

Asia Standard Hotel Group Limited
Annual Report 2004



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Corporate Information

Directors

Mr. Poon Jing (*Chairman*)
Mr. Lim Yin Cheng (*Deputy Chairman*)
Mr. Fung Siu To, Clement
Mr. Poon Tin Sau, Robert
Mr. Wong Shu Pui
Mr. Liang Shangli
(*Independent non-executive Director*)
Mr. Ip Chi Wai
(*Independent non-executive Director*)

Audit committee

Mr. Liang Shangli
Mr. Ip Chi Wai

Authorised representatives

Mr. Lim Yin Cheng
Mr. Lee Tai Hay, Dominic

Company secretary

Mr. Lee Tai Hay, Dominic

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.

Telephone 2866 3336
Facsimile 2866 3772
E-mail info@asia-standard.com.hk

Principal bankers

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation
Limited
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Wing Hang Bank Limited
Liu Chong Hing Bank Limited
HSBC Canada
Royal Bank of Canada

Legal advisers

Stephenson Harwood & Lo
18th Floor, Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong

Appleby Spurling Hunter

5511 The Center, 99 Queen's Road Central, Hong Kong

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building, Central, Hong Kong

Share registrar in Bermuda

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre, 11 Bermudiana Road, Pembroke,
Bermuda

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre, 183 Queen's Road East,
Hong Kong.

Financial Highlights

For the year ended 31st March	2004	2003	Change (%)
Turnover (HK\$ million)	426	448	-5
(Loss)/profit attributable to shareholders (HK\$ million)	(12)	6	-300
(Loss)/earnings per share (HK cent)	(0.24)	0.11	-318
Total assets (HK\$ million)	3,388	3,244	+4
Shareholders' funds (HK\$ million)	2,006	1,882	+7
Shareholders' funds per share (HK\$)	0.40	0.37	+8
Net debt (HK\$ million)	1,297	1,269	+2
Net debt to equity (%)	65%	67%	-2

Directors and Senior Management

Directors

POON Jing

Age 49. Chairman of the Company, Managing Director of Asia Standard International Group Limited ("ASI") and Asia Orient Holdings Limited ("Asia Orient"). Mr. Poon is an Independent Non-Executive Director of GZI Transport Limited. He is the brother-in-law of Mr. Fung Siu To, Clement and Mr. Lim Yin Cheng, a Director and Deputy Chairman of the Company respectively. Mr. Poon is a brother of Mr. Poon Tin Sau, Robert, a Director of the Company.

LIM Yin Cheng

Age 59. Deputy Chairman of the Company, ASI and Asia Orient and Executive Director and Chief Executive Officer of Q9 Technology Holdings Limited. Mr. Lim is a holder a Bachelor of Science (Chemical Engineering) and Doctor of Philosophy degrees. He has over 25 years of experience in engineering, project management and administration. He joined the Group in 1994. He is the brother-in-law of Mr. Poon Jing, the Chairman of the Company.

FUNG Siu To, Clement

Age 56. Director of the Company and Chairman of ASI and Asia Orient and Executive Director of Q9 Technology Holdings Limited. Mr. Fung is a holder of a Bachelor of Applied Science (Civil Engineering) degree. He joined the Group in 1994 and has over 20 years of experience in project management and construction. He is the brother-in-law of Mr. Poon Jing, the Chairman of the Company.

POON Tin Sau, Robert

Age 58. Director of Food and Beverage. Mr. Poon was a restaurant entrepreneur in the United States of America during the period from 1970 to 1996 and joined the Group in 1996. He is a brother of Mr. Poon Jing, the Chairman of the Company.

WONG Shu Pui

Age 49. Director of the Company. Mr. Wong has over 25 years of experience in the hotel industry and has held senior positions in a number of international hotels in Hong Kong and joined the Group in 2000.

Independent non-executive directors

LIANG Shangli

Aged 83. Mr. Liang is the founder and Chairman of Bai Hui Group Company Limited, a property development company in the PRC. Prior to establishing Bai Hui Group Company Limited in 1992, Mr. Liang worked for the Guangzhou Investment Group, a property development company in the PRC, as a chairman for over 9 years. He was Standing Committee Member of the Chinese People's Political Congress Committee, the PRC and is the Vice-Chairman of the National Industrial and Commercial Association of the PRC and Independent Non-Executive Director of ASI. He joined the Group as an Independent Non-Executive Director in 2000.

IP Chi Wai

Aged 36. Mr. Ip graduated from the University of Hong Kong with a bachelor's degree in law. He is a qualified solicitor in Hong Kong and has over ten years of experience in the legal profession. He was appointed as an Independent Non-Executive Director of the Company in September 2003.

Note:

ASI, Asia Orient, Asia Standard International Limited, Asia Orient Company Limited and Asia Orient Holdings (BVI) Limited (of which Mr. Poon Jing and/or Mr. Fung Siu To, Clement and/or Mr. Lim Yin Cheng is/are directors) have interests in the share capital of the Company discloseable to the Company under the provision of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance.

Senior management

FUNG Pak Lap, Alan

Aged 46. Mr. Fung is a Director and General Manager of JBC Travel Company Limited ("JBC"), a wholly-owned subsidiary of the Company. Mr. Fung has over 20 years experience in airline industry as he has worked extensively for a leading airline company in Hong Kong. Mr. Fung joined JBC in 1987.

LEE Yuk Kong, Steven

Aged 43. Group Financial Controller, Mr. Lee graduated with an honours degree in Accounting & Finance, and is a member of the Institute of Chartered Accountants in England & Wales with over 18 years of auditing and commercial experience at managerial level both in England and in Hong Kong. Mr. Lee has worked for a number of sizeable listed groups in Hong Kong before joining the Group in 2000.

TSANG Chin Lap, Johnny

Aged 54. Mr. Tsang has over 35 years experience in hotel industry and has held senior positions as Director of Sales and General Manager in a number of international hotels in Hong Kong before being appointed as General Manager of Empire Landmark Hotel in Vancouver in 2003.

Chairman's Statement

I am pleased to present the annual report of the Group for the year ended 31st March 2004 to the shareholders.

Results

2003/2004 has proved to be an exceptionally difficult year with Group turnover fallen by HK\$22 million to HK\$426 million for the year ended 31st March 2004 as compared with last year. The decrease was mainly in the hotel operation which was seriously affected by outbreak of SARS and the occurrence of Iraq War. These adverse factors had a detrimental effect on tourism industry globally. Locally consumers were reluctant to dine out during the SARS periods and thus our hotel food and beverage and franchised restaurant business suffered tremendously.



Empire Hotel, Hong Kong – Lobby

In light of the above the Group's operating profit decreased by HK\$33.2 million to HK\$29.0 million for the year to 31st March 2004. However, much of the decrease in operating profit was mitigated by reduced finance costs helped by a prevailing low interest rates environment, net investment gain arising from sale of listed shares and lower tax charges and as a result loss attributable to shareholders for the year to 31st March 2004 was HK\$12.0 million as compared to a profit of HK\$5.7 million for 2003.

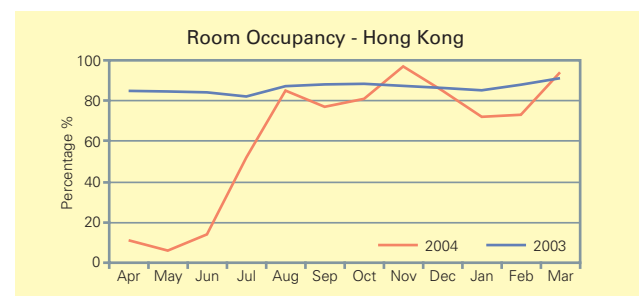
Business Review

For the year ended December 2003 figures issued by the Hong Kong Tourism Board ("HKTB") showed 15.5 million visitors arrivals, a 6.2% decrease from 2002 for reasons mentioned above which lead to 2.3 million fewer visitors during April to July a period worst effected by SARS. However, assisted by the relaxation of travel visa permits to residents of Beijing, Shanghai and major cities in Guangdong, arrivals from the Mainland showed positive growth for 2003 of 24.1%, totaling 8.5 million.

