# Far East Hotels and Entertainment Limited

Stock Code : 37

# Annual Report

# 2011

# Contents



In the event of any error or omission in translation of this Annual Report, the English text shall be taken as correct.

# Corporate Information

## PLACE OF INCORPORATION
Hong Kong

## BOARD OF DIRECTORS

### Executive Directors
Deacon Te Ken Chiu, J.P. *(Chairman)*
Derek Chiu, B.A. *(Managing Director and Chief Executive)*
Desmond Chiu, B.A. *(Deputy Managing Director)*
Margaret Chiu, LL.B.

### Non-executive Directors
Chiu Ju Ching Lan, J.P.
Dick Tat Sang Chiu, M.A.
Tan Sri Dato' David Chiu, B.Sc.
Dennis Chiu, B.A.
Duncan Chiu, B.Sc.

### Independent Non-executive Directors
Ip Shing Hing, J.P.
Ng Wing Hang Patrick
Choy Wai Shek Raymond, MH, J.P.

## COMPANY SECRETARY
Tang Sung Ki, CPA, FCCA

## SOLICITORS
Woo Kwan Lee & Lo

## AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

## AUTHORISED REPRESENTATIVES
Derek Chiu, B.A.
Tang Sung Ki, CPA, FCCA

# Corporate Information

## AUDIT COMMITTEE
Ip Shing Hing, J.P.
Duncan Chiu, B.Sc.
Ng Wing Hang Patrick
Choy Wai Shek Raymond, MH, J.P.

## REMUNERATION COMMITTEE
Derek Chiu, B.A.
Ng Wing Hang Patrick
Choy Wai Shek Raymond, MH, J.P.

## PRINCIPAL BANKERS
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Public Bank (Hong Kong) Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited

## REGISTERED & PRINCIPAL OFFICE
Suite 2308, 23rd Floor, Office Tower,
Convention Plaza, 1 Harbour Road,
Wanchai, Hong Kong

## SHARE REGISTRAR
Tricor Standard Limited
26/F., Tesbury Centre,
28 Queen's Road East, Hong Kong

## STOCK EXCHANGE
The Shares of the Company are listed on
The Stock Exchange of Hong Kong Limited

## STOCK CODE
0037

## WEBSITE
www.tricor.com.hk/webservice/00037

# Profile of Directors

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Deacon Te Ken Chiu,** J.P. *(Chairman)*
Aged 86. He was appointed as a Director and Chairman of the Company in 1979. He is the founder of the Far East Group. He is also the Chairman of Far East Consortium International Limited (stock code: 35) and Far East Holdings International Limited (stock code: 36). Mr. Chiu has more than 50 years of business experience in property investment and development; operation of entertainment and tourism related business; hotel ownership and management; financing and banking. Mr. Chiu was a member of the Chinese People's Political and Consultative Conference from the 6th to 9th; the founder of the Yan Chai Hospital and the Vice Patron of the Community Chest since 1968; the founder and permanent Honorary Chairman of The New Territories General Chamber of Commerce; the founder and Chairman of the Ju Ching Chu Secondary School since 1966. Mr. Chiu is the husband of Madam Chiu Ju Ching Lan and the father of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

**Mr. Derek Chiu**, B.A. *(Managing Director & Chief Executive)*
Aged 45. He joined and was appointed as Director of the Company in 1989. He is also a Non-executive Director of Far East Holdings International Limited (stock code: 36). He has extensive experience in the operation of amusement parks and entertainment business. He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Dennis Chiu, Desmond Chiu and Duncan Chiu.

**Mr. Desmond Chiu**, B.A. *(Deputy Managing Director)*
Aged 44. He was appointed as director and Deputy Managing Director of the Company on 6 May 2010. He graduated from the University of Cambridge, the United Kingdom. He is also a Non-executive Director of Far East Holdings International Limited (stock code: 36). He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu and Duncan Chiu.

**Ms. Margaret Chiu**, LL.B.
Aged 54. She joined and was appointed as Director of the Company in 1989. She graduated with law degree from the University of Buckingham, the United Kingdom. She has extensive experience in entertainment, television and motion picture business in Hong Kong, the People's Republic of China and overseas. She is the daughter of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the sister of Messrs. Dick Tat Sang Chiu, David Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

# Profile of Directors

## Non-Executive Directors

**Madam Chiu Ju Ching Lan**, J.P.
Aged 71. She joined the Company and was appointed as Director in 1979. She is also a Non-executive Director of Far East Consortium International Limited (stock code: 35). Since 1975, she is the Honorary Vice-President of Hong Kong Girl Guides Association. She has been active in social circles and was Lady Chairman of Yan Chai Hospital for 1977/78. She is the founder and Honorary Chairman of New Territories Women's and Juveniles Welfare Association. She is a committee member and Supervisor of Ju Ching Chu Secondary School and the Chairman of Kowloon Women's Welfare Club. She is the member of Shanghai Standing Committee Chinese People's Political Consultative Conference since 1982. She is also the Honorary Vice-President of Hong Kong Federation of Women since 1997. She is the wife of Mr. Deacon Te Ken Chiu and the mother of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

**Mr. Dick Tat Sang Chiu**, M.A.
Aged 60. He joined the Far East Group in 1974 and was appointed as Director in 1979. He graduated from the University of Cambridge with an honour Master of Arts degree in Economics. He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. David Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

**Tan Sri Dato' David Chiu**, B.SC.
Aged 57. He joined the Far East Group in 1975 and was appointed as Director of the Company in 1979. He holds a double degree of Bachelor of Science in Business Administration and Economics at the University of Sophia, Japan. He is a prominent businessman with over 30 years' experience in the property development and extensive experience in the hotel development. In his business career, he established a number of highly successful business operation through organic growth and acquisitions, covering mainland China, Hong Kong, Japan, Malaysia, Singapore and Australia. Since 1978, he had been the Managing Director of Far East Consortium Limited (the predecessor of Far East Consortium International Limited (stock code: 35)). He was appointed as Deputy Chairman and Chief Executive Officer of Far East Consortium International Limited on 8th December 1994 and 8th October 1997 respectively.

With regard to his devotion to the community services, he is a trustee member of "The Better Hong Kong Foundation" and the former chairman of "the Festival Celebration for the Chinese People's Liberation Army Force" in Hong Kong. He is also a member of the "Concerted Efforts Resource Centre", a member of "Hong Kong General Chamber Of Commerce", a member of the "Constitutional Reform Synergy" and a member of "The Real Estate Developers Association of Hong Kong". In Malaysia, he was awarded an honorary award which carried the title "Dato" and a more senior honorary title of "Tan Sri" by His Majesty, King of Malaysia in 1997 and 2005 respectively. He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. Dick Tat Sang Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

# Profile of Directors

**Mr. Dennis Chiu**, B.A.

Aged 52. He joined the Company and was appointed as Director in 1979. He has been actively involved in the business development in the People's Republic of China, Singapore and Malaysia. He is an Executive Director of Far East Consortium International Limited (stock code: 35) and an Executive Director of Far East Holdings International Limited (stock code: 36). He is also a Non-executive Director of London-listing Fortune Oil Plc. He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Derek Chiu, Desmond Chiu and Duncan Chiu.

**Mr. Duncan Chiu**, B.SC.

Aged 36. He joined and was appointed as Director of the Company in 1996. He graduated with a bachelor's degree in business administration from Pepperdine University of California, USA in 1996. He is also the Managing Director and Chief Executive Officer of Far East Holdings International Limited (stock code: 36). He also serves as Deputy Chairman of The Chamber of Hong Kong Listed Companies, Chairman of Hong Kong Software Industry Association, Vice President of Innovation & Technology Association, Committee Member of All-China Youth Federation, Vice Chairman of Henan Provincial Youth Federation, Member of The Chinese People's Political Consultative Conference, Shanghai Committee and Convenor of Hong Kong Digicreate Alliance. He is the son of Mr. Deacon Te Ken Chiu and Madam Chiu Ju Ching Lan and the brother of Messrs. Dick Tat Sang Chiu, David Chiu, Margaret Chiu, Dennis Chiu, Derek Chiu and Desmond Chiu.

## Independent Non-Executive Directors

**Mr. Ip Shing Hing**, J.P.

Aged 56. Mr. Ip was appointed as an Independent Non-executive Director of the Company on 31 March 1997. He holds a Bachelor of Laws Degree from the University of Hong Kong and a Master of Arts in Arbitration and Alternative Dispute Resolution from the City University of Hong Kong. He has been a practising solicitor in Hong Kong for more than 20 years. Mr. Ip is an independent non-executive director of Binhai Investment Company Limited (stock code: 8035).

**Mr. Ng Wing Hang Patrick**

Aged 58. Mr. Ng was appointed as an Independent Non-executive Director of the Company on 28 September 2004. He is a practising Certified Public Accountant in Hong Kong and is the Managing Director of Messrs. Pan-China (H.K.) CPA Limited, Certified Public Accountants. Mr. Ng also serves as independent non-executive director on the board of another listed company in Hong Kong, namely, Shenyin Wanguo (H.K.) Limited (stock code: 218).

**Mr. Choy Wai Shek Raymond**, MH, J.P.

Aged 62. Mr. Choy was appointed as an Independent Non-executive Director of the Company on 28 September 2004. He was the Chairman of Sham Shui Po District Council, Hong Kong for the year 1991 to 1994, a member of Hong Kong Affairs Adviser for the year 1994 to 1997, a member of Hong Kong Broadcasting Authority for the year 1995 to 1998. He was a Former Vice-chairman of Occupational Safety And Health Council. He is now a member of Energy Advisory Committee, a member of Consumer Council, a member of CPPCC Guangzhou Committee, a director of Chinese General Chamber Of Commerce.

# Managing Director & Chief Executive's Statement

## RESULTS

I report to the shareholders that the audited consolidated profit of the Group attributable to shareholders for the year ended 31 March 2011 amounted to HK$5,380,682 (2010: HK$8,711,838).

The directors do not recommend the payment of any dividend for the year.

## REVIEW OF OPERATIONS AND PROSPECTS

The overall turnover of Cheung Chau Warwick Hotel has increased by 7% compared with the last corresponding year. The room revenue has increased by 19% and the food and beverage revenue has remained stable. This increase was mainly due to the continued growth of tourist from mainland China and various festival promotions such as Easter promotion in 2010. Our Sales team will continue to explore and develop the China market as well as existing local and foreign markets.

The turnover of Beijing Warwick Suite Hotel has increased by 29% compared with last corresponding year. This increase was mainly due to leasing out of several floors to a local China company in November 2010.

Further, at the end of the reporting period, there was an increase of approximately HK$20,890,000 in fair value of investment properties.

In securities investment and trading, the Group has recorded a profit of approximately HK$1,000,000.

During the year, the Group disposed of two of its investment properties with completion dates on 1 December 2010 and 26 April 2011 respectively. The net proceeds of approximately HK$31,400,000 from the disposals are intended to be used for working capital purpose of the Group.

In early September 2010, Mr. Duncan Chiu (a non-executive director of the Company) was charged by the Commercial Crime Bureau of the Hong Kong Police Force in respect of alleged offences including section 157H (2)(a) of the Companies Ordinance, Cap. 32 of the Laws of Hong Kong, in relation to the business operations of Far East Holdings International Limited (Stock Code: 0036). Based on the information so far available to the Board, Mr. Duncan Chiu is now still on bail. The Board believes that the above matter will not have any impact on the Company.

The Group will from time to time seek for investment opportunity that can provide investment potential and broaden the income base of the Group.

## EMPLOYEES

The Group has approximately 100 employees. Employees are remunerated in accordance with nature of the job and market conditions. Staff incentive bonus would be granted to reward and motivate those well-performed employees.

# Managing Director & Chief Executive's Statement

**FINANCE ACTIVITIES**

At 31 March 2011, there were outstanding bank loans of HK$50,406,795 (2010: HK$67,793,482) and unutilised overdraft facilities of HK$4,000,000 (2010: HK$4,000,000) available to the Group.

At 31 March 2011, the Group did not have any foreign exchange contracts, interest or currency swaps or other financial derivatives.

Shareholders' funds at 31 March 2011 amounted to approximately HK$302 million (2010: approximately HK$296 million). Accordingly, the Group's gearing ratio (total bank borrowings to shareholders' funds) at 31 March 2011 is 17% (2010: 23%).

On behalf of the Board of Directors, I would like to extend my sincere thanks to all our shareholders for their continued support, and to our staff for their dedication, loyalty and service.

**Derek Chiu**
*Managing Director & Chief Executive*

Hong Kong, 24 June 2011

# Directors' Report

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st March, 2011.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The activities of its principal subsidiaries, associates and jointly controlled entity are set out in notes 15, 16 and 17 respectively, to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 21.

The directors do not recommend the payment of a dividend.

## RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 26 and note 34 to the consolidated financial statements respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company are set out in note 13 to the consolidated financial statements.

## INVESTMENT PROPERTIES

Details of movements in investment properties of the Group are set out in note 14 to the consolidated financial statements.

## PROPERTIES

Details of the major properties held by the Group at 31st March, 2011 are set out on pages 86 to 87 of the annual report.

