International Entertainment Corporation
國際娛樂有限公司
(Incorporated in the Cayman Islands with limited liability)
Stock Code: 01009

# Annual Report 2011/12

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The English text of this annual report shall prevail over the Chinese text in case of inconsistencies.

# Corporate Information

## EXECUTIVE DIRECTORS
Dr. CHENG Kar Shun *(Chairman)*
Mr. LO Lin Shing, Simon *(Deputy Chairman)*
Mr. TO Hin Tsun, Gerald
Mr. CHENG Kam Chiu, Stewart
Mr. CHENG Kam Biu, Wilson
Mr. CHENG Chi Kong
Mr. CHENG Chi Him

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. CHEUNG Hon Kit
Mr. KWEE Chong Kok, Michael
Mr. LAU Wai Piu
Mr. TSUI Hing Chuen, William *JP*

## EXECUTIVE COMMITTEE
Dr. CHENG Kar Shun *(Committee Chairman)*
Mr. TO Hin Tsun, Gerald
Mr. CHENG Kam Biu, Wilson

## AUDIT COMMITTEE
Mr. CHEUNG Hon Kit *(Committee Chairman)*
Mr. LAU Wai Piu
Mr. TSUI Hing Chuen, William *JP*

## NOMINATION COMMITTEE
Mr. TSUI Hing Chuen, William *JP (Committee Chairman)*
Mr. TO Hin Tsun, Gerald
Mr. CHENG Kam Biu, Wilson
Mr. CHEUNG Hon Kit
Mr. KWEE Chong Kok, Michael
Mr. LAU Wai Piu

## REMUNERATION COMMITTEE
Mr. LAU Wai Piu *(Committee Chairman)*
Mr. CHEUNG Hon Kit
Mr. KWEE Chong Kok, Michael
Mr. TSUI Hing Chuen, William *JP*

## COMPANY SECRETARY
Mr. KWOK Chi Kin *CPA, FCCA*

## AUTHORISED REPRESENTATIVES
Mr. CHENG Kam Chiu, Stewart
Mr. KWOK Chi Kin

## REGISTERED OFFICE
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Rooms 1207-8
New World Tower 1
16-18 Queen's Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS
Banco de Oro Unibank, Inc.
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Maybank Philippines Inc.
Public Bank (Hong Kong) Limited
Rizal Commercial Banking Corporation

## AUDITOR
Deloitte Touche Tohmatsu
Certified Public Accountants
35/F One Pacific Place
88 Queensway
Hong Kong

## STOCK CODE
01009

## COMPANY WEBSITE
http://www.ientcorp.com

# Chairman's Statement

**International Entertainment Corporation**

**Dr. Cheng Kar Shun** *Chairman*

Dear Fellow Shareholders,

I am pleased to report on the financial performance of the International Entertainment Corporation (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 March 2012.

Since the acquisition of the hotel and leasing businesses in the Philippines in October 2007, the Group continues to generate profits for the past five financial years. Although the global economy remains uncertain, the Group's revenue for the year improved as compared to last year, thanks largely to an increase in room occupancy and average room rate and the improvement of gaming revenue of the casino operated by Philippine Amusement and Gaming Corporation. The revenue of the Group for the year was approximately HK$432.5 million, representing an increase of approximately 5.6%, as compared to last year's profit of approximately HK$409.7 million.

The hotel operations contributed approximately 32.7% of the Group's revenue during the period under review, while the leasing of properties contributed approximately 67.3% of the Group's revenue this year. Last year, the hotel operations and leasing of properties contributed approximately 32.8% and 67.2% respectively of the total revenue of the Group.

As the hotel and leasing operations are located in the Philippines, the economic turbulence in the United States of America and Europe might not directly affect the Group's operations. However, the inflation in the Philippines would result in the Group implementing cost-saving measures, improving the hardware of the properties and boosting sales and marketing to meet the challenge. During the year, the Group purchased new slot machines for the leasing of properties for casino and ancillary leisure and entertainment operations and redecorated some hotel rooms.

The financial position of the Group remained strong. The net assets attributable to the shareholders of the Company (the "Shareholders") as at 31 March 2012 was approximately HK$1,790.4 million. The bank balances and cash of the Group as at 31 March 2012 was approximately HK$1,300.2 million.

In addition to the deposits placed at banks, the Group has caught the investment opportunities in the market, which were mainly short to medium-term investments, aiming for better return to the Shareholders. During the year, the Group had participated in the provision of credit facility in the principal amount of US$30 million (equivalent to approximately HK$234.0 million), which carries interest at 35% per annum and is repayable within twelve months from the date of drawdown.

Hyatt Hotel and Casino Manila, located in Metro Manila, the Philippines, comprises over 370 guest rooms, a casino and entertainment areas. The Group will continue to focus on its existing hotel operations in Metro Manila, the Philippines, and the leasing of properties for casino and ancillary leisure and entertainment operations there, and will continue to do so as well as exploring other business opportunities to strive for better return to the Shareholders. The management team will continue to review the Group's financial structure and the composition of assets and liabilities periodically. We consider that the existing hotel operations and leasing of properties in the Philippines will continue to contribute significantly towards the Group's revenue and results.

The management team believes that in the near or medium term, the Group should concentrate on its core business by adopting a prudent approach to containing overheads as well as seeking other investment opportunities for better return to the Shareholders.

I would like to thank the management team and the employees of the Group for their commitment, energy and hard work, and express my sincere gratitude to our customers, shareholders and suppliers for their support.

**Dr. Cheng Kar Shun**
*Chairman*

Hong Kong, 21 June 2012

## FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2012 was approximately HK$432.5 million, representing an increase of approximately 5.6%, as compared with approximately HK$409.7 million in the last year. Both the revenue from the hotel operations and the leasing of properties for the year increased as compared with the last year. The Group reported a gross profit of approximately HK$219.5 million for the year under review, representing an increase of approximately 8.8%, as compared with approximately HK$201.7 million in the last year. Both the hotel operations and the leasing of properties contributed to the increase in gross profit for the year.

Other income of the Group for the year ended 31 March 2012 was approximately HK$93.5 million, representing an increase of approximately 208.6%, as compared with approximately HK$30.3 million in the last year. The increase was mainly due to the increase in interest income from loans receivables during the year.

The Group recorded a loss of approximately HK$21.6 million on change in fair value of financial assets at fair value through profit or loss for the year ended 31 March 2012, representing an increase of approximately 575.0%, as compared with approximately HK$3.2 million in the last year.

Other gain and loss of the Group represented the net foreign exchange gain or loss recognised during the year under review. The Group recorded a net foreign exchange loss of approximately HK$18.6 million for the year ended 31 March 2012, while it has a net foreign exchange gain of approximately HK$4.0 million for the last year.

Selling and distribution costs, and general and administrative expenses of the Group increased by approximately 19.2% to approximately HK$155.5 million for the year ended 31 March 2012 from approximately HK$130.4 million in the last year.

The Group did not record any gain or loss on change in fair value of conversion option derivative and finance costs during the year ended 31 March 2012 as the convertible note was fully repaid during the year ended 31 March 2011. The gain on change in fair value of conversion option derivative and finance costs for the year ended 31 March 2011 were approximately HK$60.0 million and HK$25.0 million respectively.

The Group did not record any gain on disposal of a subsidiary or share of profit from an associated company during the year ended 31 March 2012. Gain on disposal of a subsidiary and share of profit from an associated company for the year ended 31 March 2011 were approximately HK$657.9 million and HK$21.3 million respectively.

The Group recorded a profit for the year ended 31 March 2012, amounted to approximately HK$120.3 million, representing a decrease of approximately 85.3%, as compared with approximately HK$816.0 million in the last year. The decrease in profit for the year was mainly due to the one-off significant gain on disposal of a subsidiary and a gain on change in fair value of conversion option derivative recorded in the year ended 31 March 2011.

## BUSINESS REVIEW

The principal activities of the Group are hotel operations, and leasing of properties for casino and ancillary leisure and entertainment operations.

### 1. Leasing of properties

The revenue derived from the leasing of properties for the year ended 31 March 2012 was approximately HK$291.0 million, representing an increase of approximately 5.7%, as compared with approximately HK$275.2 million in the last year. It contributed approximately 67.3% of the Group's total revenue during the year under review. In the last year, it contributed approximately 67.2% of the Group's total revenue.

### 2. Hotel operations

The revenue derived from the hotel operations mainly includes room revenue, revenue from food and beverages and other hotel service income. The revenue derived from the hotel operations for the year ended 31 March 2012 was approximately HK$141.4 million, representing an increase of approximately 5.1%, as compared with approximately HK$134.5 million in the last year. The increase was mainly due to the increase in average room rate and the occupancy rate during the year.

## FUTURE OUTLOOK

The Group will continue to focus on its existing hotel operations, and the leasing of properties for casino and ancillary leisure and entertainment operations in the Philippines, and will also strive to seek other business opportunities for better return to the Shareholders. In addition, the directors of the Company (the "Directors") will continue to review the Group's financial structure and the composition of its assets and liabilities periodically. The Directors consider that the existing hotel operations and the leasing of properties in the Philippines will continue to contribute significantly towards the Group's revenue and results.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2012, the Group's net current assets amounted to approximately HK$1,288.6 million (as at 31 March 2011: approximately HK$1,839.9 million). Current assets amounted to approximately HK$1,480.9 million (as at 31 March 2011: approximately HK$2,268.5 million), of which approximately HK$1,300.2 million (as at 31 March 2011: approximately HK$2,182.2 million) was cash and bank deposits, approximately HK$70.3 million (as at 31 March 2011: approximately HK$39.9 million) was trade receivables, approximately HK$33.6 million (as at 31 March 2011: approximately HK$28.3 million) was other receivables, deposits and prepayments, approximately HK$73.9 million (as at 31 March 2011: nil) was loan receivable, and approximately HK$2.9 million (as at 31 March 2011: approximately HK$2.6 million) was inventories.

The Group had current liabilities amounted to approximately HK$192.2 million (as at 31 March 2011: approximately HK$428.6 million), of which approximately HK$6.0 million (as at 31 March 2011: approximately HK$7.0 million) was trade payables, approximately HK$54.2 million (as at 31 March 2011: approximately HK$288.6 million) was other payables and accrued charges, and approximately HK$132.0 million (as at 31 March 2011: approximately HK$132.0 million) was the amounts owing under the promissory notes.

The promissory notes amounted to approximately HK$132.0 million (as at 31 March 2011: approximately HK$132.0 million) were denominated in Hong Kong Dollar. The amounts were unsecured, interest-free and repayable on demand.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE *(Continued)*

The gearing ratio, measured in terms of total borrowings divided by total assets, was approximately 4.4% as at 31 March 2012, compared to approximately 3.3% as at 31 March 2011.

The Group financed its operations generally with internally generated cash flows.

## CHARGES ON GROUP ASSETS

As at 31 March 2012 and 31 March 2011, the Group did not have any charges on any Group's assets.

## MATERIAL ACQUISITIONS AND DISPOSALS AND SIGNIFICANT INVESTMENTS

On 2 September 2011, the Company, through its subsidiary, participated in the provision of a credit facility (the "Facility") made available to Neo Summit Limited (the "Borrower") pursuant to the credit agreement dated 5 August 2011 entered into between the Borrower and Deutsche Bank AG, London Branch in the principal amount of US$30.0 million (equivalent to approximately HK$234.0 million) (the "Participation"), which carries interest at 35% per annum and is repayable within twelve months from the date of drawdown of the Facility. During the year ended 31 March 2012, the Group received repayments of approximately US$20.5 million (equivalent to approximately HK$160.1 million). Details of the Participation are set out in the announcement of the Company dated 2 September 2011.

Save as disclosed above, there was no other acquisition or disposal of subsidiary and associated company or significant investments of the Group, which would have been required to be disclosed under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), for the year ended 31 March 2012.

## FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group will continue to explore the market and identify any business opportunities which may provide its growth and development potential, enhance the profitability, and strive for better return to the Shareholders.

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

As at 31 March 2012, the Group's assets and liabilities were mainly denominated in Hong Kong Dollar, United States Dollar and Philippine Peso. The Group primarily earns its revenue and income in Hong Kong Dollar, United States Dollar and Philippine Peso while the Group primarily incurs costs and expenses mainly in Hong Kong Dollar and Philippine Peso. The Group has not implemented any formal hedging policy. However, the management of the Group would monitor foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

## CONTINGENT LIABILITIES

As at 31 March 2012 and 31 March 2011, the Group did not have any significant contingent liabilities.

## EMPLOYEES AND REMUNERATION POLICIES

The total number of employees of the Group was 335 as at 31 March 2012 (as at 31 March 2011: 324). The staff costs for the year ended 31 March 2012 was approximately HK$54.4 million (for the year ended 31 March 2011: approximately HK$50.0 million). The remuneration of the Directors and the employees of the Group was based on the performance and experience of individuals and was determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions. In addition to the salaries, the employees of the Group are entitled to benefits including medical scheme, insurance and retirement benefits schemes.

# Board of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Dr. Cheng Kar Shun**, aged 65, was appointed as an executive Director in July 2004 and became the chairman of the Company in November 2004. He is also the chairman of the executive committee of the Company. Dr. Cheng is the chairman and an executive director of Chow Tai Fook Jewellery Group Limited (stock code: 1929), the chairman and an executive director of New World Development Company Limited (stock code: 17), the chairman and the managing director of New World China Land Limited (stock code: 917), the chairman and an executive director of NWS Holdings Limited (stock code: 659), the chairman and a non-executive director of New World Department Store China Limited (stock code: 825), the chairman and a non-executive director of Newton Resources Ltd (stock code: 1231), an independent non-executive director of HKR International Limited (stock code: 480) and a non-executive director of Lifestyle International Holdings Limited (stock code: 1212), all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Cheng Yu Tung Family (Holdings) Limited, Cheng Yu Tung Family (Holdings II) Limited, Chow Tai Fook Capital Limited, Chow Tai Fook (Holding) Limited, Chow Tai Fook Enterprises Limited and Mediastar International Limited, which are the substantial Shareholders. He is also a director of various subsidiaries of the Company. Dr. Cheng holds an honorary doctorate degree of law from The University of Western Ontario and an honorary doctorate degree of business administration in hospitality management from Johnson & Wales University. Dr. Cheng is the chairman of the Advisory Council for The Better Hong Kong Foundation and a Standing Committee Member of the Eleventh Chinese People's Political Consultative Conference of the People's Republic of China. In 2001, he was awarded the Gold Bauhinia Star by the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong").

Dr. Cheng previously held directorship as the chairman and an executive director of Haitong International Securities Group Limited (formerly known as Taifook Securities Group Limited) ("Haitong") (stock code: 665), a company whose issued shares are listed on the Stock Exchange (resigned on 13 January 2010).

Save as disclosed above, Dr. Cheng did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

Dr. Cheng is the cousin of Mr. Cheng Kam Chiu, Stewart and Mr. Cheng Kam Biu, Wilson, the father of Mr. Cheng Chi Kong, and the uncle of Mr. Cheng Chi Him, all of whom are executive Directors.

**Mr. Lo Lin Shing, Simon**, aged 56, joined the Company as a non-executive Director in May 2001 and was re-designated as an executive Director in September 2004. He was appointed as the deputy chairman of the Company in January 2008. Mr. Lo possesses over 30 years of experience in the financial, securities and futures industries, including many trans-border transactions. He has been a member of Chicago Mercantile Exchange and International Monetary Market (Division of Chicago Mercantile) since 1986. Mr. Lo holds a Bachelor of Business Administration degree. Mr. Lo is the chairman and an executive director of Mongolia Energy Corporation Limited (stock code: 276) and Vision Values Holdings Limited (stock code: 862), both of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of various subsidiaries of the Company.

