THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **ASIA STANDARD HOTEL GROUP LIMITED**, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale was affected for transmission to the purchaser(s) or the transferee(s).

This circular appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

ASIA STANDARD HOTEL GROUP LIMITED

(泛海酒店集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 292)

MAJOR AND CONNECTED TRANSACTION

ACQUISITION OF A PROPERTY

Financial adviser

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

Independent financial adviser to
the independent board committee and the independent shareholders of
Asia Standard Hotel Group Limited

VC CAPITAL LIMITED
滙盈融資有限公司

A notice convening a special general meeting of **ASIA STANDARD HOTEL GROUP LIMITED** to be held at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 29 January, 2007 at 10:00 a.m. is set out on page 132 of this circular. Whether or not you intend to attend and vote at the special general meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the special general meeting or any adjourned meeting should you so wish.

* *For identification purposes only*

10 January, 2007

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Announcement"	the joint announcement dated 19 December, 2006 made by Asia Standard International and Asia Standard Hotel
"Asia Orient"	Asia Orient Holdings Limited (stock code: 214), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange, and the controlling shareholder of Asia Standard International
"Asia Standard Development"	Asia Standard Development (Holdings) Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Asia Standard International
"Asia Standard Finance"	Asia Standard Finance Company Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Asia Standard International
"Asia Standard Hotel" or "Company"	Asia Standard Hotel Group Limited (stock code: 292), an exempted company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange and a 56.88% subsidiary of Asia Standard International
"Asia Standard Hotel Group" or "Group"	Asia Standard Hotel together with its subsidiaries
"Asia Standard Hotel Holdings"	Asia Standard Hotel (Holdings) Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Asia Standard Hotel
"Asia Standard Hotel Resolution"	the ordinary resolution of the Shareholders to ratify, confirm and approve the Sale and Purchase Agreement and the issue of Convertible Bonds in the aggregate principal amount equivalent to the Share Consideration and the Loan Consideration to Asia Standard Development and Asia Standard Finance, respectively, and the transactions contemplated thereunder to be passed by the Independent Shareholders at the SGM
"Asia Standard International"	Asia Standard International Group Limited (stock code: 129), an exempted company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange, and the holding company of Asia Standard Hotel

"Asia Standard International Group"	Asia Standard International together with its subsidiaries
"Assigned Loans"	the outstanding loans advanced by Asia Standard Finance to Master Asia up to the date of, and immediately prior to, completion of the Sale and Purchase Agreement
"associate(s)"	has the meaning ascribed to it by the Listing Rules
"Board"	the board of Directors
"Consideration"	the Loan Consideration and the Share Consideration
"controlling shareholder"	has the meaning ascribed to it by the Listing Rules
"Convertible Bonds"	the zero coupon convertible bonds due 2011 in the aggregate principal amount of HK$300 million to be issued by Asia Standard Hotel
"Director(s)"	the director(s) of the Company
"Deed Poll"	the deed poll constituting the Convertible Bonds to be executed by Asia Standard Hotel
"Enlarged Group"	Asia Standard Hotel Group together with Maxi-Win, Good Choice and Master Asia
"Good Choice"	Good Choice Limited, a limited liability company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of Asia Standard International holding a 30% interest in Master Asia
"HK$"	Hong Kong dollars
"Hong Kong"	The Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising Mr. Ip Chi Wai and Mr. Hung Yat Ming, each being an independent non-executive Director
"Independent Shareholder(s)"	Shareholder(s) other than Asia Standard International and its associates
"Latest Practicable Date"	5 January, 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular

"Listing Rules"	The Rules governing the Listing of Securities on the Stock Exchange
"Loan Consideration"	the face value of the Assigned Loans
"Master Asia"	Master Asia Enterprises Limited, a limited liability company incorporated in Hong Kong and an indirect wholly owned subsidiary of Asia Standard International
"Maxi-Win"	Maxi-Win Limited, a limited liability company incorporated in the British Virgin Islands and an indirect wholly owned subsidiary of Asia Standard International holding a 70% interest in Master Asia
"PRC"	the People's Republic of China, excluding for the purpose of this circular Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Property"	the property located at No. 8 Wing Hing Street, Causeway Bay, Hong Kong
"Sale and Purchase Agreement"	the sale and purchase agreement dated 18 December, 2006 entered into between Asia Standard Development, Asia Standard Finance and Asia Standard Hotel Holdings in connection with the sale by Asia Standard Development of the entire issued share capital of Maxi-Win and Good Choice, and the assignment of the Assigned Loans by Asia Standard Finance to Asia Standard Hotel Holdings
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGM"	the special general meeting of the Company to be convened for purpose of approving the Asia Standard Hotel Resolutions
"Share Consideration"	the consideration of approximately HK$130.8 million for the transfer of the entire issued share capital of Maxi-Win and Good Choice from Asia Standard Development to Asia Standard Hotel Holdings under the Sale and Purchase Agreement
"Shareholder(s)"	holder(s) of the Shares
"Share(s)"	the ordinary share(s) of HK$0.02 each in the capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Transaction"	the transactions contemplated under the Sale and Purchase Agreement and the issue of the Convertible Bonds by Asia Standard Hotel to Asia Standard Development and Asia Standard Finance
"VC Capital"	VC Capital Limited, a licensed corporation licensed to carry out types 1 and 6 regulated activities under the SFO, and the independent financial advisor to the Independent Board Committee and the Independent Shareholders

ASIA STANDARD HOTEL GROUP LIMITED
(泛海酒店集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 292)

Directors:
Mr. Poon Jing *(Chairman)*
Dr. Lim Yin Cheng
(Deputy Chairman and Chief Executive)
Mr. Fung Siu To, Clement
Mr. Poon Tin Sau, Robert
Mr. Wong Shu Pui
Mr. Woo Wei Chun, Joseph

Non-executive Director:
Mr. Liang Shangli

Independent non-executive Directors:
Mr. Ip Chi Wai
Mr. Leung Wai Keung, Richard
Mr. Hung Yat Ming

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Principal office in Hong Kong:
30th Floor
Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai, Hong Kong

10 January, 2007

To the Shareholders

Dear Sir or Madam,

ACQUISITION OF A PROPERTY

INTRODUCTION

On 19 December, 2006, the directors of Asia Standard International and Asia Standard Hotel announced that, on 18 December, 2006, Asia Standard Hotel Holdings entered into the Sale and Purchase Agreement with Asia Standard Development and Asia Standard Finance pursuant to which Asia Standard Hotel Holdings agreed to acquire the entire issued share capital of Maxi-Win and Good Choice from Asia Standard Development and the Assigned Loans from Asia Standard Finance.

* *For identification purpose only*

Maxi-Win and Good Choice own a 70% and a 30%, respectively, of the issued share capital of Master Asia. Master Asia owns the entire beneficial interest in the Property. The Property is located at No. 8 Wing Hing Street, Causeway Bay, Hong Kong and it has been decided that the Property should be converted into a hotel. The Consideration of HK$300 million is to be satisfied by the issue of the Convertible Bonds by Asia Standard Hotel.

THE SALE AND PURCHASE AGREEMENT

The principal terms of the Sale and Purchase Agreement are as follows:

Date: 18 December, 2006

Parties:

(1) Asia Standard Development as vendor for the entire issued share capital of Maxi-Win and Good Choice;

(2) Asia Standard Finance as vendor and assignor of the Assigned Loans; and

(3) Asia Standard Hotel Holdings as purchaser.

Consideration: Asia Standard Development agreed to transfer the entire issued share capital of Maxi-Win and Good Choice to Asia Standard Hotel Holdings for the Share Consideration of approximately HK$130.8 million which is to be satisfied by the issue of Convertible Bonds by Asia Standard Hotel in the aggregate principal amount equivalent to the Share Consideration.

Asia Standard Finance agreed to assign the Assigned Loans of approximately HK$169.2 million to Asia Standard Hotel Holdings for the Loan Consideration of the same amount which is to be satisfied by the issue of Convertible Bonds by Asia Standard Hotel in the aggregate principal amount equivalent to the Loan Consideration.

Conditions: Completion of the Sale and Purchase Agreement is conditional upon, among other things,

(a) the passing of the Asia Standard Hotel Resolution;

(b) the Deed Poll having been executed by Asia Standard Hotel on or before the completion date of the Sale and Purchase Agreement, being the date which is any business day after the satisfaction or waiver of the conditions of the Sale and Purchase Agreement; and

(c) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares falling to be issued upon the exercise of the conversion right under the Convertible Bonds.

If the above conditions are not fulfilled or waived within 90 days from the date of the Sale and Purchase Agreement or such later date as agreed by the parties to the Sale and Purchase Agreement, the Sale and Purchase Agreement shall terminate and no party shall have any claims whatsoever against the other party other than antecedent breaches.

INFORMATION ABOUT THE PROPERTY

The Property is located at No. 8 Wing Hing Street, Causeway Bay, Hong Kong, comprising a 28-storey office building with a gross floor area, excluding parking, of approximately 108,000 square feet. The ground and first floors of the Property are for retail use; portions of the ground floor and second and third floors are designed for parking and accommodate 24 parking spaces; and the remaining upper floors are used for offices. The Property has been let out for rental income since completion in 1999 and is held as an investment property of Asia Standard International. For the years ended 31 March, 2005 and 2006, Master Asia recorded restated loss before and after tax of approximately HK$0.07 million and HK$0.4 million and audited profit before and after tax of approximately HK$156.2 million and HK$122.7 million (after taking into account revaluation surplus of HK$169.4 million and the deferred tax of HK$33.6 million), respectively. The unaudited net asset value of Master Asia as at 30 September, 2006 was approximately HK$80.7 million.

Planning applications to convert the Property to a hotel have been made and have been approved by the Buildings Department in November 2004, and the hotel plans have also received the support of the Hong Kong Tourist Association as an accepted hotel project. The hotel plans include 280 rooms, a restaurant and, or, retail outlets. Leases for premises in the Property will not be renewed when they expire in preparation for vacating the Property for the conversion work. As soon as the Property is vacated, the conversion work will commence. It is anticipated that the conversion work will be completed within approximately 9 to 12 months from the commencement of work and will cost approximately HK$81 million. The cost for conversion will be funded from bank borrowings.

The Property has been valued on an open market basis as at 30 November, 2006 at HK$480 million.

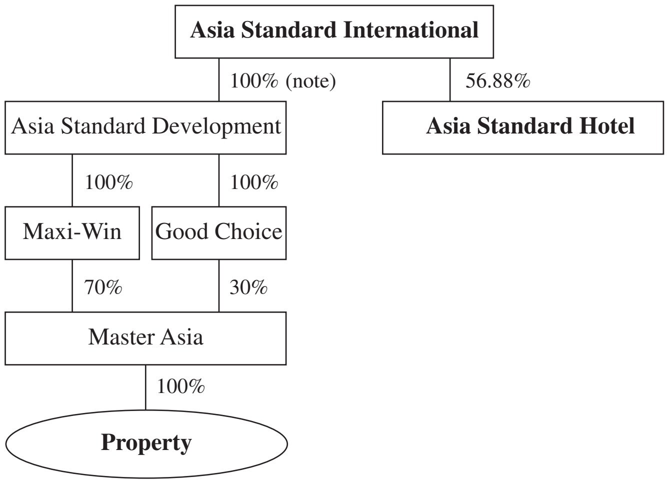
INFORMATION ABOUT MAXI-WIN, GOOD CHOICE AND MASTER ASIA

Maxi-Win and Good Choice are investment holding companies. The sole assets of Maxi-Win and Good Choice comprise a 70% and a 30% interest, respectively, in Master Asia.

Master Asia is a property holding company, the sole assets of which comprise the entire beneficial interest in the Property.

Ownership structure of Master Asia before the sale by Asia Standard Development

The chart set out below shows in summary form the ownership structure of Master Asia as at the date of the Announcement:



Note: Interests are held indirectly through a wholly owned subsidiary of Asia Standard International.

Ownership structure of Master Asia immediately after the sale to Asia Standard Hotel Holdings

The chart set out below shows in summary form the ownership structure of Master Asia immediately after the completion of the Transaction and on the basis that, apart from the issue of Convertible Bonds under the Sale and Purchase Agreement convertible into Shares, there will be no changes in the shareholding of the parties shown or of the issued share capital of the companies shown:

Note: Interests are held indirectly through a wholly owned subsidiary of Asia Standard Hotel.

The Consideration of HK$300 million was arrived at after arm's length negotiations. It represents an approximate 8% discount to the aggregate face value of the Assigned Loans and the net asset value of Master Asia as shown in its unaudited balance sheet as at 30 September, 2006 and adjusted by the independent valuation of the Property as at 30 November, 2006, excluding the deferred taxation on revaluation surplus of the investment property. The Loan Consideration is the face value of the Assigned Loan and the Share Consideration is the total consideration less the Loan Consideration.

THE CONVERTIBLE BONDS

Principal terms of the Convertible Bonds

The principal terms of the Convertible Bonds are as follows:

Issuer:	Asia Standard Hotel.
Issue size:	An aggregate principal amount of HK$300 million.
Denomination:	In the principal amount of HK$100,000 each.
Subscription price:	100% of the principal amount.
Redemption price:	100% of the principal amount plus a premium equal to 3% of the principal amount, pro-rated as to the duration of the Convertible Bonds outstanding.
Interest:	The Convertible Bonds do not bear interest.
Conversion:	Holders of the Convertible Bonds have the right at any time after the first business day after the date of issue of the Convertible Bonds up to 30 days before the maturity of the Convertible Bonds to convert all or any part of their Convertible Bonds into Shares at an initial conversion price of HK$0.105 per Share, subject to adjustment.
Maturity date:	The fourth anniversary of the date of issue.
Right to purchase:	Asia Standard Hotel or any of its subsidiaries shall have the right at any time and from time to time purchase any of the Convertible Bonds at any price as shall be agreed between the buyer and the holder of the Convertible Bonds (whether by way of private agreement or in the open market or by any other means).
Early redemption:	Asia Standard Hotel has the option at its discretion to repay the Convertible Bonds in whole or in part at any time commencing twelve months after the date of issue of the Convertible Bonds. The early redemption price will be the principal amount of the Convertible Bonds to be redeemed plus a pro rated redemption premium.
Transfer:	The Convertible Bonds are freely transferable in denominations of the principal amount of HK$100,000.
Listing:	The Convertible Bonds will not be listed or traded on any stock exchange.

Conversion

The initial conversion price of the Convertible Bonds of HK$0.105 per Share represents:

— a premium of 10.5% to the closing price of HK$0.095 per Share on 15 December, 2006, being the last trading day before trading of the Shares was suspended pending the publication of the Announcement;

— a premium of 7.7% to the average closing price of HK$0.0975 per Share for the thirty consecutive trading days ended on 15 December, 2006; and

— a premium of 8.2% to the closing price of HK$0.097 per Share on the Latest Practicable Date.

Based on the initial conversion price of the Convertible Bonds of HK$0.105 per Share, the number of Shares falling to be issued upon exercise in full of the conversion rights under the Convertible Bonds is 2,857,142,857.

The Shares falling to be issued upon conversion of the Convertible Bonds will, when issued, rank *pari passu* in all respects with the then existing issued Shares. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares falling to be issued upon exercise of the conversion rights under the Convertible Bonds.

The tabulation below shows the present shareholding structure of Asia Standard Hotel and the shareholding structure of Asia Standard Hotel on the basis that the conversion rights under the Convertible Bonds are exercised in full.

	Present shareholding in Asia Standard Hotel	Approximate % of issued share capital	Shareholding in Asia Standard Hotel if the conversion rights under the Convertible Bonds are exercised in full	Approximate % of the enlarged issued share capital
Asia Standard International	5,382,502,737	56.88%	8,239,645,594	66.88%
Asia Orient (note 1)	280,060,419	2.96%	280,060,419	2.27%
Mr. Poon Jing (note 2)	373,405	0.004%	373,405	0.003%
Other shareholders	3,799,226,460	40.15%	3,799,226,460	30.84%
Total	9,462,163,021	100%	12,319,305,878	100%

Note:

1. Asia Orient is the controlling shareholder of Asia Standard International.

2. Mr. Poon Jing is the controlling shareholder of Asia Orient and is also a director of both Asia Standard International and Asia Standard Hotel.

