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 of the associated companies, 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 interpretation of HKFRS set out below, which are relevant to its operations and have significant effect on the financial statements. The changes mainly affect the Group through its associated companies. 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

Notes to the Financial Statements

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 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. Amortisation of goodwill ceased 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. 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.

Notes to the Financial Statements

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 December 2004 (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.

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

No depreciation is provided for buildings under development.

Freehold land is not depreciated.

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.

Notes to the Financial Statements

2 Principal accounting policies (continued)

(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.

(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.

(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 at fair value through profit or loss 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 from investments is recognised when the shareholder's 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/(loss) attributable to shareholders of the Company HK$'000	Basic EPS HK cents
Reported under the Old Hong Kong Accounting Standards	(60,885)	(25.2)
Increase/(decrease) in profits of the Company and Subsidiaries		
HKAS 16		
Decrease in loss on deemed disposal of interest in a listed associated company	5,439	2.3
HKAS 17		
Decrease in loss on deemed disposal of interest in a listed associated company	1,215	0.5
HKAS 39		
Decrease in realised gain on financial assets at fair value through profit or loss	(8,712)	(3.6)
HKFRS 2		
Increase in employee share option expenses	(3,348)	(1.4)
HKFRS 3		
Negative goodwill recognised on acquisition of additional interest in a listed associated company	8,811	3.6
	3,405	1.4
Increase/(decrease) in share of profits less losses of associated companies		
HKAS 16		
Increase in depreciation	(21,319)	(8.8)
Renovation costs of hotel property capitalised	9,647	4.0
Reversal of revaluation deficit of a hotel property	6,285	2.6
Net effect of increase in rental income and administrative expenses	429	0.2
Decrease in income tax expense	4,282	1.8
Decrease in loss on deemed disposal of interest in a listed associated company	49,227	20.4
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	(10,657)	(4.4)
Increase in income tax expense	(350)	(0.1)
Decrease in loss on deemed disposal of interest in a listed associated company	11,004	4.5
HKAS 32 and HKAS 39		
Decrease in net interest expenses	1,269	0.5
Increase in income tax expense	(301)	(0.1)
HKAS 36 and HKAS 38		
Decrease in goodwill amortisation	104	–
HKAS 40		
Surplus on revaluation of investment properties	122,703	50.8
HKAS-Int 3		
Decrease in profit from sale of development properties	(39,228)	(16.2)
Decrease in income tax expense	6,106	2.5
HK-Int 21		
Increase in income tax expense	(21,636)	(9.0)
HKFRS 2		
Increase in employee share option expenses	(5,074)	(2.1)
Decrease in income tax expense	1,394	0.6
	113,885	47.2
Reported under new HKFRS	56,405	23.4

Notes to the Financial Statements

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/(loss) attributable to shareholders of the Company HK$'000	Basic EPS HK cents
Reported under the Old Hong Kong Accounting Standards	(160,970)	(84.9)
Increase/(decrease) in profits of the Company and subsidiaries		
HKAS 16		
Increase in depreciation	(36,984)	(19.5)
Decrease in loss on partial disposal of interest in a listed subsidiary	9,980	5.3
Decrease in loss on disposal of a listed subsidiary	4,418	2.3
Decrease in loss on deemed disposal of interest in a listed associated company	49,309	26.0
Renovation costs in hotel property capitalised	2,718	1.4
Decrease in income tax expense	7,097	3.7
Decrease in profit attributable to minority interests	16,363	8.6
HKAS 17 and HK-Int 4		
Amortisation of leasehold land	(22,290)	(11.7)
Decrease in loss on partial disposal of interest in a listed subsidiary	5,195	2.7
Decrease in loss on disposal of a listed subsidiary	2,260	1.2
Decrease in loss on deemed disposal of interest in a listed associated company	25,246	13.3
Increase in interest expenses	(1,678)	(0.9)
Decrease in income tax expense	328	0.2
Decrease in share of profits less losses of jointly controlled entities	(97)	(0.1)
Decrease in profit attributable to minority interests	15,218	8.0
HKAS 32 and HKAS 39		
Increase in interest expenses	(561)	(0.3)
Increase in loss on partial disposal of interest in a listed subsidiary	(58)	–
Increase in loss on disposal of a listed subsidiary	(25)	–
Increase in loss on deemed disposal of interest in a listed associated company	(278)	(0.1)
Decrease in profit attributable to minority interests	330	0.2
HKAS 40		
Decrease in loss on partial disposal of interest in a listed subsidiary	258	0.1
Decrease in loss on disposal of a listed subsidiary	153	0.1
Decrease in loss on deemed disposal of interest in a listed associated company	1,710	0.9
HKAS-Int 21		
Decrease in loss on partial disposal of interest in an listed subsidiary	1,619	0.9
Decrease in loss on disposal of a listed subsidiary	700	0.4
Decrease in loss on deemed disposal of interest in a listed associated company	7,817	4.1
	88,748	46.8
Increase/(decrease) in share of profits less losses of associated companies		
HKAS 16	(1,383)	(0.7)
HKAS 17	(5,467)	(2.9)
HKAS 32 and HKAS 39	(10)	–
HKAS 40	38,087	20.0
HKAS-Int 21	(10,904)	(5.7)
	20,323	10.7
Reported under new HKFRS	(51,899)	(27.4)

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	HKAS 17 and HK-Int 4	HKAS 32 and HKAS 39	HKAS 36 and HKAS 38	HKAS 40	HKAS-Int 21	HKAS-Int 3	HKFRS 2	HKFRS 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31st March 2006										
Increase/(decrease) in net assets/equity										
Associated companies and net assets	**(315,692)**	**(115,925)**	**859**	**104**	**(11,738)**	**(65,845)**	**(33,125)**	**793**	**8,811**	**(531,758)**
Investment properties revaluation reserves	**–**	**–**	**–**	**–**	**(165,217)**	**–**	**–**	**–**	**–**	**(165,217)**
Hotel properties revaluation reserves	**(189,836)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(189,836)**
Share option reserves	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,420**	**–**	**3,420**
Revenue reserves	**(125,856)**	**(115,925)**	**859**	**104**	**153,479**	**(65,845)**	**(33,125)**	**(2,627)**	**8,811**	**(180,125)**
Equity	**(315,692)**	**(115,925)**	**859**	**104**	**(11,738)**	**(65,845)**	**(33,125)**	**793**	**8,811**	**(531,758)**