Mr. Lo previously held directorship as the deputy chairman and an executive director of Haitong (resigned on 1 July 2009).

Save as disclosed above, Mr. Lo did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

## EXECUTIVE DIRECTORS *(Continued)*

**Mr. To Hin Tsun, Gerald**, aged 63, was appointed as an executive Director in June 2006 and as the compliance officer of the Company in January 2008 respectively. He is also a member of the executive committee and the nomination committee of the Company. Mr. To has been a practising solicitor in Hong Kong since 1975. He is also qualified as a solicitor in the United Kingdom, as well as an advocate and solicitor in Singapore. Mr. To is also a non-executive director of Mongolia Energy Corporation Limited (stock code: 276) and NWS Holdings Limited (stock code: 659), both of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of various subsidiaries of the Company.

Mr. To previously held directorship as a non-executive director of Haitong (resigned on 13 January 2010).

Save as disclosed above, Mr. To did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

**Mr. Cheng Kam Chiu, Stewart**, aged 57, was appointed as an executive Director in January 2008 and is the authorised representative of the Company. Mr. Cheng holds a Bachelor's Degree in Civil and Environmental Engineering from the University of Wisconsin-Madison; a Master's Degree in Civil Engineering from the University of California, Berkeley, the United States of America; and a degree in Master of Business Administration from the Chinese University of Hong Kong. Being a member of the Hong Kong Institution of Engineers, Mr. Cheng is a professional engineer with extensive experience in property development and construction management. Mr. Cheng is a member of the Shunde District, Foshan City Committee of the Chinese People's Political Consultative Conference since November 2006.

Mr. Cheng joined Hip Hing Construction Company Limited in 1984 as a project manager and had subsequently become a director. From 1993 to 1997, Mr. Cheng was transferred to New World Development (China) Limited as a director and the assistant general manager, overseeing property development in the People's Republic of China (the "PRC"). He worked for NWS Holdings Limited and its subsidiaries from 1997 to 2006. Mr. Cheng is now the managing director of Cheung Hung Development (Holdings) Limited, which is principally engaged in property development in both Hong Kong and the PRC. Mr. Cheng is also the chairman and an executive director of New Times Energy Corporation Limited (stock code: 166), a company whose issued shares are listed on the Stock Exchange.

Mr. Cheng previously held directorship as an executive director of Grand T G Gold Holdings Limited (stock code: 8299), a company whose issued shares are listed on the Stock Exchange (resigned on 15 May 2009).

Save as disclosed above, Mr. Cheng did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

Mr. Cheng is the cousin of Dr. Cheng Kar Shun, the brother of Mr. Cheng Kam Biu, Wilson, and the uncle of Mr. Cheng Chi Kong and Mr. Cheng Chi Him, all of whom are executive Directors.

## EXECUTIVE DIRECTORS *(Continued)*

**Mr. Cheng Kam Biu, Wilson**, aged 53, was appointed as an executive Director in January 2008. He is also a member of the executive committee and the nomination committee of the Company. He graduated from the University of Hawaii, Honolulu with a Bachelor of Arts degree in Economics. He has over 25 years of experience in administration and finance of jewellery retail business. Mr. Cheng is the vice-president of The Chinese Gold and Silver Exchange Society. He is a non-executive director of Chow Tai Fook Jewellery Group Limited (stock code: 1929), a company whose issued shares are listed on the Stock Exchange. He is also a director of Chow Tai Fook Enterprises Limited and Mediastar International Limited, which are the substantial Shareholders.

Save as disclosed above, Mr. Cheng did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

Mr. Cheng is the cousin of Dr. Cheng Kar Shun, the brother of Mr. Cheng Kam Chiu, Stewart, and the uncle of Mr. Cheng Chi Kong and Mr. Cheng Chi Him, all of whom are executive Directors.

**Mr. Cheng Chi Kong**, aged 32, was appointed as an executive Director in January 2008. He is an executive director and the joint general manager of New World Development Company Limited (stock code: 17), an executive director of New World China Land Limited (stock code: 917), New World Department Store China Limited (stock code: 825) and Chow Tai Fook Jewellery Group Limited (stock code: 1929), and a non-executive director of Giordano International Limited (stock code: 709), all of which are companies whose issued shares are listed on the Stock Exchange. He is also a director of Chow Tai Fook (Holding) Limited and Chow Tai Fook Enterprises Limited, which are the substantial Shareholders. Mr. Cheng worked in a major international bank prior to joining the New World Group in September 2006 and has substantial experience in corporate finance. Mr. Cheng holds a Bachelor of Arts Degree (cum laude) from Harvard University. He is the vice-chairman of All-China Youth Federation, a member of the Tianjin Municipal Committee of The Chinese People's Political Consultative Conference, the vice-chairman of the Youth Federation of State-owned Enterprises, a consultant of the Beijing Municipal Committee of The Chinese People's Political Consultative Conference, the chairman of China Young Leaders Foundation and the honorary chairman of Fundraising Committee of the Wu Zhi Qiao (Bridge to China) Charitable Foundation.

Save as disclosed above, Mr. Cheng did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

Mr. Cheng is the son of Dr. Cheng Kar Shun, the nephew of Mr. Cheng Kam Chiu, Stewart and Mr. Cheng Kam Biu, Wilson, and the cousin of Mr. Cheng Chi Him, all of whom are executive Directors.

**Mr. Cheng Chi Him**, aged 33, was appointed as an executive Director in January 2008. Mr. Cheng is an executive director of New World China Land Limited (stock code: 917), a company whose issued shares are listed on the Stock Exchange. He graduated from University of Toronto in Canada with a Bachelor of Arts degree in Statistics.

Mr. Cheng previously held directorship as an executive director of New Times Energy Corporation Limited (stock code: 166), a company whose issued shares are listed on the Stock Exchange (resigned on 19 October 2009).

Save as disclosed above, Mr. Cheng did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

Mr. Cheng is the nephew of Dr. Cheng Kar Shun, Mr. Cheng Kam Chiu, Stewart and Mr. Cheng Kam Biu, Wilson, and the cousin of Mr. Cheng Chi Kong, all of whom are executive Directors.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Cheung Hon Kit**, aged 58, joined the Company as an independent non-executive Director in May 2001. He is also the chairman of the audit committee, and a member of the remuneration committee and the nomination committee of the Company. Mr. Cheung has over 34 years of experience in real estate development, property investment and corporate finance. He has worked in key executive positions in various leading property development companies in Hong Kong. Mr. Cheung graduated from the University of London with a Bachelor of Arts degree. Currently, Mr. Cheung is the chairman and an executive director of ITC Properties Group Limited (stock code: 199) and Rosedale Hotel Holdings Limited (stock code: 1189) and an independent non-executive director of Future Bright Holdings Limited (stock code: 703), all of which are companies whose issued shares are listed on the Stock Exchange.

Mr. Cheung previously held directorship as an executive director of ITC Corporation Limited (stock code: 372), a company whose issued shares are listed on the Stock Exchange (retired on 19 August 2011).

Save as disclosed above, Mr. Cheung did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

**Mr. Kwee Chong Kok, Michael**, aged 65, was appointed as an independent non-executive Director in September 2004. He is also a member of the remuneration committee and the nomination committee of the Company. Mr. Kwee graduated with a Bachelor's Degree in Economics from Le Moyne College, Syracuse, New York, a Master's Degree in Science from American Graduate School of International Management in Phoenix, Arizona and completed a Programme for Management Development at the Harvard Business School, all in the United States of America. Mr. Kwee is the chairman and the chief executive officer of PAMA Group Inc. He is also the chairman and an independent non-executive director of Frasers Property (China) Limited (stock code: 535), a company whose issued shares are listed on the Stock Exchange. He was a member of the Hong Kong Advisory Committee on Legal Education from 1998 to 2004 and also served as a member of the Hong Kong Financial Secretary's Economic Advisory Committee from 1995 to 2004.

Save as disclosed above, Mr. Kwee did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

**Mr. Lau Wai Piu**, aged 48, joined the Company as an independent non-executive Director in July 2008. He is also the chairman of the remuneration committee, and a member of the audit committee and the nomination committee of the Company. Mr. Lau possesses over 20 years of extensive experience in accounting and financial management. He is a member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He is also an independent non-executive director of Mongolia Energy Corporation Limited (stock code: 276), Haitong and Vision Values Holdings Limited (stock code: 862), all of which are companies whose issued shares are listed on the Stock Exchange.

Save as disclosed above, Mr. Lau did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

## INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

**Mr. Tsui Hing Chuen, William** *JP*, aged 60, joined the Company as an independent non-executive Director in July 2008. He is also the chairman of the nomination committee, and a member of the audit committee and the remuneration committee of the Company. Mr. Tsui is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries since 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980 as well as a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor of the Supreme Court of Republic of Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury, England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He is currently an independent non-executive director of Mongolia Energy Corporation Limited (stock code: 276), Haitong and Vision Values Holdings Limited (stock code: 862), all of which are companies whose issued shares are listed on the Stock Exchange.

Save as disclosed above, Mr. Tsui did not hold any directorship in other public companies whose securities are listed on any securities market in Hong Kong or overseas during the preceding three years.

## SENIOR MANAGEMENT

**Mr. Tse Cho Tseung**, aged 58, joined the Group as the Chief Operating Officer in November 2005. Mr. Tse is responsible for overall general operation of the Group. He holds a Diploma in Accounting from The Hong Kong Baptist University and has over 30 years of experience in accounting and finance, construction, property development and investment, and trading business.

**Mr. Kwok Chi Kin**, aged 35, joined the Group as the Chief Financial Officer and was appointed as the Qualified Accountant and the Company Secretary of the Company in May 2004. He is responsible for the overall financial and company secretarial matters of the Group. Mr. Kwok holds a Degree of Bachelor of Business Administration in Finance from Hong Kong University of Science and Technology. He is a Certified Public Accountant of Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 10 years of auditing experience and accounting experience in listed companies in Hong Kong.

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 March 2012.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 36 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2012 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 28 to 29.

The board of Directors (the "Board") does not recommend the payment of any dividend for the year ended 31 March 2012 (2011: interim dividend of HK$0.50 per ordinary share of HK$1.00 each in the share capital of the Company (the "Share"), final dividend of HK$0.14 per Share and special dividend of HK$0.61 per Share).

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentage of sales attributable to the Group's largest customer and five largest customers accounted for approximately 68% and 71% respectively of the Group's total revenue for the year.

The aggregate percentage of purchases attributable to the Group's largest supplier and five largest suppliers accounted for approximately 16% and 38% respectively of the Group's total purchases for the year.

At no time during the year did a Director, an associate of a Director or a Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest suppliers or customers.

## FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 89.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 16 and 17 respectively to the consolidated financial statements.

## PRINCIPAL PROPERTIES OWNED BY THE GROUP

Particulars of the principal properties of the Group are set out on page 90.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 27 to the consolidated financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32.

The reserves of the Company available for distribution will arise mainly from funds available from the retained profits of the Company.

Under the Companies Law (as amended) of the Cayman Islands, the share premium account of a company, subject to its memorandum and articles of association, may be applied towards the payment of distributions, paying up unissued shares of the company to be issued to the shareholders as fully paid bonus shares, paying any premium payable on the redemption or purchase of its shares or dividends to shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the company is able to pay its debts as they fall due in the ordinary course of business.

In the opinion of the Directors, the reserves of the Company available for distribution to the Shareholders as at 31 March 2012 were approximately HK$107,660,000 (2011: HK$1,012,181,000).

## DIRECTORS

The Directors during the year and up to the date of this report are:

### Executive Directors

Dr. Cheng Kar Shun
Mr. Lo Lin Shing, Simon
Mr. To Hin Tsun, Gerald
Mr. Cheng Kam Chiu, Stewart
Mr. Cheng Kam Biu, Wilson
Mr. Cheng Chi Kong
Mr. Cheng Chi Him

### Independent non-executive Directors

Mr. Cheung Hon Kit
Mr. Kwee Chong Kok, Michael
Mr. Lau Wai Piu
Mr. Tsui Hing Chuen, William *JP*

In accordance with article 87A of the Company's articles of association (the "Articles") and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, Dr. Cheng Kar Shun and Mr. To Hin Tsun, Gerald, the executive Directors, and Mr. Kwee Chong Kok, Michael, an independent non-executive Director, shall retire from office by rotation at the forthcoming annual general meeting of the Company (the "AGM"). All retiring Directors, being eligible, offer themselves for re-election at the AGM.

The terms of office of the non-executive Directors (including the independent non-executive Directors) should be subject to retirement by rotation in accordance with the Articles and the Listing Rules.

No Director proposed for re-election at the AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael, Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William *JP* an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all the independent non-executive Directors are independent.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

Save as disclosed below, as at 31 March 2012, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”), Chapter 571 of the Laws of Hong Kong), which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO, including interests or short positions which they were taken or deemed to have under such provisions of the SFO, or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors adopted by the Company, to be notified to the Company and the Stock Exchange.

### Long positions in the Shares

| | Number of Shares | | | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|
| **Name of Director** | **Personal interest** | **Corporate interest** | **Total** | |
| Mr. Lo Lin Shing, Simon | – | 364,800 *(Note)* | 364,800 | 0.03% |

*Note:* These Shares are held by Wellington Equities Inc., which is wholly-owned by Mr. Lo Lin Shing, Simon, an executive Director.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVES IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(Continued)*

**Long positions in the ordinary shares of Maxprofit International Limited ("Maxprofit"), a subsidiary of the Company**

| Name of Director | Number of ordinary shares of US$1.00 each in the share capital of Maxprofit: Personal interest | Corporate interest | Total | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. To Hin Tsun, Gerald | – | 11 *(Note)* | 11 | 11% |

*Note:* Ten shares are held by Up-Market Franchise Ltd., and one share is held by Pure Plum Ltd.. Up-Market Franchise Ltd. and Pure Plum Ltd. are wholly-owned by Mr. To Hin Tsun, Gerald, an executive Director.

**Long positions in the ordinary shares of Chow Tai Fook Jewellery Group Limited ("CTFJGL"), an associated corporation of the Company**

| Name of Director | Number of ordinary shares of HK$1.00 each in the share capital of CTFJGL: Personal interest | Spouse interest | Corporate interest | Total | Approximate percentage of shareholding |
|---|---|---|---|---|---|
| Dr. Cheng Kar Shun | – | 1,900,000 | – | 1,900,000 | 0.02% |
| Mr. Cheng Chi Kong | – | – | 20,000 *(Note)* | 20,000 | 0.00% |

*Note:* 20,000 shares are held by Woodbury Capital Management Limited, a company wholly-owned by Mr. Cheng Chi Kong, an executive Director.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

Save as disclosed below, as at 31 March 2012, so far as is known to the Directors or chief executives of the Company, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO as having an interest in 5% or more of the issued share capital of the Company.

### Long positions in the Shares

| Name of Shareholder | Capacity | Number of Shares | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|
| Mediastar International Limited ("Mediastar") | Beneficial owner | 881,773,550 | 74.78% |
| Chow Tai Fook Enterprises Limited ("CTF") | Interest of a controlled corporation | 881,773,550 *(Note 1)* | 74.78% |
| Chow Tai Fook (Holding) Limited (formerly known as Centennial Success Limited) ("CTFHL") | Interest of a controlled corporation | 881,773,550 *(Notes 1, 2)* | 74.78% |
| Chow Tai Fook Capital Limited ("CTF Capital") | Interest of a controlled corporation | 881,773,550 *(Notes 1, 3)* | 74.78% |
| Cheng Yu Tung Family (Holdings II) Limited ("CYTFH-II") | Interest of a controlled corporation | 881,773,550 *(Notes 1, 4)* | 74.78% |
| Cheng Yu Tung Family (Holdings) Limited ("CYTFH") | Interest of a controlled corporation | 881,773,550 *(Notes 1, 5)* | 74.78% |

*Notes:*

(1) Mediastar is wholly-owned by CTF. Accordingly, CTF was deemed to be interested in 881,773,550 Shares held by Mediastar under the SFO.