REASONS FOR, AND BENEFITS OF, THE TRANSACTION

The Property was developed as a commercial property comprising office, parking and retail space. The directors of Asia Standard International have considered how to maximise the value of this property and have decided to convert it to a hotel, believing that this will substantively increase the revenues earned from the Property, net of the costs incurred in generating such revenues. The directors of Asia Standard International also consider that the attraction of Hong Kong as a tourist destination for international as well as PRC visitors will continue to grow and that this will benefit competitively priced hotels located in or near popular shopping and entertainment districts in Hong Kong. In this regard, the Property, situated in Causeway Bay, is in a prime location and within a short distance from its shops, cinemas, clubs and restaurants. Asia Standard Hotel is the member of the Asia Standard International Group which owns and manages its hotel interests, currently owning and managing two hotels in Hong Kong and one in Canada. In view of the management and administrative expertise and resources to operate hotel properties, the directors of both Asia Standard International and Asia Standard Hotel believe that it is logical that the Property be transferred to Asia Standard Hotel Group and, in doing so, it will avoid any duplication of management and administrative resources within the Asia Standard International Group. They also believe that the terms of the Transaction, as they relate to their respective companies, are fair and reasonable and in the interests of their respective shareholders as a whole.

The Directors anticipate that once the hotel is fully operational it will make a positive contribution to the profits and cashflows of Asia Standard Hotel. The addition of the converted hotel will increase the size of Asia Standard Hotel's hotel operations in Hong Kong from the existing 677 rooms to 957 rooms, representing an increase of 280 rooms or 41%. The operation of this new hotel is expected to be leveraged across the existing operational management of Asia Standard Hotel, and will achieve higher efficiency through its existing hotel management system and trained staff once the hotel is in full operation. The transaction will also allow Asia Standard Hotel to strengthen its market presence in the hotel industry in Hong Kong and to enjoy economies of scale as a result of higher business volumes and stronger bargaining power with its suppliers. The terms of the Transaction have also been designed through the satisfaction of the Consideration by the issue of zero coupon convertible bonds so that no cash reserves of Asia Standard Hotel are required to finance the acquisition of the Property.

INFORMATION ON ASIA STANDARD INTERNATIONAL AND ASIA STANDARD HOTEL

In addition to its interest in Asia Standard Hotel, Asia Standard International is engaged in investment and development of commercial, retail and residential properties in Hong Kong and the PRC.

The principal activity of Asia Standard Hotel is investment holding. The principal activities of its subsidiaries consist of holding and operating three hotels, two located in Hong Kong and one in Canada; a travel agency in Hong Kong; and a restaurant in Hong Kong and another in Shanghai.

SGM

The sale of Master Asia and the assignment of the Assigned Loans constitute a major and connected transaction under the Listing Rules for Asia Standard Hotel, since Asia Standard International is the controlling shareholder of Asia Standard Hotel. Accordingly, the Transaction is conditional upon, amongst other things, the approval of the Independent Shareholders on poll, being those Shareholders other than Asia Standard International and its associates. In this regard, in addition to Asia Standard International, Asia Orient and Mr. Poon Jing, respectively the controlling shareholders of Asia Standard International and Asia Orient, are required to abstain from voting on the Asia Standard Hotel Resolution to approve the Transaction. Mr. Poon Jing is also a director of Asia Standard International and Asia Standard Hotel.

An Independent Board Committee comprising all independent non-executive Directors who are considered independent of the Transaction has been established to advise the Independent Shareholders in respect of the Transaction and what action they should take in response to it. Mr. Leung Wai Keung, Richard, an independent non-executive director of both Asia Standard International and Asia Standard Hotel, is regarded as not independent of the Transaction and is therefore not comprised in the Independent Board Committee. VC Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the Transaction.

The SGM will be held at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong, on Monday, 29 January, 2007 at 10:00 a.m. A notice convening the SGM is set out on page 132 of this circular. The Asia Standard Hotel Resolution will be proposed at the SGM for approval by the Independent Shareholders.

Enclosed is a form of proxy for use at the SGM. Whether or not you intend to attend and vote at the SGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting should you so wish.

RECOMMENDATION

Having taken into account the recommendation and advice from VC Capital in relation to the Transaction (as contained in the letter from VC Capital set out on pages 16 to 27 of this circular), the Independent Board Committee is of the view that the terms of the Sale and Purchase Agreement and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned, and that the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement and the Convertible Bonds are fair and reasonable, and the Transaction is in the interests of the Company and the Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular, which contains its recommendation to the Independent Shareholders, and the letter from VC Capital set out on pages 16 to 27 of this circular, which contains its advice to the Independent Board Committee and the Independent Shareholders in relation to the Transaction.

Both the Independent Board Committee and VC Capital recommend the Independent Shareholders to vote in favour of the Asia Standard Hotel Resolution.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
Asia Standard Hotel Group Limited
Lim Yin Cheng
Deputy Chairman

ASIA STANDARD HOTEL GROUP LIMITED
(泛海酒店集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 292)

10 January, 2007

To the Independent Shareholders

Dear Sir or Madam,

ACQUISITION OF A PROPERTY

We have been appointed as members of the Independent Board Committee to advise you in connection with the Transaction, details of which are set out in the letter from the Board in a circular dated 10 January, 2007 to the Shareholders (the "Circular"), of which this letter forms a part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

Your attention is drawn to the "Letter from VC Capital", concerning its advice to us regarding the fairness and reasonableness of the terms and conditions of the Sale and Purchase Agreement and the Convertible Bonds as set out on pages 16 to 27 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 5 to 14 of the Circular and the additional information set out in the appendices to the Circular.

Having considered the advice and recommendation of VC Capital, we consider the terms and conditions of the Sale and Purchase Agreement and the Convertible Bonds to be fair and reasonable so far as the Independent Shareholders are concerned and that the Transaction is in the interests of the Company and its Shareholders as a whole. We, therefore, recommend the Independent Shareholders to vote in favour of the Asia Standard Hotel Resolution.

Yours faithfully
Asia Standard Hotel Group Limited
Ip Chi Wai **Hung Yat Ming**
Independent Board Committee

* *For identification purpose only*

The following is the text of a letter to the Independent Board Committee and Independent Shareholders from VC Capital Limited in respect of a major and connected transaction in relation to the acquisition of a property, prepared for the purpose of incorporation in this circular.

VC CAPITAL LIMITED
滙盈融資有限公司

A member of VC Group 滙盈集團成員

10 January 2007

To the Independent Board Committee and Independent Shareholders of
Asia Standard Hotel Group Limited

Dear Sir or Madam,

ACQUISITION OF A PROPERTY

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the transactions contemplated under the Sale and Purchase Agreement and the issue of the Convertible Bonds by Asia Standard Hotel to Asia Standard Development and Asia Standard Finance, details of which are set out in the letter from the Board contained in the circular of the Company (the "Circular"), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

As referred to in the letter from the Board in the Circular, the consideration for the Transaction shall be HK$300 million. Based on the market capitalization of Asia Standard Hotel of approximately HK$900.8 million, which is determined on the basis of 9,462,163,021 Shares in issue and the average closing price of HK$0.0952 per Share from 11 December 2006 up to and including 15 December 2006, being the five trading days immediately preceding the date of the Sale and Purchase Agreement, the aforesaid consideration for the Transaction represents approximately 33.3% of the market capitalization of Asia Standard Hotel referred to above. As such, the Transaction constitutes a major transaction for Asia Standard Hotel under Chapter 14 of the Listing Rules.

Also, since Asia Standard Hotel is owned as to approximately 56.88% by Asia Standard International, and both Asia Standard Development and Asia Standard Finance are indirect wholly-owned subsidiaries of Asia Standard International, Asia Standard Development and Asia Standard Finance are connected persons of Asia Standard Hotel, and the Transaction constitutes a connected transaction for Asia Standard Hotel under Chapter 14A of the Listing Rules and is subject to approval by the Independent Shareholders, being those Shareholders other than Asia Standard International and its associates, by way of a poll in an SGM. In this regard, in addition to Asia

Standard International, Asia Orient and Mr. Poon Jing, respectively the controlling shareholders of Asia Standard International and Asia Orient, are required to abstain from voting on the Asia Standard Hotel Resolution to approve the Transaction. Mr. Poon Jing is also a director of Asia Standard International and Asia Standard Hotel.

An Independent Board Committee has been formed, comprising Mr. Ip Chi Wai and Mr. Hung Yat Ming, being all the independent non-executive Directors who are considered independent in respect of the Transaction, to advise the Independent Shareholders on the Transaction and the action(s) they should take in response to it. As Mr. Leung Wai Keung, Richard, an independent non-executive Director, is also an independent non-executive director of Asia Standard International, he is regarded as not independent in respect of the Transaction and is therefore not included in the Independent Board Committee.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the terms of the Sale and Purchase Agreement and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Transaction is in the interests of the Company and its Shareholders as a whole.

VC Capital Limited ("VC Capital") is not associated with the Company and its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the terms of the Transaction. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby VC Capital will receive any fees or benefits from the Company or its substantial Shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our opinion, we have relied on the information and facts supplied and the opinions expressed by the executive Directors. We have also assumed that the information and representations contained or referred to in the Circular were true and accurate at the time they were made and will continue to be so up to the date of the SGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations made to us by the executive Directors. We have also been advised by the executive Directors that no material facts have been omitted from the Circular and the information provided to us.

We consider we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the terms of the Sale and Purchase Agreement and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned, and whether the

Transaction is in the interests of the Company and the Shareholders as a whole, we have taken into account the following principal factors and reasons:

1. **Reasons for, and benefits of, the Transaction**

The Property is a 28-storey office building situated at No. 8 Wing Hing Street, Causeway Bay, Hong Kong with a gross floor area, excluding parking, of approximately 108,000 square feet, and comprises office, parking and retail spaces. The Property has been let out for rental income since completion in 1999 and has been held as an investment property by Asia Standard International. The directors of Asia Standard International considered that the attraction of Hong Kong as a tourist destination for international as well as PRC visitors would continue to grow and, given the prime location of the Property, that the value of the Property could be maximized by converting it into a hotel. Planning applications to convert the Property to a hotel have been made and have been approved by the Buildings Department of the Hong Kong Government in November 2004. As Asia Standard Hotel is a member of the Asia Standard International Group which owns and manages the Asia Standard International Group's hotel interests, currently owning and managing two hotels in Hong Kong and one in Canada, the directors of both Asia Standard International and Asia Standard Hotel considered it logical that the Property be transferred to Asia Standard Hotel, such that any duplication of management and administrative resources within the Asia Standard International Group could be avoided.

It is also stated in the letter from the Board that the Directors anticipate that the addition of the Property as a converted hotel will increase the size of the hotel operations of Asia Standard Hotel in Hong Kong from the existing 677 rooms to 957 rooms, representing an increase of 280 rooms or about 41%. The Transaction will thus allow Asia Standard Hotel to strengthen its market presence in the hotel industry in Hong Kong and to enjoy economies of scale as a result of higher business volumes and stronger bargaining power with its suppliers. We also understand from the Directors that it is anticipated that a majority of the customers at the hotel will be tourists from mainland China.

We note from the information published in the monthly visitor arrival statistics and the summary of the Hong Kong hotel industry review 2005 published monthly and on 16 August 2006 respectively by the Tourism Research, Hong Kong Tourism Board that: (i) overall visitor arrivals to Hong Kong grew by 7.1% to reach approximately 23.4 million in the year 2005; (ii) overall visitor arrivals increased by about 8.7% year-on-year to reach approximately 20.8 million in the first ten months of 2006; (iii) arrivals from mainland China increased by around 2.4% to exceed 12.5 million in 2005, and such number represented about 53.7% of overall arrivals in that year; (iv) arrivals from mainland China in the first ten months of 2006 increased by about 9.6% to reach approximately 11.3 million in the first ten months of 2006, and such number represented about 54.3% of overall arrivals during that period; and (v) the average achieved daily hotel room rate in 2005 was HK$935, which surpassed the levels since 2001 and was 16.7% higher than the HK$801 achieved in 2004.

Given the increasing trends in the number of visitors arriving in Hong Kong and in the percentage of mainland China visitors as a proportion of overall arrivals, the rising trend of average achieved daily hotel room rates, the increasing accessibility of Hong Kong by mainland tourists via the Individual Visit Scheme, the hosting of the 2008 Olympic Games in Beijing and the staging of the equestrian events of the 2008 Olympic Games in Hong Kong, we concur with the Directors' positive outlook of the tourism and hotel industry in Hong Kong, and their views that the Transaction is in the interests of the Company and the Shareholders as a whole in that it would allow Asia Standard Hotel to strengthen its market presence in the hotel industry in Hong Kong. We also concur with the Directors' view that the Property, once converted into a hotel, will make a positive contribution to the profit and cashflow of Asia Standard Hotel when it becomes fully operational, which is currently anticipated to be in or around the first half of 2008.

2. **Satisfaction of the Consideration**

As stated in the letter from the Board, the Consideration of HK$300 million comprises the Share Consideration of approximately HK$130.8 million and the Loan Consideration of approximately HK$169.2 million. The respective Share Consideration and Loan Consideration will be satisfied by the issue of Convertible Bonds, which are non-interest bearing, by Asia Standard Hotel in the aggregate principal amounts equivalent to the Share Consideration and the Loan Consideration to Asia Standard Development and Asia Standard Finance respectively.

We note that with the financing of the Consideration by way of the issue of the Convertible Bonds, no cash reserves of Asia Standard Hotel are required to be utilized for the acquisition of the Property until maturity of the Convertible Bonds, which will fall on the fourth anniversary of the date of issue (being some time in 2011), or an earlier date at the option of Asia Standard Hotel pursuant to the early redemption option of the Convertible Bonds. On the other hand, the Directors expect that the converted hotel will make a positive contribution to the profit and cashflow of Asia Standard Hotel when it becomes fully operational, which is currently anticipated to be in or around the first half of 2008.

Had there been no issue of the Convertible Bonds, Asia Standard Hotel would have to use its internal resources and/or seek other financing alternatives to finance the Consideration. In assessing the financing means of Asia Standard Hotel to satisfy the Consideration, we have considered the following:

(a) ***Utilization of internal resources***

As stated in the 2006 interim report of Asia Standard Hotel, the bank balances and cash of the Group as at 30 September 2006 amounted to about HK$52.6 million. Given the level of its cash and bank balances, we concur with the Directors' view that the issue of the zero-coupon Convertible Bonds to satisfy the Consideration would enable Asia Standard Hotel to acquire the Property without having to utilize its cash reserves, thereby enhancing its financial flexibility.

(b) ***Bank borrowings***

We note from the 2006 interim report of Asia Standard Hotel that

(i) the gearing ratio (calculated as total debt and borrowings of approximately HK$554.1 million divided by shareholders' funds of approximately HK$1,751.5 million) of the Group as at 30 September 2006 was about 31.6%; and

(ii) the Group's hotel properties and all the assets of certain subsidiaries were already mortgaged or charged, and corporate guarantees were already given by Asia Standard Hotel to secure the Group's bank borrowings as at 30 September 2006, whilst on the other hand, the Convertible Bonds are issued free from any pledge on the Group's assets.

We also note from the 2006 annual report of Asia Standard Hotel that

(i) the effective interest rates of the Group's borrowings as at 31 March 2006 ranged from 5.07% to 6.50% per annum, which were higher when compared with the effective interest rate of the Convertible Bonds of approximately 0.74%, calculated after taking into account the fact that the Convertible Bonds do not bear interest and that the redemption price is 100% of the principal amount plus a premium equal to 3% of the principal amount pro-rated as to the duration of the Convertible Bonds issued.

We further note that most of the bank borrowings in Hong Kong are interest bearing at interest rates based on the Hong Kong Interbank Offered Rate or the best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited from time to time, which are subject to fluctuations depending on political and economic factors, including fluctuations in interest rates in the United States of America.

