**(129)**	**–**
Associated companies	**(3,607)**	**(0.07)**
Decrease in profit attributable to minority interests	**10,365**	**0.20**
HKAS 32 and HKAS 39		
Increase in interest income	**35**	**–**
Decrease in interest expense	**3,527**	**0.07**
Increase in income tax expense	**(827)**	**(0.02)**
Increase in profit attributable to minority interests	**(540)**	**(0.01)**
HKAS 36, HKAS 38 and HKFRS 3		
Decrease in amortisation of goodwill	**255**	**0.01**
HKAS 40		
Surplus on revaluation of investment properties	**250,252**	**4.93**
Increase in share of profits less losses of associated companies	**49,170**	**0.97**
HKAS-Int 3		
Decrease in turnover	**(313,346)**	**(6.17)**
Decrease in cost of sales	**202,843**	**4.00**
Decrease in administrative expenses	**14,778**	**0.29**
Decrease in income tax expense	**14,899**	**0.29**
HKAS-Int 21		
Decrease in share of profits less losses of associated companies	**(8,605)**	**(0.17)**
Increase in income tax expense	**(44,194)**	**(0.87)**
HKFRS 2		
Increase in employee's share option expense	**(17,500)**	**(0.34)**
Decrease in income tax expense	**3,063**	**0.06**
Decrease in profit attributable to minority interests	**6,208**	**0.12**
	280,067	**5.53**
Reported under new HKFRS	**167,860**	**3.31**

3 Summary of effects of the change in accounting policies (continued)

(a) **Effects of the change in accounting policies on consolidated profit and loss account** (continued)

Year ended 31st March 2005	Profit attributable to shareholders of the Company HK$'000	Basic EPS HK cents
Reported under the Old Hong Kong Accounting Standards	202,041	4.79
HKAS 16		
Increase in rental income	1,305	0.03
Increase in depreciation	(49,502)	(1.17)
Renovation costs of hotel property capitalised	6,822	0.16
Decrease in income tax expense	8,854	0.21
Decrease in profit attributable to minority interests	10,124	0.24
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	(29,720)	(0.71)
Increase in interest expense	(2,282)	(0.05)
Decrease in income tax expense	459	0.01
Decrease in share of profits less losses of		
Jointly controlled entities	(130)	–
Associated companies	(3,606)	(0.09)
Decrease in profit attributable to minority interests	7,838	0.19
HKAS 32 and HKAS 39		
Increase in interest expense	(585)	(0.01)
Decrease in profit attributable to minority interests	147	–
HKAS 40		
Surplus on revaluation of investment properties	112,290	2.67
Increase in share of profits less losses of associated companies	41,580	0.99
HKAS-Int 21		
Decrease in share of profits less losses of associated companies	(7,277)	(0.17)
Increase in income tax expense	(19,651)	(0.48)
	76,666	1.82
Reported under new HKFRS	278,707	6.61

Notes to the financial statements

3 Summary of effects of the change in accounting policies (continued)

(b) Effects of the change in accounting policies on consolidated balance sheet

	HKAS 16 HK$'000	HKAS 17 and HK-Int 4 HK$'000	HKAS 32 and HKAS 39 HK$'000	HKAS 36, HKAS 38 and HKFRS 3 HK$'000	HKAS 40 HK$'000	HKFRS 2 HK$'000	HKAS-Int 3 HK$'000	HKAS-Int 21 HK$'000	Total HK$'000
At 31st March 2006									
Increase/(decrease) in net assets/equity									
Property, plant & equipment	(1,162,095)	(1,573,615)	–	–	7,939	–	–	–	(2,727,771)
Investment properties	–	–	–	–	(68,530)	–	–	–	(68,530)
Leasehold land	–	1,346,429	–	–	31,677	–	–	–	1,378,106
Jointly controlled entities	–	(904)	–	–	–	–	–	–	(904)
Associated companies	–	(10,820)	–	–	–	–	–	(22,955)	(33,775)
Goodwill	–	–	–	255	–	–	–	–	255
Derivative financial instruments	–	–	5,257	–	–	–	–	–	5,257
Mortgage loans receivables	–	–	725	–	–	–	–	–	725
Deferred income tax assets	34,644	–	–	–	–	–	14,899	–	49,543
Trade and other receivables	–	–	(8,181)	–	–	–	(86,500)	–	(94,681)
Properties held for/under development for sale	1,114	(178,760)	–	–	–	–	202,843	–	25,197
Total assets	(1,126,337)	(417,670)	(2,199)	255	(28,914)	–	131,242	(22,955)	(1,466,578)
Convertible bonds	–	–	1,171	–	–	–	–	–	1,171
Deposits received on properties pre-sold	–	–	–	–	–	–	(212,068)	–	(212,068)
Long term loans	–	–	8,181	–	–	–	–	–	8,181
Deferred income tax liabilities	48,625	18,824	(828)	–	–	3,063	–	(139,011)	(69,327)
Net assets	(1,077,712)	(398,846)	6,325	255	(28,914)	3,063	(80,826)	(161,966)	(1,738,621)
Investment properties revaluation reserve	–	–	–	–	(947,160)	–	–	–	(947,160)
Hotel properties revaluation reserve	(569,206)	–	–	–	–	–	–	–	(569,206)
Capital reserve	–	–	–	(362)	–	–	–	–	(362)
Share option reserve	–	–	–	–	–	160	–	–	160
Revenue reserve	(140,578)	(271,137)	5,785	617	918,246	1,586	(80,826)	(161,966)	271,727
Minority interests	(367,928)	(127,709)	540	–	–	1,317	–	–	(493,780)
Equity	(1,077,712)	(398,846)	6,325	255	(28,914)	3,063	(80,826)	(161,966)	(1,738,621)

Notes to the financial statements

3 Summary of effects of the change in accounting policies (continued)

(b) Effects of the change in accounting policies on consolidated balance sheet (continued)

	HKAS 16 HK$'000	HKAS 17 and HK-Int 4 HK$'000	HKAS 32 and HKAS 39 HK$'000	HKAS 36, HKAS 38 and HKFRS 3 HK$'000	HKAS 40 HK$'000	HKAS-Int 21 HK$'000	Total HK$'000
At 31st March 2005							
Increase/(decrease) in net assets/equity							
Property, plant & equipment	(921,572)	(1,573,615)	–	–	9,965	–	(2,485,222)
Investment properties	–	–	–	–	(64,690)	–	(64,690)
Leasehold land	–	1,366,524	–	–	31,938	–	1,398,462
Jointly controlled entities	–	(775)	–	–	–	–	(775)
Associated companies	–	(7,214)	–	–	–	(14,350)	(21,564)
Deferred income tax assets	36,798	–	–	–	–	–	36,798
Trade and other receivables	–	–	(10,353)	–	–	–	(10,353)
Properties held for/under development for sale	1,114	(167,502)	–	–	–	–	(166,388)
Total assets	(883,660)	(382,582)	(10,353)	–	(22,787)	(14,350)	(1,313,732)
Convertible bonds	–	–	2,900	–	–	–	2,900
Long term loans	–	–	10,353	–	–	–	10,353
Deferred income tax liabilities	39,755	19,679	–	–	–	(94,817)	(35,383)
Net assets	(843,905)	(362,903)	2,900	–	(22,787)	(109,167)	(1,335,862)
Investment properties revaluation reserve	–	–	–	–	(641,611)	–	(641,611)
Hotel properties revaluation reserve	(423,029)	–	–	–	–	–	(423,029)
Revenue reserve	(176,406)	(272,410)	2,900	–	618,824	(109,167)	63,741
Minority interests	(244,470)	(90,493)	–	–	–	–	(334,963)
Equity	(843,905)	(362,903)	2,900	–	(22,787)	(109,167)	(1,335,862)
At 1st April 2005							
Increase/(decrease) in equity							
Capital reserve	–	–	–	(362)	–	–	(362)
Revenue reserve	–	–	690	362	–	–	1,052
Equity	–	–	690	–	–	–	690
At 1st April 2004							
Increase/(decrease) in equity							
Investment properties revaluation reserve	–	–	–	–	(483,031)	–	(483,031)
Hotel properties revaluation reserve	(343,866)	–	–	–	–	–	(343,866)
Revenue reserve	(148,171)	(249,877)	2,995	–	469,943	(82,240)	(7,350)
Minority interests	(197,884)	(82,655)	–	–	–	–	(280,539)
Equity	(689,921)	(332,532)	2,995	–	(13,088)	(82,240)	(1,114,786)

