

# Notes to the financial statements

## 1 Principal accounting policies

### (a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants under the historical cost convention except that the derivative financial instruments and financial assets at fair value through profit or loss are carried at fair value.

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 consolidated financial statements, are disclosed in note 4.

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKSA 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent 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
HK-Int 12	Consolidation – Special Purpose Entities
HK-Int 15	Operating Leases – Incentives
HK-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (a) Basis of preparation (continued)

The adoption of the new HKASs 1, 2, 7, 8, 10, 21, 23, 24, 27, 33, 37 and HK-Ints 12, 15 and 21 does not have any material effect on the accounting policies of the Group. The major changes in the accounting policies are summarised as follows:

#### (i) Hotel properties

The adoption of HKAS 16 has resulted in a change in the accounting policy for the Group's hotel properties, which are now stated at cost less accumulated depreciation and impairment losses. 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 is calculated to write off the carrying amount of the assets on a straight line basis over the shorter of the unexpired period of the land lease and the estimated remaining useful lives of the assets.

In prior years, hotel properties were stated at valuation and were not depreciated. The initial cost of the hotel operating equipment was included in the cost of hotel properties and subsequent additions or replacements were charged to profit and loss account as incurred.

#### (ii) Leasehold land

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to prepaid operating leases. Leasehold land is accounted for as prepayment of lease and stated at cost less accumulated amortisation and the amortisation is recognised as an expense on a straight line basis over the lease term. In prior years, the leasehold land was included in hotel properties and was stated at valuation.

#### (iii) Goodwill

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

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (a) Basis of preparation (continued)

#### (iv) *Share-based payments*

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments.

The Group operates an equity-settled, share-based compensation plan. Until 31st March 2005, the Group had not granted share options under its share option scheme. With effect from 1st April 2005, the fair value of the employee services received in exchange for the grant of the share options of the Company is recognised as an expense. The total amount expensed is determined by reference to the fair value of the share options granted by the Company.

#### (v) *Financial instruments*

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the recognition of derivative financial instruments at fair value and measurement of loans and borrowings.

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently stated at amortised cost using effective interest method. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All the new/revised standards 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; and
- (b) HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested on 1st January 2005.
- (c) HKFRS 3 – prospectively after the adoption date.

The effects of all changes on accounting policies are summarised in note 2.

Certain new standards, amendments and interpretations 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.

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but it is not yet in a position to state whether these standards, amendments and interpretations would have a significant impact on its results of operations and financial position.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (b) Consolidation

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

The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective date of acquisition and up to the effective date of disposal respectively. The profit or loss on disposal of subsidiaries is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortised.

All significant intra-group transactions and balances have been eliminated.

### (c) Subsidiaries

Subsidiaries are those entities in which the company, directly or indirectly, controls the composition of the Board of Directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated 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 interest. 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.

Inter-company transactions, balances and unrealised gains on transactions between group companies are 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.

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 by the Company on the basis of dividend received and receivable.

### (d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and other costs incurred to bring the asset into its existing use and location.

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 is calculated using straight-line method to allocate the cost to their residual values over their estimated useful lives, as follows:

Hotel buildings	Lower of underlying land lease term or 50 years
Plant and equipment	3 $\frac{1}{2}$ -10 years

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

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

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.

Freehold land is accounted for as property, plant and equipment and stated at cost less impairment. No depreciation is provided for freehold land.

### (f) Leasehold land

The up-front prepayments made for leasehold land are amortised on a straight-line basis over the period of the lease and the amortisation is charged to profit and loss account. Where there is impairment, impairment is expensed in the profit and loss account.

### (g) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment as well as when there is indication for 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.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (h) Inventories

Inventories comprise primarily food, beverages and operating supplies and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business, less selling expenses.

### (i) 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

### (j) Impairment of non-financial assets

Assets that have an indefinite useful life and are not subject to depreciation or amortisation, 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 depreciation or 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. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

### (k) Financial assets at fair value through profit or loss

The Group classifies its investments in securities as financial assets at fair value through profit or loss. This category has two sub-categories: financial assets held for trading, and those 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.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income are presented in the profit and loss account in the period in which they arise.

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.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (l) Derivative financial instruments

Derivative financial instruments mainly represents interest rate swaps, are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value. Changes in fair value are recognised in the profit and loss account.

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, 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; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

### (n) 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 consolidated financial statements. However, if 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 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.

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, 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.

### (o) Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (p) Finance leases

Assets leased under agreements that transfer substantially all the risks and rewards incident to ownership of the relevant assets to the Group are classified as finance leases. At the inception of a finance lease, the fair value of the asset or, if lower, the present value of the minimum lease payments is capitalised as property, plant and equipment; the corresponding obligations, net of finance charges, is included under long term liabilities. Gross rental payable in respect of finance leases are apportioned between interest charges and a reduction of the lease obligations based on the interest rates implicit in the relevant leases.

### (q) Operating leases

Leases on which a significant portion of risks and rewards of ownership of assets are retained by the lessors are accounted for as operating leases. Payments made under operating leases net of incentives received from the lessors, are charged to the profit and loss account on a straight line basis over the terms of the leases.

### (r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sales of goods and services in ordinary course of the Group's activities. Revenue is shown, net of returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Revenue from hotel and catering operations is recognised upon provision of services.

Operating lease rental income is recognised on a straight line basis over the term of the lease.

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

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

Revenue from sale of financial assets at fair value through profit or loss is recognised when the title of the related investments is passed to the purchaser.

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



# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (s) Translation of foreign currencies

#### (i) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Hong Kong Dollars, which are 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 financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

#### (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;
- (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 and other currency instruments designated as hedges of such investments, are taken to 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.

# Notes to the financial statements

## 1 Principal accounting policies (continued)

### (t) 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) Retirement benefit obligations

The Group contributes to several defined contribution retirement benefit schemes which are available to employees. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to these schemes are expensed as incurred.

#### (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. 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 with a corresponding adjustment to equity.

### (u) Borrowing costs

All borrowing costs are recognised in the profit and loss account in the year in which they are incurred.