In light of the above, we are of the opinion that financing by the issue of Convertible Bonds incurs relatively less cost for the Group than financing by bank borrowings.

(c) ***Equity financing***

We note that

(i) Asia Standard Hotel had announced on 23 March 2006 that it would raise approximately HK$284 million (before expenses) by way of a one-for-two rights issue of not less than 3,154,054,340 rights shares at HK$0.09 per rights share; and

(ii) Asia Standard Hotel had announced on 15 November 2005 the raising of about HK$193 million (net of expenses) by way of a top-up placing of 1,010 million Shares at a price of HK$0.195 per Share.

In view of the relatively recent fund-raising by Asia Standard Hotel through a rights issue, the greater market risks associated with a rights issue or an open offer which would take longer to complete, the discount normally applied to the placing price per share in a placing and the immediate dilution of shareholdings of the Shareholders through a placing, we are of the opinion that it will not be in the best interests of the Shareholders if equity financing of an amount comparable to the Consideration, being HK$300 million, is raised through a placing, a rights issue or an open offer.

(d) ***Option of early redemption of the Convertible Bonds***

We note that under the terms of the Convertible Bonds, Asia Standard Hotel has the option at its discretion to redeem the Convertible Bonds, in whole or in part, at any time commencing twelve months after the date of issue of the Convertible Bonds, until and including the date falling 30 days prior to the maturity date of the Convertible Bonds, by giving 14 days' prior notice to the Bondholder(s). The early redemption price shall be 100% plus a premium equal to 3% of the principal amount of the Convertible Bonds to be redeemed, pro-rated as to the duration of the Convertible Bonds issued.

We are of the view that with such early redemption option, the issue of the Convertible Bonds allows Asia Standard Hotel the financial flexibility in that, should its internal resources allow, it could choose to redeem a part or the whole of the Convertible Bonds before the maturity date of the Convertible Bonds, such that it does not have to incur further premium costs or subject its then Shareholders to potential dilution in their shareholdings.

Accordingly, as compared to bank borrowings or other equity financing, we concur with the view of the Directors that the issue of Convertible Bonds is a more efficient means to finance the acquisition of the Property by the Group.

3. **Basis of determining the Consideration**

As stated in the letter from the Board, the Consideration was arrived at after arm's length negotiation and represents a discount of approximately 8% to the aggregate face value of the Assigned Loans of approximately HK$169.2 million and the net asset value of Master Asia as shown in its unaudited balance sheet as at 30 September 2006 of approximately HK$80.8 million, adjusted by the independent valuation of the Property of HK$480 million as at 30 November 2006 by adding HK$45 million and excluding the deferred taxation on revaluation surplus of the Property by adding back approximately HK$32.3 million.

After taking into account the independent valuation of the Property as at 30 November 2006, and having considered that the sole business of Master Asia is the holding of the Property for rental gain, and all its assets and liabilities are in relation to the Property, we are of the view that the Consideration for the acquisition of the Property is fairly and reasonably determined under the Sale and Purchase Agreement.

4. **Principal terms of the Convertible Bonds**

(a) ***Conversion price and redemption premium***

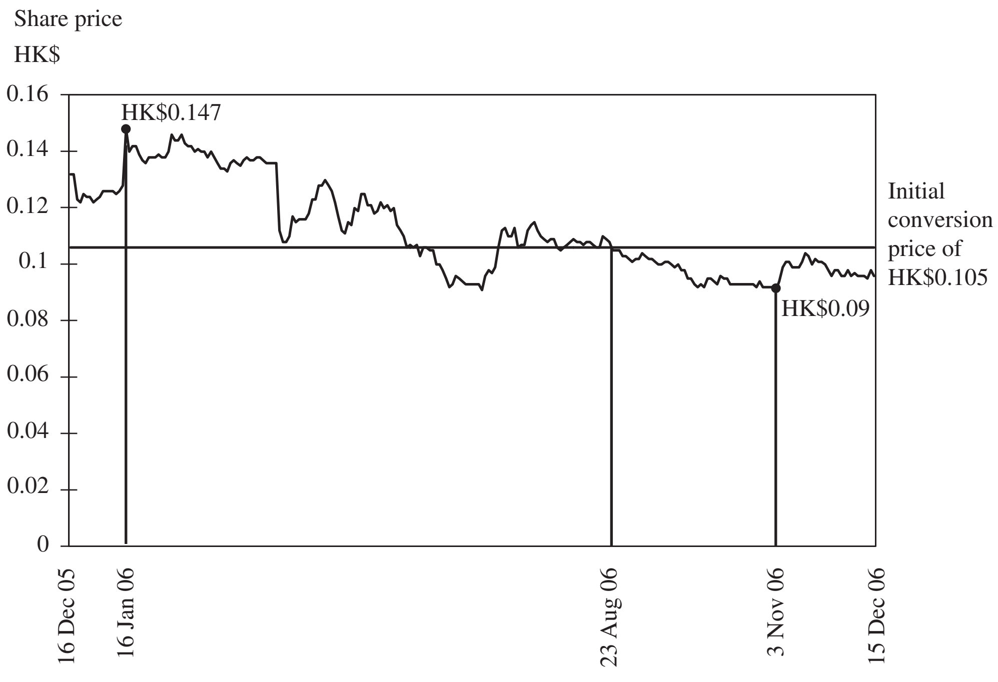
As stated in the letter from the Board, holders of the Convertible Bonds have the right at any time commencing on the first business day after the date of issue of the Convertible Bonds up to and including the date falling 30 days prior to the maturity date of the Convertible Bonds (which will fall on the fourth anniversary of the date of issue) to convert all or any part of their Convertible Bonds into Shares at an initial conversion price of HK$0.105 per Share, subject to adjustment.

The initial conversion price of the Convertible Bonds of HK$0.105 per Share, subject to anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalization issue, capital distribution, rights issue and other equity or equity derivatives issues by Asia Standard Hotel, represents:

- a premium of approximately 10.5% to the closing price of HK$0.095 per Share on 15 December 2006, being the last trading day before trading of the Shares was suspended pending the publication of the announcement in relation to the Transaction;
- a premium of approximately 10.3% to the average closing price of HK$0.0952 per Share for the five consecutive trading days ended on 15 December 2006;
- a premium of approximately 10.1% to the average closing price of HK$0.0954 per Share for the ten consecutive trading days ended on 15 December 2006; and
- a premium of approximately 7.7% to the average closing price of HK$0.0975 per Share for the 30 consecutive trading days ended on 15 December 2006.

(i) *Historical Share price*

The following chart shows the historical closing prices of the Shares traded on the Stock Exchange from 16 December 2005 up to and including 15 December 2006, the last trading day before trading of the Shares was suspended pending the publication of the announcement in relation to the Transaction.



Source of data: The Stock Exchange website

It can be seen from the above chart that the market price of the Shares gradually declined from the closing price of HK$0.147 per Share on 16 January 2006 to the closing price of HK$0.09 on 3 November 2006. Moreover, the Shares were trading at a price below the initial conversion price of HK$0.105 per Share since 23 August 2006. Furthermore, the initial conversion price of HK$0.105 per Share is higher than the price of HK$0.09 per rights share in the one-for-two rights issue in about March 2006.

(ii) *Comparables*

The Convertible Bonds have a maturity date falling on the fourth anniversary of the date of issue.

We have reviewed the principal terms of the zero-coupon convertible notes and bonds denominated in Hong Kong dollars which are of a duration of between three and five years, issued and announced by companies listed on the Stock Exchange ("Comparables") from 1 June 2006 to the date immediately before suspension of trading of the Shares, i.e. 15 December 2006, and set out our findings as follows:

Company	Date of announcement	Principal amount	Duration (Years)	Conversion price as a premium/ (discount) to last day closing price	Conversion price as a premium/ (discount) to preceding 5-day average closing price	Redemption
Daido Group Limited (Stock code: 544)	7 Jun 2006	HK$104.4 mln	5	(3.33%)	(1.69%)	100% at maturity; 105% on early redemption
U-Right International Holdings Limited (Stock code: 627)	9 Oct 2006	HK$60 mln	5	12.94%	25.22%	121.15% on 19 Oct 2009 at bond-holders' option; 137.69% at maturity
Fu Ji Food and Catering Services Holdings Limited (Stock code:1175)	10 Oct 2006	HK$800 mln	3	26.0%	25.1 %	118.54% at maturity
Yue Yuen Industrial (Holdings) Limited (Stock Code: 551)	20 Oct 2006	HK$1,800 mln	5	11.46%	10.40%	107.738% on 17 Nov 2009 at bond-holders' option; 113.227% at maturity
Maximum				26.0%	25.22%	137.69%
Minimum				(3.33%)	(1.69%)	100%
The Convertible Bonds	19 Dec 2006	HK$300 mln	4	10.5%	10.3%	103% at maturity or on early redemption, pro-rated as to the duration of the Convertible Bonds issued

As shown above, the redemption premium of 3% above the principal amount of the Convertible Bonds, pro-rated as to the duration of the Convertible Bonds issued, falls into that of the Comparables, which range between redemptions at 100% to 137.69% of the respective principal amounts. Also, the redemption premium of 3% is towards the lower end of the above range. Moreover, the premium of 10.3% and 10.5% respectively of the initial conversion price of the Convertible Bonds to the closing price of the Shares on the last trading day before suspension of trading of the Shares and to the preceding 5-day average closing price falls into that of the Comparables, which range between a discount of 3.33% to a premium of 26.0%.

As (1) the initial conversion price of the Convertible Bonds is determined with reference to recent market prices of the Shares; (2) such conversion price is at a premium to the closing price of the Shares on the last trading day immediately preceding the signing of the Sale and Purchase Agreement, and to the preceding 5-day, 10-day and 30-day average closing prices; and (3) such conversion price and redemption premium falls within the respective ranges of the Comparables, with the redemption premium of the Convertible Bonds being towards the lower end of the relevant range, we are of the view that the initial conversion price and the redemption premium of the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned.

(b) ***Option of early redemption of the Convertible Bonds***

As stated above, under the terms of the Convertible Bonds, Asia Standard Hotel has the option at its discretion to redeem the Convertible Bonds, in whole or in part, before the maturity date, at a redemption price being 100% plus a premium equal to 3% of the principal amount of the Convertible Bonds to be redeemed, pro-rated as to the duration of the Convertible Bonds issued.

We are of the view that such early redemption option is in the interest of Asia Standard Hotel in that it allows the Company financial flexibility such that, should its internal resources allow, it could choose to redeem a part or the whole of the Convertible Bonds before the maturity date so that it does not have to incur further premium costs or subject its Shareholders to potential dilution in their shareholdings.

(c) ***Transferability, ranking and voting rights***

The Convertible Bonds are freely transferable in denominations of a principal amount of HK$100,000 or any higher integral multiples thereof.

The obligations of Asia Standard Hotel arising under the Convertible Bonds will rank pari passu among themselves and at least pari passu in right of payment with all other present and future unsecured obligations of Asia Standard Hotel.

The holders of the Convertible Bonds will not be entitled to vote at any meetings of Asia Standard Hotel by reason of it only being the holder of the Convertible Bonds.

We consider that the terms of the Convertible Bonds in relation to transferability, ranking and voting rights are normal for debt securities of this kind, and are fair and reasonable so far as the Company as a whole and the Independent Shareholders are concerned.

3. **Effects of the Convertible Bonds**

(a) ***Effect on liabilities and net tangible asset value***

The following analysis is made with reference to financial information as contained in the 2006 interim report of Asia Standard Hotel, information supplied by the executive Directors and information as set out in Appendix IV to the Circular, as if the Transaction had taken place on 30 September 2006.

Immediately prior to the Transaction, the consolidated total debt and borrowings and the consolidated net tangible assets (excluding minority interests, if any) of the Group amounted to about HK$554.1 million and about HK$1,751.5 million respectively. Upon the Transaction and before any conversion of the Convertible Bonds, the consolidated total debt and borrowings and the consolidated net tangible assets (excluding minority interests, if any) of the Group would amount to about HK$936.4 million and about HK$1,819.2 million respectively, representing an increase of about HK$382.3 million (being the fair value of the liability component of the Convertible Bonds of about HK$232.3 million and amount due to a fellow subsidiary which is expected to be refinanced by bank borrowings prior to or upon completion of the Sale and Purchase Agreement of about HK$150.0 million) and about HK$67.7 million (being the fair value of the equity conversion component of the Convertible Bonds) respectively. The consolidated net tangible assets per Share immediately after the issue of the Convertible Bonds and before any conversion of the Convertible Bonds would be increased from approximately HK$0.185 per Share (based on the consolidated net tangible assets of the Group excluding minority interests, if any, of about HK$1,751.5 million and 9,462,163,021 Shares in issue, both as at 30 September 2006) to approximately HK$0.192 per Share (based on the consolidated net tangible assets of the Group excluding minority interests, if any, of about HK$1,819.2 million and 9,462,163,021 Shares in issue), representing an increase of approximately 3.8%.

Had the Convertible Bonds been converted in full at HK$0.105 per Share, the consolidated total debt and borrowings of the Group would be decreased from about HK$936.4 million to about HK$704.1 million, representing a decrease of about HK$232.3 million (being the fair value of the liability component of the Convertible Bonds). The consolidated net tangible assets excluding minority interests, if any, of the Group would be increased from about HK$1,819.2 million to about HK$2,051.5 million, representing an increase of about HK$232.3 million (being the conversion of the liability component of the Convertible Bonds to equity). The consolidated net tangible assets per Share after full conversion of the Convertible Bonds would be decreased from approximately HK$0.192 per Share (based on the consolidated net tangible assets of the Group excluding minority interests, if any, of about HK$1,819.2 million and 9,462,163,021 Shares in issue) to approximately HK$0.167 per Share (based on the consolidated net tangible assets of the Group excluding minority interests, if any, of about HK$2,051.5 million and 12,319,305,878 Shares in issue after full conversion of the Convertible Bonds), representing a decrease of approximately 13.0%. Nevertheless, having considered that (i) the issue of the

Convertible Bonds is a more efficient means to finance the acquisition of the Property by the Group than other alternatives as discussed above; and (ii) the addition of the Property into the Group's portfolio and its conversion into a hotel is expected to allow the Group to strengthen its market presence in the hotel industry in Hong Kong and to enjoy a positive contribution to its profits and cashflow, we consider that the decrease in consolidated net tangible assets per Share as aforesaid is acceptable so far as the Independent Shareholders are concerned.

(b) ***Effect on the gearing ratio***

Owing to the increase in the total borrowings and equity attributable to the Shareholders as a result of the issue of the Convertible Bonds, the gearing ratio (calculated as total debt and borrowings divided by shareholders' funds) immediately after the Convertible Bonds are issued but before any conversion of the Convertible Bonds will increase from approximately 31.6% (being total debt and borrowings of about HK$554.1 million divided by shareholders' funds of about HK$1,751.5 million) to approximately 51.5% (being total debt and borrowings of about HK$936.4 million divided by shareholders' funds of about HK$1,819.2 million). Upon the exercise in full of the conversion rights under the Convertible Bonds, the gearing ratio will be decreased from approximately 51.5% to approximately 34.3% (being total debt and borrowings of about HK$704.1 million divided by shareholders' funds of about HK$2,051.5 million). Having considered that: (i) the Convertible Bonds are to be issued to finance the acquisition of the Property, which is expected to enable the Group to benefit from the growing hotel and tourism industries in Hong Kong; (ii) the financing of the Consideration by bank borrowings would have increased the Group's gearing ratio by a greater extent; and (iii) the nature and terms of the Convertible Bonds, including the effective interest rate of the Convertible Bonds and the early redemption option, incur less financing cost and allow greater financial flexibility for the Group than debt or equity financing alone, we consider that the increase in the gearing ratio of the Group upon the issue of the Convertible Bonds is justifiable in so far as the Independent Shareholders are concerned.

