Asia Standard Hotel Group Limited

Stock Code : 292

Annual Report
2006

Contents

Corporate Information

Directors

Executive

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

Non-executive

Mr. Liang Shangli

Independent Non-executive

Mr. Ip Chi Wai
Mr. Leung Wai Keung, Richard
Mr. Hung Yat Ming

Audit committee

Mr. Hung Yat Ming *(Chairman)*
Mr. Leung Wai Keung, Richard
Mr. Ip Chi Wai

Remuneration committee

Dr. Lim Yin Cheng *(Chairman)*
Mr. Hung Yat Ming
Mr. Ip Chi Wai

Authorised representatives

Dr. 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
E-mail: info@asia-standard.com.hk
Facsimile 2866 3772

Principal bankers

Bank of China (Hong Kong) Limited
CITIC Ka Wah Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation 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
46th Floor, Hopewell Centre,
183 Queen's Road East,
Hong Kong

Financial Highlights

For the year ended 31st March	**2006**	2005 (restated)	Change
(in HK$ million, except otherwise indicated)			
Consolidated profit and loss account			
Turnover	**570**	569	–
Gross operating profit *	**136**	105	+30%
Depreciation and amortisation	**(73)**	(72)	+1%
Finance costs	**(54)**	(38)	+42%
(Loss)/profit attributable to shareholders	**(21)**	29	N/A
(Loss)/earnings per share (HK cents)	**(0.38)**	0.58	N/A

* Represents operating profit before other non-cash accounting charges of depreciation and amortisation on hotel properties, fair value of share option expenses and goodwill amortisation and impairment loss.

Consolidated balance sheet			
Total assets	**2,417**	2,540	-5%
Net asset value	**1,476**	1,227	+20%
Net debt	**837**	1,190	-30%
Supplementary information with hotel properties at valuations (note):			
Revalued total assets	**3,717**	3,584	+4%
Revalued net asset value	**2,725**	2,223	+23%
Revalued net asset value per share (HK$)	**0.43**	0.44	-2%
Gearing – net debt to revalued net asset value (%)	**31%**	54%	-23%

Note: Hong Kong Financial Reporting Standards ("HKFRS") do not permit leasehold land to be carried at valuation. The Group considers that such treatment does not reflect the economic substance of its hotel property investments. Therefore the Group has presented supplementary unaudited financial information taking into account the fair market value of hotel properties in addition to those in accordance with HKFRS.

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 2006.

Chairman's Statement

"The Group is well positioned to capitalise on the benefits of the thriving hotel industry."

I have the pleasure to present the Group's Annual Report for the year ended 31st March, 2006. The Group recorded a 30% increase in the Gross Operating Profit despite a HK$20.8 million loss attributable to shareholders mainly due to non cash accounting charges as a result of the Group's first time adoption of the new Hong Kong Financial Reporting Standard (HKFRS) in the financial statement.

Average room rates and occupancy of our Hong Kong hotels increased by 16% and 3% respectively over last year. Our Vancouver hotel also showed a steady increase of 14% in turnover. The travel agency and franchised restaurant business in Hong Kong & Shanghai remain steady with slight improvement over last year.

Total borrowings were reduced during and after the reporting period by HK$688 million which is close to 55% of total borrowings. The reduction in gearing will reduce the Group's financial expenses and improve the Group's financial strength.

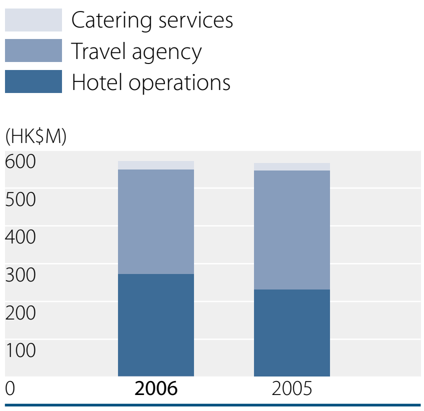
With Empire Hong Kong completing all room renovation in August 2006, the Group's continuing efforts in expanding its high yield business, and the low gearing, we are confident that the Group will achieve a better result in the coming year.

2006 is designated by the Hong Kong government as the tourism year; Asia World Expo and tourist attractions such as Wetland Park and Ngong Ping 360 (Tung Chung Skyrail), Macau's casino and Fishermen's Wharf are opening in 2006; Hong Kong is officially included in China's 11th 5 years plan for its strategic importance in the financial, trading and logistic development of the country. We believe Hong Kong will continue to thrive as a vibrant city in the region and are optimistic that our Group is well-positioned to capitalise on the benefits of the thriving hotel industry.

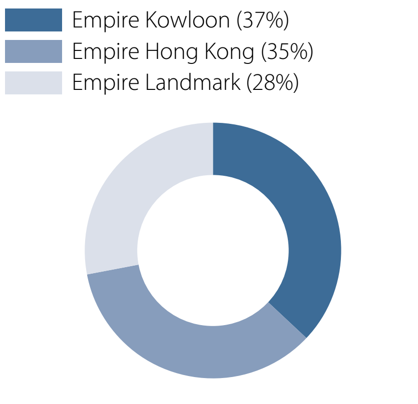
By Order of the Board
Poon Jing
Chairman
Hong Kong, 13th July 2006

Business and Financial Review

Revenue by business segment



2006 Revenue by hotels



"There was a significant growth in the profitability of the Group's hotel operations in 2006."