### (v) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### (w) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (x) 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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

## Notes to the financial statements

**2 Summary of the effects of the changes in accounting policies****(a) Effects of the changes in accounting policies on consolidated profit and loss account**

	(Loss)/profit attributable to shareholders HK\$'000	(Loss)/earnings per share HK cents
<b>Year ended 31st March 2006</b>		
<b>Reported under the Old Hong Kong Accounting Standards</b>	<b>17,848</b>	<b>0.32</b>
Increase/(decrease) in:		
HKAS 16		
Renovation cost of hotel buildings capitalised	22,162	0.40
Depreciation of hotel buildings, plant and equipment	(51,310)	(0.93)
Hotel revaluation deficit	14,438	0.26
Deferred income tax	9,836	0.18
HKAS 17		
Amortisation of leasehold land	(20,637)	(0.37)
HKAS 32 and HKAS 39		
Fair value gains on interest rate swap contracts	1,257	0.02
HKFRS 2		
Fair value of share options granted	(17,500)	(0.32)
Deferred income tax	3,063	0.06
	<b>(38,691)</b>	<b>(0.70)</b>
<b>Reported under new HKFRS</b>	<b>(20,843)</b>	<b>(0.38)</b>
<b>Year ended 31st March 2005</b>		
<b>Reported under the Old Hong Kong Accounting Standards</b>	84,896	1.69
Increase/(decrease) in:		
HKAS 16		
Renovation cost of hotel buildings capitalised	6,821	0.14
Depreciation of hotel buildings, plant and equipment	(50,237)	(1.00)
Deferred income tax	8,854	0.17
HKAS 17		
Amortisation of leasehold land	(20,637)	(0.41)
HKAS 32 and HKAS 39		
Interest expenses on convertible notes	(490)	(0.01)
	<b>(55,689)</b>	<b>(1.11)</b>
<b>Reported under new HKFRS</b>	<b>29,207</b>	<b>0.58</b>

## Notes to the financial statements

**2 Summary of the effects of the changes in accounting policies** (continued)

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

	HKAS 16	HKAS 17	HKAS 32 & HKAS 39	HKFRS 2	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>At 31st March 2006</b>					
<i>Increase/(decrease) in net assets/equity:</i>					
Hotel buildings	(2,010,024)	(1,527,516)	–	–	(3,537,540)
Property, plant and equipment	876,090	–	–	–	876,090
Leasehold land	–	1,325,425	–	–	1,325,425
Derivative financial instruments	–	–	1,257	–	1,257
Deferred income tax assets	34,644	–	–	–	34,644
<b>Total assets</b>	<b>(1,099,290)</b>	<b>(202,091)</b>	<b>1,257</b>	<b>–</b>	<b>(1,300,124)</b>
Deferred income tax liabilities	48,625	–	–	3,063	51,688
<b>Net assets</b>	<b>(1,050,665)</b>	<b>(202,091)</b>	<b>1,257</b>	<b>3,063</b>	<b>(1,248,436)</b>
Hotel properties revaluation reserve	(777,922)	–	–	–	(777,922)
Exchange reserve	(12,807)	–	–	–	(12,807)
Share option reserve	–	–	–	280	280
Revenue reserve	(259,936)	(202,091)	1,257	2,783	(457,987)
<b>Equity</b>	<b>(1,050,665)</b>	<b>(202,091)</b>	<b>1,257</b>	<b>3,063</b>	<b>(1,248,436)</b>

## Notes to the financial statements

**2 Summary of the effects of the changes in accounting policies** (continued)**(b) Effects of the changes in accounting policies on consolidated balance sheet** (continued)

	HKAS 16	HKAS 17	HKAS 32 & HKAS 39	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31st March 2005				
<i>Increase/(decrease) in net assets/equity:</i>				
Hotel buildings	(1,785,094)	(1,527,516)	–	(3,312,610)
Property, plant and equipment	893,545	–	–	893,545
Leasehold land	–	1,346,063	–	1,346,063
Deferred income tax assets	36,799	–	–	36,799
Trade and other receivables	–	–	(7,707)	(7,707)
<b>Total assets</b>	<b>(854,750)</b>	<b>(181,453)</b>	<b>(7,707)</b>	<b>(1,043,910)</b>
Deferred income tax liabilities	39,756	–	–	39,756
Borrowings	–	–	7,707	7,707
<b>Net assets</b>	<b>(814,994)</b>	<b>(181,453)</b>	<b>–</b>	<b>(996,447)</b>
Hotel properties revaluation reserve	(552,234)	–	–	(552,234)
Exchange reserve	(7,697)	–	–	(7,697)
Revenue reserve	(255,063)	(181,453)	–	(436,516)
<b>Equity</b>	<b>(814,994)</b>	<b>(181,453)</b>	<b>–</b>	<b>(996,447)</b>
At 1st April 2004				
<i>Increase/(decrease) in net assets/equity:</i>				
Hotel buildings	(1,640,034)	(1,527,516)	–	(3,167,550)
Property, plant and equipment	915,367	–	–	915,367
Leasehold land	–	1,366,700	–	1,366,700
Deferred income tax assets	40,543	–	–	40,543
<b>Total assets</b>	<b>(684,124)</b>	<b>(160,816)</b>	<b>–</b>	<b>(844,940)</b>
Convertible notes	–	–	489	489
Deferred income tax liabilities	24,746	–	–	24,746
<b>Net assets</b>	<b>(659,378)</b>	<b>(160,816)</b>	<b>489</b>	<b>(819,705)</b>
Hotel properties revaluation reserve	(439,145)	–	–	(439,145)
Exchange reserve	266	–	–	266
Other reserve	–	–	1,363	1,363
Revenue reserve	(220,499)	(160,816)	(874)	(382,189)
<b>Equity</b>	<b>(659,378)</b>	<b>(160,816)</b>	<b>489</b>	<b>(819,705)</b>

# Notes to the financial statements

## 3 Financial risk management

### (a) Financial risk factors

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

#### (a) Market risk

##### (i) Foreign exchange risk

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

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

##### (ii) Price risk

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

#### (b) Credit risk

The Group has no significant concentrations of credit risk. Sales of properties are made to customers with appropriate mortgage arrangement. 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.