Notes to the financial statements

4 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group operates mainly in Hong Kong and has limited exposures to foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations in Canada and Mainland China, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in Canada is managed primarily through borrowings denominated in the relevant foreign currency.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. Sales of properties are made to customers with appropriate mortgage arrangements. Other sales are either made in cash, via major credit cards or to customer with appropriate credit history. Cash transactions are limited to high-credit-quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group maintains flexibility in funding by keeping committed credit lines available.

(d) Cash flow interest rate risk

The Group's cash flow interest-rate risk arises from mortgage loans receivable and long term borrowings issued at variable rates.

The Group manages certain of its cash flow interest-rate risk from long term borrowings by limited use of floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates.

Notes to the financial statements

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include those related to investment properties, impairment of assets and income taxes.

(a) Estimate of fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the amount is determined within a range of reasonable fair value estimates. Information from a variety of sources are considered in making the judgement:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences.

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. Assumptions used are mainly based on market conditions existing at each balance sheet date.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Notes to the financial statements

5 Critical accounting estimates and judgements (continued)

(b) Impairment of assets

The Group tests at least annually whether goodwill has suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Income taxes

The Group is subject to income taxes in Hong Kong and other jurisdictions. Judgement is required in certain provision for income taxes for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax provisions in the period in which such determination is made.

6 Turnover and segment information

The Company is a limited liability company incorporated in Bermuda and listed on The Stock Exchange of Hong Kong Limited. The address of its principal office is 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

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 property, plant and equipment, leasehold land, investment properties, other non-current assets, hotel inventories, properties, trade and other receivables and investments. Segment liabilities comprise mainly trade and other payables, accruals, bank and other loans.

6 Turnover and segment information (continued)

Primary reporting format – business segments (continued)

	Property sales	Property leasing	Hotel and travel	Other operations	Group
2006 (in HK$'000)					
Segment revenue	**74,531**	**55,332**	**569,792**	**44,735**	**744,390**
Contribution to segment results	**(8,200)**	**50,582**	**135,703**	**3,426**	**181,511**
Other income/(charges)	**(11,052)**	**257,535**	**(108,757)**	**4,083**	**141,809**
Unallocated corporate expenses					**(35,538)**
Operating profit					**287,782**
Finance costs					**(116,963)**
Share of results of					
Jointly controlled entities	**(6,361)**	**–**	**–**	**(11)**	**(6,372)**
Associated companies	**(7,633)**	**45,832**	**–**	**(1,000)**	**37,199**
Profit before income tax					**201,646**
Income tax expense					**(38,084)**
Profit for the year					**163,562**
2005 (restated) (in HK$'000)					
Segment revenue	41,995	51,555	569,248	43,804	706,602
Contribution to segment results	(30,756)	47,242	104,886	27,904	149,276
Other income/(charges)	25,952	111,892	(83,721)	37,004	91,127
Unallocated corporate expenses					(33,137)
Operating profit					207,266
Finance costs					(96,008)
Share of results of					
Jointly controlled entities	163,837	–	–	33	163,870
Associated companies	(6,359)	38,987	–	(222)	32,406
Profit before income tax					307,534
Income tax expense					(22,449)
Profit for the year					285,085

Notes to the financial statements

6 Turnover and segment information (continued)

Primary reporting format – business segments (continued)

	Property sales	Property leasing	Hotel and travel	Other operations	Group
2006 (in HK$'000)					
Segment assets	**1,277,064**	**2,316,620**	**2,249,903**	**158,297**	**6,001,884**
Jointly controlled entities and associated companies	**290,702**	**316,947**	**–**	**1,035**	**608,684**
Unallocated assets					**373,166**
					6,983,734
Segment liabilities	**754,788**	**911,780**	**940,275**	**26,027**	**2,632,870**
Unallocated liabilities					**255,953**
					2,888,823
Capital expenditure	**–**	**–**	**22,656**	**344**	**23,000**
Depreciation	**–**	**–**	**51,287**	**2,364**	**53,651**
Amortisation of leasehold land	**8,977**	**–**	**20,040**	**316**	**29,333**
2005 (restated) (in HK$'000)					
Segment assets	1,114,474	2,118,533	2,333,849	159,396	5,726,252
Jointly controlled entities and associated companies	315,569	271,116	–	1,087	587,772
Unallocated assets					459,603
					6,773,627
Segment liabilities	617,611	899,387	1,313,106	35,847	2,865,951
Unallocated liabilities					233,897
					3,099,848
Capital expenditure	22	–	7,009	416	7,447
Depreciation	–	–	50,347	390	50,737
Amortisation of leasehold land	9,364	–	20,040	316	29,720
Amortisation of goodwill	–	–	2,464	–	2,464

Notes to the financial statements

6 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	Operating profit/(loss)	Total assets	Capital expenditure
2006 (in HK$'000)				
Hong Kong	**657,403**	**276,936**	**6,619,568**	**20,216**
Mainland China	**9,412**	**2,327**	**56,190**	**2,727**
Canada	**77,575**	**8,519**	**307,976**	**57**
	744,390	**287,782**	**6,983,734**	**23,000**
2005 (restated) (in HK$'000)				
Hong Kong	627,565	207,399	6,386,606	7,443
Mainland China	11,127	(1,728)	78,089	4
Canada	67,910	1,595	308,932	–
	706,602	207,266	6,773,627	7,447

7 Other income and charges

	2006 HK$'000	2005 HK$'000 (restated)
Write-back of provision for diminution in value of properties held for/under development for sale	**2,920**	35,316
Net fair value gains on financial assets at fair value through profit or loss	**9,380**	35,226
Depreciation	**(53,651)**	(50,737)
Amortisation of leasehold land	**(29,333)**	(29,720)
Surplus on revaluation of investment properties	**252,540**	112,290
(Provision)/write-back of provision for doubtful debts	**(2,618)**	6,033
Employee's share option expense of a listed subsidiary	**(17,500)**	–
Loss on deemed disposal of interest in a listed subsidiary	**(19,929)**	–
Loss on disposal of subsidiaries	**–**	(3,946)
Impairment loss of goodwill	**–**	(10,871)
Amortisation of goodwill	**–**	(2,464)
	141,809	91,127