Results

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 is the first time the group publishes 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).

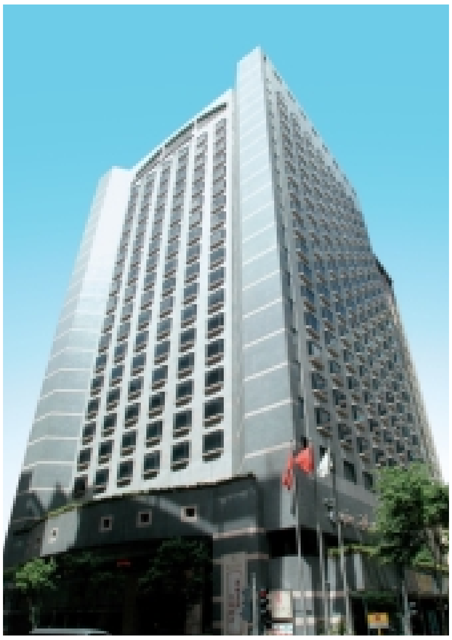
Business review

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.

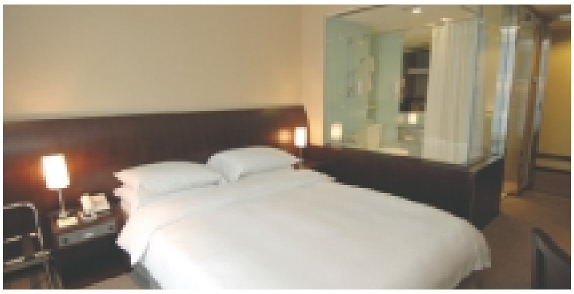
Despite a significant 12% increase in the hotel room inventory in Hong Kong, the average occupancy rate across all categories of hotels in Hong Kong for 2005 remained strongly at 86%.

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

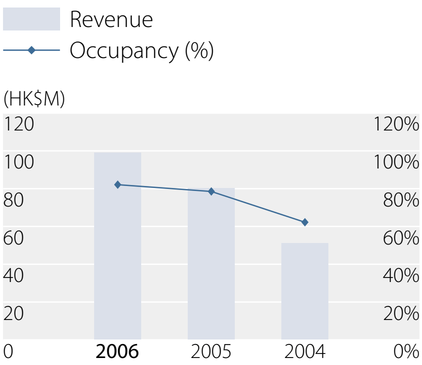
Business and Financial Review



The Empire Hotel Hong Kong



The Empire Hotel Hong Kong

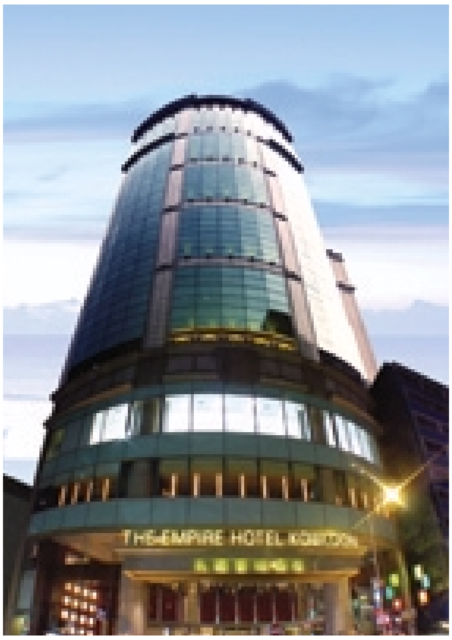


The Empire Hotel, Hong Kong

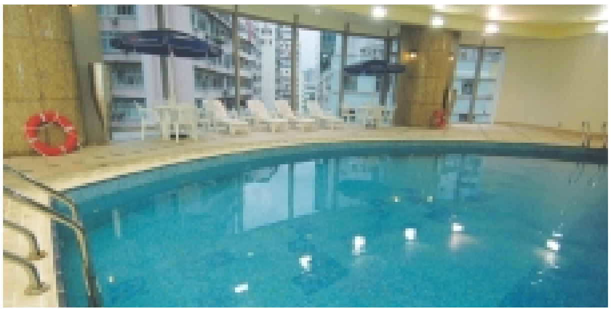
Empire Hotel Hong Kong achieved occupancy of 82% for the year ended 31st March 2006 as compared with 78% last year, while average room rate also increased by 16%. These improvements were mainly due to the up-graded guest rooms that were well received by guests. During the year, over 80% of the guest rooms were newly renovated with further room improvement plans due to be carried out in 2006/2007. As a result, room revenue and gross operating profit increased sharply by HK$19 million and HK$12 million to HK$ 99.5 million and HK$59.7 million respectively, both increased approximately 24% over last year.

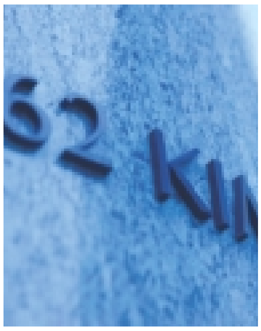
With all the 362 guest rooms due to be fully renovated in 2006/2007, room rates and occupancy are expected to improve further. This hotel, which is conveniently located near the Wanchai convention center, continues to attract more business travelers through meetings and conventions, and other high yield business.