	HKAS 16	HKAS 17 and HK-Int 4	HKAS 32 and HKAS 39	HKAS 40	HKAS-Int 21	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31st March 2005						
Increase/(decrease) in net assets/equity						
Associated companies and net assets	(264,460)	(115,921)	1,174	(9,227)	(44,206)	(432,640)
Investment properties revaluation reserves	–	–	–	(39,994)	–	(39,994)
Hotel properties revaluation reserves	(124,175)	–	–	–	–	(124,175)
Revenue reserves	(140,285)	(115,921)	1,174	30,767	(44,206)	(268,471)
Equity	(264,460)	(115,921)	1,174	(9,227)	(44,206)	(432,640)
At 1st April 2005						
Increase in equity						
Revenue reserve and equity	–	–	7,466	–	–	7,466
At 1st April 2004						
Increase/(decrease) in equity						
Hotel properties revaluation reserves	(120,156)	–	–	–	–	(120,156)
Revenue reserve	(160,726)	(137,088)	1,413	(6,913)	(43,439)	(346,753)
Minority interests	(409,038)	(195,444)	1,582	(6,175)	(38,801)	(647,876)
Equity	(689,920)	(332,532)	2,995	(13,088)	(82,240)	(1,114,785)

4 Financial risk management

The Group and its associated companies' 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's associated companies use derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risk

The Group and its associated companies operate 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 and its associated companies have 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 foreign operations in Canada is managed primarily through borrowings denominated in the relevant foreign currency.

(ii) Price risk

The Group and its associated companies are 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 and its associated companies have 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 and its associated companies cash flow interest-rate risk arise from mortgage loans receivable and long term borrowings issued at variable rates.

The Group's associated companies manage 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 and its associated companies make 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.

5 Critical accounting estimates and judgements (continued)

(b) Impairment of assets

The Group's associated companies test 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 and its associated companies are 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, Tower Place, 33 Lockhart Road, Wan Chai, Hong Kong.

The Group and its associated companies are principally engaged in property development and investment, hotel, travel agency and catering operations. Turnover comprises gross revenues from property sales, property leasing and management, hotel and travel agency, management services, investment and interest income.

Primary reporting format – business segment

The Group, its jointly controlled entities and associated companies are organised into four main business segments, comprising property sales, property leasing and management, hotel and travel and investment. There is no other significant identifiable separate business segment. 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.

In January 2005, the Group's interest in Asia Standard International Group Limited ("Asia Standard") decreased to below 50% and Asia Standard then became an associated company of the Group. The result of Asia Standard was consolidated into the profit and loss accounts of the Group up to the date of disposal and was equity accounted for thereafter. Additional segment information of jointly controlled entities and associated companies was set out in supplementary notes.

Notes to the Financial Statements

6 Turnover and segment information (continued)

Primary reporting format – business segment (continued)

2006 (in HK$'000)	Property sales	Property leasing and management	Hotel and travel	Investment	Other operations	Group
Segment revenue	**–**	**11,263**	**–**	**27,727**	**6,100**	**45,090**
Contribution to segment results	**–**	**2,946**	**–**	**(13,758)**	**6,100**	**(4,712)**
Other income/(charges)	**–**	**–**	**–**	**2,889**	**(470)**	**2,419**
Unallocated corporate expenses						**(11,872)**
Operating loss						**(14,165)**
Finance costs						**(1,363)**
Share of results of						
Jointly controlled entities *(note (i))*						**6,334**
Associated companies *(note (i))*						**65,599**
Profit before income tax						**56,405**
Income tax expense						**–**
Profit for the year						**56,405**

2005 (restated) (in HK$'000)	Property sales	Property leasing and management	Hotel and travel	Investment	Other operations	Group
Segment revenue	36,165	49,038	439,054	18,782	10,141	553,180
Contribution to segment results	(19,126)	35,883	82,823	2,767	10,140	112,487
Other income/(charges)	4,336	(258)	(54,482)	45,972	(2,063)	(6,495)
Unallocated corporate expenses						(33,372)
Operating profit						72,620
Finance costs						(75,522)
Share of results of						
Jointly controlled entities *(note (i))*						125,798
Associated companies *(note (i))*						(65,037)
Profit before income tax						57,859
Income tax credit						3,830
Profit for the year						61,689

Notes to the Financial Statements

6 Turnover and segment information (continued)

Primary reporting format – business segment (continued)

Note (i) : Share of results of jointly controlled entities and associated companies

	2006		2005	
	Jointly controlled entities HK$'000	Associated companies HK$'000	Jointly controlled entities HK$'000 (restated)	Associated companies HK$'000 (restated)
Property sales	–	(13,597)	168,200	(4,978)
Property leasing and management	–	144,758	–	34,288
Hotel and travel	–	12,835	–	7,636
Investments	6,334	(7,428)	(42,402)	(86,178)
Other operations	–	7,766	–	(1,944)
Finance costs	–	(49,537)	–	(10,855)
Unallocated corporate expenses	–	(29,198)	–	(3,006)
	6,334	65,599	125,798	(65,037)

Notes to the Financial Statements

6 Turnover and segment information (continued)

Primary reporting format – business segment (continued)

	Property sales	Property leasing and management	Hotel and travel	Investments	Other operations	Group
2006 (in HK$'000)						
Segment assets	**101,000**	**2,105**	**–**	**45,943**	**2,519**	**151,567**
Jointly controlled entities and associated companies *(note (ii))*						**1,464,773**
Unallocated assets						**109,406**
						1,725,746
Segment liabilities	**–**	**35,575**	**–**	**–**	**8,311**	**43,886**
Unallocated liabilities						**9,659**
						53,545
Capital expenditure	**–**	**77**	**–**	**–**	**1,677**	**1,754**
Depreciation	**–**	**42**	**–**	**–**	**428**	**470**
2005 (restated) (in HK$'000)						
Segment assets	101,000	546	–	28,748	30,936	161,230
Jointly controlled entities and associated companies *(note (ii))*						1,383,959
Unallocated assets						134,358
						1,679,547
Segment liabilities	–	35,817	–	–	8,311	44,128
Unallocated liabilities						66,252
						110,380
Capital expenditure	22	88	2,858	–	1,705	4,673
Depreciation	15	88	37,537	–	408	38,048
Amortisation of leasehold land	7,023	237	15,030	–	–	22,290
Amortisation of goodwill	–	–	1,848	4,001	–	5,849