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

# Directors' Report

## DIRECTORS

The directors of the Company who held office during the year and up to the date of this report were:

### Executive directors

Mr. Deacon Te Ken Chiu *(Chairman)*
Mr. Derek Chiu *(Managing Director and Chief Executive)*
Mr. Desmond Chiu *(Deputy Managing Director)* (Appointed on 6th May, 2010)
Ms. Margaret Chiu

### Non-executive directors

Madam Chiu Ju Ching Lan
Mr. Dick Tat Sang Chiu
Mr. David Chiu
Mr. Dennis Chiu
Mr. Duncan Chiu

### Independent non-executive directors

Mr. Ip Shing Hing
Mr. Ng Wing Hang Patrick
Mr. Choy Wai Shek Raymond

### Alternate director

Mr. Chan Chi Hing *(Alternate to Mr. Deacon Te Ken Chiu)* (Resigned on 26th November, 2010)

In accordance with Articles, 78 and 79 of the Company's Articles of Association, one-third of the Directors shall retire from office and, being eligible, offer themselves for re-election.

In accordance with Articles 78 and 79 of the Company's Articles of Association, Mr. David Chiu, Ms. Margaret Chiu, Mr. Ip Shing Hing and Mr. Ng Wing Hang Patrick shall retire from office at the forthcoming annual general meeting. Mr. David Chiu will not offer himself for re-election as Director whereas the other three persons, being eligible, will offer themselves for re-election.

The term of office for each non-executive director is the period up to his or her annual retirement by rotation in accordance with the Company's Articles of Association.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers the independent non-executive Directors to be independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

The biographical details of the directors of the Group are set out on pages 4 to 6 of the annual report.

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st March, 2011, the interests and short positions of the directors and the Company's chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which were required (a) to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

### (a) Directors' interest in shares and underlying shares of the Company

| Name of director | Number of issued ordinary shares held: Personal interests | Family interests | Corporate interests | | Total | Approximate percentage of issued share capital of the Company |
|---|---|---|---|---|---|---|
| Mr. Deacon Te Ken Chiu | 12,491,424 | – | 108,901,052 | *(Note 1)* | 121,392,476 | 24.83% |
| Mr. Derek Chiu | 12,394,000 | – | 78,430,299 | *(Note 2)* | 90,824,299 | 18.58% |
| Madam Chiu Ju Ching Lan | 188,000 | – | – | | 188,000 | 0.04% |
| Mr. Dick Tat Sang Chiu | 12,172,800 | – | 22,277,033 | *(Note 3)* | 34,449,833 | 7.05% |
| Mr. David Chiu | 3,144,627 | – | – | | 3,144,627 | 0.64% |
| Ms. Margaret Chiu | 676,240 | – | 5,000,000 | *(Note 4)* | 5,676,240 | 1.16% |

*Notes:*

(1) Of the 108,901,052 shares, (i) 100,939,842 shares were held by various private companies wholly owned by Mr. Deacon Te Ken Chiu of which 72,182,400 shares were held by Achiemax Limited; (ii) 295,210 shares were held by Far East Consortium Limited, a wholly-owned subsidiary of Far East Consortium International Limited; and (iii) 7,666,000 shares were held by Brentford Investments Inc., a wholly-owned subsidiary of Far East Holdings International Limited. Mr. Deacon Te Ken Chiu is a controlling shareholder of these companies.

(2) The 78,430,299 shares were held by Energy Overseas Ltd., a company wholly owned by Mr. Derek Chiu.

(3) The 22,277,033 shares were held by various private companies wholly owned by Mr. Dick Tat Sang Chiu.

(4) The 5,000,000 shares were held by a private company wholly owned by Ms. Margaret Chiu.

# Directors' Report

**(b) Directors' interest in shares and underlying shares of associated corporation**

| Name of director | Nature of interests | Name of associated corporation | Number of issued ordinary shares held | Percentage of the issued share capital of associated corporation |
|---|---|---|---|---|
| Mr. Derek Chiu | Long Position | Sino Noble Development Limited | 50 | 50% |

Sino Noble Development Limited is jointly held by Mr. Derek Chiu and the Company.

**(c) Share options of the Company**

Details of the share option scheme that complies with the Listing Rules adopted on 1st June, 2007 are set out in note 45 to the financial statements. Share Options held by the directors are as follows:

| Category of Grantee | Options held at 31st March, 2011 | Exercise Price HK$ | Grant date | Exercisable period from | Exercisable period to |
|---|---|---|---|---|---|
| **Independent non-executive directors** | | | | | |
| Mr. Ip Shing Hing | 1,000,000 | 0.282 | 30/12/2009 | 30/12/2009 | 29/12/2019 |
| Mr. Ng Wing Hang Patrick | 1,000,000 | 0.282 | 30/12/2009 | 30/12/2009 | 29/12/2019 |
| Mr. Choy Wai Shek Raymond | 1,000,000 | 0.282 | 30/12/2009 | 30/12/2009 | 29/12/2019 |
| **Aggregate for employees** | 5,000,000 | 0.282 | 30/12/2009 | 30/12/2009 | 29/12/2019 |
| | 1,500,000 | 0.265 | 24/02/2010 | 24/02/2010 | 23/02/2020 |
| | 9,500,000 | | | | |

No share options were granted under the scheme, exercised nor lapsed during the year ended as at 31st March, 2011.

Save as disclosed above, as at 31st March, 2011, none of the directors nor the Company's chief executive nor their respective associates, had interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listing Companies.

On 15th April, 2011, the Company granted share options to Mr. Derek Chiu to subscribe for an aggregate of 4,500,000 shares of the Company at an exercise price of HK$0.2498 per share.

# Directors' Report

## SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 45 to the consolidated financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as the share options disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

The title of certain leasehold land and buildings owned by a subsidiary is registered in the name of a company controlled by Mr. Deacon Te Ken Chiu and his family (the "Chiu Family") as trustee for the said subsidiary.

Save as disclosed above, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors of the Company has a contract of service with the Company or any of its subsidiaries not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## SUBSTANTIAL SHAREHOLDERS

Save as the interests of certain directors disclosed under the section headed "DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES", according to the register of interests maintained by the Company pursuant to Section 336 of the SFO and so far as was known to the directors or chief executive of the Company, as at 31st March, 2011, the following persons or corporations (other than a director or chief executive of the Company) had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or in any options in respect of such capital:

| Name of shareholder | Capacity | Number of issued ordinary shares held | Percentage of issued share capital of the Company |
|---|---|---|---|
| Achiemax Limited *(Note 1)* | Beneficial owner | 72,182,400 | 14.77% |
| Energy Overseas Ltd. *(Note 2)* | Beneficial owner | 78,430,299 | 16.04% |

*Notes:*

1. Mr. Deacon Te Ken Chiu and Mr. Dennis Chiu are directors of Achiemax Limited.
2. Energy Overseas Ltd. is a company wholly owned by Mr. Derek Chiu who is also its director.

# Directors' Report

Save as disclosed above, as at 31st March, 2011 and so far as is known to the directors or chief executive of the Company, there was no other person (other than a director or chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Group or in any options in respect of such capital.

## MAJOR SUPPLIERS AND CUSTOMERS

The five largest suppliers of the Group accounted for less than 42% of the total purchases of the Group in the year.

The five largest customers of the Group accounted for less than 29% of the total sales of the Group in the year.

## EMPLOYEES AND REMUNERATION POLICIES

The Group has approximately 100 employees. Employees are remunerated in accordance with nature of the job and market conditions. Staff incentive bonus would be granted to reward and motivate those well-performed employees.

## CORPORATE GOVERNANCE

A report on the principle corporate governance practices adopted by the Company is set out on pages 16 to 19 of the annual report.

## AUDIT COMMITTEE

The Company's audit committee comprises of Independent Non-executive Directors and Non-executive Director.

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company as at the date of this annual report, the Company has maintained the prescribed public float under the Listing Rules.

## EMOLUMENT POLICY

The Company had established a Remuneration Committee with written terms of reference pursuant to the provisions set out in the Code. The Remuneration Committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

The Company has adopted a share option scheme as an incentive to directors and eligible participants and other consultants, details of the scheme is set out in note 45 to the consolidated financial statements.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Model Code. The Directors confirmed that there was not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31st March, 2011.

## AUDITOR

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Derek Chiu**
*Managing Director and Chief Executive*

Hong Kong, 24th June, 2011

# Corporate Governance Report

## COMMITMENT TO CORPORATE GOVERNANCE

The Company is committed to maintaining statutory and regulatory standards and adherence to the principles of corporate governance emphasizing transparency, independence, accountability, responsibility and fairness. The Board and the Senior Management of the Company ensure that effective self-regulatory practices exist to protect the interests of the shareholders of the Company.

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2011.

## THE BOARD OF DIRECTORS

The Board's primary responsibilities are to formulate long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board. The Board is directly accountable to the shareholders and is responsible for preparing the accounts.

The Board comprises twelve Directors, whose biographical details are set out in the "Profile of the Directors" of this Annual Report. Four of the Directors are executive, five are non-executive and three are independent non-executive. The eight non-executive Directors have a broad range of financial, regulatory and commercial experience and skills, which contribute to the effective strategic management of the Group. The executive Directors are not permitted to engage in any other business which is in competition with that of the Group, and are required, with the exception of the Chairman, to devote all of their active business time to the business and affairs of the Group.

Please refer to the Report of Directors of this Annual Report for the composition of the Board.

The posts of Chairman and Managing Director & Chief Executive are held separately by Mr. Deacon Te Ken Chiu and Mr. Derek Chiu respectively and their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for formulating and setting Group strategies and policies in conjunction with the Board.

The Managing Director & Chief Executive is responsible for managing the Group strategic initiatives, investor relations, corporate and investor communications, mergers/acquisitions and financing.

Pursuant to the requirement of the Listing Rules, the Company has received confirmation from all three independent non-executive Directors of their independence from the Company and considers them to be independent.

# Corporate Governance Report

The Board met on four occasions during the year ended 31 March 2011. The attendance of individual Directors at the Board meetings was set out in the table below:

| | Number of meetings attended | Attendance rate |
|---|---|---|
| **Executive Directors** | | |
| Deacon Te Ken Chiu *(Chairman)* | 0/4 | 0% |
| Derek Chiu *(Managing Director and Chief Executive)* | 4/4 | 100% |
| Desmond Chiu *(Deputy Managing Director)* (Appointed on 6 May 2010) | 0/4 | 0% |
| Margaret Chiu | 0/4 | 0% |
| **Non-executive Directors** | | |
| Chiu Ju Ching Lan | 0/4 | 0% |
| Dick Tat Sang Chiu | 0/4 | 0% |
| Tan Sri Dato' David Chiu | 0/4 | 0% |
| Dennis Chiu | 0/4 | 0% |
| Duncan Chiu | 3/4 | 75% |
| **Independent Non-executive Directors** | | |
| Ip Shing Hing | 2/4 | 50% |
| Ng Wing Hang Patrick | 2/4 | 50% |
| Choy Wai Shek Raymond | 1/4 | 25% |
| **Alternate director** | | |
| Mr. Chan Chi Hing *(Alternate to Mr. Deacon Te Ken Chiu)* (Resigned on 26 November 2010) | 0/4 | 0% |

## CORPORATE GOVERNANCE

The Board confines itself to making broad policy decisions, such as the Group's overall strategies, policies and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

The Board has established Audit Committee and Remuneration Committee in accordance with the Code and a majority of the members of Committees are independent non-executive directors.

The Company has complied with the Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31 March 2011, with deviations from code provision A.4.1 of the Code in respect of the service term of Directors.

None of the existing Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all Directors of the Company are subject to the retirement by rotation at each annual general meeting under Articles 78 and 79 of the Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's Corporate Governance Practices are no less exacting than those in the Code.

# Corporate Governance Report

## INTERNAL CONTROL

The Board has overall responsibility for maintaining a sound and effective internal control system of the Group. The Group's internal control system includes a well-defined management structure with limits of authority which is designed for the achievement of business objectives, safeguard assets against unauthorized use or disposition, ensure proper maintenance of books and records for the provision of reliable financial information for internal use or publication, and to ensure compliance with relevant legislations and regulations.

## COMMUNICATION WITH SHAREHOLDERS

The Board adopts an open and transparent communication policy and encourages full disclosure to the public as a way to enhance corporate governance. The Board aims to provide our shareholders and the public with the necessary information for them to form their own judgement on the Company.

## AUDITOR'S REMUNERATION

For the year ended 31 March 2011, the Auditor of the Company received approximately HK$850,000 for audit service (2010: approximately HK$800,000).

## MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted a new code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Directors confirmed that there were not any non-compliance with the standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year ended 31 March 2011.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. With the assistance of the Finance Department which is under the supervision of the Qualified Accountant of the Company, the Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the publication of the financial statements of the Group is in a timely manner.

The Statement of the Auditor of the Company regarding their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report of this Annual Report.

## AUDIT COMMITTEE

The Company has established an Audit Committee. The terms of reference of the Audit Committee are consistent with the provisions set out in the relevant section of the Code.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the financial statements. The Audit Committee comprises three independent non-executive directors, namely, Mr. Ip Shing Hing, Mr. Ng Wing Hang Patrick, Mr. Choy Wai Shek Raymond and one non-executive director, Mr. Duncan Chiu.

# Corporate Governance Report

The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, financial statements and internal control procedures. It also acts as an important link between the Board and the Company's auditor in matters within the scope of the Group audit.