Business and Financial Review

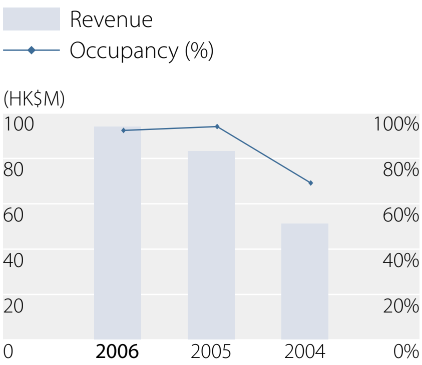


The Empire Hotel Kowloon





The Empire Hotel Kowloon



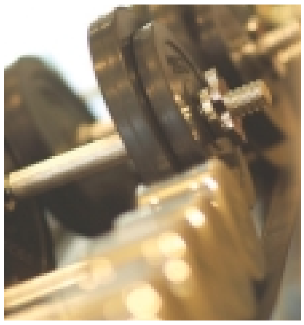
The Empire Hotel, Kowloon

Empire Hotel Kowloon recorded occupancy of 92% for the year ended 31st March 2006, which is similar to last year. The average room rate, however, rose by 16% as compared with 2005. This has led to an increase of revenue by HK$11 million to HK$94 million, and an increase in gross operating profit by HK$8 million to HK$58 million.

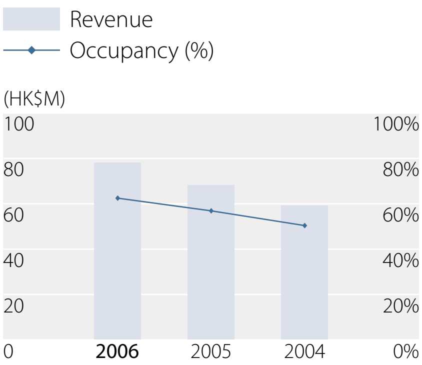
These positive results are attributed mainly to the growth in our improved room rate from the increased high yield corporate and leisure groups as well as individual travelers from PRC. These travelers are attracted by our prime location in Tsim Sha Tsui, the heart of the very popular tourist area in Hong Kong.

Business and Financial Review

The Empire Landmark Hotel Vancouver



The Empire Landmark Hotel Vancouver



The Empire Landmark Hotel, Vancouver

Hotel occupancy across Greater Vancouver for the year to December 2005 was 69.4%, an increase of 2.9% over last year, while average room rate rose by 2.8%.

Empire Landmark hotel's occupancy rose from 56.7% in 2005 to 62.3% in 2006, while its average room rate remained similar. As a result, and as boosted by a strong Canadian dollar that had appreciated by 6% during the year, the total revenue increased by HK$9.7 million or 14% to HK$77.6 million.

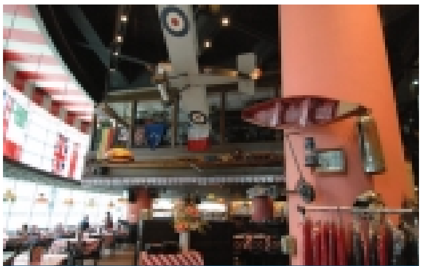
The acknowledgement by China of Canada being an approved travel destination will undoubtedly benefit tourism in cities such as Vancouver, and more specifically the hotel industry in the near future.

Business and Financial Review

JBC Travel Company Limited

Travel Agency

The travel agency's revenue reduced 13% to HK$276.4 million for the year ended 31st March 2006 as management has gradually shifted away from the low margin segments of the travel agency business. In addition, the company will continue its effort to tighten up its credit policy for enhancing the quality of its trade receivables.



T.G.I. Friday's

Catering Business

The revenue of our franchised restaurants increased by 10% to HK$22.4 million for the year ended 31st March 2006 as compared with last year. Following the opening of the East Rail terminal on Nathan Road Tsim Sha Tsui towards the end of 2004, patron's number for our Kowloon store has returned the level prior to the closure of Nathan Road. Our Shanghai store continues to show positive growth as boosted by strong consumer spending. This year the two restaurants recorded a gross operating profit of HK$3.5 million, an increase of 25% as compared with last year.

Human resources

As at 31st 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 31st October 2005. Up to 31st March 2006, the options for a total of 246,000,000 shares were exercised.

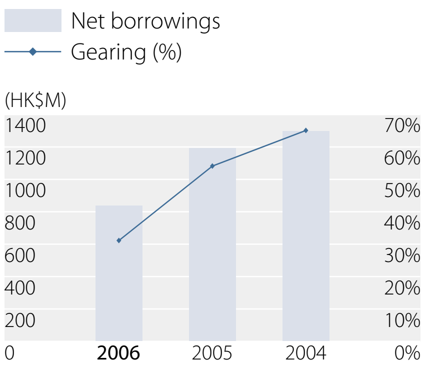
Financial review

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 31st 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 31st 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 31st March 2006 reduced to 31% from 54% of last year.

Gearing ratio
(Net debt to revalued net asset value)



Business and Financial Review

As at 31st 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$142 million (2005: HK$148.1 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$17.9 million to HK$55.6 million for the year ended 31st March 2006, which represented a 47% 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 securities for loans of the Group as at 31st March 2006 amounted to HK$2,203 million (2005: HK$2,241.0 million as restated).