Average occupancy rate across all categories of hotels in Hong Kong for the year to December 2003 was 70% as compared with 84% in 2002.

The Empire Hotel, Hong Kong

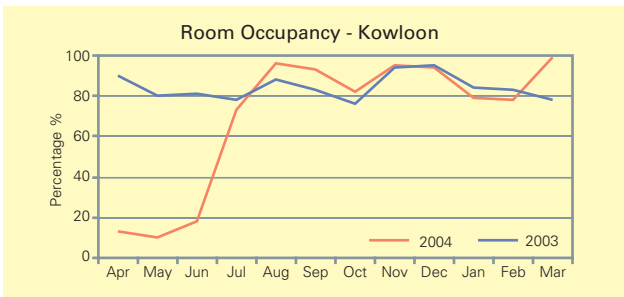
Occupancy for Empire Hotel Hong Kong for the year ended 31st March 2004 was 62% as compared with 85% last year. However, despite the devastating effect of SARS our hotel average rate improved by 6.4% against last year. Overall room revenue fell by HK\$9.2 million or 19.7% over last year while food and beverage, other operating revenue and rental showed a decrease of HK\$2.9 million versus the same period last year.



However, owing to the continuing cost control measures implemented by our hotel, operating costs fell by HK\$5.8 million or 18.2% as compared with last year which has helped to minimise the decrease in the operating profit of this hotel.

The Empire Hotel, Kowloon

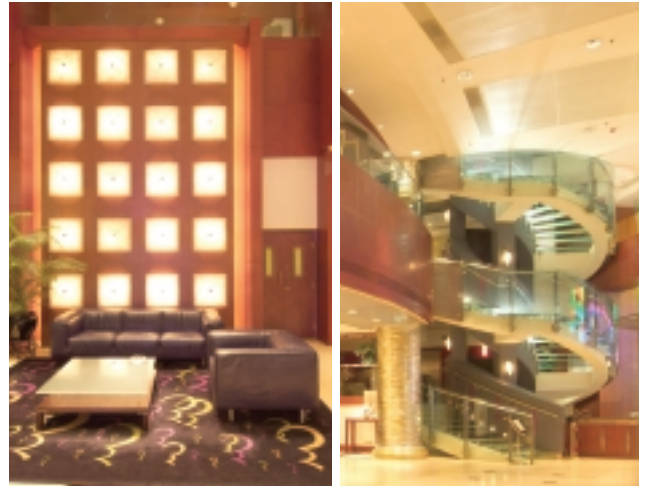
Empire Hotel Kowloon recorded occupancy of 69% for the year ended 31st March 2004, which represents a decrease of 17.8% from 2003. As a result room revenue and other operating revenue fell by HK\$9.0 million and HK\$4.1 million respectively as compared with the same period last year.



Similarly due to a proactive cost reduction program, this hotel's operating cost was reduced by HK\$4.8 million or 15.6% for the year ended 31st March 2004 as compared with the same period last year. Therefore despite a decrease of HK\$12.3 million in total revenue, the operating profit of this hotel decreased only by HK\$7.5 million.



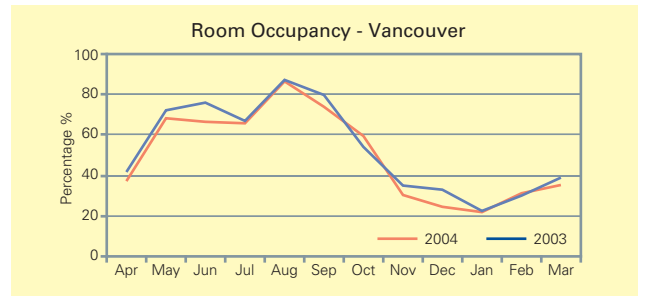
Empire Hotel, Kowloon – Lobby



Empire Hotel, Kowloon – Lobby

The Empire Landmark Hotel, Vancouver

In Canada, the Canadian Tourism Commission ("CTC") recorded international overnight travel to Canada for the year to 31st December 2003 of 17.5 million which is a decrease of 2.9% from 2002.



In view of the above Landmark Hotel occupancy for the year ended 31st March 2004 was 50.2% as versus 53.3% for the same period last year while average rate fell by 11.6%. However, owing to a strong Canadian dollar which had appreciated by 11% over last year, Landmark Hotel's total revenue was HK\$59.2 million for the year ended 31st March 2004 which showed an increase of HK\$0.3 million over last year despite fallen occupancy and average rate.

Chairman's Statement



Empire Landmark Hotel – Guest Room

While the operating cost of this hotel was reduced by C\$0.6 million as compared with 2003 due to cost control measures, the Hong Kong dollar equivalent operating cost increased by HK\$3.0 million due to appreciation of the Canadian dollar, as a result the operating profit of this hotel fell accordingly.

Travel Agency

Locally the Group's travel agency revenue was HK\$248.1 million for the year ended 31st March 2004, which has increased by HK\$10.5 million as compared with last year. This increase in revenue is due primarily to addition of sub-agents during the year which has introduced HK\$58.6 million new business to the company and which has offset decrease in business from our clientele of HK\$48.1 million caused by SARS and Iraq War during the first half of the year.

In view of the adverse market conditions encountered during the year, the Group disposed of the travel agency associated company in September 2003.

Catering Business

As severely affected by the impact of SARS globally and East Rail construction work on Nathan Road locally both our Hong Kong restaurant in Tsim Sha Tsui and our Shanghai restaurant experienced a difficult year during 2004. On the whole our franchised restaurants reported decrease in total revenue of HK\$3.3 million to HK\$16.3 million in 2004.



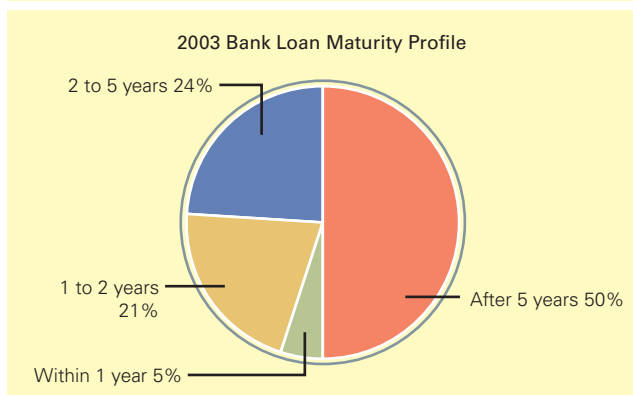
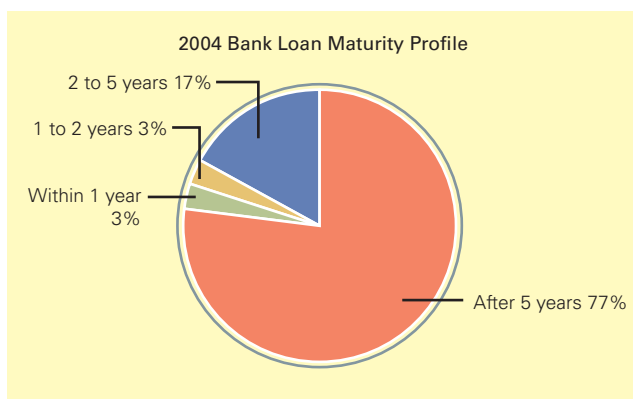
Human resources

As at end of the financial year the total number of employees of the Company and its subsidiaries were reported at 328 as compared with 360 as at 31st March 2003. In addition to salary payment, other benefits include insurance, medical scheme and retirement and others. During the year no share option were granted.

Financial review

Shareholders' funds of the Group stood at HK\$2,006 million which has increased by HK\$124.0 million as compared with last year. Total assets amounted to HK\$3,388 million as at 31st March 2004 as compared with HK\$3,244 million last year. Total borrowings were HK\$1,307 million and HK\$ 1,300 million as at 31st March 2004 and 2003 respectively. The Group's gearing ratio (net debt to equity) was reduced from 67.4% as at 31st March 2003 to 64.5% at 31st March 2004.