The Group's interim report for the six months ended 30 September 2010 and the annual report for the year ended 31 March 2011 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

During the financial year ended 31 March 2011, two meetings were held by the Audit Committee. The individual attendance record of each member of the Audit Committee was as follows:

| | Number of meetings attended | Attendance rate |
|---|---|---|
| Ip Shing Hing | 2/2 | 100% |
| Ng Wing Hang Patrick | 2/2 | 100% |
| Choy Wai Shek Raymond | 1/2 | 50% |
| Duncan Chiu | 1/2 | 50% |

## REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference pursuant to the provisions set out in the Code. The committee comprises two independent non-executive directors, namely Mr. Ng Wing Hang Patrick, Mr. Choy Wai Shek Raymond and the Managing Director & Chief Executive, Mr. Derek Chiu of the Company. The Remuneration Committee is principally responsible for formulation and making recommendation to the Board on the Group's policy and structure for all remuneration of directors and senior management.

The terms of reference of the Remuneration Committee are consistent with the provisions set out in the relevant section of the Code. No Director is involved in deciding his own remuneration.

During the financial year ended 31 March 2011, one meeting was held by the Remuneration Committee. The individual attendance record of each member of the Remuneration Committee was as follows:

| | Number of meetings attended | Attendance rate |
|---|---|---|
| Derek Chiu | 1/1 | 100% |
| Ng Wing Hang Patrick | 1/1 | 100% |
| Choy Wai Shek Raymond | 0/1 | 0% |

# Independent Auditor's Report

Deloitte.
德勤

**TO THE MEMBERS OF FAR EAST HOTELS AND ENTERTAINMENT LIMITED**
**遠東酒店實業有限公司**
*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Far East Hotels And Entertainment Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 21 to 85, which comprise the consolidated and Company's statements of financial position as at 31st March, 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
Certified Public Accountants
Hong Kong

24th June, 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31st March, 2011

| | NOTES | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| Revenue | 5 | **30,955,911** | 26,938,036 |
| Cost of sales | | **(32,327,871)** | (30,262,380) |
| Gross loss | | **(1,371,960)** | (3,324,344) |
| Other gains and losses | 6 | **1,814,632** | 5,019,769 |
| Increase in fair value of investment properties | | **20,885,416** | 25,804,748 |
| Administrative expenses | | **(15,882,972)** | (16,122,951) |
| Finance costs | 7 | **(1,440,157)** | (1,632,787) |
| Share of results of associates | | **609,767** | 838,587 |
| Share of result of a jointly controlled entity | | **1,265,150** | (64,492) |
| Profit before taxation | 8 | **5,879,876** | 10,518,530 |
| Taxation | 11 | **(499,194)** | (1,806,692) |
| **Profit for the year attributable to owners of the Company** | | **5,380,682** | 8,711,838 |
| **Other comprehensive income (expense) for the year** | | | |
| Exchange differences arising on translation of foreign operations | | **645,283** | (110,446) |
| **Total comprehensive income for the year attributable to owners of the Company** | | **6,025,965** | 8,601,392 |
| EARNINGS PER SHARE | 12 | | |
| Basic | | **1.10 cents** | 1.78 cents |
| Diluted | | **1.10 cents** | 1.78 cents |

# Consolidated Statement of Financial Position

At 31st March, 2011

| | NOTES | 31st March, 2011 HK$ | 31st March, 2010 HK$ (restated) | 1st April, 2009 HK$ (restated) |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 13 | **90,897,768** | 95,795,688 | 102,658,087 |
| Investment properties | 14 | **66,479,120** | 99,881,420 | 104,022,140 |
| Interests in associates | 16 | **1,174,741** | 1,764,974 | 1,926,387 |
| Interest in a jointly controlled entity | 17 | **1,830,336** | 565,186 | – |
| Loan to a jointly controlled entity | 19 | **8,706,948** | 8,432,315 | – |
| Available-for-sale investments | 20 | **159,188,314** | 159,188,314 | 159,188,314 |
| Paintings | 21 | **4,220,000** | 4,220,000 | 3,800,000 |
| | | **332,497,227** | 369,847,897 | 371,594,928 |
| **Current assets** | | | | |
| Held-for-trading investments | 22 | **16,849,965** | 13,956,410 | 10,195,070 |
| Inventories | 23 | **503,829** | 507,469 | 414,450 |
| Trade and other receivables | 24 | **1,021,965** | 305,493 | 3,407,945 |
| Deposits and prepayment | | **1,481,896** | 1,990,008 | 2,506,804 |
| Deposits for acquisition of properties | | **–** | – | 4,844,170 |
| Amount due from an associate | 25 | **813,562** | 203,562 | 203,562 |
| Amount due from a related company | | **–** | – | 420,716 |
| Pledged bank deposits | 26 | **2,118,000** | 2,135,306 | 2,132,323 |
| Bank balances and cash | 26 | **8,865,596** | 4,145,215 | 2,040,796 |
| | | **31,654,813** | 23,243,463 | 26,165,836 |
| Investment property held for sale | 27 | **20,500,000** | – | – |
| | | **52,154,813** | 23,243,463 | 26,165,836 |
| **Current liabilities** | | | | |
| Trade and other payables | 28 | **8,030,609** | 9,635,241 | 7,305,296 |
| Receipt in advance | | **4,252,190** | 1,710,991 | 1,454,053 |
| Rental deposits received | | **2,722,110** | 1,754,715 | 1,699,861 |
| Amounts due to directors | | **–** | – | 370,000 |
| Amounts due to associates | 25 | **823,381** | 1,200,381 | 385,381 |
| Amounts due to related companies | 30 | **592,156** | 434,516 | 315,192 |
| Amount due to a non-controlling shareholder | 31 | **3,977,205** | 4,039,599 | 3,344,671 |
| Provision for onerous contracts | | **–** | – | 3,706,000 |
| Bank borrowings – due within one year | 32 | **12,075,795** | 9,443,212 | 11,560,210 |
| Financial liabilities at fair value through profit or loss | | **–** | – | 540,425 |
| | | **32,473,446** | 28,218,655 | 30,681,089 |
| Deposit received for investment property held for sale | 27 | **800,000** | – | – |
| | | **33,273,446** | 28,218,655 | 30,681,089 |
| **Net current assets (liabilities)** | | **18,881,367** | (4,975,192) | (4,515,253) |
| | | **351,378,594** | 364,872,705 | 367,079,675 |

# Consolidated Statement of Financial Position

At 31st March, 2011

| | NOTES | **31st March, 2011 HK$** | 31st March, 2010 HK$ (restated) | 1st April, 2009 HK$ (restated) |
|---|---|---|---|---|
| **Capital and reserves** | | | | |
| Share capital | 33 | **48,884,268** | 48,884,268 | 48,884,268 |
| Reserves | | **253,411,365** | 247,385,400 | 237,350,345 |
| | | **302,295,633** | 296,269,668 | 286,234,613 |
| **Non-current liabilities** | | | | |
| Deferred taxation | 35 | **8,696,948** | 8,197,754 | 6,391,062 |
| Provision for long service payments | 36 | **2,055,013** | 2,055,013 | 2,055,013 |
| Bank borrowings – due after one year | 32 | **38,331,000** | 58,350,270 | 72,398,987 |
| | | **49,082,961** | 68,603,037 | 80,845,062 |
| | | **351,378,594** | 364,872,705 | 367,079,675 |

The consolidated financial statements on pages 21 to 85 were approved and authorised for issue by the Board of Directors on 24th June, 2011 and are signed on its behalf by:

**DEREK CHIU**
*DIRECTOR*

**DESMOND CHIU**
*DIRECTOR*

# Company Statement of Financial Position

At 31st March, 2011

| | NOTES | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **1,052,150** | 1,267,221 |
| Investments in subsidiaries | 15 | **48,012,579** | 77,826,669 |
| Interests in associates | 16 | **1** | 1 |
| Interest in a jointly controlled entity | 17 | **629,678** | 629,678 |
| Amounts due from subsidiaries | 18 | **113,327,692** | 121,382,970 |
| Loan to a jointly controlled entity | 19 | **8,706,948** | 8,432,315 |
| Available-for-sale investments | 20 | **157,026,351** | 157,026,351 |
| Paintings | 21 | **4,220,000** | 4,220,000 |
| | | **332,975,399** | 370,785,205 |
| **Current assets** | | | |
| Held-for-trading investments | 22 | **370,000** | 460,000 |
| Other receivables, deposits and prepayment | | **208,142** | 556,916 |
| Amounts due from subsidiaries | 18 | **11,011,107** | 8,343,707 |
| Amount due from an associate | 25 | **213,562** | 203,562 |
| Pledged bank deposits | 26 | **2,000,000** | 2,002,643 |
| Bank balances and cash | 26 | **6,709,885** | 2,524,545 |
| | | **20,512,696** | 14,091,373 |
| **Current liabilities** | | | |
| Other payables and accrued charges | | **1,047,650** | 1,507,857 |
| Amounts due to subsidiaries | 29 | **6,082,732** | 2,026,581 |
| Amounts due to related companies | 30 | **592,156** | 434,516 |
| Bank borrowings – due within one year | 32 | **5,908,000** | 6,740,000 |
| | | **13,630,538** | 10,708,954 |
| **Net current assets** | | **6,882,158** | 3,382,419 |
| | | **339,857,557** | 374,167,624 |

# Company Statement of Financial Position

At 31st March, 2011

| | NOTES | 2011 HK$ | 2010 HK$ |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 33 | **48,884,268** | 48,884,268 |
| Reserves | 34 | **267,545,389** | 304,126,456 |
| | | **316,429,657** | 353,010,724 |
| **Non-current liabilities** | | | |
| Provision for long service payments | 36 | **1,176,900** | 1,176,900 |
| Bank borrowings – due after one year | 32 | **22,251,000** | 19,980,000 |
| | | **23,427,900** | 21,156,900 |
| | | **339,857,557** | 374,167,624 |

**DEREK CHIU**
*DIRECTOR*

**DESMOND CHIU**
*DIRECTOR*

# Consolidated Statement of Changes In Equity

For the year ended 31st March, 2011

| | Share capital HK$ | Share premium HK$ | Share option reserve HK$ | Capital redemption reserve HK$ (Note 34a) | Property revaluation reserve HK$ | Translation reserve HK$ | Special reserve HK$ (Note 34b) | Accumulated losses HK$ | Total HK$ |
|---|---|---|---|---|---|---|---|---|---|
| At 31st March, 2009 | 48,884,268 | 210,865,965 | – | 28,990,000 | 2,938,532 | (3,910,466) | 83,486,921 | (85,020,607) | 286,234,613 |
| Profit for the year | – | – | – | – | – | – | – | 8,711,838 | 8,711,838 |
| Exchange differences arising on translation of foreign operations | – | – | – | – | – | (110,446) | – | – | (110,446) |
| Total comprehensive (expense) income for the year | – | – | – | – | – | (110,446) | – | 8,711,838 | 8,601,392 |
| Share-based payment expense | – | – | 1,433,663 | – | – | – | – | – | 1,433,663 |
| Eliminate prior year loss against special reserve | – | – | – | – | – | – | (28,776,650) | 28,776,650 | – |
| At 31st March, 2010 | 48,884,268 | 210,865,965 | 1,433,663 | 28,990,000 | 2,938,532 | (4,020,912) | 54,710,271 | (47,532,119) | 296,269,668 |
| Profit for the year | - | - | - | - | - | - | - | 5,380,682 | 5,380,682 |
| Exchange differences arising on translation of foreign operations | - | - | - | - | - | 645,283 | - | - | 645,283 |
| Total comprehensive income for the year | - | - | - | - | - | 645,283 | - | 5,380,682 | 6,025,965 |
| Eliminate prior year loss against special reserve | - | - | - | - | - | - | (13,096,674) | 13,096,674 | - |
| At 31st March, 2011 | 48,884,268 | 210,865,965 | 1,433,663 | 28,990,000 | 2,938,532 | (3,375,629) | 41,613,597 | (29,054,763) | 302,295,633 |

# Consolidated Statement of Cash Flows

For the year ended 31st March, 2011

| | 2011<br>HK$ | 2010<br>HK$<br>(restated) |
|---|---|---|
| **Operating activities** | | |
| Profit before taxation | **5,879,876** | 10,518,530 |
| Adjustments for: | | |
| Increase in fair value of investment properties | **(20,885,416)** | (25,804,748) |
| Share of results of associates | **(609,767)** | (838,587) |
| Increase in fair value of held-for-trading investments | **(635,626)** | (3,803,631) |
| Share of result of a jointly controlled entity | **(1,265,150)** | 64,492 |
| Imputed interest income from a jointly controlled entity | **(274,356)** | (61,788) |
| Interest income | **(4,499)** | (151,931) |
| Depreciation of property, plant and equipment | **8,482,321** | 8,382,258 |
| Finance costs | **1,440,157** | 1,632,787 |
| Recovery of bad and doubtful debts | **(343,108)** | – |
| Loss on disposal of property, plant and equipment | **40,212** | 1,930 |
| Exchange gain | **–** | (203,446) |
| Share-based payment expenses | **–** | 1,433,663 |
| Loss on disposal of a subsidiary | **–** | 52,251 |
| Loss on disposal of property interest | **–** | 18,010 |
| Decrease in fair value of financial liabilities at fair value through profit or loss | **–** | (540,425) |
| Operating cash flows before movements in working capital | **(8,175,356)** | (9,300,635) |
| (Increase) decrease in held-for-trading investments | **(2,257,929)** | 42,291 |
| Decrease (increase) in inventories | **3,640** | (93,019) |
| Decrease in trade and other receivables | **437,916** | 3,102,452 |
| Decrease in deposits and prepayment | **524,692** | 516,796 |
| (Decrease) increase in trade and other payables | **(1,857,852)** | 2,334,945 |
| Increase in receipt in advance | **2,465,161** | 256,938 |
| Increase in rental deposits received | **898,446** | 54,854 |
| **Net cash used in operating activities** | **(7,961,282)** | (3,085,378) |