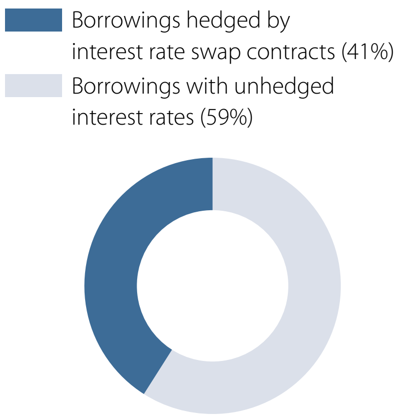
Future Prospects

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.

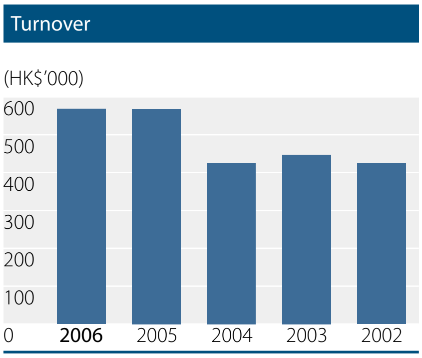
Total borrowings as at 31st March 2006

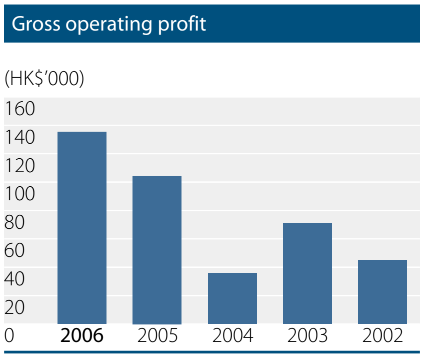


Similarly, our franchised restaurants will also benefit by the thriving tourist industry here locally while our Shanghai restaurant is expected to maintain stable growth in revenue and profitability.

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.

Financial Summary





Year ended 31st March	**2006** **HK$'000**	2005 HK$'000 (restated)	2004 HK$'000 (restated)	2003 HK$'000 (restated)	2002 HK$'000 (restated)
Turnover	**569,792**	569,248	425,966	448,215	424,884
Gross operating profit	**135,547**	104,699	36,026	71,255	46,200
Depreciation and amortisation	**(72,741)**	(71,799)	(77,209)	(77,443)	(51,083)
Finance cost	**(54,280)**	(37,695)	(41,073)	(46,845)	(23,409)
(Loss)/profit attributable to shareholders	**(20,843)**	29,207	(71,359)	(53,151)	(18,802)

	2006 **HK$'000**	2005 HK$'000 (restated)	2004 HK$'000 (restated)	2003 HK$'000 (restated)	2002 HK$'000 (restated)
Total assets	**2,416,761**	2,540,136	2,543,117	2,584,162	2,711,774
Total liabilities	**(940,276)**	(1,313,106)	(1,356,379)	(1,342,788)	(1,427,252)
Shareholders' funds	**1,476,485**	1,227,030	1,186,738	1,241,374	1,284,522

Note:

The Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and HKAS (collectively "HKFRS") which are effective for accounting periods commencing on or after 1st January 2005 as described in note 1 to the financial statement. As a result, the 2002, 2003, 2004 and 2005 figures have been restated.

Hotel Properties

	Group's interest	Approx. site area (sq.ft.)	Approx. gross floor area (sq.ft.)
1. Empire Hotel, 33 Hennessy Road, Wanchai, Hong Kong	100%	10,600	184,000 (362 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)

Corporate Governance Report

Corporate governance practices

The Company is committed to raise its corporate governance standards by emphasising transparency, independence, accountability, responsibility and fairness. During the year, the Company exercises corporate governance through the Board and various committees.

Board of Directors

The Board of Directors ("Board") consists of five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The posts of Chairman and Chief Executive are separate and are held by different individuals. The Chairman, Mr. Poon Jing, is responsible for overseeing the functioning of the Board and the strategies and policies of the Group. The Chief Executive and Deputy Chairman, Dr. Lim Yin Cheng is responsible for managing the Group's business. The relationship of the Directors are disclosed in the biography of Directors set out in the Directors and Senior Management section.

According to the Bye-laws of the Company, at every annual general meeting of the Company one-third of the Directors (other than the Chairman and the Managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding one-third, shall retire from office by rotation. The Chairman and the Managing Director shall retire voluntarily at the Annual General Meeting every three years in accordance with the Code on Corporate Governance Practices. A retiring Director shall be eligible for re-election at the meeting. The Non-executive Director and Independent Non-executive Directors are not appointed for a specific term but are subject to rotation in accordance with the Bye-laws of the Company and The Code on Corporate Governance Practices.

The Board meets quarterly and is responsible for the formulation and reviewing of long-term business directions and strategies, to monitor the operating and financial performance of the Group. It also considers and approves future strategic plans and budgets for the Group. The management is delegated with the authority to make decisions and responsible for daily operations of the Group under the leadership of the Chief Executive. The management provides explanation and information to the Board to enable the Board to make an informed assessment of the financial and other information put before the Board for approval. The Chief Executive, working with the other Executive Directors and the head of each division, is responsible for managing the business of the Group, including implementation of strategies adopted by the Board and assuming full accountability to the Board for operations of the Group. All executive Directors have made full and active contributions to the affairs of the Board.