As at 31st March 2004, HK\$89.2 million, which represents 6.8% of total borrowings, are repayable within one year. The balance is repayable by various instalments over a long period extending to over 10 years. Moreover, total borrowings are mainly denominated in Hong Kong dollar except for the Vancouver hotel's mortgage loan amounted to HK\$148.6 million (2003: HK\$142.7 million) which was borrowed in Canadian dollar as a hedging against exchange rate fluctuations.



Finance costs continue to decline from HK\$46.8 million in 2003 to HK\$40.2 million in 2004 as interest rates continue to remain at a low level. However, following the recent increase in US interest rates this is likely to exert upward pressure on Hong Kong interest rates in the near future.

The aggregate net book value of fixed assets pledged as securities for loans of the Group amounts to HK\$3,168 million (2003: HK\$3,011 million).

Future prospects

For the first quarter of 2004 HKTG reported that overall arrivals from all markets have reached 4.9 million, ahead of 2003 by 14.7% and 37.3% as compared with 2002. Again, arrivals from China continue to show the strongest growth, increasing by 47% from the same month in 2003 and a huge 110.5% increase from the 2002 figure. Much of the growth is attributable to the popularity of the individual visit scheme, which already covered 16 cities in March and was extended to 7 more with effect from 1 May. A further 9 cities joined the scheme from 1st July 2004. Other factors spurring the expansion of this market

include China's continued strong economic growth, additional air capacity as evidenced by Cathay Pacific's new Beijing flights and visitors' added convenience in being able to use renminbi credit cards in Hong Kong.

Comparison with 2002 figures also indicates that arrivals from Europe and Australia are now ahead of pre-SARS levels while those from the Americas and Southeast Asia are nearing a full recovery. With the Disneyland, Tung Chung Cable Car and Hong Kong Wetland Park all in place by 2006 and the hosting of the 2006 ITU World Telecom exhibition and forum at the new AsiaWorld-Expo facility adjacent to the airport will all help to attract international exhibitors, delegates and their families to Hong Kong.

In view of the above Hong Kong tourism and hotel industry will surely benefit from the increasing arrival of visitors. However, there are still uncertainties that could slow down the recovery momentum, given rising oil prices and hence air-tickets charges, and anticipated increase in interest rates. Nonetheless, the future prospects of the Group's hotel, travel agency and franchised restaurant business remain cautiously optimistic.

In Canada on the other hand, there is reason to be more optimistic for 2004 following the launching of domestic marketing campaign to promote domestic travel. Preliminary survey by CTC shows that Canadians responded favourably by taking additional trips or a longer trip in Canada, generating C\$574 million incremental tourism revenue. This marketing initiative coupled with the coming 2010 Winter Olympics will surely benefit our Vancouver hotel which has recently signed an all-year-round contract with China Eastern Airline for airline crew accommodation as well as further leasing of conference space, which would certainly enhance the profitability of this hotel.

Poon Jing
Chairman

Hong Kong, 19th July 2004

Report of the Directors

The Directors have pleasure in presenting their report together with the audited accounts for the year ended 31st March 2004.

Principal activities and analysis of operations

The principal activity of the Company is investment holding. The principal activities of the principal subsidiaries are set out in note 32 to the accounts.

The activities of the Group are mainly based in Hong Kong, Canada and Mainland China. Analyses of the Group's turnover and contribution to operating profit by principal activity and by principal market are set out in note 2 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st March 2004 are set out in the consolidated profit and loss account on page 16.

The Directors do not propose the payment of a dividend.

Financial summary

A financial summary of the results and of the assets and liabilities of the Group is set out on page 45.

Purchase, sale or redemption of listed securities

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

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 14 to the accounts.

Hotel properties

Details of the hotel properties of the Group are set out on page 46.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 24 to the accounts.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 25 to the accounts.

Directors

The Directors of the Company during the year and at the date of this report were:

Mr. Poon Jing
Mr. Lim Yin Cheng
Mr. Fung Siu To, Clement
Mr. Poon Tin Sau, Robert
Mr. Wong Shu Pui
Mr. Ip Chi Wai (*appointed on 11th December 2003*)
Mr. Liang Shangli
Mr. Lee Man Kwong (*resigned on 11th November 2003*)

In accordance with Bye-law 99 of the Company's Bye Laws, all present Directors retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

None of the Directors has a service contract with the Company, which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Biographical details of directors and senior management

Biographical details of Directors and senior management are set out on pages 4 and 5.

Directors' interests in contracts

Save for contracts amongst group companies, no other contracts of significance in relation to the Company's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding company was a party and in which a Director of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Arrangements to purchase shares or debentures

Apart from the share option scheme of the Company as disclosed on page 14, and that of its holding companies, Asia Orient and that of ASI, at no time during the year was the Company, its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' and Chief Executives' Interests And Short Positions In Shares, Underlying Shares And Debentures

As at 31st March 2004, the interests and short position of the Directors and Chief Executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of the Hong Kong Securities and Futures Ordinance (the "SFO") which (a) are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Rules governing the listing of securities on the Stock Exchange (the "Listing Rules") were as follows:

(I) Long positions in shares

(a) The Company

Director	Number of shares held			Percentage of shares in issue (%)
	Personal interest	Corporate interest	Total	
Mr. Poon Jing	248,937	3,699,148,774	3,699,397,711	73.22

By virtue of his interest in the Company through Asia Orient Holdings Limited ("Asia Orient") and its subsidiaries as disclosed under the heading "Substantial Shareholders" below, Mr. Poon Jing is deemed to be interested in the shares of all of the Company's subsidiaries.

(b) Associated Corporations

Associated Corporation	Director	Number of shares held			Total	Percentage of shares in issue (%)
		Personal interest	Corporate interest	Family interest		
Asia Orient	Mr. Poon Jing	31,714,396	38,011,695	1,396,520	71,122,611	40.99
	Mr. Fung Siu To, Clement	3,949,400	Nil	Nil	3,949,400	2.28
Asia Standard International Group Limited ("ASI")	Mr. Poon Jing (note 1)	4,445,650	2,170,469,712	Nil	2,174,915,362	52.93
Centop Investment Limited (note 2)	Mr. Poon Jing and Mr. Fung Siu To, Clement	Nil	20	Nil	20	20
Mark Honour Limited (note 2)	Mr. Fung Siu To, Clement	1	Nil	Nil	1	10

Notes :

- By virtue of his controlling interest in Asia Orient, Mr. Poon Jing is deemed to be interested in the shares of ASI held by subsidiaries of Asia Orient.
- Subsidiaries of ASI.

Report of the Directors

(II) Long positions in underlying shares

Interests in share options

(a) The Company

No option has been granted under the share option scheme of the Company.

(b) Associated Corporation – Asia Orient

Options to subscribe for 300,000 shares of Asia Orient at exercise price of HK\$17.33 per share granted to each of Messrs. Fung Siu To, Clement, and Lim Yin Cheng, Directors of the Company were cancelled on 26th March 2004. On 12th February 2004, options to subscribe for 1,718,000 shares of Asia Orient were granted to each of Messrs. Fung Siu To, Clement and Lim Yin Cheng at exercise price of HK\$3.3 per share. These options are exercisable from 12th February 2004 to 11th February 2014. During the year, no option was exercised or lapsed. Each of Messrs. Fung Siu To, Clement and Lim Yin Cheng had options to subscribe for 300,000 shares of Asia Orient at 1st April 2003 and options to subscribe for 1,718,000 shares of Asia Orient at 31st March 2004.