(c) ***Dilution effect on the shareholdings of the Independent Shareholders***

As stated in the letter from the Board, the shareholdings of the Independent Shareholders upon exercise of the conversion rights under the Convertible Bonds in full will be diluted from approximately 40.15% to approximately 30.84%. Nevertheless, Shareholders should note that they would have faced a similar level of dilution if the Consideration were raised by way of a placing or a rights issue or an open offer instead of the issue of the Convertible Bonds (and assuming that the Shareholders do not subscribe for shares in full under the rights issue or open offer), and dilution in their shareholdings would have been more immediate in the case of placing, rights issue or open offer than the issue of Convertible Bonds. Also, having considered that: (i) the use of proceeds from the issue of the Convertible Bonds, being the acquisition of the Property, and the expected positive contribution to the profits and cashflow of the Group therefrom; (ii) the issue of the Convertible Bonds is a more efficient means to finance the acquisition of the Property by the Group than other alternatives as discussed above; and (iii) the dilution effects on the shareholding of the Independent Shareholders will only happen if the Convertible Bonds are converted in full or in part in the future, we consider that the dilution effects on the shareholdings are acceptable so far as the Independent Shareholders are concerned.

RECOMMENDATION

Having considered the above-mentioned principal factors and reasons, we consider that the terms of the Sale and Purchase Agreement and the Convertible Bonds are fair and reasonable so far as the Independent Shareholders are concerned, and that the Transaction is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the Asia Standard Hotel Resolution to be proposed at the SGM.

Yours faithfully
For and on behalf of
VC Capital Limited

Philip Chau	**Keith Lou**
Managing Director	*Director*

I. FINANCIAL SUMMARY

Set out below is a summary of the consolidated financial information of the Group for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2005 and 2006.

(i) Financial results

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	*(restated)*		*(unaudited)*	*(unaudited)*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3)*	*(note 3)*
Turnover	425,966	569,248	569,792	290,169	310,795
Cost of sales	(307,429)	(388,016)	(357,042)	(188,480)	(180,940)
Gross profit	118,537	181,232	212,750	101,689	129,855
Administrative expenses	(82,511)	(76,533)	(77,203)	(39,729)	(42,661)
Operating profit before other charges	36,026	104,699	135,547	61,960	87,194
Other charges	(77,209)	(86,529)	(90,241)	(35,748)	(36,858)
Operating profit/(loss)	(41,183)	18,170	45,306	26,212	50,336
Interest income	3,485	2,140	2,683	1,728	1,035
Net gain/(loss) from financial assets	807	58,601	(11,731)	(26,382)	(5,741)
Finance costs	(41,073)	(37,695)	(54,280)	(25,916)	(23,717)
Share of loss of an associated company	(712)	—	—	—	—
Profit/(loss) before income tax expense	(78,676)	41,216	(18,022)	(24,358)	21,913
Income tax credit/(expense)	7,317	(12,009)	(2,821)	(691)	(5,191)
Profit/(loss) attributable to shareholders	(71,359)	29,207	(20,843)	(25,049)	16,722
Dividend	—	—	30,279	—	24,602

(ii) **Financial position**

	As at 31 March			As at 30 September
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(restated)	*(restated)*		*(unaudited)*
	(note 1)	*(note 2)*	*(note 2)*	*(note 3)*
Total assets	2,543,117	2,540,136	2,416,761	2,373,662
Total liabilities	(1,356,379)	(1,313,106)	(940,276)	(622,091)
Net assets	1,186,738	1,227,030	1,476,485	1,751,571

Notes:

1. Financial results for the year ended 31 March 2004 and financial position as at 31 March 2004 have been restated to reflect the Group's changes in accounting policies following the adoption of Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants which are effective for the Company's accounting periods beginning on or after 1 April 2005 (See note 1(a) to the consolidated financial statements of the Group for the year ended 31 March 2006). The major changes in the accounting policies are in respect of hotel properties, leasehold land in Hong Kong, share-based payments and the financial instruments and the effects are summarised below.

	Results of the Group For the year ended 31 March 2004
	HK$'000
Increase in loss before income tax expense	(71,032)
Decrease in income tax expense	11,640
Increase in loss attributable to shareholders	(59,392)

	Assets and liabilities of the Group As at 31 March 2004
	HK$'000
Decrease in total assets	(844,940)
Decrease in total liabilities	25,236
Decrease in net assets	(819,704)

2. Financial results for the years ended 31 March 2005 and 2006 and financial position as at 31 March 2005 and 2006 are extracted from the annual report of the Company for the year ended 31 March 2006.

3. Financial results for the six months ended 30 September 2005 and 2006 and financial position as at 30 September 2005 and 2006 are extracted from the interim report of the Company for the six months ended 30 September 2006.

II. AUDITED FINANCIAL STATEMENTS

Set out below is the audited financial statements of the Group for the year ended 31 March, 2006 together with accompanying notes, extracted from the annual report of the Company for the year ended 31 March, 2006.

Consolidated profit and loss account

For the year ended 31st March 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000 (restated)*
Turnover	5	569,792	569,248
Cost of sales		(357,042)	(388,016)
Gross profit		212,750	181,232
Administrative expenses		(77,203)	(76,533)
Operating profit before other charges		135,547	104,699
Other charges	6	(90,241)	(86,529)
Operating profit	7	45,306	18,170
Interest income	10	2,683	2,140
Net (loss)/gain from financial assets	11	(11,731)	58,601
Finance costs	12	(54,280)	(37,695)
(Loss)/profit before income tax		(18,022)	41,216
Income tax expense	13	(2,821)	(12,009)
(Loss)/profit attributable to shareholders	14	(20,843)	29,207
Dividend	15	30,279	—
(Loss)/earnings per share	16	HK(0.38) cent	HK0.58 cent

Consolidated balance sheet

As at 31st March 2006

	Note	**2006** *HK$'000*	**2005** *HK$'000* *(restated)*
Non-current assets			
Property, plant and equipment	*17*	877,179	894,931
Leasehold land	*17*	1,325,426	1,346,063
Goodwill	*18*	13,188	13,188
Deferred income tax assets	*28*	40,130	42,951
		2,255,923	2,297,133
Current assets			
Inventories		2,566	2,690
Derivative financial instruments	*20*	1,257	—
Financial assets at fair value through profit or loss	*21*	61,957	93,137
Trade and other receivables	*22*	50,181	82,004
Current income tax recoverable		200	200
Bank balances and cash	*23*	44,677	64,972
		160,838	243,003
Current liabilities			
Trade and other payables	*24*	47,480	47,585
Current income tax payable		10,973	10,973
Bank overdraft — unsecured		—	8,778
Current portion of borrowings	*27*	17,943	37,678
		76,396	105,014
Net current assets		84,442	137,989
Total assets less current liabilities		2,340,365	2,435,122
Non-current liabilities			
Borrowings	*27*	863,880	1,208,092
Net assets		1,476,485	1,227,030
Equity			
Share capital	*25*	126,162	101,042
Reserves	*26*	1,350,323	1,125,988
		1,476,485	1,227,030

Balance Sheet — Company

As at 31st March 2006

	Note	**2006**	**2005**
		HK$'000	*HK$'000*
Non-current assets			
Subsidiaries	*19*	1,874,808	1,479,055
Deferred income tax assets	*28*	137	778
		1,874,945	1,479,833
Current assets			
Trade and other receivables	*22*	—	104
Bank balances and cash	*23*	10,373	10,757
		10,373	10,861
Current liabilities			
Trade and other payables	*24*	2,189	3,707
Amounts due to subsidiaries	*19*	54,461	4,263
		56,650	7,970
Net current (liabilities)/assets		(46,277)	2,891
Net assets		1,828,668	1,482,724
Equity			
Share capital	*25*	126,162	101,042
Reserves	*26*	1,702,506	1,381,682
		1,828,668	1,482,724

Consolidated cash flow statement

For the year ended 31st March 2006

	Note	2006 HK$'000	2005 HK$'000 (restated)
Cash flows from operating activities			
Net cash generated from operations	34	167,858	116,892
Interest paid		(54,743)	(38,290)
Interest element on finance leases		(30)	(28)
Net cash from operating activities		113,085	78,574
Cash flows from investing activities			
Purchase of property, plant and equipment		(22,657)	(7,008)
Proceeds from disposal of financial assets at fair value through profit or loss		29,024	37,659
Purchase of financial assets at fair value through profit or loss		(11,550)	(2,548)
Interest received		3,347	3,412
Dividend received from financial assets at fair value through profit or loss		1,976	335
Net cash from investing activities		140	31,850
Cash flows from financing activities			
Decrease in restricted bank balances		—	6,000
Proceeds from share placement		196,950	—
Expenses for share placement		(3,775)	—
Proceeds from share options exercised		53,382	—
Redemption of convertible notes		—	(46,000)
Drawdown of long term bank loans		—	605,000
Repayment of long term bank loans		(371,749)	(623,839)
Capital element of finance lease payments		(105)	(96)
Net cash used in financing activities		(125,297)	(58,935)
(Decrease)/increase in cash and cash equivalents		(12,072)	51,489
Cash and cash equivalents at the beginning of the year		56,194	3,853
Changes in exchange rates		555	852
Cash and cash equivalents at the end of the year		44,677	56,194
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		44,677	64,972
Bank overdraft		—	(8,778)
		44,677	56,194

Consolidated statement of changes in equity

For the year ended 31st March 2006

	Note	**2006**	**2005**
		HK$'000	*HK$'000*
			(restated)
Total equity at the beginning of the year, as previously reported		2,223,477	2,006,442
Prior year adjustments as a result of changes in accounting policies	*2(b)*	(996,447)	(819,705)
Total equity at the beginning of the year, as restated		1,227,030	1,186,737
Net income directly recognised in equity:			
Currency translation differences	*26*	6,241	11,086
(Loss)/profit attributable to shareholders	*26*	(20,843)	29,207
Fair value of share options	*26*	17,500	—
Issue of shares upon exercise of share options	*25, 26*	53,382	—
Placement of new shares	*25, 26*	193,175	—
Total equity at the end of the year		1,476,485	1,227,030

Notes to the financial statements

1 **Principal accounting policies**

(a) ***Basis of preparation***

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

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

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKSA 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HK-Int 12	Consolidation — Special Purpose Entities
HK-Int 15	Operating Leases — Incentives
HK-Int 21	Income Taxes — Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

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

(i) *Hotel properties*

The adoption of HKAS 16 has resulted in a change in the accounting policy for the Group's hotel properties, which are now stated at cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

Depreciation is calculated to write off the carrying amount of the assets on a straight line basis over the shorter of the unexpired period of the land lease and the estimated remaining useful lives of the assets.

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

(ii) *Leasehold land*

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

(iii) *Goodwill*

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

(iv) *Share-based payments*

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

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

(v) *Financial instruments*

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

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

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

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

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

(c) HKFRS 3 — prospectively after the adoption date.

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

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

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

(b) ***Consolidation***

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

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

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

(c) ***Subsidiaries***

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

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

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

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

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

(d) ***Segment reporting***

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

(e) ***Property, plant and equipment***

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

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

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

Hotel buildings	Lower of underlying land lease term or 50 years
Plant and equipment	3⅓-10 years

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

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

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

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

(f) ***Leasehold land***

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

(g) ***Goodwill***

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment as well as when there is indication for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(h) ***Inventories***

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

(i) ***Trade and other receivables***

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

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

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

(l) ***Derivative financial instruments***

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

(m) ***Borrowings***

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

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

(n) ***Deferred income tax***

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(o) ***Provisions***

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

(p) ***Finance leases***

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

(q) ***Operating leases***

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

(r) ***Revenue recognition***

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

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

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

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

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

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

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

(s) ***Translation of foreign currencies***

(i) *Functional and presentation currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Hong Kong Dollars, which are the Company's functional and presentation currency.

(ii) *Transactions and balances*

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

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) *Group companies*

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

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

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

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

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

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

(t) ***Employee benefits***

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balances sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Retirement benefit obligations*

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

(iii) *Share-based compensation*

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

(u) ***Borrowing costs***

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

(v) ***Dividend distribution***

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

(w) ***Share capital***

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

(x) ***Cash and cash equivalents***

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 **Summary of the effects of the changes in accounting policies**

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

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

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

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

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

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

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

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

3 **Financial risk management**

(a) ***Financial risk factors***

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

(a) *Market risk*

(i) Foreign exchange risk

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

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

(ii) Price risk

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

(b) *Credit risk*

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

(c) *Liquidity risk*

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

(d) *Cash flow interest rate risk*

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

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

(b) ***Fair value estimation***

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

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

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

4 Critical accounting estimates and judgements

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

(a) ***Impairment of assets***

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

(b) ***Income taxes***

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

5 Turnover and segment information

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

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

Primary reporting format — business segments

The Group is organised into three main business segments:

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

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

Primary reporting format — business segments (continued)

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

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

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

Primary reporting format — business segments (continued)

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

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

Secondary reporting format — geographical segments

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

Hong Kong — all the Group's business segments

Canada — hotel and catering

Mainland China — catering

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

6 **Other charges**

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

7 **Operating profit**

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

8 **Staff costs**

	2006	**2005**
	HK$'000	*HK$'000*
Wages and salaries	71,622	65,474
Share option expense	17,500	—
Termination benefit	42	117
Retirement benefit costs *(note (i))*	2,636	2,477
	91,800	68,068

Notes:

(i) **Retirement benefit costs**

Gross contributions	2,636	2,510
Forfeitures utilised	—	(33)
Net contributions	2,636	2,477

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

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

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

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

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

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

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

(ii) **Share options**

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

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

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

9 **Directors' and senior management's emoluments**

(a) ***Director's remuneration***

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

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

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

(c) ***Five highest paid individuals***

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

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other emoluments	1,805	2,000
Share options *(note 8)*	7,000	—
	8,805	2,000

The emoluments of these individuals fell within the following bands:

	2006	**2005**
	Number	*Number*
Emolument bands		
HK$1,500,001 — HK$2,000,000	—	1
HK$2,500,001 — HK$3,500,000	1	—
HK$3,500,001 — HK$4,000,000	1	—
HK$5,000,001 — HK$5,500,000	1	—
	3	1

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

10 Interest income

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

11 Net (loss)/gain from financial assets

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

12 Finance costs

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

13 Income tax expense

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

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

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

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

14 Profit attributable to shareholders

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

15 Dividend

	2006	2005
	HK$'000	*HK$'000*
Proposed final dividend of HK0.32 cent (2005: Nil) per share	30,279	—

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

16 (Loss)/earnings per share

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

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

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

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

Group

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

Group

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

	2006	2005
	HK$'000	*HK$'000* *(restated)*
Net book value of hotel properties comprise the following:		
(i) Freehold land and hotel buildings	776,583	791,193
(ii) Plant and equipment	100,596	103,738
Property, plant and equipment	877,179	894,931
(iii) Leasehold land	1,325,426	1,346,063
	2,202,605	2,240,994

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

Supplementary information with hotel properties at valuation:

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

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

18 **Goodwill**

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

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

19 **Subsidiaries**

	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	—	—
Amounts due from subsidiaries	1,874,808	1,479,055
Amounts due to subsidiaries	(54,461)	(4,263)
	1,820,347	1,474,792

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

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

20 Derivative financial instruments

	Group 2006	Group 2005
	HK$'000	*HK$'000*
Interest rate swaps	1,257	—

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

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

21 Financial assets at fair value through profit or loss

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

22 Trade and other receivables

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

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

	Group 2006	Group 2005
	HK$'000	*HK$'000*
0 day to 60 days	38,132	32,999
61 days to 120 days	1,482	2,039
More than 120 days	—	1,684
	39,614	36,722

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

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

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

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

23 **Bank balances and cash**

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

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

24 **Trade and other payables**

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

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

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

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

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

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

25 **Share capital**

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

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

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

26 **Reserves**

Group

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

Company

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

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

27 **Borrowings**

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

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

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

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

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

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

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

The carrying amounts of borrowings approximate their fair values.