Notes to the financial statements

8 Income and expenses by nature

	2006 HK$'000	2005 HK$'000 (restated)
Income		
Net rental income *(note (a))*	**50,654**	47,012
Interest income	**13,055**	5,186
Dividends from listed financial assets at fair value through profit or loss	**1,976**	335
Gain on disposal of property, plant and equipment	**–**	977
Net fair value gains on financial assets at fair value through profit or loss	**9,380**	35,226
Net realised gains on financial assets at fair value through profit or loss	**–**	22,383
Expenses		
Operating lease rental expense for land and buildings	**4,986**	4,994
Impairment loss of goodwill	**–**	10,871
Amortisation of goodwill	**–**	2,464
Employee benefit expense including Director's emoluments (note 11)	**113,222**	88,018
Depreciation	**53,651**	50,737
Amortisation of leasehold land	**29,333**	29,720
Auditors' remuneration	**3,437**	2,842
Provision for impairment of long term investment	**–**	1,601
Net realised losses on financial assets at fair value through profit or loss	**12,286**	–

Note:

(a) Net rental income

	2006 HK$'000	2005 HK$'000 (restated)
Gross rental income		
Investment properties	**42,431**	33,478
Properties held for sale	**12,901**	18,077
	55,332	51,555
Outgoings	**(4,678)**	(4,543)
	50,654	47,012

9 Finance costs

	2006 HK$'000	2005 HK$'000 (restated)
Interest expense		
Long term bank loans	**109,886**	72,779
Convertible bonds	**29,750**	31,009
Convertible notes	**–**	1,335
Loans from minority shareholders of subsidiaries	**3,928**	3,091
Short term bank loans and overdrafts	**1,576**	3,616
Fair value gains on interest rate swaps	**(5,257)**	–
	139,883	111,830
Capitalised as cost of properties under development		
Interest expense	**(22,920)**	(15,822)
	116,963	96,008

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 7.3% (2005: 5.4%) per annum.

Notes to the financial statements

10 Directors' and senior management's emoluments

(a) The aggregate amount of emoluments paid and payable to Directors of the Company for the years ended 31st March 2006 and 31st March 2005 are set out as follows:

Name of Director	Directors' fee	Salaries, allowances and benefits in kind *(note)*	Share options *(note 11(b))*	Employer's contribution to pension scheme	2006 Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive					
Mr. Fung Siu To, Clement	–	**2,564**	–	**42**	**2,606**
Dr. Lim Yin Cheng	–	**1,832**	**3,500**	**60**	**5,392**
Mr. Poon Jing	–	**10,847**	–	**12**	**10,859**
Mr. Lun Pui Kan	–	**2,139**	**3,500**	**96**	**5,735**
Mr. Kwan Po Lam, Phileas	–	**2,942**	**3,500**	**53**	**6,495**
Mr. Loup, Nicholas James	**100**	–	–	–	**100**
	100	**20,324**	**10,500**	**263**	**31,187**
Non-executive					
Mr. Liang Shangli	**140**	–	–	–	**140**
Mr. Au Yat Chuen, Raymond	**120**	–	–	–	**120**
	260	–	–	–	**260**
Independent Non-executive					
Mr. Koon Bok Ming, Alan	**120**	–	–	–	**120**
Mr. Leung Wai Keung, Richard	**200**	–	–	–	**200**
Mr. Wong Chi Keung	**100**	–	–	–	**100**
	420	–	–	–	**420**
	780	**20,324**	**10,500**	**263**	**31,867**

Notes to the financial statements

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

(a) The aggregate amount of emoluments paid and payable to Directors of the Company for the years ended 31st March 2006 and 31st March 2005 are set out as follows: (continued)

Name of Director	Directors' fee	Salaries, allowances and benefits in kind *(note)*	Employer's contribution to pension scheme	2005 Total emoluments
	HK$'000	HK$'000	HK$'000	HK$'000
Executive				
Mr. Fung Siu To, Clement	–	2,571	42	2,613
Dr. Lim Yin Cheng	–	3,791	60	3,851
Mr. Poon Jing	–	10,782	12	10,794
Mr. Lun Pui Kan	–	2,011	97	2,108
Mr. Kwan Po Lam, Phileas	–	3,093	53	3,146
Mr. Loup, Nicholas James	–	–	–	–
	–	22,248	264	22,512
Non-executive				
Mr. Liang Shangli	140	–	–	140
Mr. Au Yat Chuen, Raymond	120	–	–	120
	260	–	–	260
Independent Non-executive				
Mr. Koon Bok Ming, Alan	120	–	–	120
Mr. Leung Wai Keung, Richard	108	–	–	108
Mr. Wong Chi Keung	50	–	–	50
	278	–	–	278
	538	22,248	264	23,050

Note: Balance includes HK$6,800,000 (2005: HK$9,000,000) paid by subsidiaries of Asia Standard Hotel Group Limited ("Asia Standard Hotel"), a separately listed subsidiary of the Group.

(b) The five highest paid individuals in the Group for the year include five (2005: five) Directors whose emoluments are already reflected in the analysis presented above.

Notes to the financial statements

11 Employee benefit expense

	2006 HK$'000	2005 HK$'000
Wages and salaries	**93,486**	86,325
Retirement benefits costs *(note (a))*	**3,165**	2,928
Employee's share option expense of a listed subsidiary *(note (b))*	**17,500**	–
	114,151	89,253
Capitalised under properties under development	**(929)**	(1,235)
	113,222	88,018

Employee benefit expense are stated inclusive of Directors' emoluments.

Notes:

(a) Retirement benefits costs

	2006 HK$'000	2005 HK$'000
Gross contributions	**3,203**	3,028
Forfeitures utilised	**(38)**	(100)
Net contributions	**3,165**	2,928

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

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.

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% (2005: 5% and 4.95%) respectively, of the employee's relevant income in accordance with the local legislative requirements.

The Group also contributes to retirement plans for its employees in Mainland China at a percentage of applicable payroll costs in compliance with the requirements of the relevant municipal government in Mainland China.

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

As at 31st March 2006, no forfeiture (2005: nil) was available to reduce the Group's future contributions to the ORSO Schemes.

11 Employee benefit expense (continued)

(b) Share options

The Company and Asia Standard Hotel, a listed subsidiary, operate share option schemes, whereby options may be granted to employees of the Group, including the Executive Directors, to subscribe for shares of the Company and Asia Standard Hotel respectively. The consideration to be paid on each grant of option is HK$1 for the Company and Asia Standard Hotel respectively.

Details of share options held under the share option schemes are as follows:

Company

Grantee	Expiry date	Exercise price	**2006** Number	2005 Number
Directors	29th March 2015	HK$0.325	**105,000,000**	105,000,000
Employees	29th March 2015	HK$0.325	**60,000,000**	60,000,000
			165,000,000	165,000,000

During the year, no share option was granted, exercised, cancelled or lapsed. In 2005, 165,000,000 share options were granted.