Note (ii): Share of net segment assets less liabilities of jointly controlled entities and associated companies

	2006 HK$'000	2005 HK$'000 (restated)
Property sales	**315,367**	293,661
Property leasing and management	**708,162**	603,376
Hotel and travel	**319,485**	326,863
Investments	**50,009**	60,659
Other operations	**20,044**	8,016
Unallocated net assets	**51,706**	91,384
	1,464,773	1,383,959

Notes to the Financial Statements

6 Turnover and segment information (continued)

Secondary reporting format – geographical segments

For the year ended 31st March 2006, the activities of the Group are mainly based in Hong Kong. The Group incurred its capital expenditure, derived all of its revenue and operating profit from Hong Kong. Over 90% of its total assets are located in Hong Kong.

A summary of geographical segments for the year ended 31st March 2005 is set out as follows:

2005 (restated) (in HK$'000)	Segment revenue	Operating profit	Total assets	Capital expenditure
Hong Kong	490,442	53,479	1,455,360	4,669
Mainland China	6,252	732	124,506	4
Canada	56,486	18,409	99,681	–
	553,180	72,620	1,679,547	4,673

7 Other income and charges

	2006 **HK$'000**	2005 HK$'000 (restated)
Write-back of provision for diminution in value of properties under development/held for sale	–	11,400
Unrealised (losses)/gains on financial assets at fair value through profit or loss	**(4,556)**	92,271
Write-back of provision for impairment of doubtful debts	–	12,325
Depreciation	**(470)**	(38,048)
Amortisation of leasehold land	–	(22,290)
Loss on disposal of subsidiaries	–	(3,946)
Loss on partial disposal of interest in a listed subsidiary	–	(8,278)
Loss on disposal of a listed subsidiary	–	(2,688)
Loss on deemed disposal of interest in a listed associated company	**(1,366)**	(31,390)
Negative goodwill recognised on acquisition of additional interest in a listed associated company	**8,811**	–
Impairment loss of goodwill	–	(10,002)
Amortisation of goodwill	–	(5,849)
	2,419	(6,495)

Notes to the Financial Statements

8 Income and expenses by nature

	2006 HK$'000	2005 HK$'000 (restated)
Income		
Net rental income *(note (a))*	–	33,391
Interest income		
Financial assets at fair value through profit or loss	**274**	226
Others	**5,440**	9,682
Dividends from listed financial assets at fair value through profit or loss	–	142
Gain on disposal of property, plant and equipment	–	1,008
Unrealised gains on financial assets at fair value through profit or loss	–	92,271
Net realised gains on financial assets at fair value through profit or loss	–	2,625
Expenses		
Operating lease rental expenses for land and buildings	**259**	3,952
Impairment loss of goodwill	–	10,002
Provision for long term investment	–	1,601
Amortisation of goodwill	–	5,849
Employee benefit expense, including Directors' emoluments (note 11)	**15,016**	72,438
Depreciation	**470**	38,048
Amortisation of leasehold land	–	22,290
Auditors' remuneration	**914**	2,933
Unrealised loss on financial assets at fair value through profit or loss	**4,556**	–
Net realised loss on financial assets at fair value through profit or loss	**13,758**	–

Note:

(a) Net rental income

	2006 HK$'000	2005 HK$'000
Gross rental income		
Investment properties	–	24,130
Properties held for sale	–	13,595
	–	37,725
Outgoings	–	(4,334)
	–	33,391

Notes to the Financial Statements

9 Finance costs

	2006 HK$'000	2005 HK$'000 (restated)
Interest expense		
Long term bank loans	**1,284**	52,519
Convertible bonds	**–**	23,362
Convertible notes	**–**	2,687
Loans from minority shareholders of subsidiaries	**–**	2,328
Short term bank loans and overdrafts	**79**	6,535
	1,363	87,431
Capitalised as cost of properties under development		
Interest expense	**–**	(11,909)
	1,363	75,522

In 2005, certain funds were 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 was 5.3% per annum.

Notes to the Financial Statements

10 Directors' and senior management emoluments

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

Name of director	Directors' fee	Salaries, allowances and benefits in kind	Employer's contribution to pension scheme	2006 Total	Directors' fee	Salaries, allowances and benefits in kind (note)	Employer's contribution to pension scheme	2005 Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive								
Mr. Fung Siu To, Clement	–	–	–	–	–	1,795	32	1,827
Dr. Lim Yin Cheng	–	–	–	–	–	2,835	45	2,880
Mr. Poon Jing	–	3,500	–	3,500	–	11,573	9	11,582
Mr. Lun Pui Kan	–	300	–	300	–	1,422	73	1,495
Mr. Kwan Po Lam, Phileas	–	–	–	–	–	2,292	40	2,332
Non-executive								
Mr. Chan Sze Hung	20	–	–	20	20	–	–	20
Independent Non-executive								
Mr. Cheung Kwok Wah, Ken	200	–	–	200	200	–	–	200
Mr. Wong Chi Keung	200	–	–	200	100	–	–	100
Mr. Hung Yat Ming	200	–	–	200	133	–	–	133
	620	3,800	–	4,420	453	19,917	199	20,569

Note:

In 2005, the balances included HK$9,667,000 paid by Asia Standard International Group Limited ("Asia Standard") and HK$6,750,000 paid by Asia Standard Hotel Group Limited ("Asia Standard Hotel") prior to their changes from subsidiaries to associated companies.

Notes to the Financial Statements

10 Directors' and senior management emoluments (continued)

(b) The five highest paid individuals in the Group for the year include two (2005: five) Directors whose emoluments are already reflected in the analysis presented above. The emoluments payable to the remaining three (2005: nil) individuals during the years are as follows:

	2006 HK$'000	2005 HK$'000
Basic salaries, allowances, benefits in kind and share option benefits	**2,643**	–

11 Employee benefit expense

	2006 HK$'000	2005 HK$'000
Wages and salaries	**11,399**	72,372
Retirement benefits costs *(note (a))*	**269**	2,329
Employee share option benefits *(note (b))*	**3,348**	–
	15,016	74,701
Capitalised under properties under development	**–**	(2,263)
	15,016	72,438

Employee benefit expense are stated inclusive of Directors' emoluments.