28 **Deferred income tax**

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

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

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

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

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

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

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

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

29 **Operating lease arrangements**

(a) ***Lessor***

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

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

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

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

(b) ***Lessee***

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

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

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

30 Capital commitments

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

31 Contingent liabilities

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

32 Related party transactions

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

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

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

Note:

(i) Hotel revenue is charged at prices and terms as agreed with the parties involved.

(ii) Travel agency services revenue including revenue from air ticketing and hotel booking services.

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

(iv) Management service expenses, including cleaning, repair and maintenance, are subject to terms agreed by the parties involved, which are at fixed fees.

33 Post balance sheet event

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

34 Notes to consolidated cash flow statement

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

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

35 **Principal subsidiaries**

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

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

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

Operates in Canada

Operates in Mainland China, cooperative joint venture

36 **Ultimate holding company**

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

37 **Approval of financial statements**

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

III. INDEBTEDNESS

As at the close of business on 30 November, 2006, being the latest practicable date for ascertaining certain information relating to this indebtedness statement, the Enlarged Group had outstanding borrowings of HK$581.4 million, comprising secured bank loans of approximately HK$561.2 million, unsecured bank loan of approximately HK$20.0 million and obligations under finance leases of HK$0.2 million.

The Enlarged Group's above outstanding secured bank loans were secured by mortgages of hotel properties of the Group with an aggregate book value of HK$2,170.0 million as at 30 November 2006, floating charges over all the assets of certain subsidiaries and corporate guarantee of the Company.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities and normal trade payables, at the close of business on 30 November, 2006, the Enlarged Group did not have any debt securities issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 November, 2006.

As at the Latest Practicable Date, the Directors were not aware of any material change in respect of the indebtedness or other contingent liabilities of the Enlarged Group since 30 November, 2006.

IV. WORKING CAPITAL

The Directors are of the opinion that the Enlarged Group will, immediately following the completion of the Sale and Purchase Agreement and the issuance of the Convertible Bonds, have sufficient working capital for its present requirements and for at least the period ending twelve months from the date of this circular.

V. MATERIAL CHANGE

The Directors are not aware as at the Latest Practicable Date of any material adverse change in the financial or trading position or prospect of the Group since 31 March, 2006, the date to which the latest published audited financial statements of the Group were made up.

VI. MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED 31 MARCH 2006

The Group's turnover remained stable at HK$570 million as the 17% increase from the Group's three hotels were offset by a lower revenue from the travel agency. Gross operating profit, however, increased strongly by 30% to HK$136 million.

This was the first time the Group published its annual results by adopting a number of new and revised Hong Kong Financial Reporting Standards (new "HKFRS").

Consequently, some significant non-cash accounting charges have adversely impacted the financial statements of the Group retrospectively. A detailed reconciliation of the financial impact of the new accounting standards is given in the notes to the financial statements.

In particular, it should be noted that the Group's owned and operated hotels are now stated at cost less depreciation and impairment losses rather than at open market value previously. Depreciation and amortisation charge of HK$73 million have been provided on the hotel properties.

As a result of the above, coupled with the recognition of share option expense, a lack of gain in investments and increased finance costs, the Group recorded a loss attributable to shareholders of HK$20.8 million as compared with the profit of HK$29.2 million for last year (as restated).

Business review

It has been a positive year for tourism as the Hong Kong Tourism Board reported visitors arrivals for the year to December 2005 reaching a record high of 23 million, which is 7% higher than 2004. Visitors from Mainland China continue to show sustained growth while many of Hong Kong's international markets such as the United States, Canada, Australia and South East Asia have achieved a record increase of 13% in visitor numbers.

Despite a significant 12% increase in the hotel room inventory in Hong Kong, the average occupancy rate across all categories of hotels in Hong Kong for 2005 remained strongly at 86%.

The average hotel room rate across all hotel categories and districts in Hong Kong in 2005 was increased by 16.4% over last year.

Human resources

As at 31 March 2006 the total number of employees of the Company and its subsidiaries was 353, which was the same as last year. In addition to salary payment, other benefits include insurance, medical scheme and retirement plans and others. Options to subscribe for a total of 250,000,000 shares of the Company were granted under the share option scheme at an exercise price of HK$0.217 per share on 31 October 2005. Up to 31 March 2006, the options for a total of 246,000,000 shares were exercised.

Financial review

As at the year end, the shareholders' funds amounted to HK$1,476 million. The increase by HK$249 million over last year was primarily due to the new capital raised during the year. Total assets stood at HK$2,417 million as compared with the restated HK$2,540 million of last year. Total borrowings of the Group fell from HK$1,255 million to HK$882 million as at 31 March 2006 as a result of loan prepayments.

However, the Group considered that it would be more meaningful to present supplementary information for revalued net assets based on revaluation of our hotels so as to reflect more closely the economic substance of the hotel property investments. The aggregate valuation of the hotel properties in Hong Kong and Canada based on the valuation reports from independent professional valuers amounted to HK$3,537,540,000 (2005: HK$3,312,610,000).

Accordingly, the revalued net assets and revalued net asset per share based on valuation as at 31 March 2006 were HK$2,725 million and HK$0.43 respectively. Based on the revalued net assets, the Group's gearing ratio as at 31 March 2006 reduced to 31% from 54% of last year.

As at 31 March 2006, an amount of HK$17.8 million that represented 2% of total borrowings was repayable within one year, with the balance repayable by various instalments over a period exceeding 10 years. Furthermore, except for the Vancouver property mortgage loan of HK$141.9 million (2005: HK$147.6 million) which was borrowed in Canadian dollar for exchange hedging purposes, all the other borrowings were denominated in Hong Kong dollar.

With the continuous rise in interest rates both in the USA and locally, the Group's finance cost increased substantially by HK$16.6 million to HK$54.3 million for the year ended 31 March 2006, which represented a 44% increase on last year. However, interest rate swaps amounting to HK$360 million have been contracted to mitigate the effects of higher interest expenses going forward.

After the year end the Group raised HK$283 million new capital through rights issue for further bank loan prepayments.

The aggregate net book value of hotel properties pledged as security for loans of the Group as at 31 March 2006 amounted to HK$2,203 million (2005: HK$2,241.0 million as restated).

Future Prospects

With the recent opening of the Wetland park, the hosting of 2006 ITU World exhibition in December 2006 at the all-new exhibition facilities at the Airport, the outlook for hotel industry in Hong Kong continues to be promising.

The upgrading program of the remaining guest rooms and hotel lobby at the Wanchai Empire Hotel will ensure that we are well positioned to capitalise on the high yield business opportunities brought about by the above and other major business conferences and sporting and leisure events due to take place in the near future.

With 2006 being designated by the Hong Kong Tourism Board as Tourism Year, our Empire Kowloon hotel which is located in the center of a traditionally popular tourist area, will undoubtedly enjoy a higher occupancy and room rates brought about by influx of foreign visitors.

Similarly, our franchised restaurants will also benefit by the thriving tourist industry here locally while our Shanghai restaurant is expected to maintain stable growth in revenue and profitability.

The future prospects of our Vancouver hotel look equally optimistic, in part due to the forthcoming 2010 Winter Olympics, and in other, the fact that Canada being an approved destination for PRC travelers.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

10 January 2007

The Directors
Asia Standard Hotel Group Limited

Dear Sirs,

We set out below our report on the consolidated financial information relating to Maxi-Win Limited ("Maxi-Win") and its subsidiary, Master Asia Enterprises Limited ("Master Asia"), (hereinafter collectively referred to as the "Maxi-Win Group") for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2005 and 2006 ("the Relevant Periods") for inclusion in the circular of Asia Standard Hotel Group Limited (the "Company") dated 10 January 2007 (the "Circular") in connection with the proposed acquisition of 100% interest in Maxi-Win and Good Choice Limited by the Company.

Maxi-Win was incorporated in the British Virgin Islands on 28 May 1992 and holds 70% interest in Master Asia as at the date of this report. Maxi-Win is an indirect wholly owned subsidiary of Asia Standard International Group Limited, the Company's ultimate holding company.

As at the date of this report, details of Master Asia as directly held by Maxi-Win are as follows:

Place and date of incorporation	Issued and fully paid up share capital	Principal activities
Hong Kong, 15 April 1992	HK$10,000	Property investment in Hong Kong

The Maxi-Win Group has adopted 31 March as its financial year end date.

No audited financial statements have been prepared for Maxi-Win since its date of incorporation as there is no statutory requirement to prepare audited financial statements for companies incorporated in the British Virgin Islands. We acted as auditors of Master Asia for the years ended 31 March 2004, 2005 and 2006.

The financial information of the Maxi-Win Group as set out in Sections I to IV below ("Financial Information") has been prepared based on the unaudited consolidated financial statements of the Maxi-Win Group. The directors of the respective Maxi-Win Group companies, for the Relevant Periods, are responsible for preparing these financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

For the purpose of this report, we have carried out independent audit procedures on the consolidated financial statements of the Maxi-Win Group for each of the three years ended 31 March, 2004, 2005 and 2006 and the six months ended 30 September 2006 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have also examined the unaudited consolidated financial statements of the Maxi-Win Group for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2006 and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have reviewed the financial information of the Maxi-Win Group for the six months ended 30 September 2005 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Maxi-Win Group management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information of the Maxi-Win Group for the six months ended 30 September 2005.

The directors of the Company and Maxi-Win are responsible for the Financial Information. It is our responsibility to form an independent opinion and conclusion, based on our examination and review, on the Financial Information and to report our opinion and conclusion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of the Maxi-Win Group and Maxi-Win as at 31 March 2004, 2005 and 2006 and 30 September 2006 and of the results and cash flows of the Maxi-Win Group for the years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2006.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Financial Information of the Maxi-Win Group for the six months ended 30 September 2005.

I. FINANCIAL INFORMATION OF THE MAXI-WIN GROUP

1. Consolidated profit and loss accounts

					Six months ended	
		Year ended 31 March			30 September	
	Note	**2004**	**2005**	**2006**	**2005**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)	
Turnover	5	11,361	11,691	12,346	5,751	6,592
Administrative expenses	6	(6,279)	(5,186)	(5,535)	(3,289)	(1,451)
Surplus on revaluation of						
— completed properties held for sale upon reclassification to investment properties		—	—	71,388	—	—
— investment properties		—	—	98,000	—	15,000
Operating profit		5,082	6,505	176,199	2,462	20,141
Finance costs	7	(6,598)	(6,580)	(19,983)	(9,415)	(10,653)
Profit/(loss) before income tax		(1,516)	(75)	156,216	(6,953)	9,488
Income tax credit/(expense)	10	295	(328)	(33,564)	—	(2,625)
Profit/(loss) for the year/period		(1,221)	(403)	122,652	(6,953)	6,863
Attributable to						
Shareholders of the Company		(856)	(283)	85,855	(4,868)	4,803
Minority interests		(365)	(120)	36,797	(2,085)	2,060
		(1,221)	(403)	122,652	(6,953)	6,863
Dividend	11	—	—	—	—	682

2. Consolidated balance sheets

	Note	As at 31 March 2004 *HK$'000*	As at 31 March 2005 *HK$'000*	As at 31 March 2006 *HK$'000*	As at 30 September 2006 *HK$'000*
Non-current assets					
Investment properties	12	—	—	420,000	435,000
Deferred income tax assets	20	4,249	3,921	—	—
		4,249	3,921	420,000	435,000
Current assets					
Completed properties held for sale	13	253,527	251,584	—	—
Trade and other receivables	15	1,482	1,344	1,095	1,178
Amount due from immediate holding company	16	8,705	691	687	—
Amount due from a fellow subsidiary	16	291	—	—	—
Bank balances		30	333	14	28
		264,035	253,952	1,796	1,206
Current liabilities					
Payables and accruals	17	617	1,017	1,603	758
Rental and management fee deposits		4,031	3,609	3,879	3,245
Amounts due to fellow subsidiaries	18	311,337	301,351	312,123	319,206
		315,985	305,977	317,605	323,209
Net current liabilities		(51,950)	(52,025)	(315,809)	(322,003)
Total assets less current liabilities		(47,701)	(48,104)	104,191	112,997
Non-current liabilities					
Deferred income tax liabilities	20	—	—	29,643	32,268
Net assets/(liabilities)		(47,701)	(48,104)	74,548	80,729

2. **Consolidated balance sheets** (Continued)

		As at 31 March			As at 30 September
	Note	**2004**	**2005**	**2006**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Equity					
Share capital	19	—	—	—	—
Retained profits/(accumulated losses)		(33,182)	(33,465)	52,390	56,511
		(33,182)	(33,465)	52,390	56,511
Minority interests		(14,519)	(14,639)	22,158	24,218
		(47,701)	(48,104)	74,548	80,729

3. **Balance sheets — Company**

		As at 31 March			As at 30 September
	Note	**2004**	**2005**	**2006**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Subsidiary	14	7	7	7	7
Current asset					
Amount due from immediate holding company	16	8,705	691	687	—
Current liability					
Amount due to a subsidiary	18	8,009	—	—	—
Net current assets		696	691	687	—
Total assets less current liability		703	698	694	7
Equity					
Share capital	19	—	—	—	—
Retained profits	21	703	698	694	7
		703	698	694	7

4. **Consolidated cash flow statements**

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Cash flows from operating activities					
Profit/(loss) before income tax	(1,516)	(75)	156,216	(6,953)	9,488
Interest expense	6,598	6,580	19,983	9,415	10,653
Amortisation of leasehold land	1,943	1,943	972	972	—
Surplus on revaluation of					
— completed properties held for sale upon reclassification to investment properties	—	—	(71,388)	—	—
— investment properties	—	—	(98,000)	—	(15,000)
Operating profit before working capital changes	7,025	8,448	7,783	3,434	5,141
Decrease in amount due from immediate holding company	1,592	8,014	4	—	5
Movements in balances with fellow subsidiaries	(9,374)	(16,275)	(9,211)	(3,492)	(3,570)
(Increase)/decrease in trade and other receivables	93	138	249	382	(83)
Increase/(decrease) in payables and accruals	209	400	586	(435)	(845)
Increase/(decrease) in rental and management fee deposits	295	(422)	270	(155)	(634)
Net cash generated from/(used in) operating activities and net increase/(decrease) in bank balances	(160)	303	(319)	(266)	14
Bank balances at the beginning of the year/period	190	30	333	333	14
Bank balances at the end of the year/period	30	333	14	67	28

5. Consolidated statements of changes in equity

	Share capital *HK$'000*	Retained profits/ (accumulated losses) *HK$'000*	Minority interests *HK$'000*	Total Equity *HK$'000*
At 1 April 2003	—	(32,326)	(14,154)	(46,480)
Loss for the year	—	(856)	(365)	(1,221)
At 31 March 2004	—	(33,182)	(14,519)	(47,701)
At 1 April 2004	—	(33,182)	(14,519)	(47,701)
Loss for the year	—	(283)	(120)	(403)
At 31 March 2005	—	(33,465)	(14,639)	(48,104)
At 1 April 2005	—	(33,465)	(14,639)	(48,104)
Profit for the year	—	85,855	36,797	122,652
At 31 March 2006	—	52,390	22,158	74,548
At 1 April 2006	—	52,390	22,158	74,548
Profit for the period	—	4,803	2,060	6,863
Dividend	—	(682)	—	(682)
At 30 September 2006	—	56,511	24,218	80,729
Unaudited				
At 1 April 2005	—	(33,465)	(14,639)	(48,104)
Loss for the period	—	(4,868)	(2,085)	(6,953)
At 30 September 2005	—	(38,333)	(16,724)	(55,057)

II. NOTES TO THE FINANCIAL INFORMATION OF THE MAXI-WIN GROUP

1 General information

Maxi-Win Limited ("Maxi-Win") is a limited liability company incorporated in the British Virgin Islands. The address of its registered office is Sea Meadow House, Blackburne Highway, P.O. Box 116, Road Town, Tortola, British Virgin Islands. The principal activity of Maxi-Win is investment holding.

Maxi-Win has a direct equity interest of 70% in Master Asia Limited ("Master Asia"), a company incorporated in Hong Kong. Master Asia is principally engaged in property investment.