## Notes to the financial statements

### 3 Financial risk management (continued)

#### (a) Financial risk factors (continued)

##### (d) Cash flow interest rate risk

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

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

#### (b) Fair value estimation

The fair value of financial assets at fair value through profit or loss traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair values of long-term borrowings are estimated using the expected future payments discounted at market interest rates.

The nominal values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, including trade and other receivables, trade and other payables and current borrowings are assumed to approximate their fair values.

### 4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom be equal to 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 impairment of assets and income taxes.

#### (a) Impairment of assets

The Group tests annually whether goodwill has suffered any impairment and when there is any indication for 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.

# Notes to the financial statements

## 4 Critical accounting estimates and judgements (continued)

### (b) Income taxes

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

## 5 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 place of business in Hong Kong is 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

The Group is principally engaged in hotel, catering services and travel agency operations. Turnover represents gross revenue from hotel, catering services, and travel agency operations.

### Primary reporting format – business segments

The Group is organised into three main business segments:

- Hotel operation – hotel operation in Hong Kong and Canada
- Catering services – restaurant operation in Hong Kong and Mainland China
- Travel agency – sale of air tickets and hotel reservation service in Hong Kong

There is no other significant identifiable separate business segment. In accordance with the Group's internal financial reporting and operating activities, the primary reporting is by business segments and the secondary reporting is by geographical segments. Segment assets consist primarily of property, plant and equipment, leasehold land, inventories, trade and other receivables and mainly exclude financial assets at fair value through profit and loss, deferred income tax assets, bank balances and cash. Segment liabilities comprise mainly trade and other payables and borrowings and exclude deferred income tax assets, current income tax payable and bank overdrafts.



## Notes to the financial statements

**5 Turnover and segment information** (continued)

Primary reporting format – business segments (continued)

	Hotel operation	Catering services	Travel agency	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31st March 2006</b>				
Room rentals	<b>201,785</b>			
Food and beverages	<b>47,459</b>			
Ancillary services	<b>9,203</b>			
Rental income	<b>12,456</b>			
Segment revenue	<b>270,903</b>	<b>22,441</b>	<b>276,448</b>	<b>569,792</b>
Segment results	<b>54,299</b>	<b>3,407</b>	<b>197</b>	<b>57,903</b>
Unallocated corporate expenses				<b>(12,597)</b>
Operating profit				<b>45,306</b>
Interest income				<b>2,683</b>
Net loss from financial assets				<b>(11,731)</b>
Finance costs				<b>(54,280)</b>
Loss before income tax				<b>(18,022)</b>
Income tax expense				<b>(2,821)</b>
Loss attributable to shareholders				<b>(20,843)</b>
<b>Year ended 31st March 2005 (restated)</b>				
Room rentals	172,025			
Food and beverages	39,710			
Ancillary services	8,271			
Rental income	11,089			
Segment revenue	231,095	20,478	317,675	569,248
Segment results	44,406	1,156	(12,939)	32,623
Unallocated corporate expenses				(14,453)
Operating profit				18,170
Interest income				2,140
Net gain from financial assets				58,601
Finance costs				(37,695)
Profit before income tax				41,216
Income tax expense				(12,009)
Profit attributable to shareholders				29,207

## Notes to the financial statements

**5 Turnover and segment information** (continued)

Primary reporting format – business segments (continued)

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Total HK\$'000
<b>Year ended 31st March 2006</b>				
Segment assets	<b>2,236,641</b>	<b>12,220</b>	<b>20,779</b>	<b>2,269,640</b>
Unallocated corporate assets				<b>147,121</b>
Total assets				<b>2,416,761</b>
Segment liabilities	<b>907,093</b>	<b>3,207</b>	<b>16,775</b>	<b>927,075</b>
Unallocated corporate liabilities				<b>13,201</b>
Total liabilities				<b>940,276</b>
Depreciation	<b>51,757</b>	<b>89</b>	<b>118</b>	<b>51,964</b>
Amortisation of leasehold land	<b>20,637</b>	–	–	<b>20,637</b>
Capital expenditure	<b>22,514</b>	<b>136</b>	<b>6</b>	<b>22,656</b>
<b>Year ended 31st March 2005 (restated)</b>				
Segment assets	2,268,711	12,241	25,982	2,306,934
Unallocated corporate assets				233,202
Total assets				2,540,136
Segment liabilities	1,234,420	2,160	13,267	1,249,847
Unallocated corporate liabilities				63,259
Total liabilities				1,313,106
Depreciation	50,667	231	121	51,019
Amortisation of leasehold land	20,637	–	–	20,637
Amortisation of goodwill	–	1,394	2,412	3,806
Impairment of goodwill	–	–	10,924	10,924
Capital expenditure	6,886	44	80	7,010

## Notes to the financial statements

**5 Turnover and segment information** (continued)**Secondary reporting format – geographical segments**

The Group's business segments operating in various geographical areas are as follows:

- Hong Kong – all the Group's business segments
- Canada – hotel and catering
- Mainland China – catering

	Turnover HK\$'000	Operating profit HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
<b>Year ended 31st March 2006</b>				
Hong Kong	<b>483,393</b>	<b>34,938</b>	<b>2,098,734</b>	<b>19,872</b>
Canada	<b>77,575</b>	<b>8,519</b>	<b>307,976</b>	<b>2,727</b>
Mainland China	<b>8,824</b>	<b>1,849</b>	<b>10,051</b>	<b>57</b>
	<b>569,792</b>	<b>45,306</b>	<b>2,416,761</b>	<b>22,656</b>
<b>Year ended 31st March 2005 (restated)</b>				
Hong Kong	493,118	15,737	2,223,484	7,006
Canada	67,910	1,595	308,932	–
Mainland China	8,220	838	7,720	4
	569,248	18,170	2,540,136	7,010

**6 Other charges**

	<b>2006</b> HK\$'000	2005 HK\$'000 (restated)
Depreciation of property, plant and equipment	<b>52,104</b>	51,162
Amortisation of leasehold land	<b>20,637</b>	20,637
Share option expense	<b>17,500</b>	–
Impairment loss of goodwill	–	10,924
Amortisation of goodwill	–	3,806
	<b>90,241</b>	86,529