Notes:

(a) **Retirement benefits costs**

	2006 HK$'000	2005 HK$'000
Gross contributions	**308**	2,429
Forfeitures utilised	**(39)**	(100)
Net contributions	**269**	2,329

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.

Notes to the Financial Statements

11 Employee benefit expense (continued)

(a) Retirement benefits costs (continued)

The Group participates in a defined contribution scheme under the ORSO which is available to employees joining before 1st December 2000. Under the scheme, 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 is available to all employees not joining the ORSO schemes in Hong Kong. Monthly contributions to the MPF scheme are made equal to 5% (2005: 5%) of the employee's relevant income in accordance with the legislative requirements.

In 2005, the Group, through its subsidiary group of Asia Standard International Group Limited ("Asia Standard"), also participated in Canada Pension Plan ("CPP")in Canada, monthly contributions of 4.95% of the employee's relevant income are made in accordance with local legislative requirements. Asia Standard also contributed 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 are expensed as incurred. The assets of all these retirement schemes are held separately from those of the Group in independently administered funds.

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

(b) Share options

The Company operates share option schemes whereby options may be granted to employees of the Group, including the executive Directors, to subscribe for shares of the Company. The consideration to be paid on each grant of option is HK$1.

Share options were granted to directors and to employees to subscribe for shares in accordance with the terms and conditions of the share option scheme.

Notes to the Financial Statements

11 Employee benefit expense (continued)

(b) Share options (continued)

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

Grantee	Expiry date	Exercise price	**2006** Number	2005 Number
Directors	11th February 2014	HK$3.3	**6,872,000**	6,872,000
Employees	24th February 2015	HK$2.895	**5,400,000**	5,400,000
Employees	7th April 2015	HK$2.425	**2,700,000**	–
			14,972,000	12,272,000

During the year, 2,700,000 (2005: 5,400,000) options to subscribe for shares of the Company were granted. No share options were exercised, cancelled or lapsed (2005: Nil) during the year.

The fair value of the options granted and vested in the current year determined using the Binomial option pricing model is HK$3,348,000 and is recognised in the profit and loss account. The following assumptions were used to calculate the fair values of share options granted on 8th April 2005:

Closing share price at the date of grant (HK$)	2.425
Exercise price (HK$)	2.425
Expected life of options (years)	10
Expected volatility (%)– note (i)	50.59
Expected dividend yield (%)– note (ii)	2.6
Risk free rate (%)	4.24

Notes:

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

(ii) It is based on prospective dividend yield of the shares at 8th April 2005.

(iii) 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.

Notes to the Financial Statements

12 Income tax expenses

No provision for Hong Kong profits tax and overseas income tax has been made as the Group has no estimated assessable profit for the year (2005: Nil).

	2006 HK$'000	2005 HK$'000 (restated)
Current income tax		
Overprovisions in prior years	–	140
Deferred income tax	–	3,690
	–	3,830

Share of income tax of jointly controlled entities and associated companies for the year of nil (2005: HK$36,464,000) and HK$15,551,000 (2005 restated: HK$15,438,000) 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	**56,405**	57,859
Calculated at a tax rate of 17.5% (2005: 17.5%)	**(9,871)**	(10,125)
Share of profits less losses of jointly controlled entities and associated companies	**12,588**	10,633
Overprovisions in prior years	–	140
Effect of different tax rates in other countries	–	634
Income not subject to tax	**1,614**	38,806
Expenses not deductible for tax purposes	**(1,386)**	(27,749)
Tax losses not recognised	**(2,945)**	(7,974)
Utilisation of previously unrecognised temporary difference	–	166
Recognition of previously unrecognised temporary difference	–	160
Derecognition of deferred income tax assets	–	(861)
Income tax credit	–	3,830

Notes to the Financial Statements

13 Profit/(loss) attributable to shareholders of the Company

The profit/(loss) attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of loss of HK$6,630,000 (2005: HK$229,894,000).

14 Dividend and distribution

	2006	2005
	HK$'000	HK$'000
Interim dividend, paid, of nil (2005: 2 cents) per share	**–**	3,997
Final distribution, proposed, of nil (2005: 4.3 cents) per share	**–**	10,084
	–	14,081

15 Earnings/(loss) per share

The calculation of earnings/(loss) per share is based on profit attributable to shareholders of the Company of HK$ 56,405,000 (2005 restated: loss of HK$51,899,000) and on the weighted average of 241,494,958 (2005: 189,759,765) shares in issue during the year.

The basic and diluted earnings per share are the same for the year ended 31st March 2006 as the exercise of subscription rights attached to the share options and the conversion of the convertible bonds of Asia Standard would not have a dilutive effect on the earnings per shares.

The calculation of diluted loss per share for the year ended 31st March 2005 was based on HK$58,134,000 (restated) equalling to the loss attributable to shareholders of the Company of HK$51,899,000 (restated) with a decrease in share of profit after tax of HK$6,235,000 (restated) from Asia Standard arising from conversion of its convertible bonds and the weighted average number of 189,759,765 shares in issue during the year.

Notes to the Financial Statements

16 Property, plant and equipment

	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	50,352	3,270,735
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	50,352	1,233,560
Translation differences	5,000	29,336	–	–	25	34,361
Additions	–	2,719	–	–	1,954	4,673
Disposals	–	(2,188)	–	(2,534)	(28)	(4,750)
Disposal of a listed subsidiary	(65,869)	(1,130,309)	(410)	(19,000)	(49,087)	(1,264,675)
Cost adjustment	–	–	47	–	–	47
At 31st March 2005	–	–	–	–	3,216	3,216
Accumulated depreciation and impairment						
At 31st March 2004, as previously reported	–	–	–	2,210	48,489	50,699
Effects of change in accounting policies	–	282,226	–	980	–	283,206
At 31st March 2004, as restated	–	282,226	–	3,190	48,489	333,905
Translation differences	–	10,430	–	–	22	10,452
Charge for the year	–	37,537	–	223	288	38,048
Disposals	–	(2,188)	–	(642)	(28)	(2,858)
Disposal of a listed subsidiary	–	(328,005)	–	(2,771)	(46,917)	(377,693)
At 31st March 2005	–	–	–	–	1,854	1,854
Net book value						
At 31st March 2005	–	–	–	–	1,362	1,362

Notes to the Financial Statements

16 Property, plant and equipment (continued)

	Other equipment HK$'000
Cost	
At 31st March 2005	3,216
Additions	1,754
At 31st March 2006	**4,970**
Accumulated depreciation and impairment	
At 31st March 2005	1,854
Charge for the year	470
At 31st March 2006	**2,324**
Net book value	
At 31st March 2006	**2,646**

17 Subsidiaries

	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**2,823,639**	2,823,639
Amounts due by subsidiaries	**1,634,498**	1,585,869
Provisions on advances to subsidiaries	**(980,000)**	(980,000)
	3,478,137	3,429,508

Details of the principal subsidiaries are set out in note 35.