2 Principal accounting policies

The principal accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) *Basis of preparation*

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of investment properties which are carried at fair value.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management of the Maxi-Win Group to exercise its judgement in the process of applying the Maxi-Win Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4.

At the date of authorisation of this Financial Information, the Maxi-Win Group has not early adopted HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, which have been published and are mandatory for the Maxi-Win Group's accounting periods beginning on or after 1 April 2007. These new standard and amendment have no material effect on the Maxi-Win Group's Financial Information.

(b) *Basis of consolidation*

The consolidated financial information incorporate the financial information of Maxi-Win and its subsidiary made up to the end of each financial period.

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

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

(c) *Subsidiaries*

Subsidiaries are those entities in which Maxi-Win, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

Subsidiaries are fully consolidated from the date on which control is transferred to the Maxi-Win Group. They are de-consolidated from the date that control ceases.

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

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

(d) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Maxi-Win Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment as well as when there is indication for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(e) *Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value and is valued at least annually by independent valuers. The valuation is performed on an open market basis, related to individual property, and separate valuers are not attributed to land and buildings. Investment property that is redeveloped for continuing use as investment property continues to be measured at fair value.

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

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

(f) *Completed properties held for sale*

Completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises leasehold land at amortised cost, construction costs, interest and other direct expenses capitalised during the course of development. Net realisable value is determined by the directors of the Maxi-Win Group based on prevailing market conditions.

If an item of completed properties held for sale becomes an investment property because its use has changed, any difference between the carrying amount and the fair value of this item at the date of transfer is recognised as profit or loss in the profit and loss account under HKAS 40 Investment Property.

(g) *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Maxi-Win Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(h) *Cash and cash equivalents*

Cash and cash equivalents include cash in hand, deposits held at call with banks.

(i) *Provisions*

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

(j) *Employee benefits*

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balances sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit obligations

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

(k) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Maxi-Win Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) *Revenue recognition*

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

Interest income is recognised on a time-proportion basis using the effective interest method.

Management fee income is recognised when services are rendered.

(m) *Translation of foreign currencies*

(i) Functional and presentation currency

Items included in the financial statements of each of the Maxi-Win Group's companies are measured using the currency of the primary economic environment in which the company operates (the "functional currency"). The Financial Information is presented in Hong Kong Dollar, which is Maxi-Win's functional and presentation currency.

(ii) Transactions and balances

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

(n) *Borrowing costs*

Borrowing costs incurred on properties under development that necessarily take a substantial period of time to get ready for their intended use or sale are capitalised as part of the cost of the properties under development.

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

(o) *Operating leases*

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

(p) *Related parties*

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

(q) *Dividend distribution*

Dividend distribution to the Maxi-Win's shareholders is recognised as a liability in the Maxi-Win Group's financial information in the period in which the dividends are approved by the Maxi-Win's directors or shareholders wherever appropriate.

3 Financial risk management

The Maxi-Win Group's activities expose it to a variety of financial risks: liquidity risk and interest rate risk. The Maxi-Win Group's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Maxi-Win Group's financial performance.

(a) *Liquidity risk*

The Maxi-Win Group maintains flexibility in funding through bank loans and group companies.

(b) *Interest rate risk*

The Maxi-Win Group has no significant interest-bearing assets and liabilities other than certain amounts due to fellow subsidiaries. The aforesaid amounts due to fellow subsidiaries charged at variable rates expose the Maxi-Win Group to interest rate risk.

4 Critical accounting estimates and judgements

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

(a) *Estimate of fair value of investment properties*

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

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

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

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

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

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

(b) *Impairment of assets*

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) *Income taxes*

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

5 **Turnover**

Turnover recognised during the Relevant Periods is as follows:

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Gross rental income	9,700	9,927	10,548	4,879	5,720
Management fee income	1,610	1,764	1,784	862	868
Sundry	51	—	14	10	4
	11,361	11,691	12,346	5,751	6,592

6 **Expenses by nature**

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Amortisation of leasehold land	1,943	1,943	972	972	—
Auditors' remuneration					
Current year provision	60	60	64	33	53
Underprovision in prior years	5	—	4	4	—
Outgoings in respect of properties	600	283	263	399	268
Staff costs paid to a related company/fellow subsidiary (note 9)	849	772	848	507	328
Write off of receivables	39	144	16	10	—

7 **Finance costs**

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$	*HK$*	*HK$*	*HK$*	*HK$*
				(unaudited)	
Interest expense on amount due to a fellow subsidiary	6,598	6,580	19,983	9,415	10,653

8 **Directors' emoluments**

No emoluments have been paid or are payable to the directors of Maxi-Win during the Relevant Periods.

9 Staff costs paid to a related company/fellow subsidiary

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Wages and salaries	815	761	815	487	314
Retirement benefit costs - defined contribution schemes (note (a))	34	11	33	20	14
	849	772	848	507	328

Note:

(a) The related company/fellow subsidiary participates in defined contribution schemes in Hong Kong and the related costs are recharged to the Maxi-Win Group. The related company is a subsidiary of a shareholder of the ultimate holding company and was reclassified from a fellow subsidiary following changes in shareholding of the shareholder in the ultimate holding company in January 2005.

The staff costs of the five highest paid individuals, whose emoluments are less than HK$1,000,000, incurred directly by the related company/fellow subsidiary and recharged to the Maxi-Win Group are as follows:

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Wages and salaries	427	436	405	220	202
Retirement benefit costs-defined contribution schemes	21	21	20	11	11
	448	457	425	231	213

10 Income tax credit/expense

Hong Kong profits tax has been provided at the rate of 17.5% on the assessable profits during the Relevant Periods.

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Deferred income tax (credit)/expense	(295)	328	33,564	—	2,625

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

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
(Loss)/profit before income tax	(1,516)	(75)	156,216	(6,953)	9,488
Calculated at a tax rate of 17.5%	(265)	(13)	27,338	(1,217)	1,661
Expenses not deductible for taxation purposes	341	341	308	171	—
Income not subject to taxation	—	—	(691)	(345)	(345)
Tax loss not recognised	—	—	2,688	1,391	1,309
Write back of deferred income tax assets	—	—	3,921	—	—
Increase in opening net deferred tax assets resulting from an increase in tax rate	(371)	—	—	—	—
Income tax (credit)/expense	(295)	328	33,564	—	2,625

11 **Dividend**

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Interim, paid, of HK$682,273 per share	—	—	—	—	682

12 **Investment properties**

	As at 31 March			As at 30 September
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	—	—	—	420,000
Transfer from completed properties held for sale	—	—	322,000	—
Surplus on revaluation	—	—	98,000	15,000
At the end of the year/period	—	—	420,000	435,000

The investment properties were revalued by Vigers Hong Kong Limited, independent professional valuers, on an open market value basis as at 31 March 2006 and 30 September 2006. The investment properties are situated on long term leasehold land in Hong Kong.

The properties were pledged as a security for a bank loan granted to a fellow subsidiary as at 31 March 2006 and 30 September 2006.

13 Completed properties held for sale

	As at 31 March			As at 30 September
	2004	2005	2006	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Leasehold land	132,154	130,211	—	—
Development costs	121,373	121,373	—	—
	253,527	251,584	—	—

At 31 March 2004 and 2005, the properties were pledged as a security for a bank loan granted to a fellow subsidiary.

Pursuant to board resolution, the properties were transferred to investment properties during the year ended 31 March 2006.

14 Subsidiary

	As at 31 March			As at 30 September
	2004	2005	2006	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	7	7	7	7

15 Trade and other receivables

Trade and other receivables include trade receivables and utility deposits.

Ageing analysis of trade receivables at 31 March 2004, 2005, 2006 and 30 September 2006 is as follows:

	As at 31 March			As at 30 September
	2004	2005	2006	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 day to 60 days	769	1,022	762	803
61 days to 120 days	29	53	82	101
More than 120 days	468	48	12	35
	1,266	1,123	856	939

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

16 **Amounts due from immediate holding company/a fellow subsidiary**

The amounts due from immediate holding company and a fellow subsidiary are unsecured, interest free and have no fixed terms of repayment. The carrying amounts approximate to their fair values.

17 **Payables and accruals**

Payables and accruals include an amount due to a related company of HK$1,319,000, HK$628,000 and HK$1,319,000 as at 31 March 2004, 2005 and 2006 and HK$561,000 as at 30 September 2006 respectively.

18 **Amounts due to fellow subsidiaries/a subsidiary**

The amounts due to fellow subsidiaries are unsecured and have no fixed terms of repayment. Except for the following amounts, the amounts are interest free.

		As at 31 March		**As at 30 September**
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest-bearing amount	263,210	263,210	237,613	274,169
Interest rate per annum	2.5%	2.5%	3.5% above HIBOR	3.5% above HIBOR

As at 31 March 2004, the amount due to a subsidiary included in Maxi-Win's balance sheet was unsecured, interest free and had no fixed terms of repayment.

The carrying amounts approximate to their fair values.

19 **Share capital**

		As at 31 March		**As at 30 September**
	2004	**2005**	**2006**	**2006**
	HK$	*HK$*	*HK$*	*HK$*
Authorised, issued and fully paid:				
1 share of US$1 each	8	8	8	8

20 **Deferred income tax assets/liabilities**

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

	Tax losses			
				Six months ended
	Year ended 31 March			**30 September**
Deferred income tax assets	**2004**	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	3,954	4,249	3,921	—
Credited/(charged) to the profit and loss account	295	(328)	—	—
Write back in the profit and loss account	—	—	(3,921)	—
At the end of the year/period	4,249	3,921	—	—

	Surplus on revaluation of investment properties			
				Six months ended
	Year ended 31 March			**30 September**
Deferred income tax liabilities	**2004**	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	—	—	—	29,643
Charged to the profit and loss account	—	—	29,643	2,625
At the end of the year/period	—	—	29,643	32,268

Deferred income tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. As at 31 March 2006 and 30 September 2006, the Maxi-Win Group did not recognise deferred income tax assets of HK$6,609,000 and HK$7,918,000 in respect of tax losses of HK$37,767,000 and HK$45,248,000 respectively that can be carried forward against future taxable income. These tax losses have no expiry date.

21 **Retained profits — Company**

	HK$'000
At 1 April 2003	707
Loss for the year	(4)
At 31 March 2004	703
At 1 April 2004	703
Loss for the year	(5)
At 31 March 2005	698
At 1 April 2005	698
Loss for the year	(4)
At 31 March 2006	694
At 1 April 2006	694
Loss for the period	(5)
Dividend	(682)
At 30 September 2006	7
Unaudited	
At 1 April 2005	698
Loss for the period	(4)
At 30 September 2005	694

22 **Operating lease arrangements**

The Maxi-Win Group leases out the properties under operating leases which typically run for a period of one to three years.

The future aggregate minimum rental receipts receivable under non-cancellable operating leases were as follows:

	As at 31 March			**As at 30 September**
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
In respect of land and buildings:				
Within one year	9,024	7,888	10,177	7,289
In the second to fifth year inclusive	3,472	2,900	4,264	1,368
	12,496	10,788	14,441	8,657

23 Related party transactions

In addition to the related party information shown elsewhere in the Financial Information, during the Relevant Periods, the Maxi-Win Group undertook the following transactions with group companies in the normal course of its business:

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Staff costs paid to a related company/a fellow subsidiary (note (a))	849	772	848	507	328
Property management fee paid to a related company/a fellow subsidiary (note (b))	120	120	120	60	60
Administrative fee paid to a related company/a fellow subsidiary (note (b))	68	68	68	34	34
Cleaning services fee paid to a related company/a fellow subsidiary (note (b))	183	184	185	93	92
Building management fee paid to a related company/a fellow subsidiary (note (c))	437	283	263	162	156
Management fee paid to a fellow subsidiary (note (d))	500	500	700	—	—

Notes:

(a) Staff costs paid to a related company/fellow subsidiary are on a cost reimbursement basis.

(b) Property management, administrative and cleaning services fees are subject to terms agreed by the parties involved, which are at fixed monthly fees.

(c) Building management fee is subject to terms agreed by the parties involved, which is at a fixed sum.

(d) Management fee is paid for accounting and management services rendered by a fellow subsidiary. It is determined by reference to the terms agreed by both parties, which is at a fixed fee.

24 Ultimate and immediate holding company

In the opinion of the directors, the ultimate holding company is Asia Standard International Group Limited, a company incorporated in Bermuda and listed in Hong Kong. The immediate holding company is Asia Standard Development (Holdings) Limited, a company incorporated in Hong Kong.

III. SUBSEQUENT EVENTS

There were no significant subsequent events of the Maxi-Win Group after 30 September 2006 and up to the date of this report.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Maxi-Win or its subsidiary in respect of any period subsequent to 30 September 2006. In addition, no dividend or distribution has been declared, made or paid by Maxi-Win in respect of any period subsequent to 30 September 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the sole purpose of inclusion in the circular, received from the independent reporting accountants, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

10 January 2007

The Directors
Asia Standard Hotel Group Limited

Dear Sirs,

We set out below our report on the financial information relating to Good Choice Limited ("Good Choice") for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2005 and 2006 ("the Relevant Periods") for inclusion in the circular of Asia Standard Hotel Group Limited (the "Company") dated 10 January 2007 (the "Circular") in connection with the proposed acquisition of 100% interest in Good Choice and Maxi-Win Limited by the Company.

Good Choice was incorporated in the British Virgin Islands on 29 May 1992 and holds 30% interest in an associated company, Master Asia Enterprises Limited ("Master Asia") as at the date of this report. Good Choice is an indirect wholly owned subsidiary of Asia Standard International Group Limited, the Company's ultimate holding company.

As at the date of this report, details of Master Asia are as follows:

Place and date of incorporation	Issued and fully paid up share capital	Principal activities
Hong Kong, 15 April 1992	HK$10,000	Property investment in Hong Kong

Good Choice and Master Asia have adopted 31 March as its financial year end date.

No audited financial statements have been prepared for Good Choice since its date of incorporation as there is no statutory requirement to prepare audited financial statements for companies incorporated in the British Virgin Islands. We acted as auditors of Master Asia for the years ended 31 March 2004, 2005 and 2006.

The financial information of Good Choice as set out in Sections I to IV below ("Financial Information") has been prepared based on the unaudited financial statements of Good Choice. The directors of Good Choice, for the Relevant Periods, are responsible for preparing these financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

For the purpose of this report, we have carried out independent audit procedures on the financial statements of Good Choice for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2006 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). We have also examined the unaudited financial statements of Good Choice for each of the three years ended 31 March 2004, 2005 and 2006 and the six months ended 30 September 2006 and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

We have reviewed the financial information of Good Choice for the six months ended 30 September 2005 in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of Good Choice management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information of Good Choice for the six months ended 30 September 2005.

The directors of the Company and Good Choice are responsible for the Financial Information. It is our responsibility to form an independent opinion and conclusion, based on our examination and review, on the Financial Information and to report our opinion and conclusion.

In our opinion, the Financial Information, for the purpose of this report, gives a true and fair view of the state of affairs of Good Choice as at 31 March 2004, 2005 and 2006 and 30 September 2006 and of the results and cash flows of Good Choice for the years ended 31 March 2004, 2005 and 2006 and for the six months ended 30 September 2006.

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Financial Information of Good Choice for the six months ended 30 September 2005.