## Notes to the financial statements

**7 Operating profit**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Operating profit is stated after crediting and charging the following:		
<b>Crediting</b>		
Operating lease rental income for land and buildings	<b>12,457</b>	11,089
<b>Charging</b>		
Staff costs, including Directors' emoluments (note 8)	<b>91,800</b>	68,068
Operating lease rental expense for land and buildings	<b>4,986</b>	4,994
Impairment loss of goodwill	–	10,924
Amortisation of goodwill	–	3,806
Depreciation	<b>52,104</b>	51,162
Amortisation of leasehold land	<b>20,637</b>	20,637
Provision for bad and doubtful debts	<b>2,940</b>	923
Provision for long term investment	–	1,601
Auditors' remuneration	<b>1,354</b>	1,237
Cost of goods sold	<b>20,136</b>	17,496

**8 Staff costs**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Wages and salaries	<b>71,622</b>	65,474
Share options expenses	<b>17,500</b>	–
Termination benefit	<b>42</b>	117
Retirement benefit costs (note (i))	<b>2,636</b>	2,477
	<b>91,800</b>	68,068

Notes:

**(i) Retirement benefit costs**

Gross contributions	<b>2,636</b>	2,510
Forfeitures utilised	–	(33)
Net contributions	<b>2,636</b>	2,477

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

## Notes to the financial statements

### 8 Staff costs (continued)

In Hong Kong, the Group participates in defined contribution schemes under the ORSO which are available to employees joining before 1st December 2000. Under these schemes, contributions of 5% of the employee's monthly salaries are made by the employees and by the Group. The Group's contributions may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

- (ii) Share option expenses are included in other charges in the consolidated profit and loss account. The remaining staff costs are included in cost of sales and administrative expenses.

The Group also participates in the MPF scheme which are available to all employees not joining the ORSO schemes in Hong Kong, and in the CPP organised by the Canadian Government for all employees in Canada. Monthly contributions to the MPF scheme and CPP are made equal to 5% (2005: 5%) or a fixed sum and 4.95% (2005: 4.95%) respectively, of the employee's relevant income in accordance with the local legislative requirements.

The assets of all retirement schemes are held separately from those of the Group in independently administered funds.

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

The Group's contributions to all these schemes are expensed as incurred. As at 31st March 2006, no forfeitures (2005: HK\$33,000) were available to reduce the Group's future contributions to the ORSO schemes.

#### (ii) Share options

The Company has a share option scheme whereby options may be granted to employees of the Group including the Directors to subscribe for shares of the Company. Consideration to be paid on each grant of option is HK\$1.

On 31st October 2005, options to subscribe for a total 250,000,000 shares of the Company were granted under the share option scheme at an exercise price of HK\$0.217 per share. The options were exercisable from 1st November 2005 to 31st October 2015. Up to 31st March 2006, the options for a total of 246,000,000 shares were exercised. As at 31st March 2005, no option has been granted under this share option scheme.

The value of the share options granted to the Directors and employees under the share option scheme of the Company represents the fair value of these options charged to the profit and loss account for the year in accordance with HKFRS 2. The fair value of options granted during the year determined using the Binomial option pricing model was approximately HK\$17,500,000. The significant inputs into the model included share price of HK\$0.215 at the grant date, exercise price of HK\$0.217, expected life of options of 0.8 years, annual risk-free interest rate of 4.302% and 2-year annualised daily volatility rate.

## Notes to the financial statements

**9 Directors' and senior management's emoluments****(a) Director's remuneration**

The remuneration of each Director for the years ended 31st March 2006 and 2005 are set out below:–

	Fees HK\$'000	Salary allowance and benefit in kind HK\$'000	Employer's contribution to pension scheme HK\$'000	Share options (note 8) HK\$'000	Total HK\$'000
<b>Executive Directors</b>					
Mr. Poon Jing	–	5,000	–	–	5,000
Dr. Lim Yin Cheng	–	–	–	3,500	3,500
Mr. Poon Tin Sau, Robert	–	869	35	–	904
Mr. Wong Shu Pui	–	1,040	42	3,500	4,582
	–	6,909	77	7,000	13,986
<b>Non-executive Director</b>					
Mr. Liang Shangli	20	–	–	–	20
	20	–	–	–	20
<b>Independent Non-executive Directors</b>					
Mr. Ip Chi Wai	120	–	–	–	120
Mr. Hung Yat Ming	100	–	–	–	100
Mr. Leung Wai Keung, Richard	100	–	–	–	100
	320	–	–	–	320
<b>Total for 31st March 2006</b>	<b>340</b>	<b>6,909</b>	<b>77</b>	<b>7,000</b>	<b>14,326</b>
<b>Executive Directors</b>					
Mr. Poon Jing	–	5,000	–	–	5,000
Dr. Lim Yin Cheng	–	2,000	–	–	2,000
Mr. Poon Tin Sau, Robert	–	863	35	–	898
Mr. Wong Shu Pui	–	1,090	42	–	1,132
	–	8,953	77	–	9,030
<b>Non-executive Director</b>					
Mr. Liang Shangli	20	–	–	–	20
	20	–	–	–	20
<b>Independent Non-executive Directors</b>					
Mr. Ip Chi Wai	120	–	–	–	120
Mr. Hung Yat Ming	58	–	–	–	58
Mr. Leung Wai Keung, Richard	58	–	–	–	58
	236	–	–	–	236
<b>Total for 31st March 2005</b>	<b>256</b>	<b>8,953</b>	<b>77</b>	<b>–</b>	<b>9,286</b>

(b) During the year, no emoluments had been paid by the Group to the directors or the five highest paid individuals as an emolument to join or upon joining the Group, or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the year.

## Notes to the financial statements

**9 Directors' and senior management's emoluments** (continued)**(c) Five highest paid individuals**

The five highest paid individuals in the Group for the year include three\* (2005: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments paid and payable to the remaining three\* (2005: one) individuals are as follows:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Salaries and other emoluments	<b>1,805</b>	2,000
Share options ( <i>note 8</i> )	<b>7,000</b>	–
	<b>8,805</b>	2,000

The emoluments of these individuals fell within the following bands:

	<b>2006</b>	2005
	<b>Number</b>	Number
Emolument bands		
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$2,500,001 – HK\$3,500,000	<b>1</b>	–
HK\$3,500,001 – HK\$4,000,000	<b>1</b>	–
HK\$5,000,001 – HK\$5,500,000	<b>1</b>	–
	<b>3</b>	1

\* During the year, the emoluments paid and payable to the fifth and the sixth individuals were the same.