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

Notes to the Financial Statements

18 Jointly controlled entities

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net liabilities	**(31,506)**	(37,841)
Advances to jointly controlled entities	**47,673**	54,568
Provisions on advances to jointly controlled entities	**(4,473)**	(4,473)
Total carrying amounts of jointly controlled entities	**11,694**	12,254
Amount due to a jointly controlled entity included in current liabilities	**(4,422)**	(4,422)
	7,272	7,832

Advances are made to finance working capital of those jointly controlled entities. The amounts receivable and payable are unsecured, interest free and have no fixed terms of repayment.

Detail of the principal jointly controlled entities are set out in note 35.

The Group's share of assets and liabilities and results

	2006	2005
	HK$'000	HK$'000
Assets		
Non-current assets	**14**	1,278
Current assets	**729**	254
	743	1,532
Liabilities		
Non-current liabilities	**29,481**	35,418
Current liabilities	**2,768**	3,955
	32,249	39,373
Net liabilities	**(31,506)**	(37,841)
Income	**9,064**	475,427
Expenses	**(2,730)**	(313,165)
Profit before income tax	**6,334**	162,262
Income tax expense	**–**	(36,464)
Profit for the year	**6,334**	125,798

Notes to the Financial Statements

19 Associated companies

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**1,450,730**	1,371,522
Advances to associated companies	**2,349**	183
Total carrying amounts of associated companies	**1,453,079**	1,371,705
Amounts due to associated companies included in current liabilities	**(18)**	(15)
	1,453,061	1,371,690
Market value of listed shares	**619,330**	691,512

The Group equity accounted for the results and net assets of Asia Standard following the partial disposal of its interest in Asia Standard in January 2005. Extracts of Asia Standard's audited consolidated profit and loss account and balance sheet are shown on pages 88 to 90.

The 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 35.

The Group's share of assets and liabilities and results

	2006	2005
	HK$'000	HK$'000
Assets	**2,930,346**	2,831,248
Liabilities	**(1,479,616)**	(1,459,726)
Net assets	**1,450,730**	1,371,522
Revenues	**319,911**	85,997
Profit/(loss) for the year	**65,599**	(65,037)
Contingent liabilities	**57,809**	64,309

Notes to the Financial Statements

20 Trade and other receivables

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

Trade receivables of the Group amounted to HK$159,000 (2005: HK$349,000). 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 is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 day to 60 days	**98**	283
61 days to 120 days	**11**	24
More than 120 days	**50**	42
	159	349

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

21 Financial assets at fair value through profit or loss

	Group	
	2006	2005
	HK$'000	HK$'000
Equity securities		
Listed in Hong Kong	**39,679**	24,154
Listed overseas	**6,264**	–
	45,943	24,154
Debt securities	**–**	4,500
	45,943	28,654

Notes to the Financial Statements

22 Bank balances and cash

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**9,808**	95,682	**1,416**	39,098
Restricted bank balances	**34,302**	33,161	**–**	–
Short-term bank deposits	**61,395**	–	**14,882**	–
	105,505	128,843	**16,298**	39,098

The effective interest rate on restricted bank balances is 3.4% (2005: 1.5%). These balances are held in trust in respect of buildings managed by the Group on behalf of third parties.

The effective interest rate on short-term bank deposits is 3.3% (2005: Nil) for the Group and 3% (2005: Nil) for the Company. These deposits have an average maturity of 4 days (2005: Nil) for the Group and 1 day (2005: Nil) for the Company.

23 Trade and other payables

Trade and other payables of the Group include trade payables, rental and management fee deposits, interest and other payables and various accruals. Trade payables of the Group amounted to HK$2,173,000 (2005: HK$3,779,000).

Aging analysis of trade payables is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
0 day to 60 days	**1,807**	3,029
61 days to 120 days	**12**	122
More than 120 days	**354**	628
	2,173	3,779

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

Notes to the Financial Statements

24 Share capital

Shares of HK$0.1 each	Number of shares	Amount HK$'000
Authorised		
At 31st March 2005 and 2006	750,000,000	75,000

	Number of shares		Amount	
	2006	2005	**2006** **HK$'000**	2005 HK$'000
Issued and fully paid:				
At beginning of the year	**234,516,210**	173,493,094	**23,452**	17,349
Conversion of convertible notes *(note (a))*	**–**	26,333,332	**–**	2,634
Scrip distribution/dividend *(note (b))*	**4,041,762**	89,784	**404**	9
Placement of shares *(note (c))*	**16,000,000**	34,600,000	**1,600**	3,460
	254,557,972	234,516,210	**25,456**	23,452

Notes:

(a) In 2005, holders of HK$31,600,000 convertible notes of the Company exercised the conversion rights attaching to the notes by converting those notes into 26,333,332 new shares of the Company at HK$1.20 per share.

(b) In October 2005, 4,041,762 new shares (2005: 89,784 new shares as scrip dividend) were allotted and issued as scrip distribution.

(c) (i) Pursuant to a placing and subscription agreement dated 11th January 2006, the Company issued 16 million new shares at HK$1.85 per share, a discount of approximately 9.76% to the closing price of HK$2.05 per share as quoted on the Stock Exchange on 11th January 2006, to more than six independent third parties. The net proceeds from the subscription was approximately HK$29.0 million representing HK$1.81 per share, and would be used for general working capital purpose. The reasons for this share placement were to broaden the entity capital base as well as to strengthen the financial position of the Group.