Save as disclosed above, as at 31st March 2004, none of the Directors or the Chief Executives (including their spouse and children under 18 years of age) of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which (a) are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or (b) were recorded in the register required to be kept under Section 352 of the SFO; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

Substantial shareholders and other persons' interests and short positions in shares and underlying shares

As at 31st March 2004, according to the register of substantial shareholders kept by the Company under Section 336 of the SFO, the following parties (other than the Directors and Chief Executives of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register required to be kept under Section 336 of the SFO were as follows:

(a) Long position in shares of the Company

	Number of shares	Percentage
Asia Standard International Limited	3,533,280,394	69.94
ASI (<i>note 1</i>)	3,538,335,158	70.04
Asia Orient Company Limited (<i>note 2</i>)	3,699,148,774	73.22
Asia Orient Holdings (BVI) Limited (<i>note 3</i>)	3,699,148,774	73.22
Asia Orient (<i>note 3</i>)	3,699,148,774	73.22
Mr. Poon Jing (<i>note 4</i>)	3,699,397,711	73.22

Notes:

- (1) Asia Standard International Limited is a wholly-owned subsidiary of ASI and ASI is deemed to be interested in and duplicates all the 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 ASI and is deemed to be interested in and duplicates the shares held by ASI.
- (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 shares held by of Asia Orient Company Limited and its subsidiaries.
- (4) Mr. Poon Jing has personal interest in 248,937 shares and by virtue of his interest in Asia Orient, he is deemed to be interested in and duplicates the shares held by Asia Orient.

Save as disclosed above, as at 31st March 2004, the Directors are not aware of any other persons who had interests or short positions in the shares or underlying shares of the Company which are required to be recorded in the register required to be kept under Section 336 of the SFO.

Report of the Directors

Share option scheme

The share option scheme was adopted on 24th May 2000 whereby options may be granted to employees, including the executive directors of the Company and the subsidiaries, to subscribe for shares of the Company. The share option scheme was designed to provide incentive to employees of the Company and its subsidiaries and will remain in force for a period of ten years commencing 24 May 2000. The maximum number of shares in respect of options may be granted under the share option scheme may not exceed 10% (505,210,868 shares at the date of this report) of the issued share capital of the Company in issue from time to time. The maximum entitlement of each participant is 25% of the aggregated number of shares issued or issuable under the share option scheme. The grantee has to pay HK\$1.00 to the Company for acceptance of each option within 28 days from the date of letter by which the option is granted. No option shall be exercised later than 10 years from the date of grant. The exercise price was the higher of (a) the nominal amount of a share; and (b) not less than 80% of the average of the closing price of a share on the Stock Exchange of each of the five trading days immediately preceding the date of the offer of any option.

In accordance with Chapter 17 (Share Schemes) of the Listing Rules, with effect from 1st September 2001, the listed issuers could grant further share options under their existing schemes at exercise prices of at least the higher of the closing price of the shares on the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant.

No option has been granted under the share option scheme.

Pre-emptive rights

No pre-emptive rights exist in Bermuda in respect of the Company's share capital.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

During the year, turnover attributable to the Group's five largest customers was less than 30% of the total turnover of the Group. The percentage of purchases attributable to the Group's five largest suppliers and the Group's largest supplier were 53% and 23.9% respectively.

None of the Directors, their associated corporations, or shareholders, which to the knowledge of the Directors, held any interests in the share capital of the suppliers noted above.

Corporate governance

During the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

Audit committee

The Audit Committee members are Mr. Liang Shangli and Mr. Ip Chi Wai. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee meets at least twice a year for review of the audited annual accounts and the unaudited interim accounts.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
POON Jing
Chairman

Hong Kong, 19th July 2004

Report of the Auditors

To the shareholders of Asia Standard Hotel Group Limited

(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 16 to 44 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibilities towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 31st March 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PRICEWATERHOUSECOOPERS

Certified Public Accountants

Hong Kong, 19th July 2004

Consolidated Profit and Loss Account

For the year ended 31st March 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Turnover	2	425,966	448,215
Cost of sales		(307,429)	(306,702)
Gross profit		118,537	141,513
Administrative expenses		(76,626)	(75,540)
Other charges	3	(12,935)	(3,806)
Operating profit	4	28,976	62,167
Interest income	7	3,485	2,056
Net investment gain/(loss)	8	807	(4,062)
Finance costs	9	(40,200)	(46,845)
Share of loss of an associated company		(712)	(1,158)
(Loss)/profit before taxation		(7,644)	12,158
Taxation	10	(4,323)	(6,445)
(Loss)/profit attributable to shareholders	11	(11,967)	5,713
(Loss)/earnings per share	13	(0.24 cent)	0.11 cent

Consolidated Balance Sheet

As at 31st March 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Fixed assets	14	3,169,702	3,015,926
Goodwill	15	27,918	31,724
Associated company	16	–	11,842
Long term investment	18	1,601	1,601
Deferred tax assets	27	3,814	4,539
Current assets			
Inventories		2,615	2,910
Other investments	19	69,984	92,347
Debtors and prepayments	20	98,429	51,575
Tax recoverable		200	333
Bank balances and cash	21	13,794	30,803
		185,022	177,968
Current liabilities			
Creditors and accruals	22	45,510	42,257
Taxation payable		370	370
Bank overdraft, unsecured		3,941	2
Current portion of long term liabilities	26	43,311	62,094
Convertible notes	23	46,000	–
		139,132	104,723
Net current assets		45,890	73,245
		3,248,925	3,138,877
Financed by:			
Share capital	24	101,042	101,042
Reserves	25	1,905,400	1,781,182
Shareholders' funds		2,006,442	1,882,224
Long term liabilities	26	1,217,737	1,238,065
Deferred tax liabilities	27	24,746	18,588
		3,248,925	3,138,877

Lim Yin Cheng
Director

Fung Siu To, Clement
Director

Balance Sheet

As at 31st March 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Subsidiaries	<i>17</i>	1,529,176	1,486,629
<hr style="border-top: 1px dashed black;"/>			
Current assets			
Debtors and prepayments		426	84
Bank balances		72	87
		498	171
<hr style="border-top: 1px dashed black;"/>			
Current liabilities			
Accruals		1,569	427
Convertible notes	<i>23</i>	46,000	–
		47,569	427
<hr style="border-top: 1px dashed black;"/>			
Net current liabilities		(47,071)	(256)
<hr style="border-top: 1px dashed black;"/>			
		1,482,105	1,486,373
<hr/>			
Financed by:			
Share capital	<i>24</i>	101,042	101,042
Reserves	<i>25</i>	1,381,063	1,385,331
<hr/>			
Shareholders' funds		1,482,105	1,486,373
<hr/>			

Lim Yin Cheng
Director

Fung Siu To, Clement
Director

Consolidated Cash Flow Statement

For the year ended 31st March 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities			
Net cash generated from operations	<i>31(a)</i>	2,069	57,908
Interest paid		(40,285)	(49,634)
Interest element on finance lease		(42)	(40)
Net Hong Kong profits tax refunded/(paid)		102	(39)
Net cash (used in)/from operating activities		(38,156)	8,195
Cash flows from investing activities			
Additions to hotel properties and other fixed assets		(154)	(765)
Proceeds from disposal of other investments		65,645	92,717
Acquisition of other investments		(43,068)	(104,587)
Disposal of subsidiaries	<i>31(b)</i>	–	112
Acquisition of associated company		–	(13,000)
Disposal of associated company		2,000	–
Increase in advance to an investee company		–	(600)
Interest received		2,597	3,751
Dividend received		592	1,530
Net cash from/(used in) investing activities		27,612	(20,842)
Cash flows from financing activities			
Increase in restricted bank balances		–	(6,000)
Issue of convertible notes		46,000	–
Repurchase of own shares		–	(16)
Drawdown of long term bank loans		7,000	–
Repayment of long term bank loans		(63,220)	(48,576)
Repayment of finance lease		(77)	(50)
Net cash used in financing activities	<i>31(c)</i>	(10,297)	(54,642)

Consolidated Cash Flow Statement

For the year ended 31st March 2004

	2004	2003
	HK\$'000	HK\$'000
Decrease in cash and cash equivalents	(20,841)	(67,289)
Cash and cash equivalents (excluding restricted bank balances) at beginning of year	24,801	91,856
Changes in exchange rates	(107)	234
Cash and cash equivalents (excluding restricted bank balances) at end of year	3,853	24,801
Analysis of the balances of cash and cash equivalents		
Bank balances and cash (excluding restricted bank balances)	7,794	24,803
Bank overdraft	(3,941)	(2)
	3,853	24,801

Consolidated Statement of Changes in Equity

For the year ended 31st March 2004

	<i>Note</i>	2004 HK\$'000	2003 HK\$'000
<hr/>			
Balance at beginning of the year			
As previously reported		1,896,273	2,107,774
Change in accounting policy with respect to deferred taxation	25	(14,049)	(7,637)
As restated		1,882,224	2,100,137
<hr/>			
Revaluation surplus/(deficit) of hotel properties, net of taxation	25	111,024	(240,780)
Exchange difference arising on translation of overseas subsidiaries	25	25,161	17,170
<hr/>			
Net gains/(losses) not recognised in the profit and loss account		136,185	(223,610)
<hr/>			
(Loss)/profit for the year	25	(11,967)	5,713
Repurchase of own shares	24 & 25	-	(16)
<hr/>			
Balance at end of the year		2,006,442	1,882,224

Notes to the Accounts

1 Principal accounting policies

(a) Basis of preparation

The accounts have been prepared under the historical cost convention as modified by the revaluation of hotel properties and other investments and in accordance with accounting principles generally accepted in Hong Kong.