Corporate Governance Report

The Directors are responsible for selecting and consistently applying appropriate accounting policies and preparing financial statements which give a true and fair view. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The Board acknowledges that it is its responsibility to prepare the financial statement and to present a balanced, clear and comprehensive assessment to annual and interim reports, other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.

During the year, the Board held four regular meetings. The Directors of the Board and the attendance of each Directors are as follows :–

Name of director	Title	Attendance at Board Meetings/ No. of Board Meetings held
Mr. Poon Jing	Chairman	4/4
Dr. Lim Yin Cheng	Deputy Chairman and Chief Executive	4/4
Mr. Fung Siu To Clement	Executive Director	4/4
Mr. Poon Tin Sau Robert	Executive Director	3/4
Mr. Wong Shu Pui	Executive Director	4/4
Mr. Liang Shangli	Non-executive Director	1/4
Mr. Ip Chi Wai	Independent Non-executive Director	4/4
Mr. Leung Wai Keung Richard	Independent Non-executive Director	3/4
Mr. Hung Yat Ming	Independent Non-executive Director	4/4

During the year, no new director was appointed. If new directors are required to be appointed to the Board, the Board will elect the appropriate candidates by considering qualification, ability, working experience, and professional ethics of the candidates.

Corporate Governance Report

Remuneration committee

The Company established a Remuneration Committee in December 2004. The Committee currently comprises the Chief Executive, Dr. Lim Yin Cheng, and two Independent Non-executive Directors, Mr. Ip Chi Wai and Mr. Hung Yat Ming. The Chief Executive act as Chairman of the Remuneration Committee. The duties of the Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Executive Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal. The remuneration packages including basic salary, annual bonus, retirement and other benefit such as share options are commensurate with their job nature and experience level. No director may be involved in any decisions as to his own remuneration or other benefit. The Group's remuneration policy seeks to provide a fair market remuneration so as to attract, retain and motivate high quality staff. The remuneration is determined with reference to his duties and responsibility, remuneration benchmark in the industry and prevailing market conditions.

During the year, the Committee held one meeting, which all members had attended, to review, discuss and approve the remuneration package of the Directors.

Audit committee

The Company has established the Audit Committee since its listing on the Stock Exchange in 2000. The Committee members currently comprises all the Independent Non-executive Directors, Mr. Hung Yat Ming (as Chairman), Mr. Ip Chi Wai and Mr. Leung Wai Keung, Richard. The terms of reference adopted by the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. 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 financial statements and the unaudited interim financial statements. During the year, the Audit Committee met twice to review the Company's financial reporting, and the recommendation by the auditors on the issues of internal control. All the members had attended the meetings.

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31st March 2006.

Corporate Governance Report

Code of conduct

The Group has adopted its own Code for Securities Transactions by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10) of the Listing Rules. The Company has also made specific enquiry of the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

Code on Corporate Governance Practice

During the year, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

Auditors' remuneration

PricewaterhouseCoopers has been appointed as the auditors of the Company by the shareholders at the annual general meeting. The services provided by PricewaterhouseCoopers include audit, taxation related and other services. A statement by PricewaterhouseCoopers about their reporting responsibilities is included in the Report of Auditors on page 27 of this annual report.

An amount of HK$1,354,000 (2005 : HK$1,237,000) was charged to the financial statements of the Group for their statutory audit services. Taxation services fees and review on interim results provided by PricewaterhouseCoopers to the Group amounted to HK$198,000 (2005 : HK$150,000).

Investor relationship

The Group aims to provide its shareholders and investors with high level of transparency. During the year, the executive directors had a lot of meetings with various investors and analysts. The Board is committed to providing clear and full performance information of the Group to shareholders and the investment community through the publication of interim and annual reports, announcements, circulars and press releases.

The Company has also maintained a website at http://www.asiastandard.com which enables shareholders, investors and public to access to the information of the Company on a timely basis.

Directors and Senior management

Executive Directors

POON Jing

Age 51. Chairman of the Company, managing director, chief executive and chairman of the executive committee of Asia Standard International Group Limited ("ASI"). He is also the managing director and chief executive of Asia Orient Holdings Limited ("Asia Orient") and is an independent non-executive director of GZI Transport Limited. Mr. Poon is the founder of the Group. He is the brother-in-law of Mr. Fung Siu To, Clement and Dr. 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 61. Deputy Chairman, Chief Executive and Chairman of the Remuneration Committee of the Company, deputy chairman of ASI and Asia Orient and executive director and chief executive officer of Q9 Technology Holdings Limited ("Q9"). Dr. Lim is a holder of Bachelor of Science (Chemical Engineering) and Doctor of Philosophy degree. 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

Aged 57. Director of the Company and chairman of ASI and Asia Orient, chairman of remuneration committee and a member of executive committee of ASI and executive director of Q9. Mr. Fung is a holder of Bachelor of Applied Science (Civil Engineering) degree. He is a fellow member of the Hong Kong Institute of Engineers. He joined the Group in 1994 and has over 25 years of experience in project management and construction. He is the brother-in-law of Mr. Poon Jing, the Chairman of the Company.