# Consolidated Statement of Cash Flows

For the year ended 31st March, 2011

| | NOTE | 2011<br>HK$ | 2010<br>HK$<br>(restated) |
|---|---|---|---|
| **Investing activities** | | | |
| Proceeds from disposal of an investment property | | **33,990,000** | 29,945,468 |
| Dividend received from an associate | | **600,000** | 1,000,000 |
| Decrease (increase) in pledged bank deposits | | **17,306** | (2,983) |
| Interest received | | **4,499** | 151,931 |
| Acquisition of property, plant and equipment | | **(2,423,879)** | (1,425,292) |
| Additions to investment properties | | **(202,284)** | – |
| Advance to an associate | | **(10,000)** | – |
| Loan to a jointly controlled entity | | **(277)** | (9,000,155) |
| Proceeds from disposal of a subsidiary | 38 | **–** | 646,647 |
| Proceeds from disposal of property interest | | **–** | 416,262 |
| Repayment from a related company | | **–** | 716 |
| Capital injection into a jointly controlled entity | | **–** | (50) |
| **Net cash from investing activities** | | **31,975,365** | 21,732,544 |
| **Financing activities** | | | |
| New bank borrowings raised | | **6,680,000** | 9,190,000 |
| Repayment of bank borrowings | | **(24,066,687)** | (22,859,736) |
| Interest paid on bank borrowings | | **(1,440,157)** | (1,632,787) |
| (Repayment to) advance from associates | | **(377,000)** | 815,000 |
| (Repayment to) advance from a non-controlling shareholder | | **(237,445)** | 694,928 |
| Repayment to directors | | **–** | (370,000) |
| Advance from related companies | | **157,640** | 119,324 |
| **Net cash used in financing activities** | | **(19,283,649)** | (14,043,271) |
| **Net increase in cash and cash equivalents** | | **4,730,434** | 4,603,895 |
| **Cash and cash equivalents brought forward** | | **4,145,215** | (455,183) |
| Effect of foreign exchange rate changes | | **(10,053)** | (3,497) |
| **Cash and cash equivalents carried forward** represented by bank balances and cash | | **8,865,596** | 4,145,215 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate information" in the annual report.

The Company is an investment holding company and provides corporate management services to its subsidiaries. The activities of its principal subsidiaries are set out in note 15.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 |
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008 |
| HKFRS 2 (Amendments) | Group Cash-settled Share-based Payment Transactions |
| HKFRS 3 (revised in 2008) | Business Combinations |
| HKAS 27 (revised in 2008) | Consolidated and Separate Financial Statements |
| HKAS 39 (Amendments) | Eligible Hedged Items |
| HK(IFRIC) – Int 17 | Distributions of Non-cash Assets to Owners |
| HK – Int 5 | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause |

Except as disclosed below, the adoption of the new and revised HKFRSs in the current year has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

### Amendments to HKAS 17

As part of the improvements to HKFRSs issued in 2009, HKAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendments to HKAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to HKAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in HKAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

**Amendments to HKAS 17** *(Continued)*

In accordance with the transitional provisions set out in the amendments to HKAS 17, the Group reassessed the classification of unexpired leasehold land as at 1st April, 2010 based on information that existed at the inception of the leases. Leasehold land that qualifies for finance lease classification has been reclassified from prepaid lease payments to property, plant, and equipment retrospectively. As a result of the reclassification of prepaid lease payments with pervious carrying amounts of HK$1,029,464 and HK$1,001,448 as at 1st April, 2009 and 31st March, 2010 respectively to property, plant and equipment, the carrying amounts of property, plant and equipment are increased by the same amount from HK$101,628,623 and HK$94,794,240 to HK$102,658,087 and HK$95,795,688 as at 1st April, 2009 and 31st March, 2010 respectively. The carrying amount of HK$973,432 of such leasehold land at 31st March, 2011 that qualifies for finance lease classification has been included in property, plant and equipment. The application of the amendments to HKAS 17 has had no impact on the reported profit or loss for the current and prior years.

**Hong Kong Interpretation 5**

Hong Kong Interpretation 5 "Presentation of Financial Statements-Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. The Group has applied HK Int 5 for the first time in the current year. Hong Kong Interpretation 5 requires retrospective application.

The Group did not, as at the end of the current and previous reporting periods, have any non-current bank loans that will be demanded for immediate repayment and therefore reclassification of non-current bank loans to current liabilities is not required. The application of HK Int 5 has had no impact on the reported profit or loss for the current and prior years.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010[1] |
| HKAS 24 (Revised) | Related Party Disclosures[3] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of Financial Assets[4] |
| HKFRS 9 | Financial Instruments[5] |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[3] |
| HK(IFRIC) – Int 19 | Extinguishing Financial Liabilities with Equity Instruments[2] |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

[1] Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011,as appropriate

[2] Effective for annual periods beginning on or after 1st July, 2010

[3] Effective for annual periods beginning on or after 1st January, 2011

[4] Effective for annual periods beginning on or after 1st July, 2011

[5] Effective for annual periods beginning on or after 1st January, 2013

**HKFRS 9**

HKFRS 9 "Financial Instruments" which was issued in November 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January, 2013, with earlier application permitted.

The directors anticipate that the application of HKFRS 9 may have an impact on measurement and classification of the Group's available-for-sale investments, which will be measured at fair value. However, it is not practicable to provide a reasonable estimate of that effect until a detail review has been completed.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

**Amendment to HKAS 12**

The amendments to HKAS 12 "Deferred Tax: Recovery of Underlying Assets" mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property". Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors of the Company anticipate that the application of the amendments to HKAS 12 may have a significant impact on deferred tax recognised for investment properties that are measured using the fair value model. Had the amendments been adopted for the year ended 31st March, 2011 with the presumption to recover through sale, the deferred tax liabilities in respect of revaluation on investment properties would have been eliminated and the profit for the current year and prior year would have been increased. In addition, the Group's share of result of and the interest in the jointly controlled entity would also be increased due to the elimination of deferred tax impact in respect of revaluation on the investment property of the jointly controlled entity.

Except as disclosed above, the directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods or services.

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Basis of consolidation** *(Continued)*

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

– Revenue from the operation of hotels is recognised when services are rendered.

– Rental income under operating leases is recognised in profit or loss on a straight-line basis over the terms of the relevant leases.

Dividend income from investments is recognised when the Group's right to receive payment have been established provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**Property, plant and equipment**

Property, plant and equipment including land and buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the item is derecognised.

### Subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

The results of a subsidiary are accounted for by the Company on the basis of dividends received and receivable during the year.

### Associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Associates** *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

Investment in associates is included in the Company's statement of financial position at cost less any identified impairment loss.

**Jointly controlled entity**

Joint venture arrangements that involve the establishment of a separate entity in which ventures have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Jointly controlled entity** *(Continued)*

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

**Non-current assets held for sale**

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Investment properties that are classified as held for sale are measured at their fair values at the end of the reporting period. Other non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

**Paintings**

Paintings are stated at cost less any identified impairment loss.

**Impairment on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

**Inventories**

Inventories, representing inventories of goods, beverages and general stores, are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Provision**

Onerous contracts represent purchase contracts for certain properties where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. Provisions for onerous contracts are calculated based on the difference between the sales proceeds receivable by the Group and those unavoidable costs payable by the Group under the contracts.

**Financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value except for certain available-for-sale investments. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are classified into financial assets at fair value through profits or loss ("FVTPL"), available-for-sale financial assets and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL comprise financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets*** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from subsidiaries, an associate and a related company, loan to a jointly controlled entity, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition. Interest income is recognised on an effective interest basis for debt instruments.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as any other categories of financial assets. Available-for-sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial assets*** *(Continued)*

*Impairment of financial assets (Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and amounts due from subsidiaries, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When such receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

***Financial liabilities and equity instruments***

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities.

*Financial liabilities at fair value through profit or loss*

Financial liabilities at FVTPL are classified as financial liabilities held for trading.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Company/Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Financial instruments** *(Continued)*

***Financial liabilities and equity instruments*** *(Continued)*

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

*Other financial liabilities*

Other financial liabilities (including trade and other payables, amounts due to associates, related companies, a non-controlling shareholder and subsidiaries and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

*Financial guarantee contracts*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in the share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in the share option reserve will be transferred to retained profits.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases where the Group is the lessor is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Operating lease payments where the Group is the lessee are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Leasing** *(Continued)*

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**Leasehold land and building**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in translation reserve.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefit costs

Payments to defined contribution retirement benefit plans or the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Provision for long service payments, being the present value of defined benefit obligation, is determined using the projected unit credit method at the end of reporting period. The cost of providing long service payments liabilities is recognised to profit or loss on a straight-line basis over the services lives of the employees. The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation.

### Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from the profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

**Taxation** *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interest in a jointly controlled entity, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months, are discussed below:

### Fair value of investment properties

Investment properties are stated at fair value based on the valuation performed by independent professional valuers. The determination of the fair value involves certain assumptions of market conditions. In relying on the valuation report, the management of the Company have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain reported in the consolidated statement of comprehensive income.

### Deferred taxation

As at 31st March, 2011, a deferred tax asset in relation to unused tax losses of HK$12,160,000 (2010: HK$20,650,000) has been recognised in the consolidated statement of financial position. No deferred tax asset has been recognised in respect of tax losses of HK$152,789,000 and HK$137,508,000 as at 31st March, 2011 and 2010, respectively, due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the actual future profits generated are more or less than expected, an additional recognition or a reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition or reversal takes place.

## 5. REVENUE AND SEGMENT INFORMATION

### Revenue from major business operations

An analysis of the Group's revenue representing the aggregate amount of income from hotel operations and gross rental income from property letting, is as follows:

| | **2011**<br>**HK$** | 2010<br>HK$ |
|---|---|---|
| Income from hotel operations | | |
| – Hotel room revenue | **13,767,662** | 11,661,326 |
| – Food and beverages | **8,412,832** | 8,673,925 |
| Gross rental income from properties | **8,775,417** | 6,602,785 |
| | **30,955,911** | 26,938,036 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment information**

Information reported to the chief operating decision maker, who are the executive directors of the Company, for the purposes of resource allocation and assessment of segment performance is based on the financial information of subsidiaries engaged in different operations at different locations.

The Group's operating and reportable segments are as follows:

1. Hotel operation in Hong Kong
2. Hotel operation and property letting in the People's Republic of China, excluding Hong Kong ("PRC")
3. Property investment in Hong Kong
4. Securities investment and trading

***Segment revenues and results***

The following is an analysis of the Group's revenue and profit (loss) by operating segments:

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Hotel operation in Hong Kong HK$ | Hotel operation and property letting in PRC HK$ | Property investment in Hong Kong HK$ | Securities investment and trading HK$ | Total HK$ |
| Revenue | 17,064,613 | 13,891,298 | – | – | 30,955,911 |
| Segment profit (loss) | 1,856,330 | (2,492,990) | 21,374,691 | 985,030 | 21,723,061 |
| Unallocated gains and losses | | | | | 4,499 |
| Unallocated expenses | | | | | (15,433,613) |
| Unallocated finance costs | | | | | (1,023,838) |
| Share of results of associates | | | | | 609,767 |
| Profit before taxation | | | | | 5,879,876 |
| Taxation | | | | | (499,194) |
| Profit for the year | | | | | 5,380,682 |

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment information** *(Continued)*

***Segment revenues and results*** *(Continued)*

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Hotel operation in Hong Kong | Hotel operation and property letting in PRC | Property investment in Hong Kong | Securities investment and trading | Total |
| | HK$ | HK$ | HK$ | HK$ | HK$ |
| Revenue | 15,882,688 | 10,741,671 | 313,677 | – | 26,938,036 |
| Segment profit (loss) | 648,258 | (4,046,439) | 25,168,302 | 4,654,532 | 26,424,653 |
| Unallocated gains and losses | | | | | 302,083 |
| Unallocated expenses | | | | | (16,122,951) |
| Unallocated finance costs | | | | | (923,842) |
| Share of results of associates | | | | | 838,587 |
| Profit before taxation | | | | | 10,518,530 |
| Taxation | | | | | (1,806,692) |
| Profit for the year | | | | | 8,711,838 |

The accounting policies adopted in preparing the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit (loss) from each segment without allocation of certain other gains and losses, corporate expenses including auditor's remuneration, directors' remuneration and administrative staff costs, unallocated finance costs, share of results of associates and taxation.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment information** *(Continued)*

***Segment assets and liabilities***

The following is an analysis of the Group's assets and liabilities by operating segment:

| | 2011<br>HK$ | 2010<br>HK$ |
|---|---|---|
| **Segment assets** | | |
| Hotel operation in Hong Kong | 26,748,673 | 29,315,806 |
| Hotel operation and property letting in the PRC | 49,249,372 | 50,873,395 |
| Property investment in Hong Kong | 98,443,368 | 109,055,825 |
| Securities investment and trading | 17,549,135 | 14,364,828 |
| Total segment assets | 191,990,548 | 203,609,854 |
| Available-for-sale investments | 159,188,314 | 159,188,314 |
| Paintings | 4,220,000 | 4,220,000 |
| Other unallocated assets | 29,253,178 | 26,073,192 |
| Consolidated assets | 384,652,040 | 393,091,360 |
| **Segment liabilities** | | |
| Hotel operation in Hong Kong | 2,778,276 | 2,829,085 |
| Hotel operation and property letting in the PRC | 15,754,595 | 13,421,807 |
| Property investment in Hong Kong | 15,725,643 | 31,312,136 |
| Securities investment and trading | 100,000 | 100,000 |
| Total segment liabilities | 34,358,514 | 47,663,028 |
| Bank borrowings | 44,239,000 | 44,720,000 |
| Other unallocated liabilities | 3,758,893 | 4,438,664 |
| Consolidated liabilities | 82,356,407 | 96,821,692 |

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment information** *(Continued)*

***Segment assets and liabilities*** *(Continued)*

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to reportable segments other than paintings, interests in associates, available-for-sale investments, amount due from an associate and other unallocated corporate assets.