(2) CTF is wholly-owned by CTFHL. Accordingly, CTFHL was deemed to be interested in 881,773,550 Shares held by Mediastar under the SFO.

(3) CTF Capital is interested in approximately 74.07% of the issued share capital of CTFHL. Accordingly, CTF Capital was deemed to be interested in 881,773,550 Shares held by Mediastar under the SFO.

(4) CYTFH-II is interested in approximately 46.65% of the issued share capital of CTF Capital. Accordingly, CYTFH-II was deemed to be interested in 881,773,550 Shares held by Mediastar under the SFO.

(5) CYTFH is interested in approximately 48.98% of the issued share capital of CTF Capital. Accordingly, CYTFH was deemed to be interested in 881,773,550 Shares held by Mediastar under the SFO.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its ultimate holding company, any subsidiaries of its ultimate holding company or any of its subsidiaries, a party to any arrangements to enable the Directors 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

Other than as disclosed in note 35 to the consolidated financial statements and the section headed "Connected Transactions" below, no contracts of significance, to which the Company, its ultimate holding company, any subsidiaries of its ultimate holding 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' INTEREST IN COMPETING BUSINESS

The following Directors are considered to have interests in the business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules, particulars of which are set out below:

| Name of Director | Name of entity which business is considered to compete or likely to compete with the business of the Group | Description of business of the entity which is considered to compete or likely to compete with the business of the Group | Nature of interest in the entity |
|---|---|---|---|
| Dr. Cheng Kar Shun | New World Development Company Limited ("NWD") and its subsidiaries | Investment in hotel property in Makati, Manila, the Philippines | executive director, optionholder and shareholder *(Note 1)* |
| Mr. Cheng Chi Kong | NWD and its subsidiaries | Investment in hotel property in Makati, Manila, the Philippines | executive director and optionholder *(Note 2)* |

*Notes:*

(1) As at 31 March 2012, Dr. Cheng Kar Shun was personally interested in 10,000,000 share options of NWD and his spouse was personally interested in 450,000 shares of NWD respectively, together representing approximately 0.17% of the issued share capital of NWD.

(2) As at 31 March 2012, Mr. Cheng Chi Kong was personally interested in 3,500,000 share options of NWD, representing approximately 0.06% of the issued share capital of NWD.

Save as disclosed above, none of the Directors and their respective associates has an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

## CONNECTED TRANSACTIONS

The Group had the following continuing connected transactions during the year ended 31 March 2012:

(1) On 3 November 2009, Future Growth Limited ("Future Growth"), a wholly-owned subsidiary of the Company, entered into an offer letter with New World Tower Company Limited ("NWT"), an associate of a substantial Shareholder, to renew the lease of office premises at Rooms 1207-8, 12th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with gross floor area of approximately 1,800 square feet for three years commencing from 15 November 2009 to 14 November 2012 (both dates inclusive) at a monthly rental of HK$77,400 together with monthly air-conditioning charges and management charges of HK$8,100 (subject to adjustment by NWT or the management company of the building). The monthly air-conditioning charges and management charges have been revised to HK$9,000 per month during the period from January 2011 to December 2011 and HK$9,540 per month from January 2012 onwards.

(2) On 27 January 2010, Future Growth entered into an offer letter with NWT for the lease of office premises at Rooms 1507-8, 15th Floor, New World Tower, Nos. 16-18 Queen's Road Central, Hong Kong with gross floor area of approximately 1,750 square feet for two years commencing from 1 May 2010 to 30 April 2012 (both dates inclusive) at a monthly rental of HK$75,250 together with monthly air-conditioning charges and management charges of HK$7,875 (subject to adjustment by NWT or the management company of the building). The monthly air-conditioning charges and management charges have been revised to HK$8,750 per month during the period from January 2011 to December 2011 and HK$9,275 per month from January 2012 onwards.

During the year ended 31 March 2012, the total amount of rental, air-conditioning and management charges in respect of the leases of the aforesaid premises paid and payable by the Group to NWT was approximately HK$1,992,000. Details of the leases of the aforesaid premises have been set out in the announcements of the Company dated 3 November 2009 and 27 January 2010 respectively.

The independent non-executive Directors confirm that the continuing connected transactions set out above have been entered into by the Group in the ordinary course of its business, on normal commercial terms and in accordance with the terms of the relevant agreements governing such transactions that are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditor of the Company to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of the Group's continuing connected transactions as disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided to the Stock Exchange.

The related party transactions entered into by the Group during the year ended 31 March 2012 are disclosed in note 35 to the consolidated financial statements. These transactions fall under the definition of "connected transaction" or "continuing connected transaction" under the Listing Rules.

The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to the connected transactions and continuing connected transactions entered into by the Group during the year ended 31 March 2012.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

## SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, based on information available to the Company and within the knowledge of the Directors, the percentage of the Shares which are in hands of the public exceeds 25.0% of the Company's total number of issued Shares.

## PRE-EMPTIVE RIGHTS

There are no pre-emptive rights provisions in the Articles, or under the Cayman Islands Companies Law, which would oblige the Company to offer new Shares on a pro-rata basis to its existing Shareholders.

## AUDITOR

A resolution will be proposed at the AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

**Dr. Cheng Kar Shun**
*Chairman*

Hong Kong, 21 June 2012

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance practices and procedures and to complying with the statutory and regulatory requirements. During the year ended 31 March 2012, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code"), which has been renamed as Corporate Governance Code with effect from 1 April 2012, as set out in Appendix 14 to the Listing Rules, except for the following deviation:

Code Provision E.1.2 of the Code stipulates that the chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing which his duly appointed delegate, to be available to answer questions at the annual general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval.

The chairman of the Board had not attended the annual general meeting of the Company held on 22 August 2011 as he had another business engagement at the time of such meeting. One of the executive Directors was elected as the chairman of the aforesaid annual general meeting of the Company and responded to the questions raised by the Shareholders. The management of the Group considers that the Board has endeavored to maintain an on-going dialogue with the Shareholders.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Code on Securities Transactions"), the standard of which is no less than the required standard provided in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code").

The Company, having made specific enquiry of all the Directors, was not aware of any non-compliance with the required standard provided in the Model Code and the Code on Securities Transactions throughout the year ended 31 March 2012.

## BOARD OF DIRECTORS

The principal duty of the Board is to ensure that the Company is properly managed in the interest of the Shareholders.

The Chairman is responsible for the management of the Board. The Company does not have any Chief Executive Officer. The Board is primarily responsible for the overall management of the Company and oversight of the management. Management is responsible for the day-to-day operations of the Company. In addition, the Company has established the executive committee, the audit committee, the nomination committee and the remuneration committee with respective terms of reference to assist the Board in focusing on specific matters, fulfill their roles and functions delegated by the Board, and make any necessary recommendations.

As at 31 March 2012, the Board comprised eleven Directors, of whom seven are executive Directors and four are independent non-executive Directors. Biographical details of the Directors are set out on pages 8 to 12 of this annual report.

## BOARD OF DIRECTORS *(Continued)*

The Board held four meetings during the year ended 31 March 2012. The attendance records of each Director are set out below:

| Directors | Attendance |
| --- | --- |
| **Executive Directors** | |
| Dr. Cheng Kar Shun *(Chairman)* | 3/4 |
| Mr. Lo Lin Shing, Simon *(Deputy Chairman)* | 4/4 |
| Mr. To Hin Tsun, Gerald | 4/4 |
| Mr. Cheng Kam Chiu, Stewart | 4/4 |
| Mr. Cheng Kam Biu, Wilson | 3/4 |
| Mr. Cheng Chi Kong | 2/4 |
| Mr. Cheng Chi Him | 1/4 |
| **Independent non-executive Directors** | |
| Mr. Cheung Hon Kit | 3/4 |
| Mr. Kwee Chong Kok, Michael | 4/4 |
| Mr. Lau Wai Piu | 4/4 |
| Mr. Tsui Hing Chuen, William *JP* | 4/4 |

The Directors (including the non-executive Directors) are subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles and the Listing Rules. This means a Director's term of office cannot exceed three years and the retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

The Company has received from each of Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael, Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William *JP* an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all the independent non-executive Directors are independent.

## EXECUTIVE COMMITTEE

The Company has established the executive committee (the "Executive Committee") in March 2012. The Executive Committee comprises three executive Directors, namely Dr. Cheng Kar Shun (Chairman of the Executive Committee), Mr. To Hin Tsun, Gerald and Mr. Cheng Kam Biu, Wilson. The primary duties of the Executive Committee are to advise the Board in formulating policies in relation to the business operations of the Group, supervise the management to implement the policies laid down by the Board, make recommendations to the Board as to the Group's business plans, and oversee the management and the daily operations of the Group.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") comprises all four independent non-executive Directors, Mr. Lau Wai Piu (Chairman of the Remuneration Committee), Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Tsui Hing Chuen, William *JP*. The primary duties of the Remuneration Committee are, *inter alia*, to make recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management of the Group and on the establishment of a formal and transparent procedure for developing the remuneration policy and to make recommendations to the Board on the remuneration package of individual executive Directors and the senior management of the Group, and the remuneration of the non-executive Directors.

The remuneration of the Directors and the senior management of the Group is based on the performance and experience of individuals and is determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions. During the year ended 31 March 2012, the Remuneration Committee held one meeting to review the remuneration policy of the Company and make recommendations to the Board on the remuneration of the Directors and consider the remuneration package of the senior management of the Group. The attendance records of the members of the Remuneration Committee are set out below:

| **Committee members** | **Attendance** |
|---|---|
| Mr. Lau Wai Piu *(Chairman)* | 1/1 |
| Mr. Cheung Hon Kit | 1/1 |
| Mr. Kwee Chong Kok, Michael | 1/1 |
| Mr. Tsui Hing Chuen, William *JP* | 1/1 |

## NOMINATION COMMITTEE

The Company has established the nomination committee (the "Nomination Committee") on 29 March 2012. The Nomination Committee comprises six members, with all four independent non-executive Directors, namely Mr. Tsui Hing Chuen, William *JP* (Chairman of the Nomination Committee), Mr. Cheung Hon Kit, Mr. Kwee Chong Kok, Michael and Mr. Lau Wai Piu; and two executive Directors, namely Mr. To Hin Tsun, Gerald and Mr. Cheng Kam Biu, Wilson. The primary duties of the Nomination Committee are to review the structure, size and the composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations to the Board on any proposed changes to implement the Company's corporate strategy; to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of the independent non-executive Directors; to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman, the managing director or the chief executive of the Company; and to nominate and recommend candidates to fill a casual vacancy on the Board for the Board's approval. During the period from the date of the establishment of the Nomination Committee to 31 March 2012, the Nomination Committee did not hold any meeting.

Before the establishment of the Nomination Committee, the Board has the power under the Articles to appoint any person as a Director either to fill a casual vacancy on the Board, or as an additional member to the Board.

No candidate was nominated for directorship of the Company during the year.

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Cheung Hon Kit (Chairman of the Audit Committee), Mr. Lau Wai Piu and Mr. Tsui Hing Chuen, William *JP*. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Group.

During the year, the Audit Committee held three meetings to review the financial reporting process, internal controls of the Group, the Company's reports and accounts including the interim and annual results of the Group, and provide advice and recommendations to the Board. The Audit Committee also met with the management and the external auditors once to discuss the financial reporting process and internal controls of the Group during the year and had reviewed the annual report for the year ended 31 March 2012.

The attendance records of the members of Audit Committee are set out below:

| **Committee members** | **Attendance** |
|---|---|
| Mr. Cheung Hon Kit *(Chairman)* | 3/3 |
| Mr. Lau Wai Piu | 3/3 |
| Mr. Tsui Hing Chuen, William *JP* | 3/3 |

## AUDITOR'S REMUNERATION

For the year ended 31 March 2012, approximately HK$1,600,000 (2011: HK$1,580,000) was charged to the Group's income statement for the audit service provided by the auditor of the Company. During the year, the auditor of the Company has performed the following non-audit services.

| **Description of service performed** | **Fees paid** |
|---|---|
| | HK$'000 |
| Assurance engagement on continuing connected transactions | 35 |
| Tax consultancy services | 30 |
| | 65 |

*Note:* The auditor of the Company has been appointed as the tax representative of the Company and certain subsidiaries of the Company and the services fee is subject to negotiation.

## INTERNAL CONTROL

The Board conducted a review of the effectiveness of the internal control systems of the Group through the Audit Committee during the year under review. The review covered the controls over the financial, operational and compliance matters of the Group. The Board considered that the existing internal control systems of the Group are effective.

The Board also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The Board satisfied with the resources, qualifications and experience of the personnel who are responsible for the accounting and financial reporting matters of the Company and considered that their training programmes and the budget are adequate.

## FINANCIAL REPORTING

The Board acknowledges its responsibility for preparing the consolidated financial statements of the Group for the year ended 31 March 2012. The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the applicable disclosures required by the Listing Rules and the Hong Kong Companies Ordinance.

The auditor of the Company also sets out their reporting responsibilities on the Independent Auditor's Report on pages 26 to 27 of this annual report.

Deloitte.
德勤

**TO THE MEMBERS OF**
**INTERNATIONAL ENTERTAINMENT CORPORATION**
**國際娛樂有限公司**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of International Entertainment Corporation (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 28 to 88, which comprise the consolidated statement of financial position as at 31 March 2012, and the consolidated income statement, 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 disclosure requirements of 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 our agreed term of engagement, 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 Group as at 31 March 2012 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 disclosure requirements of the Hong Kong Companies Ordinance.