Asia Standard Hotel

Grantee	Expiry date	Exercise price	**2006** Number	2005 Number
Employee	31st October 2015	HK$0.217	**4,000,000**	–

During the year, 250,000,000 and 246,000,000 share options were granted and exercised, no share option was cancelled or lapsed (2005: nil).

The fair value of the options granted and vested in the current year determined using the Binomial option pricing model is HK$17,500,000 (2005: nil) and is recognised in the profit and loss account.

The weighted average closing price of the shares immediately before the dates on which the options were exercised were HK$0.228, HK$0.235, HK$0.232, HK$0.222, HK$0.217.

Notes to the financial statements

11 Employee benefit expense (continued)

(b) Share options (continued)

The following assumptions were used to calculate the fair values of share options granted on 31st October 2005:

Closing share price at the date of grant (HK$)	0.215
Exercise price (HK$)	0.217
Expected life of options (years)	0.8
Expected volatility (%) (note (i))	96.24
Risk free rate (%)	4.302

Notes:

(i) The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over 0.8 year immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares.

12 Income tax expense

	2006	2005
	HK$'000	HK$'000
		(restated)
Current income tax		
Hong Kong profits tax	**3,979**	10,604
Overprovisions in prior years	**–**	(140)
	3,979	10,464
Deferred income tax	**34,105**	11,985
	38,084	22,449

12 Income tax expense (continued)

Hong Kong profits tax has been provided at the rate of 17.5% (2005:17.5%) on the estimated assessable profit for the year. Income tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of tax prevailing in the countries in which the Group operates.

Share of income tax of jointly controlled entities and associated companies for the year of HK$17,000 (2005: HK$36,850,000) and HK$9,861,000 (2005 restated: HK$8,436,000) are included in the profit and loss account as share of profits less losses of jointly controlled entities and associated companies respectively.

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

	2006 **HK$'000**	2005 HK$'000 (restated)
Profit before income tax	**201,646**	307,534
Calculated at a tax rate of 17.5% (2005: 17.5%)	**35,288**	53,818
Share of profits less losses of jointly controlled entities and associated companies	**(5,395)**	(34,349)
Overprovisions in prior years	**–**	(140)
Effect of different tax rates in other countries	**(1,320)**	(1,199)
Income not subject to tax	**(2,039)**	(17,026)
Expenses not deductible for tax purposes	**11,549**	14,569
Tax losses not recognised	**5,370**	7,174
Utilisation of previously unrecognised temporary differences	**(465)**	(3,782)
Recognition of previously unrecognised temporary differences	**90**	3,324
Recognition of previously unrecognised tax losses	**(2,041)**	(2,993)
Derecognition of deferred income tax assets	**–**	5,306
Temporary differences not recognised	**(3,289)**	(4,080)
Others	**336**	1,827
Income tax expense	**38,084**	22,449

Notes to the financial statements

13 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$38,181,000 (2005: HK$36,624,000).

14 Dividends

	2006	2005
	HK$'000	HK$'000
Interim, paid, of nil (2005: HK0.2 cent) per share	**–**	8,222
Final, proposed, of HK0.6 cent (2005: HK0.4 cent) per share	**30,462**	20,304
	30,462	28,526

Note:

At a meeting held on 13th July 2006, the Board has declared a final dividend of HK0.6 cent per share. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of revenue reserve in the year ending 31st March 2007.

15 Earnings per share

The calculation of earnings per share is based on profit attributable to shareholders of the Company of HK$167,860,000 (2005 restated: HK$278,707,000) and on the weighted average of 5,076,403,356 (2005: 4,215,293,826) shares in issue during the year.

The basic and diluted earnings per share for the year ended 31st March 2006 are the same 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 earnings per share.

The calculation of diluted earnings per share for the year ended 31st March 2005 is based on HK$304,289,000 (restated) equalling to the profit attributable to shareholders of the Company of HK$278,707,000 (restated) plus after tax interest savings of HK$25,582,000 (restated) and 4,861,503,872 shares equalling to the weighted average number of 4,215,293,826 shares in issue during the year plus 646,210,046 potential shares deemed to be in issue assuming the convertible bonds had been converted.

Notes to the financial statements

16 Property, plant and equipment

Group

	Freehold land of a hotel in Canada HK$'000	Hotel buildings HK$'000	Buildings under development HK$'000	Other buildings HK$'000	Other equipment HK$'000	Total HK$'000
Cost						
At 31st March 2004,						
as previously reported	60,869	3,106,681	42,326	10,507	48,514	3,268,897
Effects of change in accounting						
policies	–	(2,006,239)	(41,963)	11,027	–	(2,037,175)
At 31st March 2004, as restated	60,869	1,100,442	363	21,534	48,514	1,231,722
Currency translation difference	4,643	26,143	–	–	24	30,810
Cost adjustment	–	–	138	–	–	138
Additions	–	6,821	–	–	626	7,447
Disposals	–	(5,469)	–	(2,534)	(521)	(8,524)
At 31st March 2005	65,512	1,127,937	501	19,000	48,643	1,261,593
Accumulated depreciation						
At 31st March 2004,						
as previously reported	–	–	–	2,210	46,787	48,997
Effects of change in accounting						
policies	–	282,226	–	980	–	283,206
At 31st March 2004, as restated	–	282,226	–	3,190	46,787	332,203
Currency translation difference	–	9,191	–	–	22	9,213
Charge for the year	–	49,420	–	283	1,034	50,737
Disposals	–	(5,469)	–	(641)	(491)	(6,601)
At 31st March 2005	–	335,368	–	2,832	47,352	385,552
Net book value						
At 31st March 2005	65,512	792,569	501	16,168	1,291	876,041

Notes to the financial statements

16 Property, plant and equipment (continued)

Group

	Freehold land of a hotel in Canada HK$'000	Hotel buildings HK$'000	Buildings under development HK$'000	Other buildings HK$'000	Other equipment HK$'000	Total HK$'000
Cost						
At 31st March 2005,						
as previously reported	65,512	3,247,098	41,159	7,973	48,643	3,410,385
Effects of change in accounting						
policies *(note 3)*	–	(2,119,161)	(40,658)	11,027	–	(2,148,792)
At 31st March 2005, as restated	65,512	1,127,937	501	19,000	48,643	1,261,593
Currency translation difference	2,653	14,939	–	–	186	17,778
Cost adjustment	–	–	(501)	–	–	(501)
Additions	–	22,162	–	–	838	23,000
Disposals	–	(23,629)	–	–	(90)	(23,719)
At 31st March 2006	**68,165**	**1,141,409**	**–**	**19,000**	**49,577**	**1,278,151**
Accumulated depreciation						
At 31st March 2005,						
as previously reported	–	–	–	1,770	47,352	49,122
Effects of change in accounting						
policies *(note 3)*	–	335,368	–	1,062	–	336,430
At 31st March 2005, as restated	–	335,368	–	2,832	47,352	385,552
Currency translation difference	–	5,899	–	–	182	6,081
Charge for the year	–	50,493	–	2,182	976	53,651
Disposals	–	(23,629)	–	–	(90)	(23,719)
At 31st March 2006	**–**	**368,131**	**–**	**5,014**	**48,420**	**421,565**
Net book value						
At 31st March 2006	**68,165**	**773,278**	**–**	**13,986**	**1,157**	**856,586**

16 Property, plant and equipment (continued)

Notes:

(a) Total carrying values of hotel properties comprise the followings:

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Hotel properties		
Hotel buildings	**773,278**	792,569
Hotel freehold land	**68,165**	65,512
Hotel leasehold land *(note 18)*	**1,300,929**	1,320,969
	2,142,372	2,179,050

The aggregate open market value of the hotel properties in Hong Kong and Canada, based on valuation conducted respectively by Knight Frank and Grant Thornton Management Consultants, independent professional valuers, amounted to HK$3,537,540,000 (2005: HK$3,312,610,000).