- all liabilities are allocated to reportable segments other than amounts due to associates and related companies, bank borrowings (other than those financing the property investment), provision for long service payments (other than those staff employed for hotel operation) and other unallocated corporate liabilities.

***Other segment information***

The following segment information is included in the measurement of segment profit or loss and segment assets and segment liabilities:

| 2011 | Hotel operation in Hong Kong HK$ | Hotel operation and property letting in PRC HK$ | Property investment in Hong Kong HK$ | Securities investment and trading HK$ | Segment total HK$ | Unallocated HK$ | Total HK$ |
|---|---|---|---|---|---|---|---|
| Capital additions | 967,864 | 1,419,563 | 202,284 | – | 2,589,711 | 36,452 | 2,626,163 |
| Depreciation of property, plant and equipment | 2,977,768 | 4,818,799 | – | – | 7,796,567 | 685,754 | 8,482,321 |
| Increase in fair value of investment properties | – | – | 20,885,416 | – | 20,885,416 | – | 20,885,416 |
| Finance costs | – | – | 416,319 | – | 416,319 | 1,023,838 | 1,440,157 |
| Share of result of a jointly controlled entity | – | – | 1,265,150 | – | 1,265,150 | – | 1,265,150 |
| Increase in fair value of held-for-trading investments | – | – | – | 635,626 | 635,626 | – | 635,626 |
| Interest in a jointly controlled entity | – | – | 1,830,336 | – | 1,830,336 | – | 1,830,336 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

### Segment information *(Continued)*

***Other segment information*** *(Continued)*

| 2010 | Hotel operation in Hong Kong HK$ | Hotel operation and property letting in PRC HK$ | Property investment in Hong Kong HK$ | Securities investment and trading HK$ | Segment total HK$ | Unallocated HK$ | Total HK$ |
|---|---|---|---|---|---|---|---|
| Capital additions | 78,117 | 1,342,407 | – | – | 1,420,524 | 4,768 | 1,425,292 |
| Depreciation of property, plant and equipment | 3,107,172 | 4,582,819 | – | – | 7,689,991 | 692,267 | 8,382,258 |
| Increase in fair value of investment properties | – | – | 25,804,748 | – | 25,804,748 | – | 25,804,748 |
| Finance costs | – | – | 707,578 | 1,367 | 708,945 | 923,842 | 1,632,787 |
| Share of result of a jointly controlled entity | – | – | (64,492) | – | (64,492) | – | (64,492) |
| Increase in fair value of held-for-trading investments | – | – | – | 3,803,631 | 3,803,631 | – | 3,803,631 |
| Decrease in fair value of financial liabilities at FVTPL | – | – | – | 540,425 | 540,425 | – | 540,425 |
| Interest in a jointly controlled entity | – | – | 565,186 | – | 565,186 | – | 565,186 |

***Geographical information***

The Group's operations are located in Hong Kong and the PRC.

The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are detailed below:

| | Revenue from external customers | | Non-current assets (Note) | |
|---|---|---|---|---|
| | **2011 HK$** | 2010 HK$ | **2011 HK$** | 2010 HK$ |
| Hong Kong | **17,064,613** | 16,196,365 | **125,652,080** | 160,760,948 |
| PRC | **13,891,298** | 10,741,671 | **47,656,833** | 49,870,618 |
| | **30,955,911** | 26,938,036 | **173,308,913** | 210,631,566 |

*Note:* Non-current assets excluded available-for-sale investments.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 5. REVENUE AND SEGMENT INFORMATION *(Continued)*

**Segment information** *(Continued)*

***Information about major customers***

Revenue from an external customer included in hotel operation and property letting in the PRC segment amounting to HK$5,055,206 (2010: HK$4,825,243) contributes over 10% of the total revenue of the Group.

## 6. OTHER GAINS AND LOSSES

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Other gains and losses include: | | |
| Dividend income from held-for-trading investments | **349,404** | 311,843 |
| Increase in fair value of held-for-trading investments | **635,626** | 3,803,631 |
| Decrease in fair value of financial liabilities at fair value through profit or loss | **–** | 540,425 |
| Imputed interest income from loan to a jointly controlled entity | **274,356** | 61,788 |
| Bank interest income | **4,458** | 2,067 |
| Other interest income | **41** | 149,864 |
| Recovery of bad and doubtful debts | **343,108** | – |
| Loss on disposal of property, plant and equipment | **(40,212)** | (1,930) |
| Loss on disposal of a subsidiary | **–** | (52,251) |
| Loss on disposal of property interest | **–** | (18,010) |

## 7. FINANCE COSTS

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Interests on bank borrowings: | | |
| Wholly repayable within five years | **784,951** | 140,612 |
| Not wholly repayable within five years | **655,206** | 1,492,175 |
| | **1,440,157** | 1,632,787 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 8. PROFIT BEFORE TAXATION

| | 2011 HK$ | 2010 HK$ (restated) |
|---|---|---|
| Profit before taxation has been arrived at after charging: | | |
| Depreciation of property, plant and equipment | 8,482,321 | 8,382,258 |
| Auditor's remuneration | 978,953 | 903,000 |
| Directors' remuneration and other staff costs | | |
| Salaries, bonus and allowances | 11,766,922 | 12,019,337 |
| Retirement benefits cost | 884,809 | 754,691 |
| Share-based payment expenses | – | 1,433,663 |
| | 12,651,731 | 14,207,691 |
| Operating lease rentals in respect of rented premises | 5,920,259 | 5,813,912 |
| Share of taxation of associates (included in share of results of associates) | 121,545 | 166,260 |
| Share of taxation of a jointly controlled entity (included in share of result of a jointly controlled entity) | 305,216 | – |
| Cost of inventories recognised as an expense | 3,894,564 | 3,884,626 |
| and crediting: | | |
| Net rental income from properties (Note) | 3,625,181 | 1,481,722 |

*Note:* Net rental income is arrived at after deducting:

(a) outgoings from properties that generated rental income during the year of HK$4,986,347 (2010: HK$5,013,350).

(b) outgoings from properties that did not generate rental income during the year of HK$163,889 (2010: HK$107,713).

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 9. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors were as follows:

| Name of directors | Fees HK$ | Salaries and other benefits HK$ | Retirement benefit schemes contributions HK$ | Share-based payments HK$ | Performance related bonus HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| Mr. Deacon Te Ken Chiu | 20,000 | – | – | – | – | 20,000 |
| Mr. Derek Chiu | 10,000 | 962,981 | 12,000 | – | 700,000 | 1,684,981 |
| Ms. Margaret Chiu | 10,000 | 162,823 | 12,000 | – | – | 184,823 |
| Madam Chiu Ju Ching Lan | 10,000 | 360,000 | – | – | – | 370,000 |
| Mr. Dick Tat Sang Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. David Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. Dennis Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. Duncan Chiu | 10,000 | 90,000 | 4,500 | – | – | 104,500 |
| Mr. Ip Shing Hing | 120,000 | – | – | – | – | 120,000 |
| Mr. Ng Wing Hang | 120,000 | – | – | – | – | 120,000 |
| Mr. Choy Wai Shek | 120,000 | – | – | – | – | 120,000 |
| Mr. Desmond Chiu (appointed on 6th May, 2010) | 9,041 | – | – | – | – | 9,041 |
| Mr. Chan Chi Hing (resigned on 26th November, 2010) | 6,548 | – | – | – | – | 6,548 |
| | 465,589 | 1,575,804 | 28,500 | – | 700,000 | 2,769,893 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 9. DIRECTORS' EMOLUMENTS *(Continued)*

| Name of directors | Fees | Salaries and other benefits | Retirement benefit schemes contributions | Share-based payments | Performance related bonus | Total |
|---|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| 2010 | | | | | | |
| Mr. Deacon Te Ken Chiu | 20,000 | – | – | – | – | 20,000 |
| Mr. Derek Chiu | 10,000 | 935,270 | 12,000 | – | 500,000 | 1,457,270 |
| Ms. Margaret Chiu | 10,000 | 175,325 | 12,000 | – | – | 197,325 |
| Madam Chiu Ju Ching Lan | 10,000 | 360,000 | – | – | – | 370,000 |
| Mr. Dick Tat Sang Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. David Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. Dennis Chiu | 10,000 | – | – | – | – | 10,000 |
| Mr. Duncan Chiu | 10,000 | 90,000 | 4,500 | – | – | 104,500 |
| Mr. Ip Shing Hing | 120,000 | – | – | 167,315 | – | 287,315 |
| Mr. Ng Wing Hang | 120,000 | – | – | 167,315 | – | 287,315 |
| Mr. Choy Wai Shek | 120,000 | – | – | 167,315 | – | 287,315 |
| Mr. Chan Chi Hing | 10,000 | – | – | – | – | 10,000 |
| | 460,000 | 1,560,595 | 28,500 | 501,945 | 500,000 | 3,051,040 |

Other benefits of Mr. Derek Chiu includes the estimated rateable value of approximately HK$596,400 (2010: HK$596,400) of certain leasehold land and buildings of the Group occupied by Mr. Chiu as his residence.

No emolument was paid to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office in both years ended 31st March, 2011 and 2010.

No directors waived any of their emoluments in both years ended 31st March, 2011 and 2010.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2010: one) are directors whose emoluments are disclosed in note 9 above. The emoluments of the remaining three (2010: four) individuals are within the band of HK$nil to HK$1,000,000 as follows:

| | **2011 HK$** | 2010 HK$ |
|---|---|---|
| Salaries and other benefits | **1,253,844** | 1,549,750 |
| Retirement benefit schemes contributions | **36,000** | 48,000 |
| Share-based payments | **–** | 931,718 |
| | **1,289,844** | 2,529,468 |

## 11. TAXATION

Tax charge for both years represents deferred tax, details of which are set out in note 35.

No provision for Hong Kong Profits Tax is required as the individual companies comprising the Group either incurred a loss or has tax losses to offset the assessable profits.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years. No provision for PRC Enterprise income tax is required as the subsidiary operating in the PRC did not have any assessable profits for both years.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 11. TAXATION *(Continued)*

Tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Profit before taxation | **5,879,876** | 10,518,530 |
| Tax at the Hong Kong Profits Tax rate of 16.5% (note) | **970,180** | 1,735,557 |
| Tax effect of share of results of associates | **(100,612)** | (138,367) |
| Tax effect of share of result of a jointly controlled entity | **(208,750)** | 10,641 |
| Tax effect of expenses not deductible for tax purposes | **381,613** | 447,309 |
| Tax effect of income not taxable for tax purposes | **(180,258)** | (144,878) |
| Reversal of deferred tax upon disposal of an investment property | **(2,745,402)** | (77,648) |
| Tax effect of tax losses not recognised | **2,732,656** | 3,123,040 |
| Tax effect of utilisation of tax losses previously not recognised | **(272,554)** | (678,660) |
| Tax effect of utilisation of temporary difference not recognised | **–** | (2,156,945) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(135,664)** | (343,947) |
| Others | **57,985** | 30,590 |
| Tax charge for the year | **499,194** | 1,806,692 |

*Note:* Hong Kong Profits Tax is used as the domestic tax rate as Hong Kong is the place where the operation of the Group is substantially based.