In the current year, the Group adopted and implemented the revised Statement of Standard Accounting Practice No. 12 "Income Taxes" ("SSAP 12") issued by the Hong Kong Society of Accountants. The effect of adopting this standard is set out in note 25.

The principal accounting policies adopted in the preparation of these accounts are as follows:

(b) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and all of its subsidiaries made up to 31st March and the Group's share of post-acquisition profits less losses of its associated company.

The results of subsidiaries and associated company 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 or associated company 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 companies in which the Group has the power to exercise control governing the financial and operating policies of the companies. In the Company's balance sheet, investments in subsidiaries are carried at or below cost. Provision is made when, the Directors consider that there is long term impairment in value.

(d) Associated company

An associated company is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management. The Group's investment in the associated company is included in the consolidated balance sheet at the Group's share of net assets and goodwill (net of accumulated amortisation) on acquisition.

(e) Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair values ascribed to the Group's share of the net assets of the acquired subsidiaries and associated company at the effective date of acquisition.

Goodwill arising on acquisitions is included in the balance sheet as a separate asset and amortised using the straight line method over its estimated useful life of not more than twenty years.

Where the fair values ascribed to the net assets exceed the purchase consideration, such differences are recognised in the consolidated profit and loss account in the year of acquisition or over the weighted average useful life of those non-monetary assets acquired.

1 Principal accounting policies (continued)

(f) Fixed assets and depreciation

(i) Hotel properties

Hotel properties are interests in land and buildings and their integral fixed plant, fixtures and fittings which are collectively used in the hotel operation. The initial cost of the hotel operating equipment (linen, silverware and chinaware) was included in the cost of hotel properties and subsequent additions or replacements are charged to the profit and loss account as incurred. Hotel properties are revalued annually based on independent professional valuations on an open market value basis. Changes in the values of hotel properties are dealt with as movements in the hotel properties revaluation reserve. If the reserve is insufficient to cover a revaluation deficit on an individual basis, the excess of the deficit is charged to the profit and loss account.

No depreciation is provided on hotel properties on leases of more than twenty years. It is the Group's practice to maintain hotel buildings in a continued state of sound repair and to make improvements thereto from time to time and accordingly the Directors consider that, given the estimated lives of the hotel properties, any depreciation charge would be insignificant due to their high residual value. Such expenditure on repairs and maintenance on hotel properties is charged to the profit and loss account as incurred.

(ii) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and provision for significant impairment in values, and are depreciated using the straight line method to write off their costs over their estimated useful lives of five years.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group. The carrying amounts of fixed assets are reviewed regularly. Where the estimated recoverable amounts have declined permanently below their carrying amounts, the carrying amounts are written down to their estimated recoverable amounts.

Profit or loss on disposal of a fixed asset is determined as the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(g) 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 determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Other investments

Other investments represent equity securities and are stated in the balance sheet at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair values are recognised in the profit and loss account. Profits or losses on disposals of such investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

Notes to the Accounts

1 Principal accounting policies (continued)

(i) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

(j) 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. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) 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 a fixed asset; 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.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases. Rental payables, net of incentives received from the lessors, under such operating leases are charged to the profit and loss account on a straight line basis over the terms of the leases.

(m) Revenue recognition

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.

Management fee income is recognised when services are rendered.

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.

1 Principal accounting policies (continued)

(n) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at rates ruling at that date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The profit and loss accounts of subsidiaries, denominated in foreign currencies are translated at the weighted average exchange rates during the year and balance sheets are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising from the translation of net investments are dealt with as a movement in reserves.

(o) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

The Group contributes to several defined contribution retirement 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.

(p) Cash and cash equivalents

Cash and cash equivalents are stated in the balance sheet at cost.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdrafts.

2 Turnover and segment information

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

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

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 fixed assets, inventories, debtors and prepayments and mainly exclude the associated company and other investments. Segment liabilities comprise mainly creditors, accruals and long term liabilities.

Notes to the Accounts

2 Turnover and segment information (continued)

Business segments

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Total HK\$'000
Year ended 31st March 2004				
Room rentals	108,655			
Food and beverages	36,207			
Ancillary services	7,226			
Rental income	9,460			
Segment revenue	161,548	16,310	248,108	425,966
Segment results	61,801	(5,093)	(12,512)	44,196
Unallocated corporate expenses				(15,220)
Operating profit				28,976
Interest income				3,485
Net investment gain				807
Finance costs				(40,200)
Share of loss of an associated company	–	–	(712)	(712)
Loss before taxation				(7,644)
Taxation				(4,323)
Loss attributable to shareholders				(11,967)

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services HK\$'000	Total HK\$'000
Year ended 31st March 2003					
Room rentals	128,543				
Food and beverages	37,155				
Ancillary services	9,804				
Rental income	10,893				
Segment revenue	186,395	19,598	237,627	4,595	448,215
Segment results	81,260	(4,737)	(2,352)	1,464	75,635
Unallocated corporate expenses					(13,468)
Operating profit					62,167
Interest income					2,056
Net investment loss					(4,062)
Finance costs					(46,845)
Share of loss of an associated company	–	–	(1,158)	–	(1,158)
Profit before taxation					12,158
Taxation					(6,445)
Profit attributable to shareholders					5,713

2 Turnover and segment information (continued)

Business segments (continued)

	Hotel operation HK\$'000	Catering services HK\$'000	Travel agency HK\$'000	Management services HK\$'000	Total HK\$'000
Year ended 31st March 2004					
Segment assets	3,196,943	14,559	39,578	–	3,251,080
Other investments					69,984
Unallocated corporate assets					66,993
Total assets					3,388,057
Segment liabilities	1,287,828	2,219	14,908	–	1,304,955
Unallocated corporate liabilities					76,660
Total liabilities					1,381,615
Depreciation	442	2,549	98	–	3,089
Amortisation of goodwill	–	1,394	2,412	–	3,806
Capital expenditure					
Segment	12	54	88	–	154
Corporate					–
					154
Year ended 31st March 2003					
Segment assets	3,038,115	18,502	39,436	–	3,096,053
Associated company	–	–	11,842	–	11,842
Other investments					92,347
Unallocated corporate assets					43,358
Total assets					3,243,600
Segment liabilities	1,330,649	2,539	8,637	–	1,341,825
Unallocated corporate liabilities					19,551
Total liabilities					1,361,376
Depreciation	550	4,183	176	115	5,024
Amortisation of goodwill	–	1,394	2,412	–	3,806
Capital expenditure					
Segment	733	–	3	3	739
Corporate					26
					765

Notes to the Accounts

2 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

Geographical segments

	Turnover HK\$'000	Operating profit/(loss) HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
Year ended 31st March 2004				
Hong Kong	360,797	16,185	2,952,424	133
Canada	59,175	13,634	430,657	–
Mainland China	5,994	(843)	4,976	21
	425,966	28,976	3,388,057	154
Year ended 31st March 2003				
Hong Kong	382,926	46,657	2,854,893	751
Canada	58,829	16,299	380,714	14
Mainland China	6,460	(789)	7,993	–
	448,215	62,167	3,243,600	765

3 Other charges

	2004 HK\$'000	2003 HK\$'000
Loss on disposal of an associated company	9,129	–
Amortisation of goodwill	3,806	3,806
	12,935	3,806

4 Operating profit

	2004	2003
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting		
Operating lease rental income for land and buildings	9,460	10,893
Charging		
Staff costs, including directors' emoluments (note 5)	58,265	69,956
Operating lease rental expense for land and buildings	6,235	6,187
Depreciation	3,243	5,283
Auditors' remuneration	1,013	950
Provision for bad and doubtful debts	4,460	151

5 Staff costs

	2004	2003
	HK\$'000	HK\$'000
Wages and salaries	55,873	67,373
Termination benefit	276	123
Retirement benefit costs (note (i))	2,116	2,460
	58,265	69,956

Note:

(i) Retirement benefit costs

	2004	2003
	HK\$'000	HK\$'000
Gross contributions	2,188	2,491
Forfeitures utilised	(72)	(31)
Net contributions	2,116	2,460

The Group participates in three types of 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 several 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.