Directors and Senior management

POON Tin Sau, Robert

Aged 60. Director of the Company. Mr. Poon was a restaurant entrepreneur in the USA 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

Aged 51. Director of the Company and the Group General Manager since 2000. Mr. Wong is responsible for the management of the Group's hospitality operations, development of Group's marketing and sales strategy as well as its corporate services. Mr. Wong has almost 30 years' extensive experience in hotel industry for both local and overseas covering the USA and Australia and has held senior positions in a number of major international chain hotels in Hong Kong.

Directors and Senior management

Non-executive Director

LIANG Shangli

Aged 85. Mr. Liang is the founder and chairman of a property development company in the PRC. Prior to establishing the property development company in PRC in 1992, Mr. Liang worked for the Guangzhou Investment Group, a property development company in the PRC, as a chairman for over 10 years. He was a 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 non-executive director of ASI. He joined the Group in 2000.

Independent Non-executive Directors

IP Chi Wai

Aged 38. 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 is an Independent Non-Executive Director, a member of Audit Committee and Remuneration Committee of the Company and Q9. He joined the Group in September 2003.

LEUNG Wai Keung, Richard

Aged 43. Mr. Leung is currently a Barrister-at-Law. Mr. Leung has about 9 years of experience in accounting and financial management in several firms and thereafter practicing as a barrister for 10 years. Mr. Leung is a member of the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Chartered Institute of Arbitrators and admitted to the High Court of Hong Kong as a barrister. He holds a master degree in Accounting and Finance from the University of Lancaster and obtained a bachelor of laws from Manchester Metropolitan University. He is currently the President of the Hong Kong Institute of Chartered Secretaries. He is an Independent Non-Executive Director and a member of Audit Committee of the Company and ASI and a member of remuneration committee of ASI. He joined the Group in September 2004.

HUNG Yat Ming

Aged 54. Mr. Hung is the qualified accountant and company secretary of Capital Estate Limited, a company listed on The Stock Exchange of Hong Kong Limited. Mr. Hung has over 25 years of experience in audit, accounting and financial management in several firms in Sydney and Hong Kong and was executive director heading the accounting department of a Hong Kong listed company. Mr. Hung is a member of the Institute of Chartered Accountants of Scotland and Hong Kong Institute of Certified Public Accountants. He graduated from the University of Hong Kong with a bachelor degree in Mathematics and obtained a post-graduate diploma in Accountancy from the University of Strathclyde, Scotland. He is an Independent Non-Executive Director, Chairman of Audit Committee and a member of Remuneration Committee of the Company and Asia Orient. He joined the Group in September 2004.

Senior management

LEE Yuk Kong, Steven

Aged 45. 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. Mr. Lee left the Group in June 2006.

TSANG Chin Lap, Johnny

Aged 56. 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.

FUNG Pak Lap, Alan

Aged 48. 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.

Report of the Directors

The Directors have pleasure in presenting their report together with the audited financial statements for the year ended 31st March 2006.

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 35 to the financial statements.

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 activities and by principal markets are set out in note 5 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st March 2006 are set out in the consolidated profit and loss account on page 28.

The Board recommends the payment of a final dividend of HK0.32 cent per share (2005: Nil) to shareholders for the year ended 31st March 2006. A total amount of approximately HK$30.3 million (2005: Nil), will be payable to holders of ordinary shares on the Register of Ordinary Shareholders on 28th August 2006.

The details of dividends proposed during the year are set out in note 15 to the financial statements.

Financial summary

A financial summary of the results and of the assets and liabilities of the Group is set out on page 11.

Purchase, sale or redemption of listed securities

During the year, the Company had not redeemed any of its shares. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

Property, plant and equipment and leasehold land

Details of the movements in property, plant and equipment and leasehold land of the Group are set out in note 17 to the financial statements.

Share capital

Details of the share capital of the Company are set out in note 25 to the financial statements.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to HK$300,000.

Report of the Directors

Directors

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

Mr. Poon Jing
Dr. Lim Yin Cheng
Mr. Fung Siu To, Clement
Mr. Poon Tin Sau, Robert
Mr. Wong Shu Pui
Mr. Liang Shangli
Mr. Ip Chi Wai
Mr. Leung Wai Keung, Richard
Mr. Hung Yat Ming

In accordance with Bye-laws, 99 and 102(B) of the Company's Bye Laws, one-third of the Directors and the Directors appointed by the Board during the year retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election. The Chairman of the Board and the Managing Director of the Company shall not be subject to retirement by rotation.

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 17 to 19.

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 companies 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 under the heading "Share option scheme" below, and that of its holding company, Asia Standard International Group Limited ("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.

Report of the Directors

Directors' and chief executive's interests in shares and underlying shares

As at 31st March 2006, the interests and short position of the Directors and Chief Executive 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

	Number of shares held			
Director	Personal interest	Corporate interest	Total	Percentage of shares in issue (%)
Mr. Poon Jing	248,937	3,749,148,774	3,749,397,711	59.44

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 and other persons' interests in shares and underlying shares." below, Mr. Poon Jing is deemed to be interested in the shares of all of the Company's subsidiaries.

(b) Associated corporations

		Number of shares held				
Associated corporation	Director	Personal interest	Corporate interest	Family interest	Total	Percentage of shares in issue (%)
ASI	Mr. Poon Jing (note 1)	4,492,200	2,080,679,712	Nil	2,085,171,912	41.07
Centop Investment Limited ("Centop") (note 2)	Mr. Poon Jing and Mr. Fung Siu To, Clement	Nil	20	Nil	20	20
Centop (note 3)	Mr. Poon Jing	Nil	80	Nil	80	80
Mark Honour Limited	Mr. Fung Siu To, Clement	9	Nil	Nil	9	9

Notes:

1. 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.