## 12. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit for the year of HK$5,380,682 (2010: HK$8,711,838) and the number of shares as calculated below:

| | **2011** | 2010 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **488,842,675** | 488,842,675 |
| Effect of dilutive potential ordinary shares from share options | **1,357** | 7,926 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **488,844,032** | 488,850,601 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| | THE GROUP | | | | | | THE COMPANY |
|---|---|---|---|---|---|---|---|
| | Hotel building in PRC under medium-term lease | Leasehold land and buildings in Hong Kong under medium-term lease: Hotel property | Leasehold land and buildings in Hong Kong under medium-term lease: Other properties | Leasehold improvements | Furniture, fixtures, equipment, motor vehicles and others | Total | Furniture, fixtures, equipment, motor vehicles and others |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| COST | | | | | | | |
| At 1st April, 2009 | | | | | | | |
| As originally stated | 91,347,318 | 37,323,408 | 19,846,984 | 8,008,905 | 37,198,125 | 193,724,740 | 2,323,630 |
| Effect of change in accounting policy | – | – | 1,942,458 | – | – | 1,942,458 | – |
| As restated | 91,347,318 | 37,323,408 | 21,789,442 | 8,008,905 | 37,198,125 | 195,667,198 | 2,323,630 |
| Exchange adjustments | 186,004 | – | – | – | 34,260 | 220,264 | – |
| Additions | – | – | – | 991,429 | 433,863 | 1,425,292 | 4,768 |
| Disposals | – | – | – | – | (2,316) | (2,316) | (2,316) |
| At 31st March, 2010 as restated | 91,533,322 | 37,323,408 | 21,789,442 | 9,000,334 | 37,663,932 | 197,310,438 | 2,326,082 |
| Exchange adjustments | 2,108,136 | – | – | 272,264 | 428,694 | 2,809,094 | – |
| Additions | – | – | – | 1,357,525 | 1,066,354 | 2,423,879 | 36,452 |
| Disposals | – | – | – | – | (191,362) | (191,362) | (59,673) |
| At 31st March, 2011 | 93,641,458 | 37,323,408 | 21,789,442 | 10,630,123 | 38,967,618 | 202,352,049 | 2,302,861 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | THE GROUP | | | | | | THE COMPANY |
|---|---|---|---|---|---|---|---|
| | Hotel building in PRC under medium-term lease | Leasehold land and buildings in Hong Kong under medium-term lease: Hotel property | Leasehold land and buildings in Hong Kong under medium-term lease: Other properties | Leasehold improvements | Furniture, fixtures, equipment, motor vehicles and others | Total | Furniture, fixtures, equipment, motor vehicles and others |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| DEPRECIATION | | | | | | | |
| At 1st April, 2009 | | | | | | | |
| as originally stated | 44,607,135 | 19,159,360 | 2,333,543 | 2,790,134 | 23,205,945 | 92,096,117 | 827,465 |
| Effect of change in accounting policy | – | – | 912,994 | – | – | 912,994 | – |
| As restated | 44,607,135 | 19,159,360 | 3,246,537 | 2,790,134 | 23,205,945 | 93,009,111 | 827,465 |
| Exchange adjustments | 93,713 | – | – | – | 30,054 | 123,767 | – |
| Provided for the year | 3,465,055 | 746,472 | 482,911 | 503,617 | 3,184,203 | 8,382,258 | 231,782 |
| Eliminated on disposals | – | – | – | – | (386) | (386) | (386) |
| At 31st March, 2010 as restated | 48,165,903 | 19,905,832 | 3,729,448 | 3,293,751 | 26,419,816 | 101,514,750 | 1,058,861 |
| Exchange adjustments | 1,191,153 | – | – | 27,163 | 390,044 | 1,608,360 | – |
| Provided for the year | 3,770,759 | 746,472 | 482,911 | 616,983 | 2,865,196 | 8,482,321 | 230,859 |
| Eliminated on disposals | – | – | – | – | (151,150) | (151,150) | (39,009) |
| At 31st March, 2011 | 53,127,815 | 20,652,304 | 4,212,359 | 3,937,897 | 29,523,906 | 111,454,281 | 1,250,711 |
| CARRYING VALUES | | | | | | | |
| At 31st March, 2011 | 40,513,643 | 16,671,104 | 17,577,083 | 6,692,226 | 9,443,712 | 90,897,768 | 1,052,150 |
| At 31st March, 2010 (restated) | 43,367,419 | 17,417,576 | 18,059,994 | 5,706,583 | 11,244,116 | 95,795,688 | 1,267,221 |
| At 1st April, 2009 (restated) | 46,740,183 | 18,164,048 | 18,542,905 | 5,218,771 | 13,992,180 | 102,658,087 | 1,496,165 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Over the shorter of the terms of the lease, or 50 years |
| Leasehold improvements | 33.3% |
| Furniture, fixtures, equipment, motor vehicles and others | 10% to 33.3% |

## 14. INVESTMENT PROPERTIES

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| At 1st April | **99,881,420** | 104,022,140 |
| Increase in fair value recognised in consolidated statement of comprehensive income | **20,885,416** | 25,804,748 |
| Additions | **202,284** | – |
| Disposals | **(33,990,000)** | (29,945,468) |
| Reclassify to assets held for sale | **(20,500,000)** | – |
| At 31st March | **66,479,120** | 99,881,420 |

The investment properties which are stated at fair value at the end of the reporting period are situated in Hong Kong and are held under medium-leases.

The fair values of the Group's investment properties at 31st March, 2011 and 2010 have been arrived at on the basis of a valuation carried out on that date by Lanbase Surveyors Limited, independent qualified professional valuers not connected with the Group. The valuation was arrived at by adopting the direct comparison approach making reference to the recent transactions of similar properties under the prevailing property market conditions.

Certain investment properties with a carrying value of HK$55,858,000 (2010: HK$42,990,000) are registered in the name of a company controlled by Mr. Deacon Te Ken Chiu and his family (the "Chiu Family") as trustee for the Group.

All of the Group's property interests which are held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 15. INVESTMENTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| Unlisted shares | **94,021,187** | 92,977,163 |
| Less: Impairment loss recognised | **(46,008,608)** | (15,150,494) |
| | **48,012,579** | 77,826,669 |

Cost of investments in subsidiaries includes an amount of HK$4,811,969 (2010: HK$3,767,942) which represents fair value adjustment on interest free loans advanced, which are not expected to be repayable within one year, to the subsidiaries.

Particulars of the principal subsidiaries of the Company at 31st March, 2011 and 2010 are as follows:

| **Name of subsidiary** | **Issued and fully paid ordinary share capital/ registered capital*** | **Proportion of issued share capital/ registered capital held by the Company** | | **Principal activities** |
|---|---|---|---|---|
| | | **2011** | 2010 | |
| | | **%** | % | |
| *Direct subsidiaries* | | | | |
| Alabama Investment Company Limited | HK$9,000 | **97.8** | 97.8 | Hotel operation |
| Brighten Heart Limited | HK$1 | **100** | 100 | Property investment |
| Cankon Properties Limited | HK$2 | **100** | 100 | Property investment |
| Jeanstar Limited | HK$1 | **100** | 100 | Property investment |
| Kingwell Century Limited | HK$2 | **100** | 100 | Property holding |
| Lai Chi Kok Amusement Park Company, Limited | HK$25,200,000 | **100** | 100 | Property investment |
| Mainstar International Limited | HK$1 | **100** | 100 | Property investment |
| Neochem Development Limited | HK$100 | **100** | 100 | Property sub-letting |

## 15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Issued and fully paid ordinary share capital/ registered capital* | Proportion of issued share capital/ registered capital held by the Company 2011 % | 2010 % | Principal activities |
|---|---|---|---|---|
| Rex Entertainment Limited | HK$100,000 | **100** | 100 | Property investment |
| Sintex Holdings Limited | US$1 | **100** | 100 | Investment holding |
| *Indirect subsidiaries* | | | | |
| Beijing Hai Lian Property Management Co., Ltd. | RMB25,115,180* Paid up registered capital operation | **90** | 90 | Property investment and service apartments operation |
| Oneyon Limited | HK$2 | **100** | 100 | Investment holding |
| Tradeland Investments Limited | HK$250,000 | **100** | 100 | Investment holding |
| Yuk Sue Investment Limited | HK$2 | **100** | 100 | Securities trading and investment |

The directors of the Company are of the opinion that a complete list of the particulars of all subsidiaries of the Company will be of excessive length and therefore the above list contains only the particulars of principal subsidiaries which have a significant impact on the results or assets of the Group.

All subsidiaries are incorporated and operating in Hong Kong except for Sintex Holdings Limited which is incorporated in the British Virgin Islands, and Beijing Hai Lian Property Management Co., Ltd. which is a sino-foreign equity joint venture registered and operating in the PRC.

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

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 16. INTERESTS IN ASSOCIATES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Unlisted shares, at cost | **212,578,512** | 212,578,512 | **212,578,510** | 212,578,510 |
| Share of post-acquisition results and reserves, net of dividends received | **(211,403,771)** | (210,813,538) | **–** | – |
| Impairment loss recognised | **–** | – | **(212,578,509)** | (212,578,509) |
| | **1,174,741** | 1,764,974 | **1** | 1 |

The financial year end date of certain associates is 31st December which is different from that of the Company. For the purpose of applying the equity method of accounting, their financial statements for the year ended 31st December, 2010 have been adopted and adjusted for the effects of significant transactions that occur between 31st December, 2010 to 31st March, 2011.

Particulars of the major associate of the Group at 31st March, 2011 and 2010 are as follows:

| Name of associate | Place of incorporation/ operation | Issued share capital | Proportion of nominal value of issued share capital held by the Group | | Principal activities |
|---|---|---|---|---|---|
| | | | **2011** | 2010 | |
| | | | **%** | % | |
| Bolan Holdings N.V. | Netherlands Antilles/ Australia | US$100 Common shares US$6,000 Non-cumulative 5% preference shares | **45** | 45 | Investment holding |

## 16. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

**Results for the year ended 31st March**

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Revenue | **6,592,095** | 5,780,362 |
| Profit for the year | **680,389** | 687,518 |
| Group's share of results of associates for the year | **609,767** | 838,587 |

**Financial position at 31st March**

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Total assets | **59,682,055** | 59,656,182 |
| Total liabilities | **(71,350,345)** | (69,604,867) |
| Net liabilities | **(11,668,290)** | (9,948,685) |
| Group's share of net assets of associates | **1,174,741** | 1,764,974 |

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | **THE GROUP** | | **THE COMPANY** | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Unlisted investment | **629,678** | 629,678 | **629,678** | 629,678 |
| Share of post-acquisition result | **1,200,658** | (64,492) | **–** | – |
| | **1,830,336** | 565,186 | **629,678** | 629,678 |

The interest in a jointly controlled entity represents a 50% (2010: 50%) interest in the issued capital of Sino Noble Development Limited ("Sino Noble"), a company incorporated in Hong Kong. Sino Noble is principally engaged in property investment.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 17. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The financial information in respect of the Group's interest in a jointly controlled entity which are accounted for using the equity method is set out below:

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Current assets | **–** | – |
| Non-current assets | **10,850,000** | 9,000,000 |
| Current liabilities | **7,500** | 2,500 |
| Non-current liabilities | **9,012,164** | 8,432,314 |
| Income | **1,850,000** | – |
| Expenses | **584,850** | 64,492 |

## 18. AMOUNTS DUE FROM SUBSIDIARIES

| | **THE COMPANY** | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| Amounts due from subsidiaries | **298,523,323** | 303,911,201 |
| Less: Allowance for doubtful debts | **(174,184,524)** | (174,184,524) |
| | **124,338,799** | 129,726,677 |
| Less: Amount due within one year shown under current assets | **(11,011,107)** | (8,343,707) |
| | **113,327,692** | 121,382,970 |

The directors review the carrying value of the amounts due from subsidiaries at the end of each reporting period. The recoverable amount of the amounts due from subsidiaries is estimated by directors based on the expected future cash flows generated from the operation of these subsidiaries. No further allowance has been made in the current year.

### 18. AMOUNTS DUE FROM SUBSIDIARIES *(Continued)*

Of the total amount due from subsidiaries, the Company considers that an aggregate amount of HK$113,327,692 (2010: HK$121,382,970) is not expected to be repaid within the next twelve months from the end of the reporting period. Accordingly, these were classified as non-current assets.

Amounts due from subsidiaries are unsecured and repayable on demand. An aggregate amount of HK$82,637,631 (2010: HK$82,606,134) bears interest at Hong Kong Dollar Prime Rate minus 4% with an effective interest of 1.25% (2010: 1.25%) per annum and the remaining amount of HK$41,701,168 (2010: HK$47,120,543) are interest-free.

The interest-free balances of HK$30,690,061 (2010: HK$38,776,836), which are not expected to be repaid within the next twelve months from the end of the reporting period, are carried at amortised cost calculated at an effective interest rate of 3.00% (2010: 3.00%) per annum.

### 19. LOAN TO A JOINTLY CONTROLLED ENTITY

The loan to the jointly controlled entity is unsecured, interest-free and have no fixed repayment terms. The loan is not expected to be repaid within twelve months from the end of the reporting period and is carried at amortised cost calculated at an effective interest rate of 3.00% (2010: 3.00%) per annum.

### 20. AVAILABLE-FOR-SALE INVESTMENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Unlisted equity securities, at cost | **159,188,314** | 159,188,314 | **157,026,351** | 157,026,351 |

The unlisted equity securities are measured at cost less impairment, if any, at the end of the reporting period because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 20. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Particulars of the available-for-sale investments at 31st March, 2011 and 2010 are as follows:

| Name of company | Effective percentage of issued ordinary share capital held by the Group | | Place of incorporation | Principal activities |
|---|---|---|---|---|
| | **2011** | 2010 | | |
| | **%** | % | | |
| Warwick Holdings S.A. | **16.09** | 16.09 | Luxemburg | Investment holding, hotel investment and operation mainly in Europe and United States of America |

The Chiu Family together with the related trusts are the controlling shareholders of Warwick Holdings S.A..

## 21. PAINTINGS

Paintings are stated at cost less impairment at the end of the reporting period. The impairment assessment was made by the directors of the Company at the end of each reporting period with reference to the open market values of those paintings.

## 22. HELD-FOR-TRADING INVESTMENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Equity securities listed in Hong Kong, at fair value | **16,849,965** | 13,450,110 | **370,000** | 460,000 |
| Warrants listed in Hong Kong, at fair value | **–** | 506,300 | **–** | – |
| | **16,849,965** | 13,956,410 | **370,000** | 460,000 |

The fair values of held-for-trading investments have been determined by reference to the quoted market bid prices available on the Stock Exchange.

## 23. INVENTORIES

The amount represents food and beverage and other consumables, of which HK$339,315 (2010: HK$315,070) are stated at net realisable value.

## 24. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors net of allowance of HK$117,237 (2010: HK$151,089) and other debtors of HK$904,728 (2010: HK$154,404).