(b) The aggregate net book value of property, plant and equipment pledged as securities for loans amounts to HK$853,057,000 (2005 restated: HK$872,344,000).

17 Investment properties

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Beginning of the year	**1,475,310**	1,363,020
Transfer from completed properties held for sale	**318,620**	–
Surplus on revaluation	**252,540**	112,290
End of the year	**2,046,470**	1,475,310

Investment properties were revalued by Vigers Hong Kong Limited, independent professional valuers, on an open market value basis as at 31st March 2006. Investment properties are situated on long term leasehold land in Hong Kong.

The aggregate net book value of investment properties pledged as securities for loans amounts to HK$2,046,470,000 (2005 restated: HK$1,475,310,000).

Notes to the financial statements

18 Leasehold land

Group

	Leasehold land Hotel properties HK$'000	Properties under development HK$'000	Self-used properties HK$'000	Total HK$'000
Cost				
At 31st March 2004, as previously reported	–	–	–	–
Effects of change in accounting policies	1,527,516	46,099	35,865	1,609,480
At 31st March 2004, as restated, and at 31st March 2005 and 31st March 2006	**1,527,516**	**46,099**	**35,865**	**1,609,480**
Accumulated amortisation				
At 31st March 2004, as previously reported	–	–	–	–
Effects of change in accounting policies	186,507	490	3,665	190,662
At 31st March 2004, as restated	186,507	490	3,665	190,662
Amortisation for the year	20,040	54	262	20,356
At 31st March 2005	206,547	544	3,927	211,018
Amortisation for the year	20,040	54	262	20,356
At 31st March 2006	**226,587**	**598**	**4,189**	**231,374**
Net book value				
At 31st March 2006	**1,300,929**	**45,501**	**31,676**	**1,378,106**
At 31st March 2005	1,320,969	45,555	31,938	1,398,462

The Group's prepaid lease payments comprise:

	Group **2006** **HK$'000**	 2005 HK$'000 (restated)
Leasehold land in Hong Kong		
Long term lease	**773,623**	779,236
Medium term lease	**604,483**	619,226
	1,378,106	1,398,462

The aggregate net book value of leasehold land pledged as securities for loans amounts to HK$1,378,106,000 (2005 restated: HK$1,398,462,000).

19 Subsidiaries

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**1,229,076**	1,229,076
Amounts due by subsidiaries	**2,858,410**	2,827,837
Provisions on amounts due by subsidiaries	**(191,200)**	(191,200)
	3,896,286	3,865,713

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 42.

The amounts receivable are unsecured, interest free and have no fixed terms of repayment.

20 Jointly controlled entities

	Group	
	2006 HK$'000	2005 HK$'000 (restated)
Share of net liabilities	**(173,139)**	(166,767)
Advances to jointly controlled entities	**342,839**	346,284
Provisions on advances to jointly controlled entities	**(34,883)**	(34,883)
	134,817	144,634

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$98,865,000 (2005: HK$95,836,000) 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. Except for an amount of nil (2005: HK$5,000,000) due from a jointly controlled entity outstanding during the year which is interest bearing at 12% (2005: 12%) per annum, the balances are unsecured, interest free and have no fixed terms of repayment.

Details of the principal jointly controlled entities are set out in note 42.

Notes to the financial statements

20 Jointly controlled entities (continued)

The Group's share of assets and liabilities and results of jointly controlled entities

	Group 2006 HK$'000	2005 HK$'000 (restated)
Assets		
Non-current assets	**284,378**	292,831
Current assets	**31,193**	70,395
	315,571	363,226
Liabilities		
Non-current liabilities	**104,053**	93,069
Current liabilities	**384,657**	436,924
	488,710	529,993
Net liabilities	**(173,139)**	(166,767)
Income	**1,550**	515,530
Expenses	**(7,905)**	(314,810)
(Loss)/profit before income tax	**(6,355)**	200,720
Income tax expense	**(17)**	(36,850)
(Loss)/profit for the year	**(6,372)**	163,870

21 Associated companies

	Group 2006 HK$'000	2005 HK$'000 (restated)
Share of net liabilities	**(172,778)**	(209,977)
Advances to associated companies	**650,751**	657,221
Provisions for advances to associated companies	**(4,106)**	(4,106)
Total carrying amounts of associated companies	**473,867**	443,138
Amount due to an associated company included in current liabilities	**(51,150)**	(51,150)
	422,717	391,988

The shares in certain associated companies are pledged to secure the loan facilities granted to those companies.

21 Associated companies (continued)

Advances to associated companies are made to finance property development projects. Except for an amount of HK$905,000 (2005: HK$902,000) 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 42.

The Group's share of assets and liabilities and results of associated companies

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Assets	**580,623**	535,851
Liabilities	**(753,401)**	(745,828)
	(172,778)	(209,977)
Revenues	**12,319**	10,294
Profit for the year	**37,199**	32,406

22 Goodwill

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Net carrying value, at beginning of the year	**3,548**	16,883
Addition	**6,356**	–
Partial disposal of interest in a listed subsidiary	**(1,253)**	–
Amortisation for the year	**–**	(2,464)
Impairment loss for the year	**–**	(10,871)
Net carrying value, at end of the year	**8,651**	3,548
Cost	**8,651**	24,643
Accumulated amortisation and impairment	**–**	(21,095)
Net carrying value, at end of the year	**8,651**	3,548

Goodwill is tested at least annually for impairment and whenever there is an indication that it may be impaired.

Notes to the financial statements

23 Mortgage loans receivable

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Mortgage loans receivable	**10,220**	12,409
Less: current portion included in current assets	**(420)**	(324)
	9,800	12,085

The mortgage loans receivable carry interest at rates ranged from prime plus 1.5% to 2% (2005: prime plus 1.5% to 2%). The effective interest rate at 31st March 2006 was 7.9% (2005: 5.6%). The carrying amounts of the mortgage loans receivable approximate their fair values.

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

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Properties held for/under development for sale		
Leasehold land	**903,187**	914,314
Development costs	**279,146**	161,344
	1,182,333	1,075,658
Completed properties held for sale		
Leasehold land	**99,264**	306,921
Development costs	**97,426**	272,842
	196,690	579,763

At 31st March 2006, properties amounting to HK$1,267,742,000 (2005 restated: HK$1,525,026,000) were pledged to banks to secure certain banking facilities of the Group.

At 31st March 2006, properties held for deployment in operating leases were HK$179,592,000 (2005: HK$545,487,000).

25 Trade and other receivables

Trade and other receivables of the Group include trade receivables, utility and other deposits, stakeholders' accounts, interest and other receivables.

Trade receivables of the Group amounted to HK$43,779,000 (2005: HK$42,044,000). 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.