I. FINANCIAL INFORMATION OF GOOD CHOICE

1. Profit and loss accounts

		Year ended 31 March			Six months ended 30 September	
	Note	**2004**	**2005**	**2006**	**2005**	**2006**
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (unaudited)	*HK$'000*
Administrative expenses and operating loss	4	(4)	(4)	(5)	(5)	(5)
Share of profit/(loss) of an associated company	8	(365)	(120)	36,797	(2,085)	2,061
Profit/(loss) for the year/period		(369)	(124)	36,792	(2,090)	2,056
Dividend	7	—	—	—	—	823

2. **Balance sheets**

	Note	As at 31 March 2004 HK$'000	As at 31 March 2005 HK$'000	As at 31 March 2006 HK$'000	As at 30 September 2006 HK$'000
Non-current asset					
Associated company	8	(14,519)	(14,639)	22,158	24,219
Current asset					
Amount due from immediate holding company	9	837	833	828	—
Net assets/(liabilities)		(13,682)	(13,806)	22,986	24,219
Equity					
Share capital	10	—	—	—	—
Retained profits/(accumulated losses)		(13,682)	(13,806)	22,986	24,219
		(13,682)	(13,806)	22,986	24,219

3. **Cash flow statements**

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*
Cash flows from operating activities					
Profit/(loss) before income tax	(369)	(124)	36,792	(2,090)	2,056
Share of (profit)/loss of an associated company	365	120	(36,797)	2,085	(2,061)
Operating loss before working capital changes	(4)	(4)	(5)	(5)	(5)
(Increase)/decrease in amount due from immediate holding company	(845)	4	5	5	5
Decrease in advances to an associated company	24,578	—	—	—	—
Decrease in amounts due to fellow subsidiaries	(23,729)	—	—	—	—
Net cash changes from operating activities and net changes in bank balances	—	—	—	—	—
Bank balances at the beginning of the year/period	—	—	—	—	—
Bank balances at the end of the year/period	—	—	—	—	—

4. **Statements of changes in equity**

	Share capital	Retained profits/ (accumulated losses)	Total equity
	HK$'000	*HK$'000*	*HK$'000*
At 1 April 2003	—	(13,313)	(13,313)
Loss for the year	—	(369)	(369)
At 31 March 2004	—	(13,682)	(13,682)
At 1 April 2004	—	(13,682)	(13,682)
Loss for the year	—	(124)	(124)
At 31 March 2005	—	(13,806)	(13,806)
At 1 April 2005	—	(13,806)	(13,806)
Profit for the year	—	36,792	36,792
At 31 March 2006	—	22,986	22,986
At 1 April 2006	—	22,986	22,986
Profit for the period	—	2,056	2,056
Dividend	—	(823)	(823)
At 30 September 2006	—	24,219	24,219
Unaudited			
At 1 April 2005	—	(13,806)	(13,806)
Loss for the period	—	(2,090)	(2,090)
At 30 September 2005	—	(15,896)	(15,896)

II. NOTES TO THE FINANCIAL INFORMATION OF GOOD CHOICE

1 General information

Good Choice ("Good Choice") is a limited liability company incorporated in the British Virgin Islands. The address of its registered office is Sea Meadow House, Blackburne Highway, P.O. Box 116, Road Town, Tortola, British Virgin Islands. The principal activity of Good Choice is investment holding.

Good Choice has a direct equity interest of 30% in Master Asia Limited ("Master Asia"), a company incorporated in Hong Kong. Master Asia is principally engaged in property investment.

2 Principal accounting policies

The principal accounting policies applied in the preparation of this Financial Information are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) *Basis of preparation*

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The Financial Information has been prepared under the historical cost convention.

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Good Choice's accounting policies. There are no areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information.

At the date of authorisation of this Financial Information, Good Choice has not early adopted HKFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to HKAS 1, Presentation of Financial Statements — Capital Disclosures, which have been published and are mandatory for Good Choice's accounting periods beginning on or after 1 April 2007. These new standard and amendment have no material effect on Good Choice's Financial Information.

(b) *Associated companies*

Associated companies are all entities over which Good Choice has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. Good Choice's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

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

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

(c) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in associated companies, except where the timing of the reversal of the temporary differences is controlled by Good Choice and it is probable that the temporary difference will not reverse in the foreseeable future.

(d) *Translation of foreign currencies*

(i) Functional and presentation currency

Items included in the financial statements of Good Choice are measured using the currency of the primary economic environment in which Good Choice operates ('the functional currency"). The Financial Information is presented in Hong Kong dollar, which is Good Choice's functional and presentation currency.

(ii) Transactions and balances

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

(e) *Dividend distribution*

Dividend distribution to Good Choice's shareholders is recognised as a liability in Good Choice's Financial Information in the period in which the dividends are approved by Good Choice's directors or shareholders wherever appropriate.

(f) *Related parties*

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

3 **Financial risk management**

Good Choice's activities expose it to a variety of financial risks: liquidity risk and interest rate risk. Good Choice's risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on Good Choice's financial performance.

(a) *Liquidity risk*

Good Choice maintains flexibility in funding through group companies.

(b) *Interest rate risk*

As Good Choice has no significant interest-bearing assets and liabilities, Good Choice's income and operating cash flows are substantially independent of changes in market interest rates.

4 **Auditors' remuneration**

The auditors' remuneration for the Relevant Periods are borne by the ultimate holding company.

5 **Directors' emoluments**

No emoluments have been paid or are payable to the directors of Good Choice during the Relevant Periods.

6 **Income tax expense**

No provision for Hong Kong profits tax has been made as Good Choice has no assessable profit during the Relevant Periods.

Share of income tax of an associated company is included in the profit and loss accounts as share of profit/loss of an associated company as follows:

	Year ended 31 March			**Six months ended**	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Share of income tax (credit)/expense	(89)	98	10,069	—	788

7 **Dividend**

	Year ended 31 March			**Six months ended 30 September**	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Interim, paid, of HK$822,922 per share	—	—	—	—	823

8 **Associated company**

Share of net assets:

	As at 31 March			As at 30 September
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At the beginning of the year/period	(14,154)	(14,519)	(14,639)	22,158
Share of profit/(loss)	(365)	(120)	36,797	2,061
At the end of the year/period	(14,519)	(14,639)	22,158	24,219

Summarised financial information of the associated company is as follows:

	As at 31 March			As at 30 September
	2004	**2005**	**2006**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets	267,588	257,183	421,109	436,206
Liabilities	(315,985)	(305,978)	(347,247)	(355,476)
	(48,397)	(48,795)	73,862	80,730

	Year ended 31 March			Six months ended 30 September	
	2004	**2005**	**2006**	**2005**	**2006**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(unaudited)	
Revenues	11,361	11,691	12,346	5,751	21,592
Profit/(loss) for the year/period	(1,217)	(398)	122,657	(6,949)	6,868

9 **Amount due from immediate holding company**

The amount due from immediate holding company is unsecured, increase free and has no fixed terms of repayment.

10 **Share capital**

	As at 31 March			As at 30 September
	2004	**2005**	**2006**	**2006**
	HK$	*HK$*	*HK$*	*HK$*
Authorised, issued and fully paid:				
1 share of US$1 each	8	8	8	8

11 **Related party transactions**

Other than the related party information shown elsewhere in the Financial Information, Good Choice did not have any related party transactions during the Relevant Periods.

12 **Ultimate and immediate holding company**

In the opinion of the directors, the ultimate holding company is Asia Standard International Group Limited, a company incorporated in Bermuda and listed in Hong Kong. The immediate holding company is Asia Standard Development (Holdings) Limited, a company incorporated in Hong Kong.

III. SUBSEQUENT EVENTS

There were no significant subsequent events of Good Choice after 30 September 2006 and up to the date of this report.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Good Choice in respect of any period subsequent to 30 September 2006. In addition, no dividend or distribution has been declared, made or paid by Good Choice in respect of any period subsequent to 30 September 2006.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

For illustrative purpose only, set out below is the unaudited pro forma statement of assets and liabilities of the Enlarged Group to show the effect of the Proposed Acquisition on the assets and liabilities of the Enlarged Group as if it had taken place as at 30 September, 2006.

The unaudited pro forma statement of assets and liabilities of the Enlarged Group has been prepared using accounting policies consistent with those of the Group and based on the unaudited condensed consolidated balance sheet of the Group as at 30 September 2006 as per the published interim report and the audited consolidated balance sheet of the Maxi-Win Group as at 30 September 2006 and the audited balance sheet of Good Choice as at 30 September 2006 as shown in the accountants' reports set out in appendices II and III to this circular, after making certain pro forma adjustments as set out in notes (iii) to (viii) below. They have been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of the financial position of the Enlarged Group had the Proposed Acquisition actually been completed as at 30 September, 2006.

I. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	Unadjusted unaudited consolidated balance sheet of the Group as at 30 September 2006	Pro forma adjustments				
		Maxi-Win Group	Good Choice	Other pro forma adjustments	Note	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note (ii))	*(Note (iii))*	*(Note (iv))*			
Non-current assets						
Investment properties	—	435,000	—	(435,000)	(viii)	—
Property, plant and equipment	873,390	—	—	85,000	(viii)	958,390
Leasehold land	1,315,107	—	—	367,796	(viii)	1,682,903
Investment in an associated company	—	—	24,219	(24,219)	(v)	—
Goodwill	13,188	—	—	—		13,188
Deferred tax assets	34,938	—	—	—		34,938
	2,236,623	435,000	24,219	(6,423)		2,689,419
Current assets						
Inventories	2,624	—	—	—		2,624
Financial assets at fair value through profit or loss	22,888	—	—	—		22,888
Trade and other receivables	58,933	1,178	—	—		60,111
Bank balances and cash	52,594	28	—	—		52,622
	137,039	1,206	—	—		138,245
Current liabilities						
Trade and other payables	54,714	4,002	—	—		58,716
Current income tax payable	10,973		—	—		10,973
Bank borrowings	20,000	—	—	—		20,000
Derivative financial instruments	2,299	—	—	—		2,299
Amount due to a fellow subsidiary	—	319,206	—	(169,206)	(vii)	150,000
Current portion of borrowings	8,374	—	—	—		8,374
	96,360	323,208	—	(169,206)		250,362
Net current assets/(liabilities)	40,679	(322,002)	—	169,206		(112,117)
Total assets less current liabilities	2,277,302	112,998	24,219	162,783		2,577,302

	Unadjusted unaudited consolidated balance sheet of the Group as at 30 September 2006	Pro forma adjustments Maxi-Win Group	Good Choice	Other pro forma adjustments	Note	Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*		*HK$'000*
	(Note (ii))	*(Note (iii))*	*(Note (iv))*			
Non-current liabilities						
Convertible bonds	—	—	—	232,325	(vi)	232,325
Deferred tax liabilities	—	32,268	—	(32,268)	(viii)	—
Borrowings	525,731	—	—	—		525,731
	525,731	32,268	—	200,057		758,056
Net assets	1,751,571	80,730	24,219	(37,274)		1,819,246

Notes to the unaudited pro forma statement of assets and liabilities of the Enlarged Group:

(i) Pursuant to the Sale and Purchase Agreement, Asia Standard Hotel Holdings agreed to acquire the entire issued share capital of Maxi-Win and Good Choice from Asia Standard Development at the Share Consideration of approximately HK$130.8 million and the Assigned Loans from Asia Standard Finance at the Loan Consideration of HK$169.2 million. The aggregate consideration of HK$300 million is to be satisfied by the issue of Convertible Bonds by Asia Standard Hotel in the aggregate principal amount equivalent to the aggregate consideration. Maxi-Win and Good Choice each directly hold 70% and 30% respectively of the issued share capital of Master Asia as at 30 September 2006.

(ii) The balances are extracted from the unaudited condensed consolidated balance sheet of the Group as at 30 September 2006 as set out in the published interim report.

(iii) The balances are extracted from the consolidated balance sheet of the Maxi-Win Group as at 30 September 2006 of the financial information as set out in the Appendix II to the circular.

(iv) The balances are extracted from the balance sheet of Good Choice as at 30 September 2006 of the financial information as set out in the Appendix III to the circular.

(v) The pro forma adjustment represents the elimination of the investment in an associated company of Good Choice.

(vi) The pro forma adjustment represents the Share Consideration and the Assigned Loans as mentioned above to be satisfied by the Convertible Bonds. In accordance with HKAS 32, the liability component and the equity conversion component of the Convertible Bonds should be separately accounted for. The liability component is included in non-current liabilities while the equity conversion component is included in shareholders' equity. For the purpose of compiling this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the fair value of the liability component of the Convertible Bonds as at 30 September 2006 as estimated by the directors of the Company is HK$232.3 million.

(vii) The pro forma adjustment represents the inter-company elimination of the Assigned Loans of HK$169.2 million.

(viii) The pro forma adjustment represents the acquisition of the Property which is reclassified as leasehold land and property, plant and equipment following the Board's decision to change the use of the Property from investment properties to hotel properties. For the purpose of compiling this unaudited pro forma statement of assets and liabilities of the Enlarged Group, the Property is recorded at its cost to the Group of HK$452.8 million including leasehold land of HK$367.8 million and building of HK$85.0 million as at 30 November 2006 based on the fair value of the Convertible Bonds. In addition, there will be a write-back of deferred tax liabilities of HK$32.3 million.

(ix) The final amounts of the fair value of the Convertible Bonds, the net fair values of the assets and liabilities of the Maxi-Win Group and Good Choice, and the cost of the Property to the Group at the date of completion of the Transaction may be different from those amounts as presented above.

(x) No adjustments have been made to reflect any results or other transactions of the Maxi-Win Group and Good Choice entered into subsequent to 30 September 2006.

II. REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this Circular.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

REPORT FROM REPORTING ACCOUNTANTS ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF ASIA STANDARD HOTEL GROUP LIMITED

We report on the unaudited pro forma financial information set out on pages 112 to 115 under the heading of "Unaudited Pro Forma Statement of Assets and Liabilities of the Enlarged Group (the "Unaudited Pro Forma Financial Information") in Appendix IV to the circular dated 10 January 2007 (the "Circular") of Asia Standard Hotel Group Limited (the "Company"), in connection with the proposed acquisition of Maxi-Win Limited, Good Choice Limited and Master Asia Enterprises Limited (the "Transaction") by the Company. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Transaction might have affected the relevant financial information of the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages 112 to 115 of the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted unaudited consolidated balance sheet of the Company as at 30 September 2006 with the interim financial report of the Company for the six month ended 30 September 2006, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2006 or any future date.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 10 January 2007

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the independent property valuer, Knight Frank Hong Kong Limited.

Knight Frank 萊坊

4/F Shui On Centre,
6-8 Harbour Road
Wanchai, Hong Kong
+ 852 2840 1177
+ 852 2840 0600 fax
knightfrank.com

14 December 2006

The Directors
Asia Standard Hotel Group Limited
30/F., Asia Orient Tower
Town Place
33 Lockhart Road
Wan Chai, Hong Kong

Dear Sirs

NO. 8 WING HING STREET, CAUSEWAY BAY, HONG KONG

In accordance with your instructions for us to value the captioned property, we confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property as at 30 November 2006.

Our valuation is our opinion of the "Market Value" which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

We have valued the property interests by reference to sales evidence as available on the market and where appropriate on the basis of capitalisation of the net income shown on the schedules handed to us. We have allowed for outgoings and in appropriate cases made provisions for reversionary income potential.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupancy, tenancy schedules, approved building plans, estimated conversion costs and floor area and all other relevant matters. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us and are therefore only approximations.

We have not been provided with extracts from title documents relating to the property but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us.

We have inspected the exterior and, where possible, the interior of the property. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the property is free from rot, infestation or any other structural defect. No tests were carried out on any of the services. Unless otherwise stated, we have not been able to carry out on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the property is free from incumbrances, restrictions and outgoings of an onerous nature which could affect its value.

In preparing our valuation report, we have complied with the "First Edition of the HKIS Valuation Standards on Properties" published by the Hong Kong Institute of Surveyors and all the requirements contained in the provision of Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars.

We enclose herewith our valuation.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited
Alex S L Ng
MRICS MHKIS RPS(GP)
Executive Director

Enc

Note:

Alex S L Ng, M.R.I.C.S., M.H.K.I.S., R.P.S. (G.P.), has been a qualified valuer with Knight Frank Petty Limited since November 1995 and has 20 years' experience in the valuation of properties in Hong Kong.