(ii) Pursuant to a placing and subscription agreement dated 2nd March 2005, the Company issued 34.6 million shares at HK$2.50 per share, a discount of approximately 9.9% to the closing price of HK$2.775 per share as quoted on the Stock Exchange on 1st March 2005, to more than six independent third parties. The net proceeds from the subscription was approximately HK$84.1 million representing HK$2.43 per share, of which about HK$70 million was used for the repayment of bank loans and the remaining balance was used for general working capital purpose. The reasons for this share placement were to broaden the shareholder and capital base as well as to strengthen the financial position of the Group.

Notes to the Financial Statements

25 Reserves

	Share premium HK$'000	Capital reserve HK$'000	Revaluation reserve: Investment properties HK$'000	Revaluation reserve: Hotel properties HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
Group								
At 31st March 2004, as originally stated	1,417,381	479,738	–	120,156	1,002,675	–	(946,876)	2,073,074
Retrospective effects of change in accounting policies *(note 3)*	–	–	–	(120,156)	–	–	(346,753)	(466,909)
At 31st March 2004, as restated	1,417,381	479,738	–	–	1,002,675	–	(1,293,629)	1,606,165
Currency translation differences	–	–	–	–	–	–	4,985	4,985
Conversion of convertible notes	28,966	–	–	–	–	–	–	28,966
Placement of new shares	80,686	–	–	–	–	–	–	80,686
Scrip dividend	245	–	–	–	–	–	–	245
Partial disposal of interest in a listed subsidiary	–	(19,075)	–	–	–	–	–	(19,075)
Disposal of a listed subsidiary	–	(8,253)	–	–	–	–	–	(8,253)
Deemed disposal of interest in a listed associated company	–	(92,108)	–	–	–	–	–	(92,108)
Dividend paid	–	–	–	–	–	–	(3,997)	(3,997)
Loss for the year	–	–	–	–	–	–	(51,899)	(51,899)
At 31st March 2005	1,527,278	360,302	–	–	1,002,675	–	(1,344,540)	1,545,715
Opening adjustment for the adoption of HKAS 39 *(note 3)*	–	–	–	–	–	–	7,466	7,466
At 1st April 2005, as restated	1,527,278	360,302	–	–	1,002,675	–	(1,337,074)	1,553,181
Offsetting of accumulated losses *(note)*	–	–	–	–	(920,762)	–	920,762	–
Currency translation differences	–	–	–	–	–	–	2,283	2,283
Placement of new shares	27,399	–	–	–	–	–	–	27,399
Scrip distribution	9,680	–	–	–	(10,084)	–	–	(404)
Grant of share options	–	–	–	–	–	3,348	–	3,348
Share options granted by a listed associated company	–	–	–	–	–	4,533	–	4,533
Exercise of share options of a listed associated company	–	–	–	–	–	(4,461)	4,461	–
Profit for the year	–	–	–	–	–	–	56,405	56,405
At 31st March 2006	**1,564,357**	**360,302**	**–**	**–**	**71,829**	**3,420**	**(353,163)**	**1,646,745**

Notes to the Financial Statements

25 Reserves (continued)

	Share premium HK$'000	Contributed surplus HK$'000	Share option reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
Company					
At 31st March 2004	1,417,381	2,838,224	–	(686,872)	3,568,733
Conversion of convertible notes	28,966	–	–	–	28,966
Placement of new shares	80,686	–	–	–	80,686
Scrip dividend	245	–	–	–	245
Dividend paid	–	–	–	(3,997)	(3,997)
Loss for the year	–	–	–	(229,894)	(229,894)
At 31st March 2005	1,527,278	2,838,224	–	(920,763)	3,444,739
Offsetting of accumulated losses *(note)*	–	(920,762)	–	920,762	–
Placement of new shares	27,399	–	–	–	27,399
Scrip distribution	9,680	(10,084)	–	–	(404)
Grant of share options	–	–	3,348	–	3,348
Loss for the year	–	–	–	(6,630)	(6,630)
At 31st March 2006	**1,564,357**	**1,907,378**	**3,348**	**(6,631)**	**3,468,452**

Note:

Pursuant to a resolution passed in the Annual General Meeting held in August 2005, an amount of HK$920,762,000 in the contributed surplus account was applied to set off the accumulated losses of the Company.

The revenue reserve is distributable. Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus and share option reserve are also distributable. Accordingly, total distributable reserves of the Company amount to HK$1,904,095,000 (2005: HK$1,917,461,000) as at 31st March 2006.

Notes to the Financial Statements

26 Borrowings

	Group	
	2006	2005
	HK$'000	HK$'000
Short term bank loan and overdrafts, secured	**–**	14,676
Long term bank loan, secured	**–**	43,598
	–	58,274
Long term bank loans, secured		
Repayable within one year	**–**	37,372
Repayable between one and two years	**–**	6,226
Wholly repayable within five years	**–**	43,598
Current portion included in current liabilities	**–**	(37,372)
	–	6,226

The effective interest rates of the borrowings at 31st March 2005 ranged from 3.22% to 5.25%. The interest rates of the borrowings were not subject to contractual repricing.

The carrying amounts of the short term and long term borrowings approximated their fair values.

27 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 tax liabilities and when the deferred income taxes relate 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
Deferred income tax assets	**3,902**	5,303	**171**	171
Deferred income tax liabilities	**(135)**	(11)	**–**	–
	3,767	5,292	**171**	171

Notes to the Financial Statements

27 Deferred income tax (continued)

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

Deferred income tax assets

	Decelerated tax depreciation		Provisions		Tax losses		Difference in cost base of properties		Total	
	2006 HK$'000	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)
At beginning of the year	**51**	428	**–**	620	**5,252**	168,060	**–**	61,753	**5,303**	230,861
Recognised in the profit and loss account	**–**	(51)	**–**	(439)	**(1,359)**	(14,227)	**–**	(140)	**(1,359)**	(14,857)
Disposal of subsidiaries	**–**	–	**–**	–	**–**	(7,925)	**–**	–	**–**	(7,925)
Disposal of a listed subsidiary	**–**	(326)	**–**	(181)	**–**	(140,656)	**–**	(61,613)	**–**	(202,776)
At end of the year	**51**	51	**–**	–	**3,893**	5,252	**–**	–	**3,944**	5,303