Aging analysis of trade receivables net of provision for impairment of doubtful debts at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 day to 60 days	**41,656**	36,805
61 days to 120 days	**2,001**	2,382
More than 120 days	**122**	2,857
	43,779	42,044

The carrying amounts of trade and other receivables approximate their fair values.

26 Financial assets at fair value through profit or loss

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Equity securities listed in Hong Kong	**84,458**	104,838	**22,500**	11,700

27 Derivative financial instruments

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest rate swaps	**5,257**	–	**127**	–

The notional principal amounts of the outstanding interest rate swaps contracts at 31st March 2006 were HK$760,000,000 (2005: nil) for the Group and HK$50,000,000 (2005: nil) for the Company.

Notes to the financial statements

28 Bank balances and cash

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**49,025**	104,457	**997**	1,196
Restricted bank balances	**29,212**	28,816	**–**	–
Short-term bank deposits	**269,983**	328,470	**51,639**	55,037
	348,220	461,743	**52,636**	56,233

The effective interest rate on restricted bank balances is 2.8% (2005: 0.6%). These balances are pledged to banks to secure certain banking facilities of the Group or required to be utilised for specific purposes.

The effective interest rate on short-term bank deposits was 3.0% (2005: 1.7%) for the Group and 3.9% (2005: 2.2%) for the Company. These deposits have an average maturity of 45 days (2005: 18 days) for the Group and 8 days (2005: 8 days) for the Company.

29 Trade and other payables

Trade and other payables of the Group include trade payables, rental and management fee deposits, interest and other payables, retentions payable of construction costs and various accruals. Trade payables amounted to HK$18,407,000 (2005: HK$18,465,000).

Aging analysis of trade payables at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 day to 60 days	**17,309**	16,633
61 days to 120 days	**32**	381
More than 120 days	**1,066**	1,451
	18,407	18,465

The carrying amounts of trade and other payables approximate their fair values.

30 Share capital

Shares of HK$0.01 each	Number of shares	Amount HK$'000
Authorised:		
At 31st March 2005 and 2006	**400,000,000,000**	**4,000,000**

	Number of shares 2006	2005	Amount 2006 HK$'000	2005 HK$'000
Issued and fully paid:				
At beginning of the year	**5,075,999,990**	4,109,249,990	**50,760**	41,093
Exercise of share options *(note (a))*	**–**	1,750,000	**–**	17
Placement of new shares *(notes (b) & (c))*	**–**	965,000,000	**–**	9,650
Scrip dividend *(note (d))*	**925,967**	–	**9**	–
At end of the year	**5,076,925,957**	5,075,999,990	**50,769**	50,760

Notes:

(a) On 30th December 2004, the Company issued 1,750,000 new shares upon the exercise of options granted to a Director of the Company at HK$0.384 per share.

(b) On 16th February 2005, the Company issued 820,000,000 new shares for subscription by independent third parties at HK$0.38 per share, to raise capital of the Company. Net consideration received was HK$304.9 million which would be used to repay bank borrowing and pay land premium for the Group's existing residential property projects in Hong Kong. The market price of the shares was HK$0.41 per share on 2nd February 2005, which was the last trading day prior to the release of the announcement of subscription.

(c) On 15th March 2005, the Company further issued 145,000,000 new shares for subscription by Grosvenor Asset Management Limited, a substantial shareholder of the Company, at HK$0.38 per share.

(d) In October 2005, 925,967 new shares were allotted and issued at HK$0.382 per share in lieu of final dividend.

Notes to the financial statements

31 Reserves

	Share premium	Capital reserve	Capital redemption reserve	Revaluation reserve: Investment properties	Revaluation reserve: Hotel properties	Share option reserve	Contributed surplus	Revenue reserve	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Group									
At 31st March 2004, as previously reported	533,090	362	43,868	483,031	343,866	–	2,670,292	(648,022)	3,426,487
Retrospective effect of change in accounting policies *(note 3)*	–	–	–	(483,031)	(343,866)	–	–	(7,350)	(834,247)
At 31st March 2004, as restated	533,090	362	43,868	–	–	–	2,670,292	(655,372)	2,592,240
Currency translation differences	–	–	–	–	–	–	–	7,759	7,759
Exercise of share options	651	–	–	–	–	–	–	–	651
Placement of new shares	350,369	–	–	–	–	–	–	–	350,369
Interim dividend paid	–	–	–	–	–	–		(8,222)	(8,222)
Profit for the year	–	–	–	–	–	–	–	278,707	278,707
At 31st March 2005	884,110	362	43,868	–	–	–	2,670,292	(377,128)	3,221,504
At 1st April 2005, as per above	884,110	362	43,868	–	–	–	2,670,292	(377,128)	3,221,504
Opening adjustment for the adoption of HKAS 39 and HKFRS 3 *(note 3)*	–	(362)	–	–	–	–	–	1,052	690
At 1st April 2005, as restated	884,110	–	43,868	–	–	–	2,670,292	(376,076)	3,222,194
Currency translation differences	–	–	–	–	–	–	–	5,182	5,182
Profit for the year	–	–	–	–	–	–	–	167,860	167,860
Final dividend paid	–	–	–	–	–	–	–	(20,304)	(20,304)
Scrip dividend	344	–	–	–	–	–	–	–	344
Issue of share options by a listed subsidiary	–	–	–	–	–	9,975	–	–	9,975
Exercise of share options of a listed subsidiary	–	–	–	–	–	(9,815)	–	9,815	–
At 31st March 2006	**884,454**	**–**	**43,868**	**–**	**–**	**160**	**2,670,292**	**(213,523)**	**3,385,251**
Representing:									
2006 final dividend proposed	–	–	–	–	–	–	–	30,462	30,462
Others	884,454	–	43,868	–	–	160	2,670,292	(243,985)	3,354,789
At 31st March 2006	**884,454**	**–**	**43,868**	**–**	**–**	**160**	**2,670,292**	**(213,523)**	**3,385,251**

31 Reserves (continued)

	Share premium HK$'000	Capital reserve HK$'000	Capital redemption reserve HK$'000	Revaluation reserve Investment properties HK$'000	Revaluation reserve Hotel properties HK$'000	Share option reserve HK$'000	Contributed surplus HK$'000	Revenue reserve HK$'000	Total HK$'000
Company									
At 31st March 2004	531,939	–	43,868	–	–	–	2,684,451	233,975	3,494,233
Exercise of share options	651	–	–	–	–	–	–	–	651
Placement of new shares	350,369	–	–	–	–	–	–	–	350,369
Interim dividend paid	–	–	–	–	–	–	–	(8,222)	(8,222)
Profit for the year	–	–	–	–	–	–	–	36,624	36,624
At 31st March 2005	882,959	–	43,868	–	–	–	2,684,451	262,377	3,873,655
Final dividend paid	–	–	–	–	–	–	–	(20,304)	(20,304)
Scrip dividend	344	–	–	–	–	–	–	–	344
Profit for the year	–	–	–	–	–	–	–	38,181	38,181
At 31st March 2006	**883,303**	**–**	**43,868**	**–**	**–**	**–**	**2,684,451**	**280,254**	**3,891,876**
Representing:									
2006 final dividend proposed	–	–	–	–	–	–	–	30,462	30,462
Others	883,303	–	43,868	–	–	–	2,684,451	249,792	3,861,414
At 31st March 2006	**883,303**	**–**	**43,868**	**–**	**–**	**–**	**2,684,451**	**280,254**	**3,891,876**

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$3,008,573,000 (2005: HK$2,990,696,000) as at 31st March 2006.