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

21 June 2012

# Consolidated Income Statement

For the year ended 31 March 2012

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Revenue | 7 | 432,473 | 409,684 |
| Cost of sales | | (212,954) | (208,030) |
| Gross profit | | 219,519 | 201,654 |
| Other income | 9 | 93,540 | 30,285 |
| Other gain and loss | | (18,601) | 4,002 |
| Change in fair value of conversion option derivative | | – | 60,000 |
| Change in fair value of financial assets at fair value through profit or loss | | (21,639) | (3,171) |
| Gain on disposal of a subsidiary | 34 | – | 657,873 |
| Selling and distribution costs | | (5,551) | (5,366) |
| General and administrative expenses | | (149,939) | (125,033) |
| Share of profit of an associate | | – | 21,272 |
| Finance costs | 10 | – | (24,957) |
| Profit before taxation | 11 | 117,329 | 816,559 |
| Income tax credit (charge) | 13 | 2,978 | (510) |
| Profit for the year | | 120,307 | 816,049 |
| Profit for the year attributable to owners of the Company | | 60,074 | 762,197 |
| Profit for the year attributable to non-controlling interests | | 60,233 | 53,852 |
| | | 120,307 | 816,049 |
| Earnings per share | 15 | | |
| Basic | | HK$0.05 | HK$0.65 |
| Diluted | | N/A | HK$0.57 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Profit for the year | **120,307** | 816,049 |
| Other comprehensive income and expenses | | |
| Exchange differences arising on translation | **31,786** | 85,920 |
| Reclassification adjustment on exchange differences on disposal of a subsidiary | **–** | (1,653) |
| Reclassification adjustment upon disposal on available-for-sale financial assets | **–** | (2,242) |
| Fair value change in available-for-sale financial assets | **–** | (2,371) |
| Other comprehensive income for the year | **31,786** | 79,654 |
| Total comprehensive income for the year | **152,093** | 895,703 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **86,497** | 804,021 |
| Non-controlling interests | **65,596** | 91,682 |
| | **152,093** | 895,703 |

# Consolidated Statement of Financial Position

At 31 March 2012

| | Notes | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *16* | **516,365** | 547,607 |
| Investment properties | *17* | **948,956** | 1,065,538 |
| Financial assets at fair value through profit or loss | *18* | **67,337** | 95,339 |
| Other assets | *19* | **1,463** | 6,631 |
| | | **1,534,121** | 1,715,115 |
| Current assets | | | |
| Inventories | *20* | **2,871** | 2,647 |
| Held-to-maturity investments | *21* | **–** | 15,485 |
| Loan receivable | *22* | **73,916** | – |
| Trade receivables | *23* | **70,254** | 39,942 |
| Other receivables, deposits and prepayments | *23* | **33,643** | 28,289 |
| Bank balances and cash | *24* | **1,300,189** | 2,182,155 |
| | | **1,480,873** | 2,268,518 |
| Current liabilities | | | |
| Trade payables | *25* | **6,045** | 6,967 |
| Other payables and accrued charges | *25* | **54,190** | 288,624 |
| Tax liabilities | | **–** | 1,000 |
| Promissory notes | *26* | **132,008** | 132,008 |
| | | **192,243** | 428,599 |
| Net current assets | | **1,288,630** | 1,839,919 |
| Total assets less current liabilities | | **2,822,751** | 3,555,034 |

| | Notes | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | 27 | **1,179,157** | 1,179,157 |
| Share premium and reserves | | **611,255** | 1,409,126 |
| Equity attributable to owners of the Company | | **1,790,412** | 2,588,283 |
| Non-controlling interests | | **911,127** | 845,531 |
| Total equity | | **2,701,539** | 3,433,814 |
| Non-current liabilities | | | |
| Deferred tax liabilities | 28 | **118,561** | 119,793 |
| Other liabilities | | **2,651** | 1,427 |
| | | **121,212** | 121,220 |
| | | **2,822,751** | 3,555,034 |

The consolidated financial statements on pages 28 to 88 were approved and authorised for issue by the Board of Directors on 21 June 2012 and are signed on its behalf by:

**Dr. Cheng Kar Shun**
*DIRECTOR*

**Mr. Lo Lin Shing, Simon**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Merger reserve HK$'000 *(Note 1)* | Investment revaluation reserve HK$'000 | Other reserve HK$'000 *(Note 2)* | Exchange reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 April 2010 | 1,179,157 | 720,408 | 53,022 | 4,613 | 362,982 | (39,866) | 93,525 | 2,373,841 | 753,849 | 3,127,690 |
| Profit for the year | – | – | – | – | – | – | 762,197 | 762,197 | 53,852 | 816,049 |
| Exchange differences arising on translation | – | – | – | – | – | 48,090 | – | 48,090 | 37,830 | 85,920 |
| Reclassification adjustment on exchange differences on disposal of a subsidiary *(note 34)* | – | – | – | – | – | (1,653) | – | (1,653) | – | (1,653) |
| Reclassification adjustment upon disposal on available-for-sale financial assets | – | – | – | (2,242) | – | – | – | (2,242) | – | (2,242) |
| Fair value change in available-for-sale financial assets | – | – | – | (2,371) | – | – | – | (2,371) | – | (2,371) |
| Total comprehensive income and expense for the year | – | – | – | (4,613) | – | 46,437 | 762,197 | 804,021 | 91,682 | 895,703 |
| Dividends recognised as distribution *(note 14)* | – | – | – | – | – | – | (589,579) | (589,579) | – | (589,579) |
| At 31 March 2011 | 1,179,157 | 720,408 | 53,022 | – | 362,982 | 6,571 | 266,143 | 2,588,283 | 845,531 | 3,433,814 |
| Profit for the year | – | – | – | – | – | – | 60,074 | 60,074 | 60,233 | 120,307 |
| Exchange differences arising on translation | – | – | – | – | – | 26,423 | – | 26,423 | 5,363 | 31,786 |
| Total comprehensive income for the year | – | – | – | – | – | 26,423 | 60,074 | 86,497 | 65,596 | 152,093 |
| Dividends recognised as distribution *(note 14)* | – | (719,286) | – | – | – | – | (165,082) | (884,368) | – | (884,368) |
| At 31 March 2012 | 1,179,157 | 1,122 | 53,022 | – | 362,982 | 32,994 | 161,135 | 1,790,412 | 911,127 | 2,701,539 |

*Notes:*

1. Merger reserve of the Group represents the difference between the share capital and share premium of Cyber On-Air Multimedia Limited whose shares were exchanged for the Company's shares and the nominal amount of share capital issued by the Company pursuant to the group reorganisation. Cyber On-Air Multimedia Limited was disposed of during the year ended 31 March 2008.

2. The other reserve represents discount on acquisition of subsidiaries from a subsidiary of an intermediate parent arising during the year ended 31 March 2008.

# Consolidated Statement of Cash Flows

For the year ended 31 March 2012

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before taxation | **117,329** | 816,559 |
| Adjustments for: | | |
| Interest income | **(90,730)** | (23,703) |
| Interest expense | **–** | 24,957 |
| Allowance (reversal of allowance) for bad and doubtful debts for trade and other receivables | **95** | (292) |
| Allowance for other assets | **3,988** | – |
| Change in fair value of conversion option derivative | **–** | (60,000) |
| Change in fair value of financial assets at fair value through profit or loss | **21,639** | 3,171 |
| Depreciation of property, plant and equipment | **53,312** | 55,139 |
| Depreciation of investment properties | **123,242** | 119,064 |
| Net gain on disposal of a subsidiary | **–** | (657,873) |
| Gain on disposal of available-for-sale financial assets | **–** | (2,242) |
| Share of profit of an associate | **–** | (21,272) |
| Loss (gain) on disposal of property, plant and equipment | **8** | (1) |
| Dividend income from financial assets at fair value through profit or loss | **(2,027)** | (780) |
| Dividend income from available-for-sale financial assets | **–** | (2,854) |
| Operating cash flows before movements in working capital | **226,856** | 249,873 |
| Decrease (increase) in other assets | **1,180** | (230) |
| (Increase) decrease in inventories | **(241)** | 210 |
| Decrease in financial assets at fair value through profit or loss | **6,363** | – |
| Increase in trade receivables | **(30,732)** | (8,027) |
| Increase in other receivables, deposits and prepayments | **(10)** | (2,382) |
| (Decrease) increase in trade payables | **(879)** | 1,918 |
| Increase in other payables and accrued charges | **6,159** | 5,308 |
| Increase in other liabilities | **1,217** | 398 |
| NET CASH FROM OPERATING ACTIVITIES | **209,913** | 247,068 |

| | Note | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | 85,171 | 20,141 |
| Dividends received from financial assets at fair value through profit or loss | | 2,027 | 780 |
| Dividends received from available-for-sale financial assets | | – | 64 |
| Disposal of a subsidiary | 34 | – | 1,811,943 |
| Proceeds on disposal of available-for-sale financial assets | | – | 8,512 |
| Purchase of property, plant and equipment | | (19,869) | (39,272) |
| Additions of investment properties | | (208) | (401) |
| Proceeds on disposal of property, plant and equipment | | 1,150 | 3,006 |
| Proceeds received on maturity of held-to-maturity investments | | 15,600 | – |
| Purchase of financial assets at fair value through profit or loss | | – | (98,510) |
| Increase in loans receivables | | (334,000) | – |
| Repayment of loans receivables | | 260,084 | – |
| Refund of cash consideration to the purchaser in respect of the disposal of a subsidiary | 34 | (240,397) | – |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES | | (230,442) | 1,706,263 |
| FINANCING ACTIVITIES | | | |
| Interest paid | | – | (3,967) |
| Repayment of promissory notes | | – | (73,177) |
| Repayment of convertible note | | – | (400,000) |
| Dividends paid | | (884,368) | (589,579) |
| NET CASH USED IN FINANCING ACTIVITIES | | (884,368) | (1,066,723) |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | | (904,897) | 886,608 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR | | 2,182,155 | 1,279,074 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES | | 22,931 | 16,473 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | 1,300,189 | 2,182,155 |
| ANALYSIS OF CASH AND CASH EQUIVALENTS | | | |
| Bank balances and cash | | 1,300,189 | 2,182,155 |

## 1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands. In September 2010, the Company transferred the listing of its shares from the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of The Stock Exchange ("Main Board"). Dealings in the Company's shares on the Main Board commenced on 27 September 2010. Its immediate parent is Mediastar International Limited (incorporated in the British Virgin Islands ("BVI")). Its intermediate parent and ultimate parent are Chow Tai Fook Enterprises Limited ("CTF") (incorporated in Hong Kong) and Chow Tai Fook Capital Limited ("CTF Capital") (incorporated in BVI) respectively. The address of the registered office and the principal place of business of the Company in Hong Kong are disclosed in the "Corporate Information" section to this annual report.

The functional currency of the Company is Philippine Peso ("Peso"), the currency of the primary economic environment in which the Company's major subsidiaries operate. The consolidated financial statements are presented in Hong Kong dollars ("HK$") as the directors of the Company (the "Directors") consider that it is an appropriate presentation for a company listed in Hong Kong and for the convenience of the shareholders of the Company.

The Company is an investment holding company. Details of the principal activities of the principal subsidiaries are set out in note 36.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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 (the "HKICPA").

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related party disclosures |
| HK(IFRIC) – INT 14 (Amendments) | Prepayments of a minimum funding requirement |
| HK(IFRIC) – INT 19 | Extinguishing financial liabilities with equity instruments |

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

The application of these new and revised HKFRSs in current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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

| | |
|---|---|
| Amendments to HKFRSs | Annual improvements to HKFRSs 2009 – 2011 Cycle[2] |
| HKFRS 7 (Amendments) | Disclosures – Transfers of financial assets[1] |
| HKFRS 7 (Amendments) | Disclosures – Offsetting financial assets and financial liabilities[2] |
| HKFRS 9 and HKFRS 7 (Amendments) | Mandatory effective date of HKFRS 9 and transition disclosures[3] |
| HKFRS 9 | Financial instruments[3] |
| HKFRS 10 | Consolidated financial statements[2] |
| HKFRS 11 | Joint arrangements[2] |
| HKFRS 12 | Disclosure of interests in other entities[2] |
| HKFRS 13 | Fair value measurement[2] |
| HKAS 1 (Amendments) | Presentation of items of other comprehensive income[5] |
| HKAS 12 (Amendments) | Deferred tax – Recovery of underlying assets[4] |
| HKAS 19 (as revised in 2011) | Employee benefits[2] |
| HKAS 27 (as revised in 2011) | Separate financial statements[2] |
| HKAS 28 (as revised in 2011) | Investments in associates and joint ventures[2] |
| HKAS 32 (Amendments) | Offsetting financial assets and financial liabilities[6] |
| HK(IFRIC) – INT 20 | Stripping costs in the production phase of a surface mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2013.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 January 2012.
5 Effective for annual periods beginning on or after 1 July 2012.
6 Effective for annual periods beginning on or after 1 January 2014.

### Amendments to HKAS 1 – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The application of other new and revised standards, amendments or interpretations issued but not yet effective is not expected to have material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs 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 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.

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. 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 income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

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

### Basis of consolidation *(Continued)*

**Allocation of total comprehensive income to non-controlling interests**

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

### Investment in an associate

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 these policies.

The results and assets and liabilities of associate are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investment in an associate is 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 associate. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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 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.

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.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its 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 interests in the associate that are not related to the Group.

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

### 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.

Rental income from properties let to Philippine Amusement and Gaming Corporation ("PAGCOR") under operating leases is recognised at a certain percentage of net gaming revenue of the casino (less franchise tax) or a fixed rental amount, whichever is higher. Fixed rental income is recognised in the profit or loss on a straight-line basis over the lease term with PAGCOR. Contingent rental income is recognised in the profit or loss in the periods in which they are earned.

Hotel revenue from room rentals, food and beverage sale and other ancillary service is recognised when service is rendered.

Sales of goods are recognised when goods are delivered and title has been passed.

Service income is recognised when the services are rendered.

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 the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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

### Financial instruments

Financial assets and financial liabilities are recognised in the consolidated 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. 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 ("FVTPL")) 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 FVTPL are recognised immediately in profit or loss.

#### Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at FVTPL, loans and receivables, available-for-sale financial assets and held-to-maturity investments. 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.

The accounting policies adopted in respect of each category of financial assets are set out below.

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

### Financial instruments *(Continued)*

**Financial assets** *(Continued)*

*Effective interest method*

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 (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) 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.

*Financial assets at FVTPL*

Financial assets at FVTPL represent financial assets designated as at FVTPL on initial recognition.

A financial asset may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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 and is included in the "Change in fair value of financial assets at fair value through profit or loss" in the consolidated income statement.

*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 loan receivable, trade receivables, other receivables and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments. The Group designated its equity investments acquired for investments as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment of financial assets below).

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

**Financial instruments** *(Continued)*

**Financial assets** *(Continued)*

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The Group designated its investments in bond acquired and intended to hold to maturity as held-to-maturity investments. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss of financial assets below).

**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 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 or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as loan receivables, trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the 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 financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loan receivables, trade and other receivables, 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 a trade 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 losses 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.

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

### Financial instruments *(Continued)*

**Financial liabilities and equity instruments**

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*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. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

*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, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis, other than those financial liability classified as at FVTPL, of which the interest expense is included in finance costs.

*Financial liabilities at FVTPL*

Financial liabilities at FVTPL comprises of either contingent consideration or a derivative that is not designated as effective hedging instrument.

Subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise.

*Convertible note*

Convertible note issued by the Group that contains both liability and conversion option components is classified separately into respective items on initial recognition in accordance with the substance of the contractual agreements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as a conversion option derivative. At the date of issue, both the liability and conversion option components are recognised at fair value.

In subsequent periods, the liability component of the convertible note is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible note is allocated to the liability and conversion option components in proportion to their relative fair values. Transaction costs relating to the conversion option derivative is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible note using the effective interest method.

*Other financial liabilities*

Other financial liabilities including trade payables, other payables and accrued charges and promissory notes are subsequently measured at amortised cost, using the effective interest method.

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

### Financial instruments *(Continued)*

**Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

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.

The Group derecognised financial liabilities when, and only when, the Group's obligation 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.

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and any identified 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 estimated 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 profit or loss.

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

### Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over the lease term of the lease contract signed with PAGCOR and after taking into account of their estimated residual value, using the straight-line method.

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 property (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.

### Impairment losses of tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 in profit or loss.

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 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 for inventories less all costs necessary to make the sale.

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

### 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.

**The Group as lessor**

Fixed rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the lease with PAGCOR.

Contingent rental income from operating leases to PAGCOR is calculated with reference to certain percentage of net gaming revenue of the casino when it is higher than the fixed rental amount. The contingent rental income is recognised in profit or loss in the period when the relevant net gaming revenue is earned.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

**The Group as lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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.

### Taxation

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

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

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

### Taxation *(Continued)*

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

Current and 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 current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### 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 borrowings costs are recognised in profit or loss in the period in which they are incurred.