Deferred income tax liabilities

	Accelerated tax depreciation		Revaluation of properties		Fair value adjustment on acquisitions		Unrealised gains on financial assets at fair value through profit or loss		Total	
	2006 HK$'000	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000 (restated)	**2006 HK$'000**	2005 HK$'000	**2006 HK$'000**	2005 HK$'000 (restated)
At beginning of the year	**(11)**	(42,534)	**–**	(75,166)	**–**	(94,702)	**–**	–	**(11)**	(212,402)
Opening adjustment for the adoption of HKAS 39	**–**	–	**–**	–	**–**	–	**(1,525)**	–	**(1,525)**	–
At beginning of the year, as restated	**(11)**	(42,534)	**–**	(75,166)	**–**	(94,702)	**(1,525)**	–	**(1,536)**	(212,402)
Recognised in the profit and loss account	**(166)**	238	**–**	–	**–**	18,309	**1,525**	–	**1,359**	18,547
Disposal of a listed subsidiary	**–**	42,285	**–**	75,166	**–**	76,393	**–**	–	**–**	193,844
At end of the year	**(177)**	(11)	**–**	–	**–**	–	**–**	–	**(177)**	(11)

27 Deferred income tax (continued)

Company

Deferred income tax assets

	Tax losses	
	2006	2005
	HK$'000	HK$'000
At beginning of the year	**171**	196
Recognised in the profit and loss account	**–**	(25)
At end of the year	**171**	171

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 recognised deferred income tax assets of HK$4 million (2005: HK$1 million) in respect of losses amounting to HK$24 million (2005: HK$6 million) that can be carried forward against future taxable income. These tax losses have no expiry date.

28 Amounts due to minority shareholders

Loans from minority shareholders are interest free and have no specific terms of repayment.

29 Capital commitments

At 31st March 2006, neither the Group nor the company had any capital commitments which were contracted but not provided for, nor authorised but not contracted for (2005: nil).

30 Operating lease arrangements

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	**87**	259
In the second to fifth year inclusive	**–**	87
	87	346

31 Contingent liabilities

The Group and the Company did not have any material contingent liabilities as at 31st March 2006.

As at 31st March 2005, the Group did not have any material contingent liabilities, whilst the Company had HK$58,274,000 contingent liabilities in respect of guarantees for the banking and loan facilities granted to the Group's subsidiaries.

Notes to the Financial Statements

32 Notes to consolidated cash flow statement

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

	2006 HK$'000	2005 HK$'000 (restated)
Profit before income tax	**56,405**	57,859
Share of profits less losses of		
Jointly controlled entities	**(6,334)**	(125,798)
Associated companies	**(65,599)**	65,037
Depreciation	**470**	38,048
Amortisation of leasehold land	**–**	22,290
Amortisation of goodwill	**–**	5,849
Gain on disposal of property, plant and equipment	**–**	(1,008)
Provision for long term investments	**–**	1,601
Impairment loss of goodwill	**–**	10,002
Loss on disposal of subsidiaries	**–**	3,946
Loss on partial disposal of interest in a listed subsidiary	**–**	8,278
Loss on disposal of a listed subsidiary	**–**	2,688
Loss on deemed disposal of interest in a listed associated company	**1,366**	31,390
Net realised and unrealised losses/(gains) on financial assets at fair value through profit or loss	**18,314**	(94,896)
Write-back of provision for diminution in value of properties held for/under development for sale	**–**	(11,400)
Dividends from financial assets at fair value through profit or loss	**–**	(142)
Employees' share option benefits	**3,348**	–
Interest income	**(5,714)**	(9,908)
Interest expense	**1,363**	75,522
Negative goodwill recognised on acquisition of additional interest in a listed associated company	**(8,811)**	–
Operating (loss)/profit before working capital changes	**(5,192)**	79,358
Decrease in mortgage loans receivable	**–**	9,113
Increase in properties held for/under development for sale (excluding interest expense capitalised)	**–**	(400,346)
Increase in hotel and restaurant inventories	**–**	(480)
Decrease in trade and other receivables	**23,688**	63,388
Increase/(decrease) in trade and other payables	**1,326**	(81,228)
Cash generated from/(used in) operations	**19,822**	(330,195)

Notes to the Financial Statements

32 Notes to consolidated cash flow statement (continued)

(b) Disposal of subsidiaries

	Asia Standard 2005 HK$'000 (restated)	Other subsidiaries 2005 HK$'000	Total 2005 HK$'000 (restated)
Net assets disposed			
Investment properties	1,363,020	–	1,363,020
Property, plant and equipment	886,368	–	886,368
Leasehold Land	1,403,550	–	1,403,550
Jointly controlled entities	164,007	–	164,007
Associated companies	366,501	–	366,501
Goodwill	15,036	–	15,036
Mortgage loans receivable	31,220	–	31,220
Deferred income tax assets	85,777	7,925	93,702
Properties held for/under development for sale	1,068,583	273,017	1,341,600
Completed properties held for sale	555,109	–	555,109
Hotel and restaurant inventories	3,095	–	3,095
Trade and other receivables	125,324	–	125,324
Other investments	171,801	–	171,801
Tax recoverable	224	–	224
Restricted bank balances	26,275	–	26,275
Bank balances and cash	99,501	28	99,529
Trade and other payables	(196,223)	(37)	(196,260)
Bank overdraft	(7,362)	–	(7,362)
Short term bank loans	(9,999)	–	(9,999)
Long term bank loans	(2,426,024)	(130,000)	(2,556,024)
Current income tax payable	(9,313)	–	(9,313)
Convertible bonds	(290,000)	–	(290,000)
Deferred income tax liabilities	(76,845)	–	(76,845)
Minority interests and loans	(1,872,167)	–	(1,872,167)
	1,477,458	150,933	1,628,391
Less: Capital reserve	(8,253)	–	(8,253)
Loss on disposal	(2,688)	(3,946)	(6,634)
	(10,941)	(3,946)	(14,887)
	1,466,517	146,987	1,613,504
Satisfied by:			
Cash proceeds received less expenses	13,160	71,514	84,674
Reclassified to			
Associated company	1,453,357	–	1,453,357
Jointly controlled entity	–	75,473	75,473
	1,466,517	146,987	1,613,504
Cash consideration	13,160	71,514	84,674
Bank balances and cash disposed of	(99,501)	(28)	(99,529)
Bank overdrafts disposed of	7,362	–	7,362
	(78,979)	71,486	(7,493)

Notes to the Financial Statements

33 Related party transactions

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) associated companies		
Management fee income (note (a))	**1,011**	912
Cleaning income (note (b))	**728**	705
Secretarial fee income (note (c))	**96**	96
Rental expenses (note (d))	**(259)**	(259)

Notes:

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

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

(c) Secretarial fee income is charged for secretarial services rendered at a mutually agreed fee.