Notes to the Accounts

5 Staff costs (continued)

(i) Retirement benefit costs (continued)

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% and 4.95% (2003: 4.95%), respectively, of the employee's relevant income in accordance with the local legislative requirements.

The Group's contributions to all these schemes are expensed as incurred. The assets of all retirement schemes are held separately from those of the Group in independently administered funds.

As at 31st March 2004, no forfeitures (2003: HK\$31,000) were available to reduce the Group's future contributions to the ORSO schemes.

(ii) Share option schemes

The Company has a share option scheme whereby options may be granted to employees of the Group including the executive directors, to subscribe for shares of the Company. Consideration to be paid on each grant of option is HK\$1. As at 31st March 2004, no option has been granted under this share option scheme.

6 Directors' and senior management's emoluments

(a) The aggregate amount of emoluments payable to Directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	60	40
Salaries and other emoluments	6,152	7,089
	6,212	7,129

The emoluments of individual Directors fell within the following bands:

	Number	
	2004	2003
Emolument bands		
Nil – HK\$1,000,000	6	6
HK\$1,000,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$2,500,001 – HK\$3,000,000	1	1
	8	8

(b) Emoluments paid to independent non-executive directors amounted to HK\$60,000 (2003: HK\$40,000) during the year. None of the Directors have waived the right to receive their emoluments.

(c) The five highest paid individuals in the Group for the year include four (2003: four) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one (2003: one) individual during the year, which fell between HK\$1,000,001 and HK\$2,000,000 (2003: between HK\$2,500,001 and HK\$3,000,000), amounted to HK\$1,200,000 (2003: HK\$3,000,000).

7 Interest income

	2004 HK\$'000	2003 HK\$'000
Interest income		
Bank deposits	73	128
Loans to third parties	3,412	1,928
	3,485	2,056

8 Net investment gain/(loss)

	2004 HK\$'000	2003 HK\$'000
Profit on realisation of other investments	12,178	525
Net unrealised loss on other investments	(11,963)	(7,275)
Dividend income from listed equity securities	592	1,530
Interest income from unlisted debt securities	–	1,158
	807	(4,062)

9 Finance costs

	2004 HK\$'000	2003 HK\$'000
Interest expense		
Bank loans and overdrafts	36,066	45,263
Convertible notes	2,218	–
Finance lease obligations wholly repayable within five years	42	40
Other incidental borrowing costs	1,874	1,542
	40,200	46,845

10 Taxation

No provision for Hong Kong profits tax has been made as the Group has no assessable profits for the year (2003: Nil). In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. No provision for overseas and Mainland China taxation has been made as there are no assessable profits for the year (2003: Nil).

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax		
Under provision in prior years	30	210
Deferred taxation	1,622	2,940
Overseas tax		
Deferred taxation	2,671	4,107
Mainland China tax		
Deferred taxation	–	(812)
Taxation charge	4,323	6,445

Notes to the Accounts

10 Taxation (continued)

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

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(7,644)	12,158
Calculation at a taxation rate of 17.5% (2003: 16%)	(1,338)	1,945
Under provision in prior years	30	210
Effect of different taxation rates in other countries	(845)	(393)
Income not subject to taxation	(2,377)	(390)
Recognition of previously unrecognised temporary differences	(40)	(451)
Expenses not deductible for taxation purposes	3,182	1,173
Tax losses not recognised	6,866	2,635
Utilisation of previously unrecognised tax losses	(754)	–
Other temporary differences	(171)	1,716
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	(230)	–
Taxation charge	4,323	6,445

11 (Loss)/profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$4,268,000 (2003: loss of HK\$1,495,000).

12 Dividend

No interim dividend was declared for the year (2003: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31st March 2004 (2003: Nil).

13 (Loss)/earnings per share

The calculation of (loss)/earnings per share is based on the consolidated loss attributable to shareholders of HK\$11,967,000 (2003: profit of HK\$5,713,000) and on the weighted average of 5,052,108,681 (2003: 5,052,168,928) shares in issue during the year ended 31st March 2004.

No diluted loss per share is presented as the conversion of the convertible notes would not have a dilutive effect on the loss per share.

14 Fixed assets

	Hotel properties HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Group			
Cost or valuation			
At 31st March 2003	3,010,620	28,641	3,039,261
Exchange difference	44,544	(15)	44,529
Additions	–	154	154
Cost adjustment	854	–	854
Disposals	–	(186)	(186)
Surplus on revaluation	111,532	–	111,532
At 31st March 2004	3,167,550	28,594	3,196,144
Accumulated depreciation			
At 31st March 2003	–	23,335	23,335
Exchange difference	–	(12)	(12)
Charge for the year	–	3,243	3,243
Disposals	–	(124)	(124)
At 31st March 2004	–	26,442	26,442
Net book value			
At 31st March 2004	3,167,550	2,152	3,169,702
At 31st March 2003	3,010,620	5,306	3,015,926

- (a) Hotel properties comprise a long term leasehold property in Hong Kong of HK\$1,400,000,000 (2003: HK\$1,350,000,000), a medium term leasehold property in Hong Kong of HK\$1,350,000,000 (2003: HK\$1,290,000,000) and a freehold property in Canada of HK\$417,550,000 (2003: HK\$370,620,000). The hotel properties in Hong Kong and Canada were revalued by Knight Frank and Grant Thornton Management Consultants respectively, independent professional valuers, on an open market value basis as at 31st March 2004.
- (b) All other fixed assets are stated at cost less accumulated depreciation. The net book value of the fixed assets held by the Group under finance leases amounted to HK\$242,000 (2003:HK\$290,000).
- (c) The aggregate net book value of fixed assets pledged as securities for loans of the Group amounts to HK\$3,167,550,000 (2003:HK\$3,010,620,000).

Notes to the Accounts

15 Goodwill

	HK\$'000
Cost	
At 31st March 2004 and 31st March 2003	38,581
Accumulated amortisation	
At 31st March 2003	6,857
Charge for the year	3,806
At 31st March 2004	10,663
Net book value	
At 31st March 2004	27,918
At 31st March 2003	31,724

16 Associated company

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	–	(132)
Goodwill on acquisition less amortisation	–	11,974
	–	11,842

In September 2003, the Group disposed of an associated company which was engaged in travel agency services for a consideration of HK\$2 million.

17 Subsidiaries

	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–
Amounts due from subsidiaries	1,543,450	1,499,040
Amounts due to subsidiaries	(14,274)	(12,411)
	1,529,176	1,486,629

Details of the principal subsidiaries are set out in note 32.

18 Long term investment

	Group	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Advance to an investee company	1,600	1,600
	1,601	1,601

Advance to an investee company is unsecured, interest free and has no fixed terms of repayment.

19 Other investments

	Group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities		
Listed in Hong Kong	69,984	91,340
Unlisted	–	1,007
	69,984	92,347

20 Debtors and prepayments

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 day to 60 days	28,693	17,591
61 days to 120 days	2,716	3,198
More than 120 days	3,339	3,159
	34,748	23,948

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 receivables, credit evaluations of customers are performed periodically.

- (b) Included in debtors and prepayments are loans receivable of HK\$45,000,000 (2003: HK\$3,000,000) which are unsecured, interest bearing at 2% above prime rate (2003: 8%) per annum, and repayable in September 2004 (2003: September 2003).
- (c) As at 31st March 2003, an amount of HK\$4,605,000 receivable from a Director of the Company was included in debtors and prepayments.