### 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 the 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 re-translated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

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

**Foreign currencies** *(Continued)*

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) using exchange rates prevailing at the end of the reporting period. Income and expenses items 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 transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

**Retirement benefits costs**

Payments to retirement benefits schemes which are defined contribution plans are charged as an expense when the employees have rendered service entitling them to the contribution.

**Provisions**

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of time value of money is material).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are 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 financial year.

### Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collectability and ageing analysis of accounts and on management's estimation. A considerable estimation is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer and loan borrower. If the financial conditions of customers and loan borrower of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowance may be required. As at 31 March 2012, the carrying amount of the trade receivables and loan receivable were approximately were HK$70,254,000 and HK$73,916,000 respectively (2011: HK$39,942,000 and nil respectively).

### Deferred income tax assets

At the end of the reporting period, the Group had unused tax losses amounted to approximately HK$180,160,000 (2011: HK$186,187,000) (details disclosed in note 28). No deferred tax assets has been recognised and offset against deferred tax liabilities due to the unpredictability of future profit streams. The unused tax losses not recognised may be crystallised if the actual future profits generated are more than expected.

## 5. 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 stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of promissory notes which are disclosed in note 26, and equity attributable to owners of the Company, comprising issued share capital and reserves.

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, share buy-backs, new share issues and the issue of new debt or the redemption of existing debts.

## 6. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at FVTPL | 67,337 | 95,339 |
| Loans and receivables (including cash and cash equivalents) | 1,464,847 | 2,242,196 |
| Held-to-maturity investments | – | 15,485 |
| **Financial liabilities** | | |
| Financial liabilities at FVTPL | | |
| Contingent consideration *(note 34(i))* | 16,600 | 16,600 |
| Other financial liabilities at amortised cost | 160,172 | 401,956 |

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

As at 31 March 2012, the Group's major financial instruments include financial assets at FVTPL, loan receivable, trade receivables, other receivables, bank balances and cash, trade payables, other payables and accrued charges, and promissory notes.

As at 31 March 2011, the Group's major financial instruments include held-to-maturity investments, financial assets at FVTPL, trade receivables, other receivables, bank balances and cash, trade payables, other payables and accrued charges, and promissory notes.

Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk**

*Currency risk*

As at 31 March 2012, currency risk exists with respect to the financial assets at FVTPL, other receivables, bank balances and cash, other payables and promissory notes denominated in foreign currency of the relevant group entities as disclosed in notes 18, 23, 24, 25 and 26 respectively.

As at 31 March 2011, currency risk exists with respect to the financial assets at FVTPL, held-to-maturity investments, other receivables, bank balances and cash, other payables and promissory notes denominated in foreign currency of the relevant group entities as disclosed in notes 18, 21, 23, 24, 25 and 26 respectively.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

**Market risk** *(Continued)*

*Currency risk (Continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follow:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| United States dollars ("USD") | **259,662** | 260,079 | **–** | – |
| HK$ | **330,304** | 1,631,782 | **150,091** | 391,526 |

Other than above, several subsidiaries of the Group have the following intra-group receivables/payables denominated in HK$ and USD, which are foreign currency of the relevant group entities.

| | Amounts due from group entities | | Amounts due to group entities | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| USD | **2,307,042** | 1,968,210 | **2,068,665** | 1,968,210 |
| HK$ | **543,303** | 405,836 | **543,303** | 405,836 |

The Group currently does not have foreign currency hedging policy. However, management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Sensitivity analysis

The currency risk is mainly arising from exchange rate of Peso against USD and HK$.

The following table details the Group's sensitivity to a 10% (2011: 10%) increase and decrease in Peso against USD and HK$. 10% (2011: 10%) represents the assessment of the reasonably possible change in foreign exchange rates made by the management of the Group. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as well as intra-group receivables/payables and adjusts their translation at the year end for a 10% (2011: 10%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit for the year where the foreign currencies strengthen 10% (2011: 10%) against Peso, and vice versa. For a 10% (2011: 10%) weakening of the foreign currencies against Peso, there would be an equal and opposite impact on the post-tax profit for the year.

| | HK$ Impact | | USD Impact | |
|---|---|---|---|---|
| | **2012 HK$'000** | 2011 HK$'000 | **2012 HK$'000** | 2011 HK$'000 |
| Increase in post-tax profit for the year | **30,167** | 136,199 | **40,271** | 18,875 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

**Market risk** *(Continued)*

*Currency risk (Continued)*

Sensitivity analysis *(Continued)*

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

*Interest rate risk*

For the year ended 31 March 2012, the Group is exposed to the fair value interest rate risk in relation to its financial assets at FVTPL (see note 18 for details) and loan receivable (see note 22 for details).

For the year ended 31 March 2011, the Group is exposed to the fair value interest rate risk in relation to its fixed-rate held-to-maturity investments (see note 21 for details) and financial assets at FVTPL (see note 18 for details).

The Group is also exposed to cash flow interest rate risk in relation to its variable-rate bank balances (details disclosed in note 24). The Group does not have interest rate hedging policy. However, management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank balances including bank balances deposits in the banks in Hong Kong and in the Philippines. The sensitivity analysis below have been determined solely based on the exposure to interest rates for variable-rate time deposits in the banks in the Philippines at the end of the reporting period. The analysis is prepared assuming these bank balances outstanding at the end of the reporting period is outstanding for the whole year. A 50 basis points (2011: 50 basis points) is used in estimating the potential change in interest rate and represents the assessment of the reasonably possible change in interest rates made by the management of the Group. If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit would increase/decrease by approximately HK$2,158,000 (2011: HK$1,425,000).

Management of the Group considers that the impact on the Group's result in respect of the change in interest rate on the Group's bank balances deposited in the banks located outside the Philippines is minimal as the prevailing interest rates of these bank balances are already at a low level.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

**Market risk** *(Continued)*

*Other price risk*

For the year ended 31 March 2012 and 2011, the Group is exposed to price risk through its financial assets at FVTPL in respect of debt securities and perpetual subordinated capital securities listed in overseas. Management of the Group has performed analysis of the nature of market risk associated with the investments, including discussion with the investment advisors, and concluded that the price risk is more prominent in evaluating the market risk of this kind of investments. Management of the Group monitors this exposure and will consider hedging the price risk exposure should the need arise.

Sensitivity analysis on financial assets/liabilities at FVTPL

The sensitivity analysis below have been determined based on the exposure to debt securities and perpetual subordinated capital securities price risk (including fair value interest rate risk) arising from financial assets at FVTPL as at 31 March 2012. If the prices of respective financial instruments had been 10% higher/lower, the Group's post-tax profit would increase/decrease by approximately HK$6,734,000 (2011: HK$9,534,000) as a result of the change in fair value of financial assets at FVTPL as at 31 March 2012. Sensitivity analysis for contingent consideration is not performed as the Directors considered that the fair value measurement of the contingent consideration is unlikely to change in view of the weighted average of all possible outcomes.

**Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 March 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, management of the Group reviews the recoverable amount of each individual trade receivable and loan receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

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

At 31 March 2012, the Group had concentration of credit risk in respect of trade receivable from PAGCOR of approximately HK$64,217,000 (2011: HK$31,612,000). The credit risk on trade receivable from PAGCOR is limited as PAGCOR is solely owned by the Philippine government and with a good repayment history. The trade receivable from PAGCOR as at 31 March 2012 was fully settled subsequent to the end of the reporting period. At 31 March 2012, the Group also had concentration of credit risk in respect of loan receivable, of approximately HK$73,916,000, details of which are set out in note 22. Before participating in the credit facility made available to an independent third party of the Group (the "Borrower"), management of the Group has assessed the credit quality of the Borrower as well as the value of the assets pledged to secure the credit facility. In order to minimise the credit risk, management of the Group has reviewed the recoverable amount of the loan receivable to ensure that adequate impairment losses are made for irrecoverable amount. The Directors do not expect these counterparties would fail to meet their obligations and the credit risk is significantly reduced. Other than above, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

**Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management of the Group to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

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

*Liquidity tables*

| | Weighted average interest rate % | Less than 1 month/ repayable on demand HK$'000 | 1–3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts at 31 March 2012 HK$'000 |
|---|---|---|---|---|---|---|
| **2012** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 3,335 | 2,710 | – | 6,045 | 6,045 |
| Other payables and accrued charges | – | 9,564 | 12,555 | – | 22,119 | 22,119 |
| Contingent consideration | – | 16,600 | – | – | 16,600 | 16,600 |
| Promissory notes | – | 132,008 | – | – | 132,008 | 132,008 |
| | | 161,507 | 15,265 | – | 176,772 | 176,772 |

| | Weighted average interest rate % | Less than 1 month/ repayable on demand HK$'000 | 1–3 months HK$'000 | 3 months to 1 year HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amounts at 31 March 2011 HK$'000 |
|---|---|---|---|---|---|---|
| **2011** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Trade payables | – | 4,617 | – | 2,350 | 6,967 | 6,967 |
| Other payables and accrued charges | – | 250,183 | 6,444 | 6,354 | 262,981 | 262,981 |
| Contingent consideration | – | 16,600 | – | – | 16,600 | 16,600 |
| Promissory notes | – | 132,008 | – | – | 132,008 | 132,008 |
| | | 403,408 | 6,444 | 8,704 | 418,556 | 418,556 |

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

**Fair value**

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

- the fair values of financial assets with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices.

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

Except for the held-to-maturity investments as set out in note 21, 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.

As at 31 March 2012 and 2011, the Group's financial instruments that are measured subsequent to initial recognition at fair value include financial assets at FVTPL and contingent consideration.

As at 31 March 2012, financial assets at FVTPL of approximately HK$67,337,000 (2011: HK$95,339,000) are grouped as level 1, the fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

As at 31 March 2012, contingent consideration of approximately HK$16,600,000 (2011: HK$16,600,000) is grouped as level 3, the fair value measurement is based on cash flow analysis and takes into account the weighted average of all possible outcomes.

There was no transfer between level 1 and level 3 in the current and prior years.

## 7. REVENUE

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| The Group's revenue comprises: | | |
| Hotel | | |
| Room revenue | 86,800 | 82,050 |
| Food and beverages | 48,072 | 46,060 |
| Other hotel service income | 6,575 | 6,343 |
| | 141,447 | 134,453 |
| Leasing of investment properties equipped with entertainment equipment | 291,026 | 275,231 |
| | 432,473 | 409,684 |

## 8. SEGMENT INFORMATION

The executive Directors are the chief operating decision maker ("CODM"). The Group is principally operating in two types of operating divisions. Information reported to CODM for the purposes of resources allocation and assessment of segment performance focuses on each principal operating division. The Group's operating segments under HKFRS 8 are therefore as follows:

(i) Hotel – Operation of hotel business; and

(ii) Leasing – Leasing of investment properties equipped with entertainment equipment.

## 8. SEGMENT INFORMATION *(Continued)*

Information regarding the above segments is presented below.

### Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

**For the year ended 31 March 2012**

| | Hotel HK$'000 | Leasing HK$'000 | Reportable segment total HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 141,447 | 291,026 | 432,473 | – | 432,473 |
| Inter-segment sales | 442 | 691 | 1,133 | (1,133) | – |
| Total | 141,889 | 291,717 | 433,606 | (1,133) | 432,473 |
| RESULTS | | | | | |
| Segment (loss) profit | (1,726) | 107,992 | 106,266 | | 106,266 |
| Unallocated other income | | | | | 71,504 |
| Other gain and loss | | | | | (18,601) |
| Change in fair value of financial assets at FVTPL | | | | | (21,639) |
| Unallocated expenses | | | | | (18,223) |
| Unallocated income tax credit | | | | | 1,000 |
| Profit for the year | | | | | 120,307 |

## 8. SEGMENT INFORMATION *(Continued)*

**Segment revenue and results** *(Continued)*

**For the year ended 31 March 2011**

| | Hotel HK$'000 | Leasing HK$'000 | Reportable segment total HK$'000 | Elimination HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| External sales | 134,453 | 275,231 | 409,684 | – | 409,684 |
| Inter-segment sales | 355 | 668 | 1,023 | (1,023) | – |
| Total | 134,808 | 275,899 | 410,707 | (1,023) | 409,684 |
| RESULTS | | | | | |
| Segment (loss) profit | (5,984) | 102,537 | 96,553 | | 96,553 |
| Unallocated other income | | | | | 21,095 |
| Other gain and loss | | | | | 4,002 |
| Change in fair value of conversion option derivative | | | | | 60,000 |
| Change in fair value of financial assets at FVTPL | | | | | (3,171) |
| Gain on disposal of a subsidiary | | | | | 657,873 |
| Unallocated expenses | | | | | (16,618) |
| Share of profit of an associate | | | | | 21,272 |
| Finance costs | | | | | (24,957) |
| Profit for the year | | | | | 816,049 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of unallocated expenses (including corporate expenses), other gain and loss, gain on disposal of a subsidiary, share of profit of an associate, change in fair value of conversion option derivative, change in fair value of financial assets at FVTPL, unallocated other income (i.e. investment income), finance costs and unallocated income tax credit. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

## 8. SEGMENT INFORMATION *(Continued)*

### Segment assets and liabilities

**At 31 March 2012**

| | Hotel HK$'000 | Leasing HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Segment assets | 593,973 | 1,684,022 | 2,277,995 |
| Unallocated assets | | | |
| Bank balances and cash | | | 588,012 |
| Financial assets at FVTPL | | | 67,337 |
| Loan receivable | | | 73,916 |
| Others | | | 7,734 |
| Consolidated total assets | | | 3,014,994 |
| LIABILITIES | | | |
| Segment liabilities | 73,437 | 89,432 | 162,869 |
| Unallocated liabilities | | | |
| Promissory notes | | | 132,008 |
| Contingent consideration | | | 16,600 |
| Others | | | 1,978 |
| Consolidated total liabilities | | | 313,455 |

## 8. SEGMENT INFORMATION *(Continued)*

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

**At 31 March 2011**

| | Hotel HK$'000 | Leasing HK$'000 | Consolidated HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Segment assets | 594,456 | 1,557,108 | 2,151,564 |
| Unallocated assets | | | |
| Bank balances and cash | | | 1,713,830 |
| Financial assets at FVTPL | | | 95,339 |
| Held-to-maturity investments | | | 15,485 |
| Others | | | 7,415 |
| Consolidated total assets | | | 3,983,633 |
| LIABILITIES | | | |
| Segment liabilities | 75,141 | 81,361 | 156,502 |
| Unallocated liabilities | | | |
| Promissory notes | | | 132,008 |
| Contingent consideration | | | 16,600 |
| Cash consideration refundable to purchaser *(note 34(ii))* | | | 240,397 |
| Others | | | 4,312 |
| Consolidated total liabilities | | | 549,819 |

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

- all assets are allocated to operating segments, other than unallocated assets (including plant and equipment for corporate use, held-to-maturity investments, financial assets at FVTPL, loan receivable, other receivables, deposits and prepayments for the corporate, and bank balances and cash for the corporate).

- all liabilities are allocated to operating segments, other than unallocated liabilities (including corporate tax liabilities, promissory notes, and other payables and accrued charges for the corporate).