2. Centop is owned as to 80% by ASI and as to 20% by Kingscore Investment Limited ("Kingscore"). Each of Mr. Poon Jing and Mr. Fung Siu To, Clement 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 duplicate 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 ASI.

Report of the Directors

(II) Long positions in underlying shares

Interests in share options

(a) The Company

On 31st October 2005, option to subscribe for shares of the Company were granted to the following Directors of the Company exercisable during the period from 1st November 2005 to 31st October 2015 at an exercise price of HK$0.217 per share:–

Name of Directors	No. of share options granted during the year	No. of option exercised during the year	Outstanding held as at 31st March 2006
Lim Yin Cheng	50,000,000	50,000,000	–
Wong Shu Pui	50,000,000	46,000,000	4,000,000

Save as disclosed above, during the year no option was granted to Directors and no option granted to Directors was exercised cancelled or lapsed.

(b) Associated corporation – ASI

On 30th March 2005, options to subscribe for shares of ASI were granted to the following Directors of the Company exercisable during the period from 30th March 2005 to 29th March 2015 at an exercise price of HK$0.325 per share:

Name of Directors	No. of share options granted	No. of option exercised during the year	Outstanding held as at 31st March 2006
Poon Jing	5,000,000	–	5,000,000
Lim Yin Cheng	20,000,000	–	20,000,000
Fung Siu To, Clement	20,000,000	–	20,000,000
Wong Shu Pui	15,000,000	–	15,000,000

During the year, no option was granted exercised, cancelled or lapsed.

Save as disclosed above, as at 31st March 2006, none of the Directors or the Chief Executive (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.

Report of the Directors

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

As at 31st March 2006, 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 Executive 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	3,583,280,394	56.80
ASI (note 1)	3,588,335,158	56.88
Asia Orient Company Limited (note 2)	3,749,148,774	59.43
Asia Orient Holdings (BVI) Limited (note 3)	3,749,148,774	59.43
Asia Orient (note 3)	3,749,148,774	59.43
Mr. Poon Jing (note 4)	3,749,397,711	59.44

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 2006, 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.

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 24th May 2000. The maximum number of shares in respect of options may be granted under the share option scheme may not exceed 10% 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 subject to compliance with the requirements of the chapter. At the date of this report, the Company may grant options to subscribe for a maximum of 473,108,151 shares of the Company (representing about 5% of the shares in issue) at exercise price of at least the higher of the closing price of the shares on the date of grant, the average closing price of the shares for the 5 business days immediately preceding the date of grant, and the nominal value of the shares. The maximum number of shares in respect of which options might be granted to a participant, when aggregated with shares issued and issuable under any option granted to the same participant under any option scheme within any 12 months period, must not exceed 1% of the shares in issue from time to time.

The following table discloses details of Company's options granted under the share option scheme held by employees (including Directors):

Grantee	Outstanding as at 1st April 2005	Granted during the year	Exercised during the year	Outstanding as at 31st March 2006
Directors	–	100,000,000	96,000,000	4,000,000
Other employees	–	150,000,000	150,000,000	–

Notes:

(a) The options were granted on 31st October 2005 and exercisable from 1st November 2005 to 31st October 2015 at an exercise price of HK$0.217 per share.

(b) The closing price of the shares immediately before the date of grant of such options was HK$0.215 per share.

(c) No option was cancelled nor lapsed during the year.

(d) The weighted average closing price of the shares immediately before the dates on which the options were exercised were HK$0.228, HK$0.235, HK$0.232, HK$0.222, HK$0.217.

(e) The fair value of the share option has disclosed in note 8 to the financial statements.

Report of the Directors

Sufficiency of public float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, as at the date of this report, there is sufficient public float of the shares with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

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 47.1% and 24.7% 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.

Independent non-executive Directors

Confirmation of independence has been received from each of the independent non-executive Directors of the Company and the Company considers all existing independent non-executive Directors are independent.

Auditors

The financial statements 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, 13th July 2006

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 28 to 74 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public 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 2006 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, 13th July 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

Lim Yin Cheng
Director

Fung Siu To, Clement
Director

Balance Sheet

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

Lim Yin Cheng
Director

Fung Siu To, Clement
Director

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 HK$'000	2005 HK$'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

Notes to the financial statements

1 **Principal accounting policies** (continued)

(a) Basis of preparation (continued)

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

(i) Hotel properties

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

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

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

(ii) Leasehold land

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

(iii) Goodwill

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

Notes to the financial statements

1 Principal accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Share-based payments

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

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

(v) Financial instruments

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

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

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

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

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

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

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

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

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

Notes to the financial statements

1 **Principal accounting policies** (continued)