Notes to the Accounts

21 Bank balances and cash

The balances include restricted bank balances of HK\$6,000,000 (2003: HK\$6,000,000) which are pledged to a bank to secure the banking facilities.

22 Creditors and accruals

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

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 day to 60 days	17,323	11,985
61 days to 120 days	3,801	4,622
More than 120 days	1,283	1,315
	22,407	17,922

23 Convertible notes

On 15th April 2003, the Company completed a placing of convertible notes of the principal amount of HK\$46,000,000, which bears interest at Hong Kong prime rate per annum payable semi-annually in arrears. Each holder of the notes has the option to convert the notes into fully paid shares of HK\$0.02 each of the Company at a conversion price of HK\$0.25 per share, subject to adjustment, at any time from the date of issue to the last business date preceding the maturity date of 18 months from the date of issue. The Company shall redeem the outstanding principal amount of convertible notes not already converted or redeemed with accrued interest on the maturity date.

24 Share capital

	Number of shares of HK\$0.02 per share	HK\$'000
Authorised:		
At 31st March 2003 and 2004	25,000,000,000	500,000
Issued and fully paid:		
At 31st March 2002	5,052,218,681	101,044
Repurchase of own shares (note (i))	(110,000)	(2)
At 31st March 2003 and 2004	5,052,108,681	101,042

- (i) In October 2002, the Company repurchased 110,000 of its own shares on the Stock Exchange of Hong Kong Limited. The repurchased shares were cancelled.

25 Reserves

	Share premium HK\$'000	Contributed surplus HK\$'000	Hotel properties revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
Group						
At 31st March 2002						
As previously reported	299,784	899,333	568,875	(13,517)	252,255	2,006,730
Change in accounting policy with respect to deferred taxation	–	–	(2,041)	–	(5,596)	(7,637)
As restated	299,784	899,333	566,834	(13,517)	246,659	1,999,093
Translation difference	–	–	826	16,344	–	17,170
Repurchase of own shares	(14)	–	–	–	–	(14)
Deficit on revaluation						
Gross	–	–	(240,603)	–	–	(240,603)
Taxation	–	–	(177)	–	–	(177)
Profit for the year attributable to shareholders	–	–	–	–	5,713	5,713
At 31st March 2003	299,770	899,333	326,880	2,827	252,372	1,781,182
Company and subsidiaries	299,770	899,333	326,880	2,827	253,530	1,782,340
Associated company	–	–	–	–	(1,158)	(1,158)
	299,770	899,333	326,880	2,827	252,372	1,781,182
At 31st March 2003						
As previously reported	299,770	899,333	329,098	2,827	264,203	1,795,231
Change in accounting policy with respect to deferred taxation	–	–	(2,218)	–	(11,831)	(14,049)
As restated	299,770	899,333	326,880	2,827	252,372	1,781,182
Translation difference	–	–	1,240	23,921	–	25,161
Surplus on revaluation						
Gross	–	–	111,532	–	–	111,532
Taxation	–	–	(508)	–	–	(508)
Loss for the year attributable to shareholders	–	–	–	–	(11,967)	(11,967)
At 31st March 2004	299,770	899,333	439,144	26,748	240,405	1,905,400

Notes to the Accounts

25 Reserves (continued)

As a result of the adoption of the revised SSAP 12, the opening revenue reserve at 1st April 2003 and 2002 have been reduced by HK\$11,831,000 and HK\$5,596,000 respectively and the opening hotel properties revaluation reserve at 1st April 2003 and 2002 have been reduced by HK\$2,218,000 and HK\$2,041,000 respectively which represent the unprovided net deferred tax liabilities. This change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st March 2003 by HK\$4,539,000 and HK\$18,588,000 respectively. The profit for the year ended 31st March 2003 has been reduced by HK\$6,235,000.

	Share premium HK\$'000	Contributed surplus HK\$'000	Revenue reserve HK\$'000	Total HK\$'000
Company				
At 31st March 2002	299,784	1,088,229	(1,173)	1,386,840
Repurchase of own shares	(14)	–	–	(14)
Loss for the year attributable to shareholders	–	–	(1,495)	(1,495)
At 31st March 2003	299,770	1,088,229	(2,668)	1,385,331
Loss for the year attributable to shareholders	–	–	(4,268)	(4,268)
At 31st March 2004	299,770	1,088,229	(6,936)	1,381,063

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 amount to HK\$1,081,293,000 (2003: HK\$1,085,561,000).

26 Long term liabilities

	Group	
	2004 HK\$'000	2003 HK\$'000
Bank loans, secured (note a)		
Repayable within one year	43,220	62,017
Repayable within one to two years	41,220	271,016
Repayable within two to five years	223,661	310,049
Repayable after five years	952,541	656,628
	1,260,642	1,299,710
Obligations under finance leases wholly repayable within five years (note b)	406	449
	1,261,048	1,300,159
Current portion included in current liabilities	(43,311)	(62,094)
	1,217,737	1,238,065

- (a) The bank loans are secured by mortgages of the Group's hotel properties (note 14(c)), floating charges over all the assets of certain subsidiaries and corporate guarantees given by the Company.

26 Long term liabilities (continued)

(b) At 31st March 2004, the Group's finance lease liabilities were repayable as follows:

	Present value		Minimum payment	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	91	77	121	112
In the second year	99	84	121	112
In the third to fifth year	216	243	239	282
After the fifth year	–	45	–	45
	406	449	481	551

(c) Subsequent to the year end, the Group refinanced a bank loan outstanding at 31st March 2004 amounting to HK\$582,000,000 and revised the repayment terms of another bank loan. The terms of repayment at 31st March 2004 in respect of these bank loans have been reclassified according to the new bank loan agreements. As a result, the amount of liabilities which has been excluded from current liabilities amounts to HK\$236,000,000 (2003: Nil).

27 Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using applicable tax rates prevailing in the countries in which the Group operates.

The movement of the net deferred tax liabilities account is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
At beginning of the year	14,049	7,637
Exchange difference	2,082	–
Charged to profit and loss account	4,293	6,235
Charged to equity	508	177
At end of the year	20,932	14,049

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

	Accelerated tax	Revaluation of	Total
	depreciation	hotel properties	
	HK\$'000	HK\$'000	HK\$'000
Group			
Deferred tax liabilities			
At 31st March 2002	73,431	2,041	75,472
Exchange difference	400	–	400
Charged to profit and loss account	9,462	–	9,462
Charged to equity	–	177	177
At 31st March 2003	83,293	2,218	85,511
Exchange differences	2,543	266	2,809
Charged to profit and loss account	13,873	–	13,873
Charged to equity	–	508	508
At 31st March 2004	99,709	2,992	102,701

Notes to the Accounts

27 Deferred taxation (continued)

	Accelerated accounting depreciation HK\$'000	Tax losses HK\$'000	Provision HK\$'000	Total HK\$'000
Group				
Deferred tax assets				
At 31st March 2002	84	67,747	4	67,835
Exchange difference	–	400	–	400
Credited to profit and loss account	206	3,021	–	3,227
At 31st March 2003	290	71,168	4	71,462
Exchange differences	–	727	–	727
Credited to profit and loss account	138	9,007	435	9,580
At 31st March 2004	428	80,902	439	81,769

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to set off current tax assets with current tax liabilities and when the deferred taxation relates to the same authority. The following amounts, determined after appropriate offsetting are shown separately on the balance sheet.

	Group	
	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	(3,814)	(4,539)
Deferred tax liabilities	24,746	18,588
	20,932	14,049

Deferred 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 has unrecognised tax losses of approximately HK\$97 million (2003: HK\$61 million) to carry forward against future taxable income. These tax losses of approximately HK\$27 million (2003: HK\$9 million) have no expiry date and the balance will expire at various dates up to and including 2011 (2003: 2010).

28 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 9 years.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	10,218	10,628
In the second to fifth years inclusive	24,931	27,926
After the fifth year	7,915	10,031
	43,064	48,585

As at 31st March 2004, the Company had no operating lease receipts (2003: Nil).