## 8. SEGMENT INFORMATION *(Continued)*

### Other segment information

**For the year ended 31 March 2012**

| | Hotel HK$'000 | Leasing HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated total HK$'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Additions to property, plant and equipment and investment properties | 1,942 | 18,087 | 20,029 | 48 | 20,077 |
| Loss on disposal of property, plant and equipment | – | – | – | 8 | 8 |
| Allowance (reversal of allowance) for bad and doubtful debts for trade and other receivables | 171 | – | 171 | (76) | 95 |
| Allowance for other assets | – | 3,988 | 3,988 | – | 3,988 |
| Depreciation | 30,517 | 145,548 | 176,065 | 489 | 176,554 |
| Interest income | 3,572 | 18,464 | 22,036 | 68,694 | 90,730 |
| Income tax credit (charge) | 2,029 | (51) | 1,978 | 1,000 | 2,978 |

**For the year ended 31 March 2011**

| | Hotel HK$'000 | Leasing HK$'000 | Segment total HK$'000 | Unallocated HK$'000 | Consolidated total HK$'000 |
|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | |
| Additions to property, plant and equipment and investment properties | 6,684 | 32,019 | 38,703 | 970 | 39,673 |
| Gain on disposal of property, plant and equipment | – | – | – | (1) | (1) |
| Reversal of allowance for bad and doubtful debts for trade and other receivables | (36) | – | (36) | (256) | (292) |
| Depreciation | 35,795 | 138,033 | 173,828 | 375 | 174,203 |
| Interest income | 1,737 | 7,454 | 9,191 | 14,512 | 23,703 |
| Income tax credit (charge) | 1,342 | (1,852) | (510) | – | (510) |

## 8. SEGMENT INFORMATION *(Continued)*

### Geographical segments

The Group's operations are mainly located in the Republic of the Philippines (the "Philippines").

All of the Group's revenue is generated from external customers in the Philippines. As at 31 March 2012 and 2011, the non-current assets excluded financial instruments were mainly located in the Philippines.

### Revenue from major services

The analysis of the Group's revenue from its major services is disclosed in note 7.

### Information about major customer

Included in the revenue generated from hotel segment and leasing segment of approximately HK$2,144,000 (2011: HK$2,625,000) and HK$291,026,000 (2011: HK$275,231,000) respectively were contributed by a single customer and the aggregate revenue from this customer represented approximately 68% (2011: 68%) of the total revenue of the Group. There is no other customer contributing over 10% of the Group's total revenue.

## 9. OTHER INCOME

| | **2012<br>HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Interest income | **26,196** | 14,310 |
| Interest income from financial assets at FVTPL | **9,165** | 8,025 |
| Interest income from held-to-maturity investments | **891** | 1,368 |
| Interest income from loans receivables | **54,478** | – |
| Dividend income from financial assets at FVTPL | **2,027** | 780 |
| Dividend income from available-for-sale financial assets | **–** | 2,854 |
| Gain on disposal of available-for-sale financial assets | **–** | 2,242 |
| Sundry income | **783** | 706 |
| | **93,540** | 30,285 |

Included above is income from listed investments of approximately HK$12,083,000 (2011: HK$15,269,000).

## 10. FINANCE COSTS

Finance costs for the year ended 31 March 2011 represent effective interest expense on convertible note, details are set out in note 29.

## 11. PROFIT BEFORE TAXATION

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging (crediting): | | |
| Allowance (reversal of allowance) for bad and doubtful debts for trade and other receivables | 95 | (292) |
| Allowance for other assets | 3,988 | – |
| Auditor's remuneration | 1,600 | 1,580 |
| Cost of inventories recognised as an expense | 14,831 | 13,713 |
| Depreciation of property, plant and equipment | 53,312 | 55,139 |
| Depreciation of investment properties | 123,242 | 119,064 |
| Loss (gain) on disposal of property, plant and equipment | 8 | (1) |
| Net foreign exchange loss (gain) (included in other gain and loss) | 18,601 | (4,002) |
| Rental expenses under operating leases on premises and land | 6,655 | 6,984 |
| Gross revenue from leasing of investment properties equipped with entertainment equipment | (291,026) | (275,231) |
| Less: Direct operating expenses that generated revenue from leasing of investment properties equipped with entertainment equipment *(Note)* | 197,459 | 178,296 |
| | (93,567) | (96,935) |
| Staff costs, including Directors' emoluments | | |
| – salaries and allowances | 53,130 | 49,524 |
| – retirement benefits schemes contributions *(note 31)* | 1,305 | 451 |
| | 54,435 | 49,975 |

*Note:* Amount mainly represents depreciation of leased properties and entertainment equipment.

## 12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

The emoluments paid or payable to each of the eleven (2011: eleven) Directors were as follows:

| | Cheng Kar Shun HK$'000 | Lo Lin Shing, Simon HK$'000 | To Hin Tsun, Gerald HK$'000 | Cheng Kam Chiu, Stewart HK$'000 | Cheng Kam Biu, Wilson HK$'000 | Cheng Chi Kong HK$'000 | Cheng Chi Him HK$'000 | Cheung Hon Kit HK$'000 | Kwee Chong Kok, Michael HK$'000 | Lau Wai Piu HK$'000 | Tsui Hing Chuen, William *JP* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | | | | | | | | | | | | |
| Fees: | | | | | | | | | | | | |
| Executive directors | 500 | 500 | 500 | 100 | 100 | 100 | 100 | – | – | – | – | 1,900 |
| Non-executive directors | – | – | – | – | – | – | – | 160 | 150 | 160 | 160 | 630 |
| Total emoluments | 500 | 500 | 500 | 100 | 100 | 100 | 100 | 160 | 150 | 160 | 160 | 2,530 |

| | Cheng Kar Shun HK$'000 | Lo Lin Shing, Simon HK$'000 | To Hin Tsun, Gerald HK$'000 | Cheng Kam Chiu, Stewart HK$'000 | Cheng Kam Biu, Wilson HK$'000 | Cheng Chi Kong HK$'000 | Cheng Chi Him HK$'000 | Cheung Hon Kit HK$'000 | Kwee Chong Kok, Michael HK$'000 | Lau Wai Piu HK$'000 | Tsui Hing Chuen, William *JP* HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2011** | | | | | | | | | | | | |
| Fees: | | | | | | | | | | | | |
| Executive directors | 500 | 500 | 500 | 100 | 100 | 100 | 100 | – | – | – | – | 1,900 |
| Non-executive directors | – | – | – | – | – | – | – | 140 | 130 | 140 | 140 | 550 |
| Total emoluments | 500 | 500 | 500 | 100 | 100 | 100 | 100 | 140 | 130 | 140 | 140 | 2,450 |

## 12. DIRECTORS' EMOLUMENTS AND EMPLOYEES' EMOLUMENTS *(Continued)*

### Employee's emoluments

The five individuals with the highest emoluments in the Group did not include any Directors for both years. The emoluments of the five (2011: five) individuals in the Group were as follows:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Salaries and other benefits | 10,205 | 10,544 |
| Contributions to retirement benefits scheme | 286 | 229 |
| Discretionary or performance related incentive payments | 360 | 345 |
| | 10,851 | 11,118 |

Their emoluments were within the following bands:

| | 2012 No. of employees | 2011 No. of employees |
|---|---|---|
| HK$1,000,001 to HK$1,500,000 | 2 | 2 |
| HK$1,500,001 to HK$2,000,000 | 1 | 1 |
| HK$2,500,001 to HK$3,000,000 | 1 | 1 |
| HK$4,000,001 to HK$4,500,000 | 1 | 1 |
| | 5 | 5 |

The discretionary or performance related incentive payments are determined by reference to the individual performance of the employees of the Group.

During the year, no emolument was paid by the Group to the Directors or any of the five highest paid individual as inducement to join or upon joining of the Group or as compensation for loss of office. No Director waived any emoluments in each of the two years ended 31 March 2012.

## 13. INCOME TAX CREDIT (CHARGE)

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| Current tax: | | |
| Overprovision in prior years | | |
| Hong Kong | 1,000 | – |
| Deferred taxation *(note 28)* | | |
| Current year | 1,978 | (510) |
| | 2,978 | (510) |

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong Profits Tax has been made as the Group's operations in Hong Kong had no assessable profits for both years.

No provision for taxation in other jurisdictions was made in the consolidated financial statements for both years as the Group's operations outside Hong Kong either had no assessable profits or were exempted from profits tax in respective jurisdictions.

A subsidiary of the Company operating in the Philippines as lessor had entered into a lease agreement with PAGCOR (the "Lease Agreement"), a company solely owned by the Philippine government, as lessee, rendering the rental income received or receivable by such subsidiary from PAGCOR after expenses being exempted from the Philippine corporate income tax. In addition, according to the Lease Agreement, if such subsidiary is required to make any payment of the Philippine corporate income tax in relation to any rental income received or receivable from PAGCOR after expenses, PAGCOR shall indemnify such subsidiary in respect of such payment or liability, together with any interest, penalties and expenses payable or incurred in connection therewith. On 29 February 2012, Bureau of Internal Revenue in the Philippines ("BIR") issued a formal letter of demand to such subsidiary for the deficiency taxes covering the taxable year of 2008 amounting to approximately Peso 807,000,000 (equivalent to approximately HK$145,518,000). The deficiency taxes arose mainly from the imposition of income tax inclusive of penalties and interest on the rental income of such subsidiary from the lease of gaming premises to PAGCOR in accordance with the Lease Agreement. On 29 March 2012, such subsidiary filed a protest with BIR on the ground that such subsidiary is exempt from corporate income tax pursuant to Section 13(2) of the Presidential Decree No. 1869, as amended. The independent legal adviser of such subsidiary has advised and the Directors believe that the tax dispute is at a preliminary stage and the ultimate outcome of the matter cannot presently be determined. Accordingly, no provision is made in the consolidated financial statements.

The corporate income tax rate in the Philippines is 30% for both years.

## 13. INCOME TAX CREDIT (CHARGE) *(Continued)*

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

| | The Philippines | | Hong Kong | | Total | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 | **2012** | 2011 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit before taxation | **112,932** | 113,811 | **4,397** | 702,748 | **117,329** | 816,559 |
| Taxation at the domestic rates applicable to profits in the country concerned | **33,880** | 34,143 | **726** | 115,953 | **34,606** | 150,096 |
| Tax effect of expenses not deductible for tax purpose | **5,108** | 799 | **9,254** | 12,056 | **14,362** | 12,855 |
| Tax effect of income not taxable for tax purpose | **(6,611)** | (3,026) | **(12,188)** | (125,605) | **(18,799)** | (128,631) |
| Tax effect of net income derived from leasing of properties to PAGCOR not taxable for tax purpose | **(34,076)** | (32,615) | **–** | – | **(34,076)** | (32,615) |
| Tax effect of utilisation of tax losses or deductible temporary difference not previously recognised | **(719)** | – | **(1,170)** | – | **(1,889)** | – |
| Tax effect of tax losses and deductible temporary differences not recognised | **636** | 1,462 | **3,378** | 1,106 | **4,014** | 2,568 |
| Tax effect of share of results of an associate | **–** | – | **–** | (3,510) | **–** | (3,510) |
| Overprovision in respect of prior years | **–** | – | **(1,000)** | – | **(1,000)** | – |
| Others | **(196)** | (253) | **–** | – | **(196)** | (253) |
| Income tax (credit) charge for the year | **(1,978)** | 510 | **(1,000)** | – | **(2,978)** | 510 |

## 14. DIVIDENDS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Dividends recognised as distribution to owners of the Company during the year: | | |
| Interim dividend for 2012 – nil (2011: Interim dividend for 2011 – HK$0.50 per share) | – | 589,579 |
| Final dividend for 2011 – HK$0.14 per share (2011: Final dividend for 2010 – nil) | 165,082 | – |
| Special dividend for 2011 – HK$0.61 per share (2011: Special dividend for 2010 – nil) | 719,286 | – |
| | 884,368 | 589,579 |

The Board does not recommend the payment of a final dividend for the year ended 31 March 2012 (2011: final dividend of HK$0.14 per share and special dividend of HK$0.61 per share).

## 15. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

| | 2012 HK$'000 | 2011 HK$'000 |
|---|---|---|
| **Earnings** | | |
| Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company) | **60,074** | 762,197 |
| Effect of dilutive potential ordinary shares in respect of convertible note: | | |
| – Change in fair value of conversion option derivative | | (60,000) |
| – Effective interest expense | | 24,957 |
| Earnings for the purpose of diluted earnings per share | | 727,154 |

| | 2012 In thousand | 2011 In thousand |
|---|---|---|
| **Number of shares** | | |
| Number of ordinary shares for the purpose of basic earnings per share | **1,179,157** | 1,179,157 |
| Effect of dilutive potential ordinary shares from convertible note | | 104,110 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | | 1,283,267 |

For the year ended 31 March 2012, no diluted earnings per share has been presented as there were no potential ordinary shares in issue during the year.

## 16. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Leasehold improvements HK$'000 | Machinery HK$'000 | Furniture, fixtures and equipment HK$'000 | Entertainment equipment HK$'000 | Computer hardware HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| COST | | | | | | | | |
| At 1 April 2010 | 524,242 | 4,281 | 90,218 | 60,628 | 104,926 | 621 | 907 | 785,823 |
| Exchange adjustments | 25,265 | 185 | 4,382 | 3,023 | 5,782 | 2 | 44 | 38,683 |
| Additions | 2,636 | 698 | 1,619 | 4,551 | 29,628 | 140 | – | 39,272 |
| Disposals | – | – | – | (481) | (4,935) | (26) | – | (5,442) |
| Write-off | – | – | – | – | – | (43) | – | (43) |
| At 31 March 2011 | 552,143 | 5,164 | 96,219 | 67,721 | 135,401 | 694 | 951 | 858,293 |
| Exchange adjustments | 3,445 | 25 | 603 | 420 | 850 | 1 | 6 | 5,350 |
| Additions | 300 | – | 1,305 | 432 | 17,625 | 47 | 160 | 19,869 |
| Disposals | – | – | (22) | (669) | (2,639) | (110) | (82) | (3,522) |
| Write-off | – | – | – | (1) | (11,487) | (4) | – | (11,492) |
| **At 31 March 2012** | **555,888** | **5,189** | **98,105** | **67,903** | **139,750** | **628** | **1,035** | **868,498** |
| DEPRECIATION | | | | | | | | |
| At 1 April 2010 | 60,554 | 881 | 76,410 | 48,310 | 57,824 | 583 | 194 | 244,756 |
| Exchange adjustments | 3,653 | 29 | 3,886 | 2,457 | 3,229 | 2 | 15 | 13,271 |
| Provided for the year | 24,833 | 483 | 7,182 | 5,305 | 17,085 | 57 | 194 | 55,139 |
| Eliminated on disposals | – | – | – | (399) | (2,012) | (26) | – | (2,437) |
| Eliminated on write-off | – | – | – | – | – | (43) | – | (43) |
| At 31 March 2011 | 89,040 | 1,393 | 87,478 | 55,673 | 76,126 | 573 | 403 | 310,686 |
| Exchange adjustments | 596 | 5 | 550 | 350 | 486 | 1 | 3 | 1,991 |
| Provided for the year | 25,780 | 585 | 2,640 | 3,557 | 20,528 | 65 | 157 | 53,312 |
| Eliminated on disposals | – | – | (17) | (443) | (1,780) | (101) | (23) | (2,364) |
| Eliminated on write-off | – | – | – | (1) | (11,487) | (4) | – | (11,492) |
| **At 31 March 2012** | **115,416** | **1,983** | **90,651** | **59,136** | **83,873** | **534** | **540** | **352,133** |
| CARRYING VALUES | | | | | | | | |
| **At 31 March 2012** | **440,472** | **3,206** | **7,454** | **8,767** | **55,877** | **94** | **495** | **516,365** |
| At 31 March 2011 | 463,103 | 3,771 | 8,741 | 12,048 | 59,275 | 121 | 548 | 547,607 |

## 16. 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:

| | |
|---|---|
| Buildings | Over the shorter of the remaining term of the land leases on which the buildings are located, or 25 years |
| Leasehold improvements | Over the shorter of the remaining term of the land leases on which the buildings are located, or 25 years |
| Machinery | 20% – 33⅓% |
| Furniture, fixtures and equipment | 20% – 33⅓% |
| Entertainment equipment | 20% |
| Computer hardware | 33⅓% |
| Motor vehicles | 20% |

All the buildings are located on land under medium-term leases in the Philippines.