Trade debtors mainly comprise of receivable from renting of properties and hotel operation. Rentals are payable on presentation of demand notes. No credit is allowed to these customers. Hotel room revenue is normally settled by cash or credit card. The Group allows an average credit period of not more than 30 days to travel agents and corporate customers.

The following is an aged analysis of trade debtors based on the invoice date:

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| 0 – 30 days | **87,512** | 129,927 |
| 31 – 60 days | **8,408** | 2,137 |
| Over 60 days | **21,317** | 19,025 |
| | **117,237** | 151,089 |

Trade receivables aged over 30 days are past due but are not impaired.

The Group has provided in full for receivable amounting to HK$510,545 (2010: HK$510,545) that have been past due and are generally not recoverable. No further provision has been made for the current year.

In determining the recoverability of trade and other receivables, the Group considers any change in the credit quality of the debtors from the date credit was initially granted up to the reporting date. There is no concentration of credit risk due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance already made. The Group does not hold any collateral over these balances.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 25. AMOUNTS DUE FROM/TO ASSOCIATES

The amounts are unsecured, interest-free and repayable on demand.

## 26. BANK DEPOSITS

The pledged bank deposits carry interest at the prevailing market rates ranging from 0.04% to 0.50% (2010: 0.01% to 0.04%) per annum and are pledged to secure banking facilities granted to the Group.

Bank balances carry interest at prevailing market rates of 0.01% (2010: ranging from 0.01% to 0.03%) per annum.

## 27. INVESTMENT PROPERTY HELD FOR SALE

On 25th February, 2011, a subsidiary entered into an agreement for the disposal of an investment property at a consideration of HK$20,500,000 of which deposit of HK$800,000 had been received and placed with a stakeholder classified under deposits and prepayment. The transaction was completed on 26th April, 2011.

The investment property is stated at fair value which has been arrived at by reference to the consideration of the disposal.

## 28. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors of HK$4,546,236 (2010: HK$4,783,627). The following is an aged analysis of the trade creditors based on invoice date:

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| 0 – 30 days | **442,736** | 533,148 |
| 31 – 60 days | **551,488** | 685,786 |
| Over 60 days | **3,552,012** | 3,564,693 |
| | **4,546,236** | 4,783,627 |

The average credit period on purchase of goods is 60 days.

## 29. AMOUNTS DUE TO SUBSIDIARIES

The amounts are unsecured, interest-free and repayable on demand.

## 30. AMOUNTS DUE TO RELATED COMPANIES

The amounts are unsecured, interest-free and repayable on demand. The related companies are either controlled by a director or jointly controlled by certain directors of the Company.

## 31. AMOUNT DUE TO A NON-CONTROLLING SHAREHOLDER

The amount mainly represents rental payable to the non-controlling shareholder for the lease of its properties, which is unsecured, interest-free and repayable on demand.

## 32. BANK BORROWINGS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Secured | **48,406,795** | 64,293,482 | **26,159,000** | 23,220,000 |
| Unsecured | **2,000,000** | 3,500,000 | **2,000,000** | 3,500,000 |
| | **50,406,795** | 67,793,482 | **28,159,000** | 26,720,000 |
| The above borrowings are repayableas follows: | | | | |
| Within one year | **12,075,795** | 9,443,212 | **5,908,000** | 6,740,000 |
| More than one year but not exceeding two years | **3,408,000** | 5,959,432 | **3,408,000** | 3,240,000 |
| More than two years but not exceeding three years | **2,908,000** | 5,477,520 | **2,908,000** | 2,740,000 |
| More than three years but not exceeding five years | **21,896,000** | 18,410,951 | **5,816,000** | 4,480,000 |
| More than five years | **10,119,000** | 28,502,367 | **10,119,000** | 9,520,000 |
| | **50,406,795** | 67,793,482 | **28,159,000** | 26,720,000 |
| Less: Amount due within one year shown under current liabilities | **(12,075,795)** | (9,443,212) | **(5,908,000)** | (6,740,000) |
| Amount due after one year | **38,331,000** | 58,350,270 | **22,251,000** | 19,980,000 |

The bank borrowings carry floating-rate interest based on the bank's prime rate and the Hong Kong Interbank Offered Rate ("HIBOR") and the effective rates ranged from 1.13% to 3.18% (2010: 1.04% to 3.75%) per annum.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 33. SHARE CAPITAL

| | **2011** | 2010 |
|---|---|---|
| | **HK$** | HK$ |
| Authorised: | | |
| 750,000,000 ordinary shares of HK$0.1each | **75,000,000** | 75,000,000 |
| Issued and fully paid: | | |
| 488,842,675 ordinary shares of HK$0.1each | **48,884,268** | 48,884,268 |

Pursuant to a special resolution passed by the shareholders on 1st June, 2007 and the subsequent order of the High Court of the Hong Kong Special Administrative Region granted on 20th July, 2007, capital reduction took effect on 20th July, 2007 whereby both issued and unissued ordinary share capital with par value of HK$1.00 were reduced by HK$0.90 per share to HK$0.10 per share and the nominal value of the issued share capital was reduced by HK$439,958,407 of which an amount of HK$221,897,828 was applied towards eliminating the accumulated losses of the Company as at 31st March, 2006, an amount of HK$100,000,000 was reserved and credited to a special reserve account and the remaining balance of HK$118,060,579 was credited to the share premium account.

The special reserve can be applied for:

(a) capitalisation by the issue of new shares of the Company

(b) eliminating losses, if any, sustained by the Company after 31st March, 2006. Such loss is to be reversed if the relevant asset, against which impairment loss has been eliminated against this reserve, is realised or revalued at an amount in excess of the amount of provision already made.

The special reserve is undistributable pursuant to section 79C of the Hong Kong Companies Ordinance unless the person entitling to the benefit thereof has agreed otherwise.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 34. RESERVES

| | Share premium HK$ | Share option reserve HK$ | Capital redemption reserve HK$ (Note a) | Special reserve HK$ (Note b) | Accumulated losses HK$ | Total HK$ |
|---|---|---|---|---|---|---|
| At 31st March, 2009 | 210,865,965 | – | 28,990,000 | 83,486,921 | (7,553,419) | 315,789,467 |
| Loss for the year, representing total comprehensive expense for the year | – | – | – | – | (13,096,674) | (13,096,674) |
| Share-based payment expense | – | 1,433,663 | – | – | – | 1,433,663 |
| Eliminate prior year loss against special reserve | – | – | – | (28,776,650) | 28,776,650 | – |
| **At 31st March, 2010** | **210,865,965** | **1,433,663** | **28,990,000** | **54,710,271** | **8,126,557** | **304,126,456** |
| Loss for the year, representing total comprehensive expense for the year | **–** | **–** | **–** | **–** | **(36,581,067)** | **(36,581,067)** |
| Eliminate prior year loss against special reserve | **–** | **–** | **–** | **(13,096,674)** | **13,096,674** | **–** |
| **At 31st March, 2011** | **210,865,965** | **1,433,663** | **28,990,000** | **41,613,597** | **(15,357,836)** | **267,545,389** |

a. Capital redemption reserve arose from repurchase and cancellation of the ordinary shares of the Company during the financial years 1994/1995, 1995/1996 and 1997/1998 and represents the nominal value of the shares cancelled.

b. Special reserve arose as a result of reduction of the Company's share capital in the year 2006/07 as detailed in note 33. Special reserve has been utilised to eliminate accumulated losses of the Company. The total losses eliminated against the special reserve up to the end of the reporting period amounts to HK$58,386,403 (2010: HK$45,289,729).

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 35. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior years:

| | Accelerated tax depreciation HK$ | Revaluation on investment properties HK$ | Tax losses HK$ | Total HK$ |
|---|---|---|---|---|
| At 1st April, 2009 | 2,798,349 | 7,115,880 | (3,523,167) | 6,391,062 |
| (Credit) charge to profit or loss | (184,845) | 1,875,601 | 115,936 | 1,806,692 |
| At 31st March, 2010 | **2,613,504** | **8,991,481** | **(3,407,231)** | **8,197,754** |
| (Credit) charge to profit or loss | **(610,100)** | **(291,535)** | **1,400,829** | **499,194** |
| At 31st March, 2011 | **2,003,404** | **8,699,946** | **(2,006,402)** | **8,696,948** |

For the purposes of presentation in the consolidated statement of financial position, the above deferred tax assets and liabilities have been offset.

At 31st March, 2011, the Group has unused tax losses of approximately HK$164,949,000 (2010: HK$158,158,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$12,160,000 (2010: HK$20,650,000) of such tax losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$152,789,000 (2010: HK$137,508,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely except for an amount of approximately HK$7,082,000 (2010: HK$10,359,000) which will expire in the following years:

| | **2011 HK$** | 2010 HK$ |
|---|---|---|
| 2010/2009 | **–** | 4,226,000 |
| 2011/2010 | **1,954,000** | 1,873,000 |
| 2012/2011 | **22,000** | 21,000 |
| 2013/2012 | **3,063,000** | 2,935,000 |
| 2014/2013 | **2,034,000** | 1,304,000 |
| 2015/2014 | **9,000** | – |
| | **7,082,000** | 10,359,000 |

At 31st March, 2011, the Company has unused tax losses of approximately HK$51,732,000 (2010: HK$41,703,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 36. PROVISION FOR LONG SERVICE PAYMENTS

The amount recognised represents the present value of the estimated defined benefit obligation and is reviewed on an annual basis and adjusted as appropriate.

## 37. MAJOR NON-CASH TRANSACTION

The acquisition of paintings in the preceding year of HK$420,000 was settled by offsetting the amount due from the related company.

## 38. DISPOSAL OF A SUBSIDIARY

In July 2009, the Group disposed of the entire interest in a wholly-owned subsidiary, namely Bright Oriental International Limited. The carrying value of the net assets disposed of are as follows:

| | HK$ |
|---|---|
| Deposit paid for acquisition of property | 2,458,910 |
| Accrued expenses | (5,000) |
| Provision for onerous contract | (1,755,012) |
| | 698,898 |
| Loss on disposal | (52,251) |
| Total consideration satisfied by cash | 646,647 |
| Net cash inflow arising on disposal: | |
| Cash consideration | 646,647 |

The subsidiary disposed of did not contribute significant cash flows, revenue and operating profit of the Group up to the period of disposal.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 39. CONTINGENT LIABILITIES

| | THE COMPANY | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| Guarantee given by the Company for banking facilities utilised by subsidiaries | **22,247,795** | 41,073,482 |

The directors considered that the fair values of the guarantee at its initial recognition and at the end of the reporting period are insignificant on the basis of low default rates. Accordingly, the value of the guarantee has not been recognised in the Company's statement of financial position.

## 40. CAPITAL COMMITMENT

At the end of the reporting period, the Group had contracted but not provided for capital expenditure in respect of property, plant and equipment amounting to approximately HK$1,803,000 (2010: Nil).

## 41. PLEDGE OF ASSETS

The secured bank borrowings are secured by assets of the Group analysed as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| Property, plant and equipment | **41,934,784** | 44,403,849 | **–** | – |
| Investment properties | **–** | 47,900,000 | **–** | – |
| Investment property held for sale | **20,500,000** | – | **–** | – |
| Bank deposits | **2,118,000** | 2,135,306 | **2,000,000** | 2,002,643 |
| | **64,552,784** | 94,439,155 | **2,000,000** | 2,002,643 |

## 42. OPERATING LEASES

**The Group as lessee:**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| Within one year | **4,986,347** | 4,779,244 |
| In the second to fifth year inclusive | **19,945,388** | 19,116,978 |
| Over five years | **42,383,949** | 45,402,822 |
| | **67,315,684** | 69,299,044 |

Leases are negotiated for terms ranging from two to twenty-eight years with fixed rentals over the lease term.

**The Group as lessor:**

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$** | HK$ |
| Within one year | **4,652,157** | 2,750,546 |
| In the second to fifth year inclusive | **–** | 599,454 |
| | **4,652,157** | 3,350,000 |

The properties have committed tenants for a term of one to five years (2010: one to five years).

The Company has no operating lease commitment at the end of the reporting period.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 43. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all qualifying employees in Hong Kong commencing from December 2000. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme or HK$1,000 per month, whichever is the lower.

According to the relevant laws and regulations in the PRC, the PRC subsidiary is required to contribute a certain percentage of the salaries of its employees to the state-managed retirement benefit scheme. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

## 44. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

(a) The Group paid rental expenses amounting to HK$933,912 (2010: HK$958,599) to an associate for the lease of its office premise.

(b) The Group paid rental expenses amounting to HK$4,986,347 (2010: HK$4,779,244) to a non-controlling shareholder of a subsidiary for the lease of its properties. The future lease payment is disclosed in note 42.

(c) On 16th October, 2009, the Group acquired a 50% interest in a jointly controlled entity from a director at a consideration of HK$50, which was determined equivalent to the nominal value of 50% of the jointly controlled entity's issued capital. On the same date, the jointly controlled entity acquired certain agricultural land from the same director at a consideration of HK$17,300,000 which was the fair value of the assets determined with reference to recent transactions of similar properties.

(d) In prior year, the Group acquired a paintings with fair value of HK$420,000 from a related company in which certain directors of the Company have beneficial interests.

(e) The Company provided guarantee for banking facilities granted to the subsidiaries.

(f) Remuneration to the key management personnel comprising the directors and three (2010: one) highest paid employees are disclosed in notes 9 and 10, respectively. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

Balances with subsidiaries, associates, jointly controlled entity, related companies, directors and non-controlling shareholder are set out in the Group's or Company's statement of financial position and related notes.