## Notes to the financial statements

**10 Interest income**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Interest income		
Bank deposits	<b>1,354</b>	156
Loans to third parties	<b>1,318</b>	1,847
Others	<b>11</b>	137
	<b>2,683</b>	2,140

**11 Net (loss)/gain from financial assets**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Financial assets at fair value through profit or loss		
Realised (loss)/profit	<b>(12,287)</b>	22,419
Fair value (loss)/gain	<b>(1,420)</b>	35,847
Dividend income from listed equity securities	<b>1,976</b>	335
	<b>(11,731)</b>	58,601

**12 Finance costs**

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(restated)
Interest expense		
Bank loans and overdrafts	<b>52,329</b>	34,500
Convertible notes	–	1,335
Finance lease obligations wholly repayable within five years	<b>30</b>	28
Fair value gains on financial instruments – interest rate swaps	<b>(1,257)</b>	–
Other incidental borrowing costs	<b>3,178</b>	1,832
	<b>54,280</b>	37,695



## Notes to the financial statements

**13 Income tax expense**

No provision for Hong Kong profits tax was made in the current year as there were no assessable profits for this year. Hong Kong profits tax was provided at the rate of 17.5% on the estimated assessable profits for last year. No provision for overseas and Mainland China taxation has been made as there are no assessable profits for the year (2005: Nil).

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(restated)
Hong Kong profits tax		
Current income tax	–	10,603
Deferred income tax	<b>3,521</b>	2,369
Mainland China tax		
Deferred income tax	<b>(700)</b>	(963)
Income tax expense	<b>2,821</b>	12,009

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
		(restated)
(Loss)/profit before income tax	<b>(18,022)</b>	41,216
Calculation at a taxation rate of 17.5% (2005: 17.5%)	<b>(3,154)</b>	7,213
Effect of different tax rates in other countries	<b>(1,320)</b>	(1,199)
Income not subject to income tax	<b>(541)</b>	(72)
Recognition of previously unrecognised temporary differences	<b>90</b>	3,324
Recognition of previously unrecognised tax losses	<b>(871)</b>	(2,911)
Expenses not deductible for tax purposes	<b>7,777</b>	9,624
Tax losses not recognised	<b>4,229</b>	1,784
Utilisation of previously unrecognised tax losses	<b>(436)</b>	(3,501)
Temporary differences not recognised	<b>(3,289)</b>	(4,080)
Other	<b>336</b>	1,827
Income tax expense	<b>2,821</b>	12,009

## Notes to the financial statements

### 14 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of profit of HK\$81,887,000 (2005: profit of HK\$619,000).

### 15 Dividend

	2006	2005
	HK\$'000	HK\$'000
Proposed final dividend of HK0.32 cent (2005: Nil) per share	<b>30,279</b>	–

At a meeting held on 13th July 2006, the Board has declared a final dividend of HK0.32 cent per share. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of revenue reserve in the year ending 31st March 2007.

### 16 (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$20,843,000 (2005 restated: profit of HK\$29,207,000) and on the weighted average of 5,492,413,557 (2005: 5,052,108,681) shares in issue during the year ended 31st March 2006.

No diluted loss per share for the year ended 31 March 2006 is presented as the exercise of the outstanding share options had no dilutive effect on loss per share.

For the year ended 31st March 2005, no diluted earnings per share is presented as the conversion of the convertible notes would not have a dilutive effect on the earnings per share.

## Notes to the financial statements

**17 Property, plant and equipment and leasehold land**

## Group

	Freehold land and hotel buildings HK\$'000	Plant and equipment HK\$'000	Leasehold land HK\$'000	Total HK\$'000
<b>Cost</b>				
At 31st March 2004, as previously reported	3,167,550	28,594	–	3,196,144
Prior period adjustments as a result of changes in accounting policies	(2,231,117)	261,598	1,527,516	(442,003)
At 31st March 2004, as restated	936,433	290,192	1,527,516	2,754,141
Exchange difference	26,813	3,996	–	30,809
Additions	–	7,010	–	7,010
Disposals	–	(5,963)	–	(5,963)
At 31st March 2005	963,246	295,235	1,527,516	2,785,997
<b>Accumulated depreciation and amortisation</b>				
At 31st March 2004, as previously reported	–	26,442	–	26,442
Prior period adjustments as a result of changes in accounting policies	140,473	142,191	160,816	443,480
At 31st March 2004, as restated	140,473	168,633	160,816	469,922
Exchange difference	6,768	2,447	–	9,215
Charge for the year	24,812	26,350	20,637	71,799
Disposals	–	(5,933)	–	(5,933)
At 31st March 2005	172,053	191,497	181,453	545,003
<b>Net book value</b>				
At 31st March 2005	791,193	103,738	1,346,063	2,240,994

## Notes to the financial statements

**17 Property, plant and equipment and leasehold land** (continued)

## Group

	Freehold land and hotel buildings	Plant and equipment	Leasehold land	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>				
At 31st March 2005, as restated	963,246	295,235	1,527,516	2,785,997
Exchange difference	15,323	2,455	–	17,778
Additions	–	22,657	–	22,657
Disposals	–	(23,719)	–	(23,719)
<b>At 31st March 2006</b>	<b>978,569</b>	<b>296,628</b>	<b>1,527,516</b>	<b>2,802,713</b>
<b>Accumulated depreciation and amortisation</b>				
At 31st March 2005, as restated	172,053	191,497	181,453	545,003
Exchange difference	4,345	1,738	–	6,083
Charge for the year	25,588	26,516	20,637	72,741
Disposals	–	(23,719)	–	(23,719)
<b>At 31st March 2006</b>	<b>201,986</b>	<b>196,032</b>	<b>202,090</b>	<b>600,108</b>
<b>Net book value</b>				
<b>At 31st March 2006</b>	<b>776,583</b>	<b>100,596</b>	<b>1,325,426</b>	<b>2,202,605</b>

<b>2006</b>	2005
<b>HK\$'000</b>	HK\$'000
	(restated)

Net book value of hotel properties comprise the following:

(i) Freehold land and hotel buildings	<b>776,583</b>	791,193
(ii) Plant and equipment	<b>100,596</b>	103,738
<b>Property, plant and equipment</b>	<b>877,179</b>	894,931
(iii) Leasehold land	<b>1,325,426</b>	1,346,063
	<b>2,202,605</b>	2,240,994

Plant and equipment comprise furniture, fixtures and equipment, plant and machinery and motor vehicles.