Notes to the financial statements

32 Convertible bonds

	Group	
	2006	2005
	HK$'000	HK$'000
		(restated)
Convertible bonds	**190,000**	290,000
Provision for premium payable	**28,265**	31,414
	218,265	321,414

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.

The bondholder 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$0.44 per share, subject to adjustment, at any time between 7th January 2002 and 7th January 2007. ASICL may purchase 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 purchased, 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.

During the year, ASICL repurchased convertible bonds of a principal amount of HK$100,000,000 with the accrued interest.

The fair value of the liability component and the equity conversion component were determined at the issuance of the bonds. The fair value of the liability component, included in long term borrowing, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component was determined to be immaterial.

Provision of HK$28,265,000 (2005 restated: HK$31,414,000) for the premium payable has been made in the financial statements so as to provide a constant periodic rate of charge to the profit and loss account over the term of the bonds.

The effective interest rate at 31st March 2006 was 10.3% (2005: 10.2%). The carrying values of the convertible bonds approximate their fair values.

33 Borrowings

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(restated)		
Short term bank loans and overdrafts				
Secured	**50,000**	–	**20,000**	–
Unsecured	**–**	8,778	**–**	–
Long term bank loans, secured	**1,939,266**	2,378,081	**8,067**	9,427
	1,989,266	2,386,859	**28,067**	9,427

The maturity of the long term loans is as follows:

Bank loans, secured				
Repayable within one year	**58,312**	125,920	**1,360**	1,360
Repayable between one and two years	**291,011**	276,766	**1,360**	1,360
Repayable between two and five years	**470,916**	451,156	**4,080**	4,080
Wholly repayable within five years	**820,239**	853,842	**6,800**	6,800
Repayable after five years	**1,119,027**	1,524,239	**1,267**	2,627
	1,939,266	2,378,081	**8,067**	9,427
Current portion included in current liabilities	**(58,312)**	(125,920)	**(1,360)**	(1,360)
	1,880,954	2,252,161	**6,707**	8,067

The effective interest rates of the borrowing at the balance sheet date ranged from 5.0% to 6.5% (2005: 2.7% to 6.0%). The interest rates of the borrowings are not subject to contractual repricing.

The carrying amount of the short term and long term borrowings approximate their fair values.

Notes to the financial statements

34 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes related to the same fiscal authority. The offset amounts are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
		(restated)		
Deferred income tax assets	**98,820**	91,646	**110**	1,637
Deferred income tax liabilities	**(141,502)**	(100,223)	**–**	–
	(42,682)	(8,577)	**110**	1,637

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdictions is as follows:

Group

Deferred income tax assets

	Decelerated tax depreciation		Provisions		Tax losses		Difference in cost base of properties		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
						(restated)		(restated)		(restated)
At beginning of the year	**406**	428	**185**	620	**147,596**	160,973	**80,433**	61,752	**228,620**	223,773
Recognised in the profit and loss account	**(14)**	(22)	**(4)**	(435)	**(4,592)**	(5,452)	**13,995**	18,681	**9,385**	12,772
Disposal of subsidiaries	**–**	–	**–**	–	**–**	(7,925)	**–**	–	**–**	(7,925)
At end of the year	**392**	406	**181**	185	**143,004**	147,596	**94,428**	80,433	**238,005**	228,620

Deferred income tax liabilities

	Accelerated tax depreciation		Revaluation of properties		Fair value adjustments on acquisitions		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(restated)		(restated)				(restated)
At beginning of the year	**(44,328)**	(42,572)	**(94,817)**	(75,166)	**(98,052)**	(94,702)	**(237,197)**	(212,440)
Recognised in the profit and loss account	**(5,151)**	(1,756)	**(44,194)**	(19,651)	**5,855**	(3,350)	**(43,490)**	(24,757)
At end of the year	**(49,479)**	(44,328)	**(139,011)**	(94,817)	**(92,197)**	(98,052)	**(280,687)**	(237,197)

34 Deferred income tax (continued)

Company

Deferred income tax assets

	Tax losses	
	2006	2005
	HK$'000	HK$'000
At beginning of the year	**1,637**	9,199
Recognised in the profit and loss account	**(1,527)**	(7,562)
At end of the year	**110**	1,637

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 did not recognise deferred tax assets of HK$81 million (2005: HK$78 million) in respect of losses amounting to HK$409 million (2005 restated: HK$378 million) that can be carried forward against future taxable income. Except for tax losses of HK$347 million (2005 restated: HK$312 million) which have no expiry date, the balance will expire at various dates up to and including 2013 (2005: 2012).

35 Amounts due to minority shareholders

Loans from minority shareholders are to finance property projects of subsidiaries and have no specific terms of repayment. Loans of HK$93,589,000 (2005: HK$89,661,000) bear interest at 1.5% (2005: 1.5%) above prime rate and the remaining balance is interest free.

36 Capital commitments

The Group has no material capital commitments at 31st March 2006 (2005: nil).

37 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 2006, the future aggregate minimum rental receipts receivable under non-cancellable operating leases were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In respect of land and buildings:		
Within one year	**62,147**	60,397
In the second to fifth year inclusive	**74,892**	42,888
After the fifth year	**2,895**	5,203
	139,934	108,488

Notes to the financial statements

37 Operating lease arrangements (continued)

(b) Lessee

At 31st March 2006, the future aggregate minimum lease payments payable under non-cancellable operating leases were as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In respect of land and buildings :		
Within one year	**5,457**	5,443
In the second to fifth year inclusive	**3,400**	8,298
After the fifth year	**–**	–
	8,857	13,741

38 Contingent liabilities

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees for the banking and loan facilities of:				
Subsidiaries	**–**	–	**1,099,988**	1,123,481
Jointly controlled entities	**68,150**	65,000	**68,150**	65,130
Associated companies	**71,610**	92,439	**71,610**	92,448
Third parties	**1,306**	1,387	**–**	–
Guarantee for the convertible bonds issued by a subsidiary	**–**	–	**190,000**	290,000
	141,066	158,826	**1,429,748**	1,571,059