## 45. SHARE-BASED PAYMENT TRANSACTIONS

At an extraordinary general meeting of the Company held on 1st June, 2007, an ordinary resolution to approve the adoption of a share option scheme (the "Share Option Scheme") that complies with the Rules Governing the Listing of Securities on the Stock Exchange was duly passed by shareholders. No share options were granted under the Share Option Scheme during the year ended 31st March, 2011.

The Share option scheme was adopted for the purpose of providing incentives and rewards to employees or executive or officers of the Company or any of its subsidiaries (including executive and non-executive directors) and business associates or any other person who will contribute or have contributed to the Company or any of its subsidiaries. Under the Option Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31st March, 2011, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 9,500,000 (2010: 9,500,000), representing 2% (2010: 2%) of the enlarged capital of the Company. Without prior approval from the Company's shareholders, (a) the total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (b) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Options vested immediately may be exercised at any time not exceeding a period of 10 years from the date on which the share options is accepted. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 45. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Details of the Company's share options held by employees (including directors) are as follows:

| Date of grant | Exercise price per share HK$ | Number of options outstanding at 31st March, 2011 Directors | Employees | Exercisable period |
|---|---|---|---|---|
| 30th December, 2009 | 0.282 | 3,000,000 | 5,000,000 | 30th December, 2009 to 29th December, 2019 |
| 24th February, 2010 | 0.265 | – | 1,500,000 | 24th February, 2010 to 23rd February, 2020 |
| | | 3,000,000 | 6,500,000 | |

No options were granted during the year and no options were exercised, cancelled or lapsed during the two years ended 31st March, 2011.

The estimated fair values of the options at the dates of grant of the options are HK$0.153 and HK$0.139 respectively.

The fair values were calculated using the Binominal Option Pricing Model. The inputs into the model were as follows:

| | Granted on 30th December, 2009 | Granted on 24th February, 2010 |
|---|---|---|
| Closing price at the date of grant | HK$0.280 | HK$0.260 |
| Exercise price | HK$0.282 | HK$0.265 |
| Risk-free rate | 2.59% | 2.78% |
| Expected life | 10 years | 10 years |
| Nature of the share options | Call | Call |
| Expected volatility | 65.20% | 63.79% |
| Expected dividend yield | Nil | Nil |
| Early exercise behaviour | 280% and 220% | 280% |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 10 years. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate.

Share options expense recognised in the year ended 31st March, 2010 amounted to HK$1,433,663.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 46. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of net debt, which includes the bank borrowings less bank balances and cash and equity attributable to owners of the Company, comprising issued capital and reserves as disclosed in consolidated statement of changes in equity.

The management of the Group reviews the capital structure periodically. As a part of this review, the management of the Group considers the cost of capital and the risks associated with each class of capital. Currently, the management uses short term funding to finance its daily operation to minimise finance costs. The Group will balance its overall capital structure through the payment of dividends, as well as raising new debt or repayment of existing debt.

There are no changes on the Group's approach to capital management during the year.

## 47. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$** | HK$ | **HK$** | HK$ |
| *Financial assets* | | | | |
| Loans and receivables (including cash and cash equivalents) | **21,526,071** | 15,221,891 | **141,969,194** | 143,072,980 |
| Held-for-trading investments, at fair value | **16,849,965** | 13,956,410 | **370,000** | 460,000 |
| Available-for-sale investments, at cost | **159,188,314** | 159,188,314 | **157,026,351** | 157,026,351 |
| *Financial liabilities* | | | | |
| Amortised cost | **62,222,878** | 83,103,219 | **34,833,888** | 30,688,954 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 47. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies

The management of the Group and the Company have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities. These risks include market risk (including interest rate risk and other price risk), credit risk and liquidity risk.

There has been no significant change to the Group's and the Company's exposure to risks or the manner in which they manage and measure the risks.

#### *(i) Interest rate risk management*

The Group and the Company have exposures to cash flow interest rate risk as their bank borrowings carry floating interest at Hong Kong Dollar Prime Rate and HIBOR. In addition, the Company is further exposed to cash flow interest rate risk on the amounts due from subsidiaries. The Company currently do not have any interest rate hedging policy. However, appropriate measures would be taken to manage interest rate exposure if interest rate fluctuates significantly.

The exposures to interest rates on financial liabilities are detailed in the liquidity risk management section below.

*Interest rate sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates on bank borrowings at the end of the reporting period. the analysis is prepared assuming the amount of these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis points (2010: 50 basis points) represents management's assessment of the reasonably possible change in interest rate. The analyses have not included the bank balances as the financial impact of the change in interest rate on the bank balances is insignificant.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit and the Company's post-tax loss would decrease/increase by HK$210,000 (2010: HK$283,000) and increase/decrease by HK$227,000 (2010: HK$233,000), respectively.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 47. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### *(ii) Price risk management*

The Group and the Company is exposed to price risks arising from held-for-trading investments. The management manages the exposure to price risk by maintaining a portfolio of investments with different risk and return profiles.

*Price sensitivity*

The sensitivity analyses below have been determined based on the exposure to price risks at the end of the reporting period. If the market price of the held-for-trading investments had been 15% (2010: 15%) higher/lower while all other variables were held constant, the Group's post-tax profit and the Company's post-tax loss would increase/decrease by HK$2,110,000 (2010: HK$1,748,000) and decrease/increase by HK$46,000 (2010: HK$58,000) respectively, as a result of the changes in fair value of the held-for-trading investments.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent price risk as the year end exposure does not reflect the exposure during the year.

#### *(iii) Credit risk management*

As at 31st March, 2011, the Group's and the Company's maximum exposure to credit risk which will cause a financial loss to the Group and the Company due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group and the Company is arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated and the Company's statement of financial position; and
- the amount of financial guarantee issued by the Company to subsidiaries that can be called upon in entirety as disclosed in note 39.

The Group's and the Company's credit risk is primarily attributable to loan to a jointly controlled entity and amounts due from subsidiaries. In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group and the Company reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's and the Company's credit risk is significantly reduced.

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

**47. FINANCIAL INSTRUMENTS** *(Continued)*

**(b) Financial risk management objectives and policies** *(Continued)*

***(iii) Credit risk management*** *(Continued)*

The credit risk on pledged bank deposits and bank balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on loan to a jointly controlled entity and amounts due from subsidiaries representing approximately 40% and 94% of the Group's and the Company's loans and receivables, the Group and the Company does not have any other significant concentration of credit risk.

***(iv) Liquidity risk management***

The Group finances its working capital requirements through a combination of funds generated from operations and banking facilities.

Ultimate responsibility for liquidity risk management rests with the directors of the Company, which has built an appropriate liquidity risk management framework for the management of the Group's and the Company's short, medium and long-term funding and liquidity management requirements. With available banking facilities, the Group manages liquidity risk by monitoring the forecast and actual cash flows. At the end of the reporting period, there were outstanding bank loans of HK$50,406,795 (2010: HK$67,793,482) and HK$28,159,000 (2010: HK$26,720,000) and unutilised overdraft facilities available to the Group and the Company amounting to approximately HK$4,000,000 (2010: HK$4,000,000) during the two years ended 31st March, 2011.

## 47. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### *(iv) Liquidity risk management (Continued)*

*Liquidity and interest risk tables*

The following tables detail the Group's and the Company's remaining contractual maturity for its non-derivative financial liabilities. the tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. The table includes both interest and principal cash flows.

**THE GROUP**

| | Weighted average effective interest rate % | Repayable on demand or less than 1 year HK$ | 1-2 years HK$ | 2-5 years HK$ | Over 5 years HK$ | Total undiscounted cash flows HK$ | Carrying amounts HK$ |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| **Non-derivative instrument** | | | | | | | |
| Non-interest bearing | – | 11,816,083 | – | – | – | 11,816,083 | 11,816,083 |
| Bank borrowings at variable rate | 2.22 | 12,961,538 | 4,181,523 | 26,628,364 | 10,637,895 | 54,409,320 | 50,406,795 |
| | | 24,777,621 | 4,181,523 | 26,628,364 | 10,637,895 | 66,225,403 | 62,222,878 |

| | Weighted average effective interest rate % | Repayable on demand or less than 1 year HK$ | 1-2 years HK$ | 2-5 years HK$ | Over 5 years HK$ | Total undiscounted cash flows HK$ | Carrying amounts HK$ |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Non-derivative instrument** | | | | | | | |
| Non-interest bearing | – | 15,309,737 | – | – | – | 15,309,737 | 15,309,737 |
| Bank borrowings at variable rate | 2.11 | 10,714,696 | 7,100,839 | 26,623,407 | 33,405,648 | 77,844,590 | 67,793,482 |
| | | 26,024,433 | 7,100,839 | 26,623,407 | 33,405,648 | 93,154,327 | 83,103,219 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 47. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### *(iv) Liquidity risk management* *(Continued)*

*Liquidity and interest risk tables (Continued)*

**THE COMPANY**

| | Weighted average effective interest rate % | Repayable on demand or less than 1 year HK$ | 1-2 years HK$ | 2-5 years HK$ | Over 5 years HK$ | Total undiscounted cash flows HK$ | Carrying amounts HK$ |
|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | |
| **Non-derivative instrument** | | | | | | | |
| Non-interest bearing | – | 6,674,888 | – | – | – | 6,674,888 | 6,674,888 |
| Bank borrowings at variable rate | 2.88 | 6,574,606 | 3,963,285 | 9,909,178 | 10,637,895 | 31,084,964 | 28,159,000 |
| Financial guarantee contracts (Note b) | – | 22,247,795 | – | – | – | 22,247,795 | – |
| | | 35,497,289 | 3,963,285 | 9,909,178 | 10,637,895 | 60,007,647 | 34,833,888 |

| | Weighted average effective interest rate % | Repayable on demand or less than 1 year HK$ | 1-2 years HK$ | 2-5 years HK$ | Over 5 years HK$ | Total undiscounted cash flows HK$ | Carrying amounts HK$ |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| **Non-derivative instrument** | | | | | | | |
| Non-interest bearing | – | 3,968,954 | – | – | – | 3,968,954 | 3,968,954 |
| Bank borrowings at variable rate | 2.67 | 7,308,787 | 3,716,568 | 8,200,414 | 10,048,164 | 29,273,933 | 26,720,000 |
| Financial guarantee contracts (Note b) | – | 41,073,482 | – | – | – | 41,073,482 | – |
| | | 52,351,223 | 3,716,568 | 8,200,414 | 10,048,164 | 74,316,369 | 30,688,954 |

# Notes to the Consolidated Financial Statements

For the Year ended 31st March, 2011

## 47. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### *(iv) Liquidity risk management* *(Continued)*

*Liquidity and interest risk tables (Continued)*

*Notes:*

(a) The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

(b) The amounts included above for financial guarantee contracts are the maximum amounts the Company could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

#### *(v) Fair value of financial instruments*

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

The only financial instruments of the Group and the Company that are measured at fair value is the held-for-trading investments and is grouped into Level 1 whose fair value measurements are derived from quoted prices (unadjusted) in active market for identical assets with carrying value of HK$16,849,965 (2010: HK$13,956,410) and HK$370,000 (2010: HK$460,000), respectively.

# List of Major Properties Held by the Group

| Location | Approximate gross floor area/ site areas* (square feet) | Group's interest | Existing land use | Term of lease |
|---|---|---|---|---|
| **Leasehold land and buildings** | | | | |
| Duplex No. 1 on 1/F and 2/F with Garden and Rear Open Yard of House 15 (Dynasty Villa 6) and car park space No. 202, Dynasty Heights, No. 2 Yin Ping Road, Kowloon, Hong Kong | 2,592 | 100.0% | Residential | Medium |
| **Hotel property** | | | | |
| East Bay, Cheung Chau, New Territories 8443/9000 parts or shares of and in C.C.L. 1147 | 27,000* | 97.8% | Hotel | Medium |

# List of Major Properties Held by the Group

| Location | Approximate gross floor area/ site areas* (square feet) | Group's interest | Existing land use | Term of lease |
|---|---|---|---|---|
| **Investment properties** | | | | |
| Wing On Street, Peng Chau, New Territories 370/700 parts or shares of and in P.C.L. 415 | 5,230* | 100.0% | Cinema | Medium |
| Various agricultural lots in Survey District No. 4 in Lai Chi Kok, Kowloon | 278,686* | 100.0% | Agricultural land | Medium |
| Various agricultural lots in DD118, Yuen Long, New Territories | 149,846* | 50.0% | Agricultural land | Medium |

# Financial Summary

## RESULTS

| | For the year ended 31st March, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Revenue | 20,357 | 27,047 | 29,139 | 26,938 | **30,956** |
| (Loss) profit before taxation | (49,030) | 7,606 | (83,344) | 10,518 | **5,880** |
| Taxation | (400) | (3,823) | 5,351 | (1,806) | **(499)** |
| (Loss) profit for the year attributable to owners of the Company | (49,430) | 3,783 | (77,993) | 8,712 | **5,381** |

## ASSETS AND LIABILITIES

| | At 31st March, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2008 | 2009 | 2010 | **2011** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| Total assets | 500,284 | 473,723 | 397,761 | 393,091 | **384,652** |
| Total liabilities | (115,732) | (108,905) | (111,526) | (96,822) | **(82,356)** |
| Equity attributable to owners of the Company | 384,552 | 364,818 | 286,235 | 296,269 | **302,296** |