## Notes to the financial statements

**17 Property, plant and equipment and leasehold land** (continued)

Supplementary information with hotel properties at valuation:

The aggregate valuation of the hotel properties in Hong Kong and Canada were revalued by Knight Frank and Grant Thornton Management Consultants respectively, independent professional valuers, amounted to HK\$3,537,540,000 (31st March 2005: HK\$3,312,610,000).

The supplementary information with hotel properties at valuation is for readers' information only. It does not constitute a disclosure requirement under HKAS 16 and HKAS 17.

**18 Goodwill**

	2006 HK\$'000	2005 HK\$'000
<b>Cost</b>		
At the beginning of the year	38,581	38,581
Opening adjustment to eliminate accumulated amortisation	(14,469)	–
At the end of the year	24,112	38,581
<b>Accumulated amortisation and impairment</b>		
At the beginning of the year	25,393	10,663
Opening adjustment to eliminate accumulated amortisation against cost	(14,469)	–
Amortisation charge for the year	–	3,806
Impairment charge for the year	–	10,924
At the end of the year	10,924	25,393
<b>Carrying value</b>		
<b>At the end of the year</b>	<b>13,188</b>	<b>13,188</b>

In accordance with the transitional provisions set out in HKFRS 3, the accumulated amortisation of goodwill as at 1st April 2005 has been eliminated against the cost of goodwill as at that date.

**19 Subsidiaries**

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	1,874,808	1,479,055
Amounts due to subsidiaries	(54,461)	(4,263)
	<b>1,820,347</b>	<b>1,474,792</b>

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

Amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

## Notes to the financial statements

**20 Derivative financial instruments**

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest rate swaps	1,257	–

The notional principal amounts of the outstanding interest rate swap contracts at 31st March 2006 were HK\$360,000,000 (2005: Nil).

At 31st March 2006, the fixed interest rates vary from 4.2% to 4.83% per annum and the main floating rates are HIBOR.

**21 Financial assets at fair value through profit or loss**

	Group	
	2006	2005
	HK\$'000	HK\$'000
Equity securities, listed in Hong Kong, at fair value	61,957	93,137

**22 Trade and other receivables**

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables, net of provision	39,614	36,722	–	–
Prepayments	5,535	6,037	–	–
Utility and other deposits	3,602	3,381	–	–
Other receivables	1,430	35,864	–	104
	50,181	82,004	–	104

## Notes to the financial statements

**22 Trade and other receivables** (continued)

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

	Group	
	2006 HK\$'000	2005 HK\$'000
0 day to 60 days	38,132	32,999
61 days to 120 days	1,482	2,039
More than 120 days	–	1,684
	<b>39,614</b>	36,722

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.

- (b) In 2005, included in trade and other receivables were loans receivable of HK\$31,000,000 which were interest bearing at 1% per month or 2% above prime rate per annum and repayable within one year. The balances were fully repaid during the year.

- (c) The carrying amounts of the trade receivables of the Group are denominated in the following currencies:

	Group	
	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	37,263	34,752
Canadian dollar	2,278	1,666
Renminbi	73	304
	<b>39,614</b>	36,722

## Notes to the financial statements

**23 Bank balances and cash**

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	<b>32,270</b>	29,570	<b>2,857</b>	5,251
Short-term bank deposits	<b>12,407</b>	35,402	<b>7,516</b>	5,506
	<b>44,677</b>	64,972	<b>10,373</b>	10,757

The effective interest rate on short-term bank deposits was 0.75% to 3.75% (2005: 0.75% to 1.76% per annum) for the Group and 3.75% (2005: 1.25% per annum) for the Company. These deposits have an average maturity of 48 days (2005: 10 days) for the Group and 65 days (2005: 1 days) for the Company.

**24 Trade and other payables**

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	<b>18,408</b>	18,252	–	–
Amount due to a related company	<b>868</b>	–	–	–
Accrued expenses	<b>26,624</b>	27,265	<b>2,189</b>	3,707
Other payable	<b>1,580</b>	2,068	–	–
	<b>47,480</b>	47,585	<b>2,189</b>	3,707

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 day to 60 days	<b>17,309</b>	16,578
61 days to 120 days	<b>33</b>	308
More than 120 days	<b>1,066</b>	1,366
	<b>18,408</b>	18,252



## Notes to the financial statements

**24 Trade and other payables** (continued)

The carrying amounts of the trade creditors of the Group are denominated in the following currencies:–

	Group	
	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	16,741	14,549
Canadian dollar	1,666	3,493
Renminbi	1	210
	<b>18,408</b>	18,252

Amount due to a related company is unsecured, interest free and has no fixed terms of repayment.

**25 Share capital**

	Number of shares of HK\$0.02 per share	HK\$'000
<b>Authorised:</b>		
At 31st March 2005 and 2006	25,000,000,000	500,000
<b>Issued and fully paid:</b>		
At 31st March 2004 and 2005	5,052,108,681	101,042
Share option exercised	246,000,000	4,920
Share placement	1,010,000,000	20,200
<b>At 31st March 2006</b>	<b>6,308,108,681</b>	<b>126,162</b>

Options to subscribe for a total of 250,000,000 shares of the Company were granted under the share option scheme at an exercise price of HK\$0.217 per share on 31st October 2005. Up to 31st March 2006, the options for a total of 246,000,000 shares were exercised.

The Company issued 1,010,000,000 new shares of HK\$0.02 each at the issue price of HK\$0.195 per share on 15th November 2005. Net proceeds of HK\$193 million from the placing were used for repayment of bank loans. All new shares rank pari passu with the existing shares.