Notes to the financial statements

39 Notes to consolidated cash flow statement

(a) Reconciliation of profit before income tax to cash from/(used in) operations

	2006 HK$'000	2005 HK$'000 (restated)
Profit before income tax	**201,646**	307,534
Share of profits less losses of		
Jointly controlled entities	**6,372**	(163,870)
Associated companies	**(37,199)**	(32,406)
Depreciation	**53,651**	50,737
Amortisation of leasehold land	**29,333**	29,720
Amortisation of goodwill	**–**	2,464
Impairment loss of goodwill	**–**	10,871
Gain on disposal of property, plant and equipment	**–**	(977)
Net realised and unrealised fair value losses/(gains) on financial assets at fair value through profit or loss	**2,906**	(57,609)
Surplus on revaluation of investment properties	**(252,540)**	(112,290)
Loss on disposal of subsidiaries	**–**	3,946
Loss on deemed disposal of interest in a listed subsidiary	**19,929**	–
Employee's share option expense of a listed subsidiary	**17,500**	–
Provision for impairment of long term investment	**–**	1,601
Write-back of provision for diminution in value of properties held for/ under development for sale	**(2,920)**	(35,316)
Dividends received from financial assets at fair value through profit or loss	**(1,976)**	(335)
Interest income	**(13,055)**	(5,186)
Interest expense	**122,220**	96,008
Gain on fair value of derivative financial instrument	**(5,257)**	–
Operating profit before working capital changes	**140,610**	94,892
Decrease in mortgage loans receivable	**2,914**	27,751
Increase in properties held for/under development for sale (excluding interest expense capitalised)	**(26,400)**	(411,768)
Decrease/(increase) in hotel and restaurant inventories	**124**	(75)
(Increase)/decrease in trade and other receivables	**(52,937)**	42,737
Increase in deposit received on properties pre-sold	**212,068**	–
Increase/(decrease) in trade and other payables	**29,154**	(124,338)
Cash from/(used in) operations	**305,533**	(370,801)

Notes to the financial statements

39 Notes to consolidated cash flow statement (continued)

(b) Disposal of subsidiaries

	2006 HK$'000	2005 HK$'000
Net assets disposed		
Properties under development for sale	–	273,017
Deferred income tax assets	–	7,925
Bank balances	–	28
Trade and other payables	–	(37)
Bank loan	–	(130,000)
	–	150,933
Less: Loss on disposal of subsidiaries	–	(3,946)
	–	146,987
Satisfied by		
Cash consideration	–	71,514
Reclassification to jointly controlled entities	–	75,473
	–	146,987

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

	2006 HK$'000	2005 HK$'000
Cash consideration	–	71,514
Bank balances disposed of	–	(28)
	–	71,486

40 Related party transactions

The substantial shareholders of the Group are Asia Orient Holdings Limited ("Asia Orient"), a company incorporated in Bermuda and listed in Hong Kong and Grosvenor International S.A. ("Grosvenor"), a company incorporated in Luxemburg which owns 40.98% and 14.94% of the Company's shares respectively. The remaining 44.08% shares are widely held.

In addition to the related party information shown elsewhere in the financial statements, the following transactions were carried out with related parties:

Sales and purchases of goods and services

	2006	2005
	HK$'000	HK$'000
Income from/(expense to) subsidiaries of Asia Orient		
Rental income (note (a))	**259**	259
Management fee expense (note (b))	**(1,011)**	(912)
Cleaning expense (note (c))	**(728)**	(705)
Rental income from associated companies of Asia Orient (note(a))	**664**	620
Income from Grosvenor		
Interest income	**–**	389
Proceeds from sales of subsidiaries (note 39 (b))	**–**	71,514
Interest income from a jointly controlled entity (note 20)	**282**	564
Interest income from an associated company (note 21)	**3**	337
Interest expense to a minority shareholder (note 35)	**(3,928)**	(3,091)

Notes:

(a) Rental income is subject to terms agreed by the parties involved, which are at a fixed monthly fee.

(b) Management fee expense is charged for management services rendered at a mutually agreed fee.

(c) Cleaning expense is subject to terms agreed by the parties involved, which are at a fixed monthly fee.

The transactions are not connected transactions or continuing connected transactions under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Notes to the financial statements

41 Subsequent events

(a) On 17th May 2006, Asia Standard Hotel Group Limited ("Asia Standard Hotel") offered a rights issue of 3,154,054,340 rights shares at HK$0.09 per rights share on the basis of one rights share for every two existing shares held on the record date. It raised net proceeds of approximately HK$281 million for repayment of part of Asia Standard Hotel's long term bank loans. The Company has subscribed for 1,794,167,579 rights shares of AS Hotel amounted to HK$161 million.

(b) In May 2006, Asia Standard International Capital Limited ("ASICL"), a wholly owned subsidiary of the Company, issued convertible notes of the principal amount of HK$94 million to independent third parties. The convertible notes bear interest at 4% per annum payable semi-annually in arrears. Each holder of the notes had the option to convert the notes into fully paid shares of HK$0.01 each of the Company at a conversion price of HK$0.305 per share, subject to adjustment, at any time from the date of issue to 30 days before the maturity date of 3 years from the date of issue. The issuer has the option at its discretion to repay the convertible notes in whole or in part at any time commencing twelve months after the issue date.

Notes to the financial statements

42 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
Incorporated in Hong Kong		
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
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
Grace Profit Enterprises Limited (56.9% 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 (56.9% owned)	Travel agency	HK$2,500,000
Kelpoint Limited	Property development	HK$2
Mark Honour Limited (90% owned)	Property development	HK$100
Master Asia Enterprises Limited	Property investment	HK$10,000
Mega Royal Limited	Property development	HK$2
Perfect Wave Limited (56.9% owned)	Restaurant operation	HK$2
Stone Pole Limited (56.9% owned)	Hotel holding	HK$10

Notes to the financial statements

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

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated
Incorporated in Hong Kong (continued)		
Tilpifa Company Limited	Property investment	HK$10 and non-voting deferred share capital of HK$10,000
Tonlok Limited	Property development	HK$1,000
Trade Hope Limited	Property development	HK$2
Union Rich Resources Limited (80% owned)	Property development	HK$2
Vinstar Development Limited (56.9% owned)	Hotel holding	HK$2
Waliway Limited	Property holding	HK$100
Winfast Engineering Limited	Construction	HK$2
Incorporated in Bermuda		
Asia Standard Hotel Group Limited (56.9% owned)	Investment holding	HK$126,162,000
Incorporated in the British Virgin Islands		
Enrich Enterprises Ltd (56.9% owned)**	Hotel holding	US$1
Global Gateway Corp. (56.9% owned)**	Hotel operation	US$1
Glory Ventures Enterprises Inc. (56.9% owned)**	Hotel holding	US$1
Greatime Limited (56.9% owned)	Securities Investment	US$1
Incorporated in the Cayman Islands		
Asia Standard International Capital Limited *	Financing services	US$2

* Direct subsidiary of the Company

** Operates in Canada

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

Associated companies

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

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Gallop Worldwide Limited (incorporated in the British Virgin Islands)	Investment holding	US$2	50%
Ocean Strong Industrial Limited	Property development	HK$2	50%
Perfect Pearl Company Limited	Property investment	HK$11,000	33%
Sheen Finance Limited	Financing services	HK$2	50%

Jointly controlled entities

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

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Goldmax International Limited (incorporated in the British Virgin Islands)	Investment holding	US$1,000	50.1%
Grosvenor Asia Standard (China) Limited (incorporated in the British Virgin Islands)	Property development in the People's Republic of China (the "PRC")	US$1,500	50%
Lucky New Investment Limited	Property development	HK$1	50%
Ocean Champion Development Limited	Property development	HK$10,000	50%
Sheenity Enterprises Limited	Property development	HK$10,000	50%
Weststar Enterprises Limited	Property development	HK$2	50.1%
Wideway Limited	Financing services	HK$2	50%
漁陽房地產開發（深圳）有限公司# (incorporated in the PRC)	Property development in the PRC	RMB40,000,000	41.32%

Wholly owned Foreign Enterprise operates in the PRC

43 Approval of financial statements

The financial statements were approved by the Board of Directors on 13th July 2006.