At 31 March 2012 and 2011, all entertainment equipment was held for use under operating leases to PAGCOR.

## 17. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| COST | |
| At 1 April 2010 | 1,400,055 |
| Exchange adjustments | 67,276 |
| Additions | 401 |
| At 31 March 2011 | 1,467,732 |
| Exchange adjustments | 9,157 |
| Additions | 208 |
| **At 31 March 2012** | **1,477,097** |
| DEPRECIATION | |
| At 1 April 2010 | 266,747 |
| Exchange adjustments | 16,383 |
| Provided for the year | 119,064 |
| At 31 March 2011 | 402,194 |
| Exchange adjustments | 2,705 |
| Provided for the year | 123,242 |
| **At 31 March 2012** | **528,141** |
| CARRYING VALUES | |
| **At 31 March 2012** | **948,956** |
| At 31 March 2011 | 1,065,538 |

## 17. INVESTMENT PROPERTIES *(Continued)*

The above investment properties are located on land under medium-term lease in the Philippines. Depreciation is provided to write off the cost of investment properties over the lease term of the lease contract signed with PAGCOR and after taking into account of the residual value, using the straight-line method.

The fair value of the Group's investment properties at 31 March 2012 was approximately HK$1,029 million (2011: HK$1,144 million). The fair value has been arrived at based on a valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("Jones Lang"), independent valuer not connected with the Group. Jones Lang is a member of the Hong Kong Institute of Surveyors. The valuation was arrived at by capitalising the estimated net rental income derived from the existing tenancies and taking into account the future growth potential with reference to historical rental trend achieved in previous years.

## 18. FINANCIAL ASSETS AT FVTPL

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Financial assets at FVTPL comprise: | | |
| – Debt securities notes listed overseas with fixed interest of 11.75% per annum and maturity date on 18 May 2015 *(Note i)* | **46,020** | 74,100 |
| – 8% Perpetual subordinated capital securities listed overseas *(Note ii)* | **21,317** | 21,239 |
| | **67,337** | 95,339 |

*Notes:*

(i) Issuer of the notes has an option to redeem the notes at a specified range of premium over the principal amount plus accrued interest at different time periods before maturity date, subject to certain conditions.

(ii) Issuer of the investment may redeem the capital securities at any time on or after 15 December 2015 or at any time upon the occurrence of certain events at a redemption price equal to the principal plus accrued interest. Subject to certain conditions, on any coupon payment date, the issuer may exchange the capital securities in whole (but not in part) for perpetual non-cumulative dollar preference shares.

The financial assets at FVTPL as at 31 March 2012 are denominated in USD, foreign currency of the relevant group entities.

## 19. OTHER ASSETS

The amounts mainly represent the value added tax recoverable expected to be utilised to set off the value added tax payables in the future. According to the regulation of the Philippines, the value added tax recoverable can be carried forward indefinitely to set off value added tax payables or to claim cash refund within two years after receiving the value added tax recoverable. In the opinion of the Directors, since a subsidiary may not generate any income with value added tax payables to utilise these value added tax recoverable and the period allowed for refund has been expired as at 31 March 2012, a provision of approximately HK$3,988,000 has been made on the amount of value added tax recoverable.

## 20. INVENTORIES

The amount represents hotel consumables, food and beverages.

## 21. HELD-TO-MATURITY INVESTMENTS

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Debt securities listed on the Luxembourg Stock Exchange | – | 15,485 |

The debt securities matured on 15 November 2011 and carried interest at a coupon rate of 8% per annum. The effective interest rate of the debt securities was 8.87% (2011: 8.87%) per annum for the year ended 31 March 2012. The debt securities were denominated in USD, foreign currency of the relevant group entities. As at 31 March 2011, the fair value of the debt securities was approximately HK$16,167,000, with reference to the quoted market prices.

## 22. LOAN RECEIVABLE

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Fixed-rate loan receivable | 73,916 | – |

On 2 September 2011, the Group, through the subscription of 9,500 class B shares of USD1 each in VMS Private Investment Partners VIII Limited, participated in the USD75,000,000 credit facility (the "Facility") made available to the Borrower in the principal amount of USD30,000,000. The Facility was provided by Deutsche Bank AG, London Branch to the Borrower pursuant to the facility agreement dated 5 August 2011. The Facility is secured by a number of pledged assets provided by the Borrower. Details of the transaction are set out in the Company's announcement dated 2 September 2011.

During the year ended 31 March 2012, the Group loaned USD30,000,000 (equivalent to approximately HK$234,000,000) pursuant to the participation agreement and received repayments of approximately USD20,524,000 (equivalent to approximately HK$160,084,000). The loan receivable is interest bearing of 35% per annum and repayable within 12 months.

## 23. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Trade receivables | 70,512 | 40,037 |
| Less: Allowance for doubtful debts for trade receivables | (258) | (95) |
| | 70,254 | 39,942 |
| Other receivables, deposits and prepayments | 35,141 | 31,193 |
| Less: Allowance for doubtful debts for other receivables | (1,498) | (2,904) |
| | 33,643 | 28,289 |
| Total trade receivables, other receivables, deposits and prepayments | 103,897 | 68,231 |

The average credit terms for trade receivables granted by the Group range from 0 to 90 days. A longer period is granted to customers with whom the Group has a good business relationship and which are in sound financial condition.

The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the reporting period.

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Aged: | | |
| 0–30 days | 28,334 | 34,261 |
| 31–60 days | 114 | 3,957 |
| 61–90 days | 45 | 1,068 |
| Over 90 days | 41,761 | 656 |
| | 70,254 | 39,942 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. At 31 March 2012, trade receivables with an aggregate carrying amount of approximately HK$28,334,000 (2011: HK$35,040,000) were neither past due nor impaired. The Directors consider these trade receivables are of good credit quality.

## 23. TRADE RECEIVABLES, OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

*(Continued)*

Included in the Group's trade receivables are debtors with an aggregate carrying amount of approximately HK$41,920,000 (2011: HK$4,902,000) which were past due at the end of the reporting period for which the Group did not provide for impairment loss as these trade receivables were either settled subsequent to the end of the reporting period or the respective customers had good repayment history. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance of doubtful debts as at the end of the reporting period. The Group does not hold any collateral over these balances. The average age of these receivables is 281 days (2011: 53 days).

### Ageing of trade receivables which are past due but not impaired

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| 1–30 days | **–** | 776 |
| 31–60 days | **114** | 2,402 |
| 61–90 days | **45** | 1,068 |
| Over 90 days | **41,761** | 656 |
| Total | **41,920** | 4,902 |

The Group has provided fully for all trade receivables past due over 1 year because those receivables are generally not recoverable based on historical experience.

### Movement in the allowance for doubtful debts for trade and other receivables

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Balance at beginning of the year | **2,999** | 3,265 |
| Exchange adjustments | **14** | 63 |
| Impairment losses recognised | **95** | – |
| Impairment losses reversed | **–** | (292) |
| Amounts written off as uncollectible | **(1,352)** | (37) |
| Balance at end of the year | **1,756** | 2,999 |

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of approximately HK$1,756,000 (2011: HK$2,999,000) which have been in severe financial difficulty.

At 31 March 2012, other receivables amounting to approximately HK$3,361,000 (2011: HK$3,361,000) is denominated in USD, foreign currency of the relevant group entities.

## 24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Group's bank balances deposited in the banks in Hong Kong carry prevailing market interest rates ranging from 0.001% to 1.380% (2011: 0.001% to 1.000%) per annum. Moreover, the Group also has bank balances deposited in the banks in the Philippines which carry prevailing market interest rates ranging from 0.007% to 4.750% (2011: 0.235% to 4.750%) per annum.

The Group's bank balances that are denominated in foreign currency of the relevant group entities are set out below:

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Denominated in USD | **188,964** | 145,894 |
| Denominated in HK$ | **330,226** | 1,631,782 |

## 25. TRADE PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES

Trade payables, other payables and accrued charges comprise amounts outstanding for the purchase, ongoing costs, contingent consideration and refundable consideration for disposal of a subsidiary.

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period.

| | **2012**<br>**HK$'000** | 2011<br>HK$'000 |
|---|---|---|
| Aged: | | |
| 0–30 days | **2,975** | 4,580 |
| 31–60 days | **631** | – |
| Over 90 days | **2,439** | 2,387 |
| | **6,045** | 6,967 |

The average credit period on purchase of goods is 90 days.

At 31 March 2012, other payables and accrued charges amounting to approximately HK$18,083,000 (2011: HK$259,517,000) is denominated in HK$, foreign currency of the relevant group entities.

At 31 March 2011, other payables and accrued charges included an amount of approximately HK$240,397,000 which represented the cash consideration refundable to the purchaser in respect of the disposal of a subsidiary. The amount was fully refunded to the purchaser in the year ended 31 March 2012. Details of the disposal are set out in note 34.

## 26. PROMISSORY NOTES

In October 2007, promissory notes ("Promissory Notes") with an aggregate amount of approximately HK$642 million were issued by a subsidiary of the Company in favour of two related companies, which are beneficially owned by CTF, to replace the shareholders' loans of HK$642 million assigned by the shareholders which arose from the acquisition of Fortune Gate Overseas Limited ("Fortune Gate"). Pursuant to the terms of the Promissory Notes, the amounts are unsecured, non-interest bearing and repayable on demand. There was no repayment of promissory notes during the year. During the year ended 31 March 2011, the Group repaid approximately HK$73 million owing under the Promissory Notes.

At 31 March 2012 and 2011, the entire amount is denominated in HK$, foreign currency of the relevant group entities.

## 27. SHARE CAPITAL

| | Par value of shares HK$ | Number of shares | Value HK$'000 |
|---|---|---|---|
| Authorised: | | | |
| Ordinary shares | | | |
| At 1 April 2010, 31 March 2011 and 2012 | 1 each | 2,000,000,000 | 2,000,000 |
| Issued and fully paid: | | | |
| Ordinary shares | | | |
| At 1 April 2010, 31 March 2011 and 2012 | 1 each | 1,179,157,235 | 1,179,157 |

## 28. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised and the movements thereon during the current and the prior years:

| | Unrealised foreign exchange gain HK$'000 *(Note)* | Fair value adjustments arising on property, plant and equipment and investment properties on business combination HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 April 2010 | 17,702 | 96,099 | 113,801 |
| Exchange adjustments | 931 | 4,551 | 5,482 |
| Charge (credit) to profit or loss *(note 13)* | 2,692 | (2,182) | 510 |
| At 31 March 2011 | 21,325 | 98,468 | 119,793 |
| Exchange adjustments | 134 | 612 | 746 |
| Charge (credit) to profit or loss *(note 13)* | 281 | (2,259) | (1,978) |
| At 31 March 2012 | 21,740 | 96,821 | 118,561 |

*Note:* The amount represents the deferred tax liabilities in relation to the unrealised foreign exchange gain arising from the monetary assets and liabilities denominated in foreign currencies of the subsidiaries operating in the Philippines.

As at 31 March 2012, the Group had estimated unused tax losses of approximately HK$180,160,000 (2011: HK$186,187,000) and deductible temporary differences of approximately HK$3,867,000 (2011: HK$2,066,000) available for offset against future profits. As at 31 March 2012 and 2011, no deferred tax assets was recognised of such losses due to the unpredictability of future profit streams. Tax losses amounting to approximately HK$142,478,000 (2011: HK$129,168,000) may be carried forward indefinitely.

## 28. DEFERRED TAXATION *(Continued)*

The remaining tax losses will be expired as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Year 2011 | – | 21,561 |
| Year 2012 | 29,453 | 30,946 |
| Year 2013 | 6,608 | 3,636 |
| Year 2014 | 913 | 876 |
| Year 2015 | 708 | – |

No deferred tax liability has been recognised in respect of the temporary differences associated with undistributed earnings of subsidiaries operating in the Philippines because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

## 29. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE

On 11 October 2007, the Company issued a convertible note of HK$400 million due in three years, which was beneficially owned by Cross-Growth Co., Ltd., a company wholly-owned by CTF, as part of the consideration in the acquisition of the entire equity interest of Fortune Gate. Details of the acquisition are set out in the circular of the Company dated 29 June 2007.

The convertible note was denominated in HK$ and was unsecured. The convertible note entitled the holder to convert into ordinary shares of the Company in amounts or integral multiples of HK$4,000,000 at any time after the date of issue of the convertible note until the business day immediate prior to the maturity date of the convertible note at an initial conversion price of HK$2 per share subject to customary adjustments for, among other things, subdivision or consolidation of shares, bonus issues, rights issues and other events which had diluting effects on the issued share capital of the Company. If the whole amount of the convertible note was converted at the conversion price of HK$2 per share, 200,000,000 ordinary shares of the Company would be issued. If the convertible note had not been converted, it would be repaid on the maturity date at its outstanding principal amount. Interest of 1% per annum would be paid annually in arrear up to the maturity date of the convertible note. Neither the Company nor the holder had the rights to redeem the convertible note prior to its maturity date. The fair values of conversion option derivative as at the issue date of 11 October 2007 and as at the end of each reporting period were determined by the valuation performed by an independent valuer. The convertible note was fully repaid during the year ended 31 March 2011.

## 29. CONVERTIBLE NOTE AND CONVERSION OPTION DERIVATIVE *(Continued)*

The convertible note contained the following components that were required to be separately accounted for in accordance with HKAS 32 "Financial instruments: Disclosure and Presentation" and HKAS 39 "Financial instruments: Recognition and Measurement":

(a) Liability component of the convertible note represented the present value of the contractually determined stream of future cash flows discounted at the rate of interest at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion and redemption option. The effective interest rate of the liability component is 13.41% per annum.

(b) Embedded conversion option of the convertible note to be accounted for as a separate financial liability represented the fair value of the option to convert the liability into equity of the Company but the conversion would be settled other than by the exchange of a fixed number of the Company's own equity.

The movements of the liability component and conversion option derivative of the convertible note for the year ended 31 March 2011 are set out as below:

| | **Liability component** HK$'000 | **Conversion option derivative** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| As at 1 April 2010 | 379,010 | 60,000 | 439,010 |
| Interest charge *(note 10)* | 24,957 | – | 24,957 |
| Interest paid | (3,967) | – | (3,967) |
| Change in fair value of conversion option derivative | – | (60,000) | (60,000) |
| Repaid on the maturity date | (400,000) | – | (400,000) |
| As at 31 March 2011 | – | – | – |

## 30. SHARE OPTION SCHEME

### THE COMPANY

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 20 August 2004, a share option scheme ("Share Option Scheme") was adopted to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and the shares of the Company for the benefit of the Company and the shareholders of the Company as a whole. The Share Option Scheme was valid and effective for a period of 10 years commencing on the adoption date, i.e. 20 August 2004. Upon the transfer of listing of the shares of the Company from GEM to the Main Board on 27 September 2010, the Share Option Scheme was terminated and no further option would be offered or granted thereunder.

The categories of the participants under the Share Option Scheme were any full-time employee, any director (whether executive or non-executive including independent non-executive director), any supplier, independent contractor, consultant, and/or adviser of the Company or any subsidiary of the Company.