VALUATION

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 30 November 2006
No. 8 Wing Hing Street, Causeway Bay, Hong Kong Whole of the shares in The Remaining Portion of Section A and The Remaining Portion of Inland Lot No 2372 and The Remaining Portion, The Remaining Portion of Section D, The Remaining Portion of Section C, The Remaining Portion of Section B, The Remaining Portion of Sub-section 1 of Section B and The Remaining Portion of Section A of Inland Lot No 5386.	The property is a 28-storey commercial building completed in February 1999. Ground floor of the building accommodates 4 shops / 2 carparking spaces / a carpark entrance / an entrance hall whilst 1st floor is designed for restaurant. The 2nd to 3rd floors of the building are designed for carparks which comprise a total of 22 carparking spaces being served by two car lifts while the 5th to 30th floors (with 4th, 14th and 24th omitted from floor numbering) are designed for office uses. The property comprises the following gross floor area: **Use** — **Approximately Gross Floor Area** Office — 9,096.99 sq.m. 97,920 sq.ft. Shop — 953.55 sq.m. 10,264 sq.ft. Total — 10,050.54 sq.m. 108,184 sq.ft. Both Inland Lot Nos. 2372 and 5386 are held under Government lease for a term of 75 years from 13 February 1922 renewal for a further term of 75 years.	The retail portion of the property is let under two tenancies for terms of two years with the latest expiring on 28 February 2008 yielding a total monthly rental of approximately HK$88,000 exclusive of rates and management fees. The overall occupancy rate of the retail portion is approximately 77%. The office portion of the property is let under 69 tenancies mostly for terms of one to two years with the latest expiring on 4 October 2008 yielding a total monthly rental of approximately HK$708,000 exclusive of rates and management fees. The overall occupancy rate of the office portion is approximately 71%. The carpark portion of the property is owner-operated on monthly basis yielding a total monthly rental income of approximately HK$41,500. The overall occupancy rate of the carpark portion is approximately 83%.	HK$480,000,000

Notes:

(1) The registered owner of the property is Master Asia Enterprises Limited.

(2) The property is subject to a mortgage and Rent Assignment vide memorial nos. UB7657993 and UB7657994 respectively in favour of The Hongkong and Shanghai Banking Corporation Limited dated 31 December 1998.

(3) The property is subject to a Deed of Variation of Mortgage M/N 7657993 & Further Charge to supplement to Rent Assignment M/N 7657994 in favour of The Hong Kong and Shanghai Banking Corporation Limited dated 24 July 2000.

(4) We have been provided with a proposal for conversion of the property into a hotel, which comprises the proposed use, number of rooms, number of storeys, conversion costs, etc. as follows:

Use	**No. of Rooms**	**No. of Storeys**	**Conversion Costs**
Hotel	280	28	HK$81,000,000

Based on the assumption that the conversion has been approved and as if completed as at 30 November 2006 in accordance with the proposal and relevant licences for use as a hotel have been granted, the market value of the property is estimated as HK$610,000,000 as at 30 November 2006.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies were as follows:

(I) Long position in shares

(a) *The Company*

Director	Capacity	Number of Shares held	Total	Approximate percentage shareholding (%)
Mr. Poon Jing ("Mr. Poon")	Beneficial owner	373,405	5,662,936,561	59.84
	Interest of controlled corporations	5,662,563,156 ***(Note)***		

Note: By virtue of his controlling interest in Asia Orient, Mr. Poon is deemed to be interested in the Shares held by Asia Orient and its subsidiaries as disclosed under the heading "Disclosure of Interests by Substantial Shareholders" below.

b) ***Associated corporations***

Associated corporation	Director	Capacity	Number of shares held	Total	Approximate percentage shareholding (%)
Asia Standard International	Mr. Poon	Beneficial owner	6,136,522	2,906,091,428	42.47
		Interest of controlled corporations	2,899,954,906 *(Note 1)*		
Centop Investment Limited (“Centop”)	Mr. Poon and Mr. Fung Siu To, Clement (“Mr. Fung”)	Interest of controlled corporations	20 *(Note 2)*	20	20
Centop	Mr. Poon	Interest of controlled corporations	80 *(Note 3)*	80	80
Mark Honour Limited	Mr. Fung	Beneficial owner	9	9	9

Notes:

1. By virtue of his controlling interest in Asia Orient, Mr. Poon is deemed to be interested in the shares of Asia Standard International held by subsidiaries of Asia Orient.

2. Centop is owned as to 80% by Asia Standard International and as to 20% by Kingscore Investment Limited (“Kingscore”). Each of Mr. Poon and Mr. Fung holds 50% interest in Kingscore. By virtue of their interest in Kingscore, each of Mr. Poon and Mr. Fung is deemed to have interest in the 20 shares held by Kingscore and the interest of each of them duplicates the interest of the other.

3. By virtue of his controlling interest in Asia Orient, Mr. Poon is deemed to be interested in the Company’s subsidiaries and associated corporations, including the 80 shares of Centop held by Asia Standard International.

(II) **Long positions in underlying shares and debentures**

Interests in underlying shares

a) *The Company*

Director	Capacity	Number of underlying Shares held	Total	Approximate percentage shareholding
				(%)
Mr. Poon	Interest of controlled corporations	2,857,142,857 *(Note 1)*	2,857,142,857	30.20
Mr. Wong Shu Pui	Beneficial owner	4,465,909 *(Note 2)*	4,465,909	0.05

Notes:

1. This represents the 2,857,142,857 Shares falling to be issued to Asia Standard Development and Asia Standard Finance upon exercise in full of the conversion rights under the Convertible Bonds. By virtue of his controlling interest in Asia Orient, Mr. Poon is deemed to be interested in the underlying Shares held by Asia Standard Development and Asia Standard Finance.

2. As at the Latest Practicable Date, Mr. Wong Shu Pui, an executive Director and as beneficial owner, held the share options of the Company entitling him to subscribe for 4,465,909 Shares at a subscription price of HK$0.19436 (as adjusted) per Share. The share options of the Company were granted to Mr. Wong Shu Pui on 31 October, 2005 and are exercisable from 1 November 2005 to 31 October, 2015.

b) *Associated corporation — Asia Standard International*

As at Latest Practicable Date, the following Directors, as beneficial owner, held the share options of Asia Standard International entitling them to subscribe for the shares in Asia Standard International as shown below at a subscription price of HK$0.315 (as adjusted) per share in Asia Standard International. The share options of Asia Standard International were granted to such Directors on 30 March 2005 and are exercisable from 30 March, 2005 to 29 March, 2015:-

Director	Number of underlying shares subject to outstanding options
Mr. Poon	5,155,440
Dr. Lim Yin Cheng	20,621,761
Mr. Fung Siu To, Clement	20,621,761
Mr. Wong Shu Pui	15,466,321

Interest in debentures of the Company

By virtue of his controlling interest in Asia Orient, Mr. Poon is deemed to be interested in the Convertible Bonds to be issued to Asia Standard Development and Asia Standard Finance in the aggregate principal amount of HK$300 million and convertible into an aggregate of 2,857,142,857 Shares at an initial conversion price of HK$0.105 per Share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the 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 (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors:

(a) had any direct or indirect interests in any assets which have since 31 March, 2006 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group; and

(b) was materially interested in any contracts or arrangements entered into by any members of the Group subsisting at the date of this circular which is significant in relation to the business of the Group.

3. DISCLOSURE OF INTEREST BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors, the following persons (the "Substantial Shareholders") (other than the Directors or the chief executive of the Company) had an interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

(I) Long position in Shares

Name of Substantial Shareholder	Capacity	Number of Shares held	Total	Approximate percentage shareholding (%)
Asia Standard International Limited	Interest of controlled corporations	5,374,920,591	5,374,920,591	56.80
Asia Standard International *(Note 1)*	Interest of controlled corporations	5,382,502,737	5,382,502,737	56.88
Asia Orient Company Limited *(Note 2)*	Beneficial owner	154,165,176	5,662,563,156	59.84
	Interest of controlled corporations	5,508,397,980		
Asia Orient Holdings (BVI) Limited *(Note 3)*	Interest of controlled corporations	5,662,563,156	5,662,563,156	59.84
Asia Orient *(Note 3)*	Interest of controlled corporations	5,662,563,156	5,662,563,156	59.84

(II) Long positions in underlying Shares

Name of Substantial Shareholder	Capacity	Number of underlying Shares held	Total	Approximate percentage shareholding (%)
Asia Standard Finance	Beneficial owner	1,611,428,571 *(Note 4)*	1,611,428,571	17.03
Asia Standard Development	Beneficial owner	1,245,714,286 *(Note 5)*	2,857,142,857	30.20
	Interest of controlled corporations	1,611,428,571 *(Note 4)*		
Asia Standard International Limited *(Note 6)*	Interest of controlled corporations	2,857,142,857	2,857,142,857	30.20
Asia Standard International *(Note 1)*	Interest of controlled corporations	2,857,142,857	2,857,142,857	30.20
Asia Orient Company Limited *(Note 2)*	Interest of controlled corporations	2,857,142,857	2,857,142,857	30.20
Asia Orient Holdings (BVI) Limited *(Note 3)*	Interest of controlled corporations	2,857,142,857	2,857,142,857	30.20
Asia Orient *(Note 3)*	Interest of controlled corporations	2,857,142,857	2,857,142,857	30.20

Notes:

(1) Asia Standard International Limited is a wholly owned subsidiary of Asia Standard International and Asia Standard International is deemed to be interested in and duplicates the interests in all the Shares and underlying Shares held by Asia Standard International Limited.

(2) Asia Orient Company Limited and its subsidiaries together hold more than one-third of the issued shares of Asia Standard International and is deemed to be interested in and duplicates the interests in the Shares and underlying Shares held by Asia Standard International.

(3) Asia Orient Company Limited is a wholly owned subsidiary of Asia Orient Holdings (BVI) Limited which in turn is a wholly owned subsidiary of Asia Orient. Asia Orient Holdings (BVI) Limited and Asia Orient are deemed to be interested in and duplicate the interests in the Shares and underlying Shares held by of Asia Orient Company Limited and its subsidiaries.

(4) This represents the 1,611,428,571 Shares falling to be issued to Asia Standard Finance upon exercise in full of the conversion rights under the Convertible Bonds. Asia Standard Finance is a wholly owned subsidiary of Asia Standard Development and Asia Standard Development is deemed to be interested in and duplicates the interests in all the underlying Shares held by Asia Standard Finance.

(5) This represents the 1,245,714,286 Shares falling to be issued to Asia Standard Development upon exercise in full of the conversion rights under the Convertible Bonds.

(6) Asia Standard Development is a wholly owned subsidiary of Asia Standard International Limited and Asia Standard International Limited is deemed to be interested in and duplicates the interests in all the underlying Shares held by Asia Standard Development.

4. DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Directors confirm that they and their associates have no interests in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

5. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the bye-laws of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the Chairman of the meeting; or

(b) by at least three Shareholders present in person or by a duly authorised corporate representative or by proxy for the time being entitled to vote at the meeting; or

(c) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(d) by any Shareholder or Shareholders present in person or by a duly authorised corporate representative or by proxy holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

If a poll is demanded, it shall (subject to any poll duly demanded on the election of the Chairman of the meeting or on any question of adjournment, shall be taken at the meeting and without adjournment) be taken in such manner and at such time and place, not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was demanded, as the Chairman directs. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn, with the consent of the Chairman, at any time before the close of the meeting at which the poll was demanded or the taking of the poll, whichever is the earlier.

6. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, have been entered into by members of the Group, within the two years preceding the date of this circular and is or may be material:

(1) the top-up subscription agreement dated 15 November 2005 made between Asia Standard International Limited and the Company in respect of the top-up subscription of 1,010,000,000 new Shares at HK$0.195 each;

(2) the Underwriting Agreement dated 22 March 2006 entered into between the Company and Get Nice Investment Limited in relation to the underwriting and certain other arrangements in respect of the rights issue of the Company on the basis of one rights Share for every two Shares held by the Shareholders;

(3) the new share option scheme of the Company adopted by the Shareholders on 28 August 2006; and

(4) the Sale and Purchase Agreement.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. QUALIFICATIONS OF THE EXPERTS

The following are the qualifications of the experts who have been named in this circular or have given opinions or advice which are contained in this circular:

Name	**Qualification**
VC Capital Limited	a licensed corporation to carry out type 1 (dealing in securities) and 6 (advising on corporate finance) regulated activities for the purpose of the SFO
PricewaterhouseCoopers	Certified Public Accountants
Knight Frank Petty Limited	Professional Surveyors and Valuers

Each of VC Capital, PricewaterhouseCoopers and Knight Frank Petty Limited has given and has not withdrawn its written consent to the issue of the circular with the inclusion herein of its reports or letter or references to its name in the form and context in which they respectively appear.

None of VC Capital, PricewaterhouseCoopers and Knight Frank Petty Limited has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

None of VC Capital, PricewaterhouseCoopers or Knight Frank Petty Limited had any direct or indirect interests in any assets which have since 31 March 2006 (being the date to which the latest published audited financial statements of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group.

9. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

10. GENERAL

— The secretary of the Company is Mr. Lee Tai Hay Dominic, fellow member of Hong Kong Institute of Chartered Secretaries.

— The qualified accountant of the Company is Mr. Woo Wei Chun Joseph, associate member of Hong Kong Institute of Certified Public Accountants.

— The principal share registrars and transfer office of the Company is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiane Road, Pembroke, Bermuda and the Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road Central, Hong Kong.

— The Company has its registered office at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal office in Hong Kong at 30/F, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong.

— The English text of this circular prevails over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong up to and including 29 January, 2007.

— the Company's memorandum of association and bye-laws;

— the material contracts referred to in the paragraph headed "Material Contracts" in this appendix;

— the accountants' reports as set out in appendices II and III to this circular;

— the report on unaudited pro forma statement of assets and liabilities of the Enlarged Group as set out in appendix IV to this circular;

— the valuation report of Knight Frank Petty Limited as set out in appendix IV to this circular;

— the letters of consent referred to under the section headed "Qualification of the Experts" in this appendix; and

— the annual report of the Company for each of the two years ended 31 March, 2005 and 2006.

ASIA STANDARD HOTEL GROUP LIMITED

(泛海酒店集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 292)

NOTICE IS HEREBY GIVEN that a special general meeting of Asia Standard Hotel Group Limited (the "Company") will be held at Basement 1, Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong on Monday, 29 January, 2007 at 10:00 a.m. for the purposes of considering and, if thought fit, passing, with or without modification, the following resolution of the Company:

ORDINARY RESOLUTION

"THAT

(A) the terms and conditions and the signing of the Sale and Purchase Agreement (as defined in a circular (the "Circular") of the Company dated 10 January, 2007), a copy of which has been produced by the Chairman of the Company and marked "A" for identification, be and are hereby authorized, confirmed, ratified and approved by the Independent Shareholders (as defined in the Circular);

(B) the terms and conditions of the Deed Poll (as defined in the Circular), a copy of which has been produced by the Chairman of the Company and marked "B" for identification, be and are hereby approved by the Independent Shareholders (as defined in the Circular) and any two Directors be and are hereby authorised to execute the Deed Poll as a deed;

(C) conditional upon the satisfaction of the conditions of the Sale and Purchase Agreement, the Directors (as defined in the Circular) be and are hereby authorized to exercise the powers of the Company to allot and issue the appropriate units of Convertible Bonds (as defined in the Circular) to Asia Standard Development (as defined in the Circular) and Asia Standard Finance (as defined in the Circular) or their respective nominees and the appropriate number of Shares upon exercise by the holders of the Convertible Bonds (as defined in the Circular) of the conversion rights attaching to the Convertible Bonds; and

* *For identification purpose only*

(D) the Directors be and are hereby authorized to do all things and acts and sign all documents (under hand or under seal) which they consider desirable or expedient to implement and/or give effect to any matter relating to or in connection with the Transaction (as defined in the Circular)."

By order of the Board
Lee Tai Hay, Dominic
Company Secretary

Hong Kong, 10 January, 2007

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company.

2. Where there are joint registered holders of any share of the Company, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

3. Completion and return of the form of proxy will not preclude a member from attending and voting at the above meeting or any adjournment thereof if he so wishes. In that event, his form of proxy will be deemed to have been revoked.

4. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof must be delivered to the principal office of the Company in Hong Kong at 30th Floor, Asia Orient Tower, Town Place, 33 Lockhart Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.