## Notes to the financial statements

## 26 Reserves

## Group

	Share premium	Contributed surplus	Hotel properties revaluation reserve	Exchange reserve	Other reserve	Share options reserve	Revenue reserve	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2004, as previously reported	299,770	899,333	439,144	26,748	–	–	240,405	1,905,400
Prior year adjustments as result of changes in accounting policies	–	–	(439,144)	266	1,362	–	(382,189)	(819,705)
At 1st April 2004, as restated	299,770	899,333	–	27,014	1,362	–	(141,784)	1,085,695
Translation difference	–	–	–	11,086	–	–	–	11,086
Equity component of convertible note	–	–	–	–	(1,362)	–	1,362	–
Profit attributable to shareholders	–	–	–	–	–	–	29,207	29,207
At 31st March 2005	299,770	899,333	–	38,100	–	–	(111,215)	1,125,988
Translation difference	–	–	–	6,241	–	–	–	6,241
Share options granted	–	–	–	–	–	17,500	–	17,500
Exercise of share options	48,462	–	–	–	–	(17,220)	17,220	48,462
Placement of new shares	172,975	–	–	–	–	–	–	172,975
Loss attributable to shareholders	–	–	–	–	–	–	(20,843)	(20,843)
<b>At 31st March 2006</b>	<b>521,207</b>	<b>899,333</b>	<b>–</b>	<b>44,341</b>	<b>–</b>	<b>280</b>	<b>(114,838)</b>	<b>1,350,323</b>
Representing:								
Reserves	521,207	899,333	–	44,341	–	280	(145,117)	1,320,044
Proposed final dividend	–	–	–	–	–	–	30,279	30,279
	521,207	899,333	–	44,341	–	280	(114,838)	1,350,323

## Notes to the financial statements

**26 Reserves** (continued)

## Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
At 1st April 2004, as previously reported	299,770	1,088,229	–	–	(6,936)	1,381,063
Prior year adjustments as result of changes in accounting policies	–	–	1,362	–	(1,362)	–
As 1st April 2004, as restated	299,770	1,088,229	1,362	–	(8,298)	1,381,063
Equity component of convertible notes	–	–	(1,362)	–	1,362	–
Profit for the year	–	–	–	–	619	619
At 31st March 2005	299,770	1,088,229	–	–	(6,317)	1,381,682
Share option granted	–	–	–	17,500	–	17,500
Exercise of share options	48,462	–	–	(17,220)	17,220	48,462
Placement of new shares	172,975	–	–	–	–	172,975
Profit for the year	–	–	–	–	81,887	81,887
At 31st March 2006	521,207	1,088,229	–	280	92,790	1,702,506
Representing:						
Reserve	521,207	1,088,229	–	280	62,511	1,672,227
Proposed final dividend	–	–	–	–	30,279	30,279
	521,207	1,088,229	–	280	92,790	1,702,506

The revenue reserve is distributable. Under the Companies Act of Bermuda and the Bye-Laws of the Company, the contributed surplus is also distributable. Accordingly, the total distributable reserves of the Company as at 31st March 2006 amounted to HK\$ 1,181,299,000 (2005: HK\$1,081,912,000).

## Notes to the financial statements

## 27 Borrowings

	Group	
	2006	2005
	HK\$'000	HK\$'000 (restated)
Bank loans, secured ( <i>note a</i> )		
Repayable within one year	17,846	37,574
Repayable within one to two years	18,475	53,058
Repayable within two to five years	114,323	252,294
Repayable after five years	730,939	902,508
	<b>881,583</b>	1,245,434
Obligations under finance leases wholly repayable within five years ( <i>note b</i> )	240	336
	<b>881,823</b>	1,245,770
Current portion included in current liabilities	(17,943)	(37,678)
	<b>863,880</b>	1,208,092

(a) The bank loans are secured by mortgages of the Group's hotel properties (note 17), floating charges over all the assets of certain subsidiaries and corporate guarantees given by the Company.

(b) At 31st March 2006, the Group's finance lease liabilities were repayable as follows:

	Present value		Minimum payments	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	97	104	112	128
In the second year	88	94	97	108
In the third to fifth year	55	138	57	148
	<b>240</b>	336	<b>266</b>	384

(c) The carrying amounts of the borrowings are denominated in the following currencies:–

	Group	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong dollar	739,945	1,098,123
Canadian dollar	141,878	147,647
	<b>881,823</b>	1,245,770

(d) The effective interest rates of the borrowing at the balance sheet date ranging from 5.07% to 6.50% (2005: 4.56% to 6%) per annum. The interest rates of the borrowings are not subject to contractual repricing.

The carrying amounts of borrowings approximate their fair values.

## Notes to the financial statements

**28 Deferred income tax**

The movement of the net deferred income tax assets is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000 (restated)
At the beginning of the year	42,951	44,357
Charged to profit and loss account	(2,821)	(1,406)
At the end of the year	<b>40,130</b>	42,951

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets with current income tax liabilities and when the deferred income tax relates to the same authority.

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

	Accelerated tax depreciation	Revaluation of hotel properties	Total
	HK\$'000	HK\$'000	HK\$'000
<b>Group</b>			
<b>Deferred income tax liabilities</b>			
At 1st April 2004, as previously reported	99,709	2,992	102,701
Prior year adjustments as result of changes in accounting policies	(62,271)	(2,992)	(65,263)
At 1st April 2004, as restated	37,438	–	37,438
Charged to profit and loss account	437	–	437
At 31st March 2005	37,875	–	37,875
Charged to profit and loss account	407	–	407
<b>At 31st March 2006</b>	<b>38,282</b>	<b>–</b>	<b>38,282</b>

## Notes to the financial statements

**28 Deferred income tax** (continued)

	Accelerated accounting depreciation HK\$'000	Tax losses HK\$'000	Provision HK\$'000	Total HK\$'000
<b>Deferred income tax assets</b>				
At 1st April 2004, as previously reported	428	80,902	439	81,769
Prior year adjustments as result of changes in accounting policies	–	26	–	26
At 1st April 2004, as restated	428	80,928	439	81,795
Charged to profit and loss account	(22)	(512)	(435)	(969)
At 31st March 2005	406	80,416	4	80,826
Charged to profit and loss account	(14)	(2,396)	(4)	(2,414)
<b>At 31st March 2006</b>	<b>392</b>	<b>78,020</b>	<b>–</b>	<b>78,412</b>

	Tax losses	
	2006	2005
	HK\$'000	HK\$'000
<b>Company</b>		
<b>Deferred income tax assets</b>		
At the beginning of the year	<b>778</b>	–
(Charged)/credited to profit and loss account	<b>(641)</b>	778
At the end of the year	<b>137</b>	778

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of HK\$ 22 million (2005: HK\$24 million) in respect of losses amounting to HK\$70 million (2005: HK\$71 million) that can be carried forward against future taxable income. Except for tax losses of HK\$8 million (2005: HK\$5 million) which have no expiry date, the balance will expire at various dates up to and including 2013 (2005: 2012).