The maximum number of shares in respect of which share options might be granted to grantees under the Share Option Scheme and other share option scheme(s) of the Company should not exceed 30% of the issued share capital of the Company from time to time (the "Scheme Limit"). The maximum number of the Company's shares in respect of which share options might be granted under the Share Option Scheme should not (when aggregated with any shares subject to any other share option scheme(s) of the Company) exceed 10% of the issued share capital of the Company on the adoption date of the Share Option Scheme (the "Scheme Mandate Limit"), which was 20,483,144 shares, representing approximately 1.74% of the issued share capital as at the date of this annual report. Share options lapsed in accordance with the terms of the Share Option Scheme would not be counted for the purpose of calculating the Scheme Mandate Limit. The Company might grant share options beyond the Scheme Mandate Limit if approval was obtained from Company's shareholders in general meetings.

The maximum number of the Company's shares in respect of which share options might be granted to a participant under the Share Option Scheme should not (when aggregated with any shares subject to any other share option scheme(s) of the Company) in any 12-month period exceed 1% of the Company's shares in issue (the "Individual Limit"). The Company might grant share options beyond the Individual Limit to a participant at any time if approval was obtained from Company's shareholders in general meetings.

## 30. SHARE OPTION SCHEME *(Continued)*

### THE COMPANY *(Continued)*

Each grant of share options to any director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates should be subject to the prior approval of the independent non-executive directors of the Company (excluding an independent non-executive director who was the grantee of the options). Where any grant of share options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the shares of the Company issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled or outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% (or such other percentage as might from time to time be specified by the Stock Exchange) of the Company's shares in issue; and

(ii) having an aggregate value, based on the closing price of the shares on the date of grant, in excess of HK$5 million (or such other amount as might from time to time be specified by the Stock Exchange), such grant of share options should be subject to prior approval by resolution of the shareholders of the Company (voting by way of poll) on which all connected persons of the Company should abstain from voting in favor but (for the avoidance of doubt), any connected person might without affecting the validity of the relevant resolution vote against the relevant resolution at the general meeting provided that his intention to do so had been stated in the circular to be sent to the shareholders in connection therewith.

The period within which the Company's shares had to be taken up under the share option, which was to be notified by the committee of the board of directors (the "Committee") to each grantee at the time of making an offer of a grant of a share option which should not be later than 10 years from the date of grant of a share option.

Share options granted had to be taken up within 28 days of the date of grant upon payment of HK$10 as consideration for the grant.

The exercise price was determined by the Company's board of directors in its absolute discretion and would not be less than the average closing price of the Company's shares for the five trading days immediately preceding the offer date or the closing price of the shares on the offer date, whichever was the higher, provided that the exercise price should not be lower than the nominal value of a share.

There was no share option granted under the Share Option Scheme during the period from 1 April 2010 to 27 September 2010 (date of termination of the Share Option Scheme) and no share option outstanding as at 31 March 2012 and 2011.

## 31. RETIREMENT BENEFITS SCHEMES

The Group participates in mandatory provident fund schemes in Hong Kong. The relevant scheme assets are held under mandatory provident funds operated by HSBC Life (International) Limited and Manulife Provident Funds Trust Company Limited. Under these schemes, the Group is required to make contributions to the schemes calculated at the higher of 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Scheme Ordinance) on a monthly basis and HK$1,000.

The relevant subsidiaries in the Philippines have provided long service payments for employees who have provided at least five years' services to the subsidiaries in accordance with the regulations in the Philippines. The subsidiaries of the Group operating in the Philippines have not joined any retirement benefits scheme for long service payment. The directors provided the long service payment based on the requirements of the relevant regulations and the historical turnover rate of the employees. In the opinion of the Directors, the long service payment provision is considered adequate as at the end of the reporting period. In addition, the Group operates a defined contribution retirement benefit plans for all executive employees and the assets of the plans are held separately from those of the Group in funds under the control of trustee. The only obligation of the Group with respect of the defined contribution retirement benefit plans is to make the specific contributions.

The Group's contributions to the retirement benefits schemes charged to the consolidated income statement are as follows:

| | **2012** | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Hong Kong HK$'000** | **The Philippines HK$'000** | **Total HK$'000** | Hong Kong HK$'000 | The Philippines HK$'000 | Total HK$'000 |
| Employers' contributions | **93** | **1,212** | **1,305** | 112 | 339 | 451 |

## 32. OPERATING LEASE COMMITMENTS

### The Group as lessor

An indirect subsidiary of the Company acquired on 11 October 2007, signed a contract with PAGCOR on 14 March 2003 to lease equipped gaming premises and office premises for a period of twelve years commencing from 31 March 2004. The monthly rental would be based on a certain percentage of net gaming revenue of the casino operated by PAGCOR or a fixed amount of Peso100,000 (equivalent to approximately HK$18,000 (2011: HK$17,000)), whichever is higher.

PAGCOR is chartered under Presidential Decree No. 1869, as amended ("PAGCOR Charter") to operate the casino in the Philippines. The PAGCOR Charter expired on 10 July 2008 and renewal was granted in June 2007 for 25 years from 11 July 2008. Casino rental income earned during the year was approximately HK$291,026,000 (2011: HK$275,231,000), including contingent rental charges amounting to approximately HK$290,810,000 (2011: HK$275,027,000).

### The Group as lessee

At 31 March 2012, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Within one year | 5,458 | 6,632 |
| In the second to fifth year inclusive | 19,210 | 19,746 |
| Over five years | 57,293 | 61,883 |
| | 81,961 | 88,261 |

Operating lease payments represent rentals payable by the Group in respect of leasehold land, condominium units, office premises and staff quarters. Leases are negotiated for terms ranging from two to twenty years and rentals are fixed for the lease period.

## 33. CAPITAL COMMITMENTS

| | 2012<br>HK$'000 | 2011<br>HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **1,610** | 158 |

### Other commitments

The Group also has the following commitments:

(i) New Coast Hotel, Inc. ("NCHI"), an indirect subsidiary of the Company, entered into a license agreement on 12 December 2003 with Hotel Project Systems, Pte. Limited ("HPSL"), a wholly-owned subsidiary of Hyatt International Corporation, to lease the technology and know-how of hotel technical systems and related services, and license the name "Hyatt" and related trademarks for use in the hotel to be owned by NCHI. In consideration thereof, NCHI will pay a royalty during the operating term based on a certain percentage of the gross operating profit as agreed by NCHI and HPSL. The license agreement is effective for an initial term from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HPSL"). Each of NCHI and HPSL will have the option to extend the agreement for an additional period of five years after the Initial Period of HPSL, and thereafter for another additional period of three years. On 3 April 2009, HPSL exercised its rights to extend the agreement for an additional period of five years. The royalty charges paid or payable by NCHI for the year ended 31 March 2012 was approximately HK$1,701,000 (2011: HK$1,639,000).

(ii) NCHI entered into a sale and marketing agreement on 12 December 2003 with Hyatt International – SEA (Pte) Limited ("HISPL"), a wholly-owned subsidiary of Hyatt International Corporation, pursuant to which HISPL agreed to provide (a) appropriate sale and marketing services and (b) advertising and promotional services for the hotel operation. In consideration thereof, HISPL will be entitled to receive a certain percentage of the total revenue of the hotel operation as a sale and marketing fee. The agreement is effective from 12 December 2003 to the fifth anniversary date of the formal opening of the hotel ("Initial Period of HISPL"). Each of NCHI and HISPL will have the option to extend the agreement for an additional period of five years after the Initial Period of HISPL, and thereafter for another additional period of three years. On 3 April 2009, HISPL exercised its rights to extend the agreement for an additional period of five years. The sale and marketing fee paid or payable by NCHI for the year ended 31 March 2012 was approximately HK$2,836,000 (2011: HK$2,694,000).

## 34. DISPOSAL OF A SUBSIDIARY

On 7 May 2010, the Company entered into a conditional sale and purchase agreement (the "Agreement") pursuant to which the Company conditionally agreed to sell and assign, and the purchaser, Power Link Fortune Limited ("Power Link"), an independent third party, conditionally agreed to purchase the entire issued share capital of Fortune Gate and to accept the assignment of the entire amount of the interest free shareholder's loan owing from Fortune Gate to the Company as at the Completion (as defined in the Agreement) (the "Sale Loan") at a consideration of HK$1,830 million, subject to adjustments set out in the Agreement. The Group received the cash consideration of HK$1,830 million by November 2010.

The transaction was completed on 5 November 2010. The finalised consideration after taken into account the adjustments as set out in the Agreement was approximately HK$1,589,603,000. Details of the disposal are set out in the announcements of the Company dated 11 May 2010, 31 May 2010, 27 August 2010 and 5 November 2010 and the circular of the Company dated 30 July 2010.

Analysis of assets and liabilities over which control was lost is as follows:

| | HK$'000 |
|---|---|
| Investment in an associate | 810,819 |
| Amount due from an associate | 87,907 |
| Sale Loan | (87,907) |
| Net assets disposed of | 810,819 |
| Gain on disposal of a subsidiary: | |
| Adjusted cash consideration received | 1,589,603 |
| Net assets disposed of | (810,819) |
| Assignment of the Sale Loan | (87,907) |
| Direct attributable costs paid | (18,057) |
| Contingent consideration *(Note i)* | (16,600) |
| Cumulative exchange differences in respect of the net assets of a subsidiary reclassified from equity to profit or loss in loss of control of a subsidiary | 1,653 |
| | 657,873 |
| Cash inflow arising on disposal: | |
| Cash consideration received | 1,830,000 |
| Direct attributable costs paid | (18,057) |
| Cash consideration refundable to the purchaser *(Note ii)* | (240,397) |
| | 1,571,546 |

## 34. DISPOSAL OF A SUBSIDIARY *(Continued)*

*Notes:*

(i) The amount represented the fair value of the contingent consideration provision in relation to the tax indemnity for a period of 5 years commencing from 5 November 2010. A contingent consideration provision of HK$16,600,000 has been provided in other payables and accrued charges in the consolidated statement of financial position at 31 March 2012 and 2011 and adjusted to the gain on disposal of a subsidiary recognised during the year ended 31 March 2011.

(ii) The difference between cash consideration received and adjusted cash consideration is refundable to Power Link, as such, the amount is included in other payables and accrued charges in the consolidated statement of financial position as at 31 March 2011 and refunded to Power Link during the year ended 31 March 2012.

Fortune Gate is an investment holding company which only owns an investment in an associate. The disposal of Fortune Gate had no material impact on the cash flows of the Group.

## 35. RELATED PARTY TRANSACTIONS

**(a)** Apart from the related party transactions as disclosed in notes 26 and 29, the Group entered into the following transactions with related parties during the year:

| | **2012 HK$'000** | 2011 HK$'000 |
|---|---|---|
| Accommodation and beverages income *(Note i)* | **360** | 383 |
| Purchase of goods *(Note ii)* | **592** | – |
| Rental expenses *(Note iii)* | **1,992** | 1,894 |

*Notes:*

(i) Accommodation and beverages income were received from a subsidiary indirectly controlled by CTF during the year.

(ii) The amount represented the purchase of goods from a subsidiary indirectly controlled by CTF Capital during the year ended 31 March 2012.

(iii) A company, which is an associate of CTF, leased office premises to the Group.

### (b) Compensation of key management personnel

The remuneration of Directors and other members of key management of the Group are disclosed in note 12. The remuneration of Directors and key management personnel of the Group is based on the performance and experience of individuals and is determined with reference to the Group's performance, the remuneration benchmark in the industry and the prevailing market conditions.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's principal subsidiaries at 31 March 2012 and 31 March 2011 are as follows:

| Name of subsidiary | Place/country of incorporation or registration/ operations | Form of business structure | Class of shares held | Paid up issued capital | Proportion of nominal value of issued capital held by the Company Directly 2012 % | Directly 2011 % | Indirectly 2012 % | Indirectly 2011 % | Principal activities |
|---|---|---|---|---|---|---|---|---|---|
| Lucky Genius Limited | BVI | Limited company | Ordinary | USD1 | 100 | 100 | – | – | Investment holding |
| Fortune Growth Overseas Limited | BVI | Limited company | Ordinary | USD1 | 100 | 100 | – | – | Investment holding |
| Maxprofit International Limited | BVI | Limited company | Ordinary | USD100 | – | – | 51 | 51 | Investment holding |
| Starcharm Limited | BVI | Limited company | Ordinary | USD1 | – | – | 51 | 51 | Investment holding |
| Flexi-Deliver Holding Ltd. | BVI | Limited company | Ordinary | USD1 | – | – | 51 | 51 | Investment holding |
| CTF Hotel and Entertainment, Inc. | Philippines | Limited company | Ordinary | Peso10,468,600 | – | – | 51 | 51 | Investment holding |
| CTF Properties (Philippines), Inc. | Philippines | Limited company | Ordinary | Peso10,468,600 | – | – | 51 | 51 | Investment holding |
| Marina Square Properties, Inc. | Philippines | Limited company | Ordinary | Peso2,722,930,653 | – | – | 51 | 51 | Property investment |
| NCHI | Philippines | Limited company | Ordinary | Peso621,444,867 | – | – | 51 | 51 | Hotel owner |
| Future Growth Limited | Hong Kong | Limited company | Ordinary | HK$2 | 100 | 100 | – | – | General administration for the Group |
| VMS Private Investment Partners VIII Limited ("VMS") *(Note)* | BVI | Limited company | Class B<br>Class A | USD9,500<br>USD500 | 100<br>– | –<br>– | –<br>– | –<br>– | Investment holding |

*Note:* On 2 September 2011, the Group subscribed 9,500 Class B shares of USD1 each, which represents 100% of Class B shares in VMS. 500 Class A shares of USD1 each were issued to an independent third party. Class A share is a voting, non-participating share and only entitled to 15% of the dividend distributed by VMS. Class B share is a voting, participating share to the assets of VMS and entitled to 85% of the dividend distributed by VMS. Both Class A share and Class B share have the same voting right.

None of the subsidiaries of the Company had issued any debt securities at the end of the year or during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Financial Summary

## RESULTS

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012**<br>**HK$'000** |
| Revenue | 331,980 | 484,318 | 452,166 | 409,684 | **432,473** |
| Profit before taxation | 120,663 | 88,909 | 341,421 | 816,559 | **117,329** |
| Income tax (charge) credit | (12,871) | 49,862 | 661 | (510) | **2,978** |
| Profit for the year | 107,792 | 138,771 | 342,082 | 816,049 | **120,307** |
| Attributable to: | | | | | |
| Owners of the Company | 76,455 | 115,254 | 275,660 | 762,197 | **60,074** |
| Non-controlling interests | 31,337 | 23,517 | 66,422 | 53,852 | **60,233** |
| | 107,792 | 138,771 | 342,082 | 816,049 | **120,307** |

## ASSETS AND LIABILITIES

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | 2011<br>HK$'000 | **2012**<br>**HK$'000** |
| Total assets | 4,314,379 | 3,575,521 | 3,920,666 | 3,983,633 | **3,014,994** |
| Total liabilities | (1,514,446) | (949,912) | (792,976) | (549,819) | **(313,455)** |
| | 2,799,933 | 2,625,609 | 3,127,690 | 3,433,814 | **2,701,539** |
| Equity attributable to owners of the Company | 2,084,036 | 1,988,450 | 2,373,841 | 2,588,283 | **1,790,412** |
| Non-controlling interests | 715,897 | 637,159 | 753,849 | 845,531 | **911,127** |
| | 2,799,933 | 2,625,609 | 3,127,690 | 3,433,814 | **2,701,539** |

# Particulars of Principal Properties

| Location | Existing use | Lease term |
| --- | --- | --- |
| 1588 Pedro Gil cor. M.H. Del Pilar, Malate Manila The Philippines | Hotel operations and leasing of properties (for casino and ancillary leisure and entertainment operations) | Medium-term lease |