(b) Consolidation

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

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

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

(c) Subsidiaries

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

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

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

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

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

(d) Segment reporting

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

Notes to the financial statements

1 Principal accounting policies (continued)

(e) Property, plant and equipment

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

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

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

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

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

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

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

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

(f) Leasehold land

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

(g) Goodwill

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

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

Notes to the financial statements

1 Principal accounting policies (continued)

(h) Inventories

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

(i) Trade and other receivables

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

(j) Impairment of non-financial assets

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

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

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

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

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

Notes to the financial statements

1 Principal accounting policies (continued)

(l) Derivative financial instruments

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

(m) Borrowings

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

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

(n) Deferred income tax

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

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

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

(o) Provisions

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

Notes to the financial statements

1 Principal accounting policies (continued)

(p) Finance leases

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

(q) Operating leases

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

(r) Revenue recognition

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

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

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

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

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

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

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

Notes to the financial statements

1 Principal accounting policies (continued)

(s) Translation of foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

(iii) Group companies

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

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

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

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

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

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

Notes to the financial statements

1 Principal accounting policies (continued)

(t) Employee benefits

(i) Employee leave entitlements

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

Notes to the financial statements

2 Summary of the effects of the changes in accounting policies

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

	(Loss)/profit attributable to shareholders HK$'000	(Loss)/earnings per share HK cents
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

Notes to the financial statements

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

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

	HKAS 16	HKAS 17	HKAS 32 & HKAS 39	HKFRS 2	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
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)**

Notes to the financial statements

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

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

	HKAS 16	HKAS 17	HKAS 32 & HKAS 39	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 31st March 2005				
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)

Notes to the financial statements

3 Financial risk management

(a) Financial risk factors

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

(a) Market risk

(i) Foreign exchange risk

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

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

(ii) Price risk

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

(b) Credit risk

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

(c) Liquidity risk

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

Notes to the financial statements

3 Financial risk management (continued)

(a) Financial risk factors (continued)

(d) Cash flow interest rate risk

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

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

(b) Fair value estimation

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

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

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

4 Critical accounting estimates and judgements

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

(a) Impairment of assets

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

Notes to the financial statements

4 Critical accounting estimates and judgements (continued)

(b) Income taxes

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

5 Turnover and segment information

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

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

Primary reporting format – business segments

The Group is organised into three main business segments:

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

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

Notes to the financial statements

5 Turnover and segment information (continued)

Primary reporting format – business segments (continued)

	Hotel operation 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

Notes to the financial statements

5 Turnover and segment information (continued)

Primary reporting format – business segments (continued)

	Hotel operation HK$'000	Catering services HK$'000	Travel agency HK$'000	Total HK$'000
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

Notes to the financial statements

5 Turnover and segment information (continued)

Secondary reporting format – geographical segments

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

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

	Turnover HK$'000	Operating profit HK$'000	Total assets HK$'000	Capital expenditure HK$'000
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 HK$'000	2005 HK$'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

Notes to the financial statements

7 Operating profit

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

Notes:

(i) Retirement benefit costs

	2006 HK$'000	2005 HK$'000
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.

8 **Staff costs** (continued)

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

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

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

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

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

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

(ii) Share options

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

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

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

Notes to the financial statements

9 Directors' and senior management's emoluments

(a) Director's remuneration

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

	Fees	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.

9 Directors' and senior management's emoluments (continued)

(c) Five highest paid individuals

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

	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.

Notes to the financial statements

10 Interest income

	2006 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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 HK$'000	2005 HK$'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

Notes to the financial statements

13 Income tax expense

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

	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

Notes to the financial statements

14 Profit attributable to shareholders

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

15 Dividend

	2006 HK$'000	2005 HK$'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.

Notes to the financial statements

17 Property, plant and equipment and leasehold land

Group

	Freehold land and hotel buildings HK$'000	Plant and equipment HK$'000	Leasehold land HK$'000	Total HK$'000
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

Notes to the financial statements

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

Group

	Freehold land and hotel buildings HK$'000	Plant and equipment HK$'000	Leasehold land HK$'000	Total HK$'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 HK$'000	2005 HK$'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.

Notes to the financial statements

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

Supplementary information with hotel properties at valuation:

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

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

18 Goodwill

	2006	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.

Notes to the financial statements

20 Derivative financial instruments

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

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

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

21 Financial assets at fair value through profit or loss

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

22 Trade and other receivables

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

Notes to the financial statements

22 Trade and other receivables (continued)

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

	Group	
	2006	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

Notes to the financial statements

23 Bank balances and cash

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at bank and in hand	**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

Notes to the financial statements

24 Trade and other payables (continued)

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

	Group	
	2006	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.

Notes to the financial statements

26 Reserves

Group

	Share premium HK$'000	Contributed surplus HK$'000	Hotel properties revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserve HK$'000	Share options reserve HK$'000	Revenue reserve HK$'000	Total HK$'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

Notes to the financial statements

26 Reserves (continued)

Company

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

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

Notes to the financial statements

27 Borrowings

	Group 2006 HK$'000	Group 2005 HK$'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 2006 HK$'000	Present value 2005 HK$'000	Minimum payments 2006 HK$'000	Minimum payments 2005 HK$'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 HK$'000	Group 2005 HK$'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	Revaluation of hotel properties	Total
	HK$'000	HK$'000	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**

Notes to the financial statements

28 Deferred income tax (continued)

	Accelerated accounting depreciation HK$'000	Tax losses HK$'000	Provision HK$'000	Total HK$'000
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 HK$'000	Tax losses 2005 HK$'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.

Notes to the financial statements

32 Related party transactions

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

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

	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

Notes to the financial statements

35 Principal subsidiaries

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

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

Name	Principal activity	Issued and fully paid ordinary share capital/ registered capital
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.