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

These 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.

34 Subsequent events

(a) In April 2006, the Company issued 127.3 million shares at HK$1.30 each for a gross amount of HK$165.5 million pursuant to a rights issue of 1 rights share for 2 shares held.

(b) In May 2006, Asia Standard Hotel Group Limited, a listed associated company of the Group has issued 3,154.1 million shares at HK$0.09 each for a gross amount of HK$283.9 million pursuant to a rights issue of 1 rights share for every 2 existing shares held. The Group had subscribed for its entitlement fully and an additional 33,000,000 rights shares.

35 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 held 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	Percentage of equity held by the Group
Incorporated in the British Virgin Islands			
Asia Orient Holdings (BVI) Limited *	Investment holding	US$100	100%
Finnex Limited	Securities investment	US$1	100%
Impetus Holdings Limited	Investment holding	US$1	100%
Innovision Gateway Limited	Investment holding	US$1	100%
Jetcom Capital Limited	Investment holding	US$1	100%
Mega Fusion Limited	Investment holding	US$1	100%
New Day Holdings Ltd.	Investment holding	US$1	100%
Persian Limited	Investment holding	US$49,050	100%
Sunrich Holdings Limited	Securities investment	US$1	100%
Telemail Group Inc.	Investment holding	US$1	100%
United Resources Associates Limited	Investment holding	US$6	83.3%
On-link Limited	Investment holding	US$1	100%

* *Direct subsidiary of the Company*

Notes to the Financial Statements

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

Subsidiaries (continued)

(Unless indicated otherwise, they are indirectly held 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	Percentage of equity held by the Group
Incorporated in Hong Kong			
Asia Orient Company Limited	Investment holding	US$26,964,837	100%
Good Year Engineering Services Limited	Engineering and maintenance services	HK$2	100%
Hitako Limited	Investment holding	HK$20	100%
Ocean Hand Investments Limited	Investment holding	HK$2	100%
Pan Bright Investment Limited	Investment holding	HK$20	100%
Pan Harbour Investment Limited	Investment holding	HK$2	100%
Pan Inn Investment Limited	Investment holding	HK$20	100%
Pan Kite Investment Limited	Investment holding	HK$20	100%
Pan Pearl Investment Limited	Investment holding	HK$20	100%
Pan Spring Investment Limited	Investment holding	HK$20	100%
Prosperity Land Cleaning Service Limited	Cleaning services	HK$100 and non-voting deferred share capital of HK$100	100%
Prosperity Land Estate Management Limited	Property management	HK$150 and non-voting deferred share capital of HK$1,500,000	100%
Union Home Development Limited	Investment holding	HK$2	100%
Incorporated in Liberia			
Bassindale Limited	Investment holding	US$500	100%

Notes to the Financial Statements

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

Jointly controlled entities

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Incorporated in Hong Kong			
China INFOBANK Limited	Internet content provider	HK$27,000,000	40.0%
Express Wind Limited	Investment holding	HK$10,000	25.0%
Incorporated in the People's Republic of China ("PRC")			
Cultural Palace Entertainment Company Limited #	Leasing of an entertainment complex	US$4,750,000	25.0%

Cooperative Joint Venture operates in the PRC

Associated companies

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Incorporated in Bermuda			
Asia Standard Hotel Group Limited	Hotel, catering services and travel	HK$126,162,000	25.9%
Asia Standard International Group Limited	Property development, property leasing, hotel and travel	HK$50,769,000	41.0%

Notes to the Financial Statements

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

Associated companies (continued)

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Incorporated in Hong Kong			
Asia Standard Development (Holdings) Limited	Investment holding	HK$10 and non-voting deferred share capital of HK$362,892,949	41.0%
Asia Standard Finance Company Limited	Financing services	HK$1,000,000	41.0%
Asia Standard International Limited	Investment holding	HK$1,214,916,441	41.0%
Asia Standard Management Services Limited	Management services	HK$2	41.0%
Full Union Development Limited	Property development	HK$2	41.0%
Get Rich Enterprises Limited	Property development	HK$2	32.8%
Hoi Chak Properties Limited	Property investment	HK$10 and non-voting deferred share capital of HK$2	41.0%
JBC Travel Company Limited	Travel agency	HK$2,500,000	25.9%
Lucky New Investment Limited	Property development	HK$1	20.5%
Paramount Shine Limited	Property development	HK$2	20.5%
Master Asia Enterprises Limited	Property investment	HK$10,000	41.0%
Stone Pole Limited	Hotel holding	HK$10	25.9%
Tilpifa Company Limited	Property investment	HK$10 and non-voting deferred share capital of HK$10,000	41.0%
Tonlok Limited	Property development	HK$1,000	41.0%
Union Rich Resources Limited	Property development	HK$2	32.8%
Vinstar Development Limited	Hotel holding	HK$2	25.9%
Weststar Enterprises Limited	Property development	HK$2	20.5%
Winfast Engineering Limited	Construction	HK$2	41.0%
Incorporated in British Virgin Islands			
Enrich Enterprises Limited	Hotel holding	US$1	25.9%
Global Gateway Corp.	Hotel operation	US$1	25.9%
Glory Ventures Enterprises Inc.	Hotel holding	US$1	25.9%

Notes to the Financial Statements

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

Associated companies (continued)

Name	Principal activity	Issued and fully paid ordinary share capital except otherwise stated	Group equity interest
Incorporated in Cayman Islands			
Asia Standard International Capital Limited	Financing services	US$2	41.0%
Q9 Technology Holdings Limited	Investment holding	HK$12,463,500	32.0%
Incorporated in the People's Republic of China ("PRC")			
漁陽房地產開發(深圳)有限公司#	Property development	RMB40,000,000	16.9%

\# *Wholly owned Foreign Enterprises operates in the PRC*

36 Approval of financial statements

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