28 Operating lease arrangements (continued)

(b) Lessee

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	4,792	5,906
In the second to fifth years inclusive	12,712	8,346
After the fifth year	–	864
	17,504	15,116

As at 31st March 2004, the Company had no operating lease payments (2003: Nil).

Subsequent to the year end, a subsidiary has renewed a lease agreement. As a result, the future aggregate minimum lease payments payable within one year and in the second to fifth years inclusive should have been increased by HK\$2,082,000 and HK\$5,814,000 respectively.

29 Contingent liabilities

	Company	
	2004 HK\$'000	2003 HK\$'000
Guarantees by the Company for the loans and banking facilities of subsidiaries	1,264,583	1,299,710

As at 31st March 2004, the Group had no contingent liabilities (2003: Nil).

30 Related party transactions

The following is a summary of significant related party transactions during the year:

	2004 HK\$'000	2003 HK\$'000
(i) Operating lease rental expense for land and buildings to fellow subsidiaries	(463)	(684)
(ii) Hotel revenue from intermediate holding company and a fellow subsidiary	17	44
(iii) Management services income from fellow subsidiaries	–	1,601
(iv) Management services expenses to fellow subsidiaries	(821)	(728)
(v) Disposal of subsidiaries to a fellow subsidiary	–	4,129
(vi) Receivable from a Director	–	4,605

Notes to the Accounts

30 Related party transactions (continued)

Notes:

- (i) Rental expense is subject to terms agreed by the parties involved, which is at a monthly fixed fee.
- (ii) Hotel revenue is charged at prices and terms no less than those charged to other third party customers.
- (iii) Management services income, including repair and maintenance, cleaning, property management and administration, were subject to terms agreed by the parties involved, which were at fixed fees.
- (iv) Management services expenses, including cleaning, repair and maintenance, are subject to terms agreed by the parties involved, which are at fixed fees.
- (v) In August 2002, the Group disposed of 100% of the entire issued share capital of three subsidiaries which were engaged in property management, cleaning services and providing mechanical and electrical services, to a fellow subsidiary, at a total consideration based on the aggregate net asset value of these subsidiaries.
- (vi) On 6th April 2001, the Group acquired the entire issued share capital of JBC Travel Company Limited ("JBC") at a consideration of HK\$36,000,000, from Hong Kong Enterprise International Limited, a company owned by Mr. Poon Jing, a Director of the Company. Mr. Poon Jing has provided a guarantee to the Group that the net profit before interest and taxation of JBC as stated in the audited accounts of JBC for the year ended 31st March 2002 and 2003 shall not be less than HK\$5,000,000 for each of such respective years.

The net profit before interest and taxation of JBC for the year ended 31st March 2003 was HK\$294,000. Accordingly, Mr. Poon Jing was required to pay an amount equal to the shortfall of HK\$4,706,000 to the Group. The amount receivable of HK\$4,605,000 was fully settled during the year.

31 Notes to consolidated cash flow statement

(a) Reconciliation of (loss)/profit before taxation to net cash generated from operations

	2004	2003
	HK\$'000	HK\$'000
(Loss)/profit before taxation	(7,644)	12,158
Share of loss of an associated company	712	1,158
Loss on disposal of an associated company	9,129	–
Depreciation	3,243	5,283
Interest income	(3,485)	(3,214)
Dividend income	(592)	(1,530)
Finance costs	40,200	46,845
Profit on realisation of other investments	(12,178)	(525)
Net unrealised loss on other investments	11,963	7,275
Loss on disposal of fixed assets	62	–
Amortisation of goodwill	3,806	3,806
Operating profit before working capital changes	45,216	71,256
Decrease in inventories	295	791
Increase in debtors and prepayments	(45,968)	(6,046)
Increase/(decrease) in creditors and accruals	2,526	(8,093)
Net cash generated from operations	2,069	57,908

31 Notes to consolidated cash flow statement (continued)

(b) Disposal of subsidiaries

	2004	2003
	HK\$'000	HK\$'000
Net assets disposed of		
Fixed assets	–	433
Debtors and prepayments	–	7,473
Tax recoverable	–	83
Bank balances and cash	–	4,017
Creditors and accruals	–	(7,877)
Cash consideration received	–	4,129

Analysis of net inflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration received	–	4,129
Bank balances and cash disposed of (excluding balances held in trust)	–	(4,017)
	–	112

(c) Analysis of changes in financing during the year

	Share capital, share premium, contributed surplus HK\$'000	Restricted bank balances HK\$'000	Finance lease payable HK\$'000	Convertible notes HK\$'000	Long term bank loans HK\$'000	Total HK\$'000
At 31st March 2002	1,300,161	–	469	–	1,335,653	2,636,283
Net cash used in financing	(16)	(6,000)	(50)	–	(48,576)	(54,642)
Changes in exchange rates	–	–	30	–	12,633	12,663
At 31st March 2003	1,300,145	(6,000)	449	–	1,299,710	2,594,304
Net cash (used in)/ from financing	–	–	(77)	46,000	(56,220)	(10,297)
Changes in exchange rates	–	–	34	–	17,152	17,186
At 31st March 2004	1,300,145	(6,000)	406	46,000	1,260,642	2,601,193

Notes to the Accounts

32 Principal subsidiaries

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

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

Name	Principal activity	Issued and fully paid ordinary share capital / registered capital
<i>Incorporated in Hong Kong</i>		
Asia Standard Hotel (Holdings) Limited	Investment holding	HK\$2
Grace Profit Enterprises Limited	Investment holding	HK\$2
JBC Travel Company Limited	Travel agency	HK\$2,500,000
Perfect Wave Limited	Catering operation	HK\$2
Stone Pole Limited	Hotel investment and operation	HK\$10
Vinstar Development Limited	Hotel investment and operation	HK\$2
<i>Incorporated in the British Virgin Islands</i>		
Empire Hotel Investment Limited	Investment holding	US\$1
Enrich Enterprises Limited *	Hotel investment	US\$1
Global Gateway Corp. *	Hotel operation	US\$1
Glory Ventures Enterprises Inc. *	Hotel investment	US\$1
Greatime Limited	Securities investment	US\$1
Superite Limited	Securities investment	US\$1
<i>Incorporated in the People's Republic of China ("PRC")</i>		
Shanghai Hong Hua T.G.I. Friday's Restaurant Co. Ltd. (95% owned) #	Catering operation	RMB17,384,640

* Operates in Canada

Operates in PRC, corporative joint venture

33 Ultimate holding company

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

34 Approval of accounts

The accounts were approved by the Board of Directors on 19th July 2004.

Financial Summary

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	425,966	448,215	424,884	160,457	174,902
(Loss)/profit before taxation	(7,644)	12,158	18,463	28,898	27,320
Taxation (charge) / credit (note 1)	(4,323)	(6,445)	(477)	267	(364)
(Loss)/profit attributable to shareholders	(11,967)	5,713	17,986	29,165	26,956

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets (note 1)	3,388,057	3,243,600	3,535,026	3,232,997	2,771,392
Total liabilities (note 1)	(1,381,615)	(1,361,376)	(1,427,252)	(1,241,623)	(1,247,491)
Shareholders' funds	2,006,442	1,882,224	2,107,774	1,991,374	1,523,901

Notes:

- (1) The 2003 figures have been restated as a result of changes in accounting policy upon the adoption of the revised SSAP 12 "Income taxes". The figures prior to 2003 have not been restated.
- (2) The financial summary of the Group for 2000 has been prepared on the basis that the structure and business activities of the Group immediately after the completion of group reorganisation in 2000 had been in existence throughout that year.

Hotel Properties

	Group's interest	Approx. site area (sq.ft.)	Approx. gross floor area (sq.ft.)
Hotel Properties			
1. Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong	100%	11,000	184,000 (360 rooms)
2. Empire Hotel Kowloon, 62 Kimberley Road, Tsimshatsui, Kowloon	100%	11,400	220,000 (315 rooms)
3. Empire Landmark Hotel, 1400 Robson Street, Vancouver B. C., Canada	100%	41,000	420,000 (358 rooms)