## Notes to the financial statements

**29 Operating lease arrangements****(a) Lessor**

The Group leases out certain part of its hotel properties under operating leases which typically run for lease terms between 2 and 6 years.

The future aggregate minimum lease receivable under non-cancellable operating leases is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within one year	<b>10,578</b>	10,994
In the second to fifth years inclusive	<b>24,726</b>	16,788
After the fifth year	<b>2,895</b>	5,203
	<b>38,199</b>	32,985

As at 31st March 2006, the Company had no operating lease receivable arrangements (2005: Nil).

**(b) Lessee**

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within one year	<b>5,037</b>	4,939
In the second to fifth years inclusive	<b>3,400</b>	7,878
	<b>8,437</b>	12,817

As at 31st March 2006, the Company had no operating lease payable arrangements (2005: Nil).

**30 Capital commitments**

As at 31st March 2006 and 31st March 2005, the Group had no significant capital commitments.

**31 Contingent liabilities**

As at 31st March 2006 and 31st March 2005, the Group had no significant contingent liabilities.

## Notes to the financial statements

### 32 Related party transactions

The major shareholders of the Group are Asia Standard International Group Limited ("ASIGL") and Asia Orient Holdings Limited ("Asia Orient"), companies incorporated in Bermuda and listed in Hong Kong. ASIGL own 56.88% of the Company's shares and Asia Orient owns effectively 25.86% of the Company's shares. The remaining 40.57% shares are widely held.

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

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Income from ASIGL		
Hotel services ( <i>note i</i> )	<b>11</b>	18
Travel agency service ( <i>note ii</i> )	<b>429</b>	863
Income from/(expenses to) fellow subsidiaries		
Travel agency service ( <i>note ii</i> )	<b>32</b>	31
Operating lease rental expense for properties ( <i>note iii</i> )	<b>(495)</b>	(463)
Management service expenses ( <i>note iv</i> )	<b>(934)</b>	(905)
Income from Asia Orient		
Hotel services ( <i>note i</i> )	<b>3</b>	1

Note:

- (i) Hotel revenue is charged at prices and terms as agreed with the parties involved.
- (ii) Travel agency services revenue including revenue from air ticketing and hotel booking services.
- (iii) Rental expense is subject to terms agreed by the parties involved, which is at a monthly fixed fee.
- (iv) Management service expenses, including cleaning, repair and maintenance, are subject to terms agreed by the parties involved, which are at fixed fees.

### 33 Post balance sheet event

On 17th May 2006, the Group issued 3,154,054,340 rights shares of HK\$0.02 each at HK\$0.09 per share on the basis of one rights share for every two existing shares held on the record date. Total proceeds amounted to HK\$283,865,000 and were used for repayment of part of the Group's long-term bank loans.



## Notes to the financial statements

**34 Notes to consolidated cash flow statement**

## Reconciliation of (loss)/profit before income tax to net cash generated from operations

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000 (restated)
(Loss)/profit before income tax	<b>(18,022)</b>	41,216
Depreciation	<b>52,104</b>	51,162
Amortisation of leasehold land	<b>20,637</b>	20,637
Interest income	<b>(2,683)</b>	(2,140)
Dividend income	<b>(1,976)</b>	(335)
Finance costs	<b>55,537</b>	37,695
Realised loss/(profit) on financial assets at fair value through profit or loss	<b>12,287</b>	(22,419)
Provision for long term investment	–	1,601
Net unrealised loss/(profit) on financial asset at fair value through profit or loss	<b>1,420</b>	(35,847)
Fair value on share options granted	<b>17,500</b>	–
Fair value gains on derivative financial instruments	<b>(1,257)</b>	–
Loss on disposal of property, plant and equipment	–	30
Amortisation and impairment of goodwill	–	14,730
Operating profit before working capital changes	<b>135,547</b>	106,330
Decrease/(increase) in inventories	<b>124</b>	(75)
Decrease in trade and other receivables	<b>31,158</b>	7,449
(Decrease)/increase in trade and other payables	<b>1,029</b>	3,188
Net cash generated from operations	<b>167,858</b>	116,892

## Notes to the financial statements

### 35 Principal subsidiaries

A list of the Group's principal subsidiaries which are in the opinion of the Directors, principally affect the results and/or net assets of the Group, are as follows:

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

Name	Principal activity	Issued and fully paid ordinary share capital/ registered capital
<i>Incorporated in Hong Kong</i>		
Asia Standard Hotel (Holdings) Limited	Investment holding	HK\$2
Grace Profit Enterprises Limited	Investment holding	HK\$2
JBC Travel Company Limited	Travel agency	HK\$2,500,000
Perfect Wave Limited	Catering operation	HK\$2
Stone Pole Limited	Hotel investment and operation	HK\$10
Vinstar Development Limited	Hotel investment and operation	HK\$2
<i>Incorporated in the British Virgin Islands</i>		
Enrich Enterprise Limited #	Hotel investment	US\$1
Global Gateway Corp. #	Hotel operation	US\$1
Glory Ventures Enterprises Inc. #	Hotel investment	US\$1
Greatime Limited	Securities investment	US\$1
Superite Limited	Securities investment	US\$1
<i>Incorporated in the People's Republic of China</i>		
Shanghai Hong Hua TGIF Restaurant Co. Limited (95% owned) ##	Catering operation	RMB17,384,640

# Operates in Canada

## Operates in Mainland China, cooperative joint venture

### 36 Ultimate holding company

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

### 37 Approval of financial statements

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