凱聯國際酒店有限公司

Associated International Hotels Limited

(Incorporated in Hong Kong under the Companies Ordinance)

(stock code: 105)

Preliminary Announcement of Results for the year ended 31 March 2006

(Expressed in Hong Kong dollars)

The Board of Directors is pleased to announce the audited results of the Group for the year ended 31 March 2006. These results have been reviewed with no disagreement by the Audit Committee of the Company and this preliminary results announcement has been agreed with the Company's auditors, KPMG.

Consolidated income statement

	Note	Year ended 31 March 2006 $'000	2005 (restated) $'000
Turnover	3	**344,931**	439,755
Cost of services/sales		**(115,786)**	(144,082)
		229,145	295,673
Other revenue	5(a)	**18,022**	5,133
Other net income	5(b)	**1,386**	2,674
Valuation gains on investment properties		**212,566**	142,986
Selling expenses		**(18,082)**	(26,342)
Administrative expenses		**(100,762)**	(109,089)
Profit from operations	3	**342,275**	311,035
Finance costs	6(a)	**(166)**	(157)
Reversal of impairment loss in respect of other properties		**3,402**	14,676
Profit before taxation	6	**345,511**	325,554
Income tax	7	**(58,090)**	(52,652)
Profit for the year attributable to equity shareholders of the Company		**287,421**	272,902
Represented by:			
Continuing operations		**216,479**	192,133
Discontinued operation	4	**70,942**	80,769
Profit for the year attributable to equity shareholders of the Company		**287,421**	272,902
Dividends payable to equity shareholders of the Company attributable to the year:	8(a)		
Interim dividend declared during the year		**–**	28,800
Final dividend proposed after the balance sheet date		**–**	28,800
		–	57,600
Earnings per share	9		
Continuing operations		**$0.60**	$0.53
Discontinued operation		**$0.20**	$0.23
		$0.80	$0.76

Consolidated balance sheet

	Note	At 31 March 2006 $'000	At 31 March 2006 $'000	At 31 March 2005 (restated) $'000	At 31 March 2005 (restated) $'000
Non-current assets					
Fixed assets					
– Investment properties			**4,247,396**		1,856,016
– Other properties, plant and equipment			**244,953**		2,358,625
			4,492,349		4,214,641
Investments in equity securities			**7,794**		7,440
Deferred tax assets			**116**		122
			4,500,259		4,222,203
Current assets					
Inventories		**267**		1,938	
Accounts receivable, deposits and prepayments	10	**5,812**		16,398	
Tax recoverable		**7,501**		63	
Cash and cash equivalents		**493,916**		472,286	
		507,496		490,685	
Current liabilities					
Accounts payable, other payables and accruals	11	**19,857**		48,551	
Deposits received		**5,259**		32,037	
Provision for long service payments		**1,460**		4,731	
Obligations under finance leases		**251**		235	
Current taxation		**28**		17,142	
		26,855		102,696	
Net current assets			**480,641**		387,989
Total assets less current liabilities			**4,980,900**		4,610,192
Non-current liabilities					
Government lease premiums payable		**(2,443)**		(2,478)	
Obligations under finance leases		**(575)**		(841)	
Deferred tax liabilities		**(590,515)**		(536,046)	
Other financial liabilities		**(1)**		(1)	
			(593,534)		(539,366)
NET ASSETS			**4,387,366**		4,070,826
CAPITAL AND RESERVES					
Share capital			**360,000**		360,000
Reserves			**4,027,366**		3,710,826
TOTAL EQUITY			**4,387,366**		4,070,826

Notes:

1. **Principal accounting policies and basis of preparation**

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared in accordance with the same accounting policies adopted in the financial statements for the year ended 31 March 2005, except for the changes following the Group's adoption of the new and revised HKFRSs. The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these financial statements is provided in note 2.

2. **Changes in accounting policies**

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(a) **Restatement of prior periods and opening balances**

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to the profit for the year ended 31 March 2005 and the total equity as at 31 March 2005.

Profit for the year ended 31 March 2005

	Effect of new policies (increase/(decrease)) HKAS 40 and HK(SIC) Interpretation 21 (note 2(d)) $'000
Valuation gains on investment properties	142,986
Income tax	(25,038)
Total effect on profit for the year	117,948
Earnings per share	$0.33

Total equity at 31 March 2005

	Effect of new policies (increase/(decrease)) HKAS 40 and HK(SIC) Interpretation 21 (note 2(d)) $'000
Reserves	
Investment properties revaluation reserve	(1,406,020)
Hotel properties revaluation reserve	(296,145)
Retained earnings	1,160,223
Total effect on total equity	(541,942)

(b) **Estimated effect of changes in accounting policies on the current period**

The following tables provide estimates of the extent to which the profit for the year ended 31 March 2006 and the total equity as at 31 March 2006 are higher or lower than they would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Estimated effect on the profit for the year ended 31 March 2006

	Estimated effect of new policies (increase/(decrease)) HKAS 40 and HK(SIC) Interpretation 21 (note 2(d)) $'000
Valuation gains on investment properties	212,566
Income tax	(37,456)
Total effect on profit for the year	175,110
Earnings per share	$0.49

Estimated effect on the total equity at 31 March 2006

	Estimated effect of new policies (increase/(decrease)) HKAS 40 and HK(SIC) Interpretation 21 (note 2(d)) $'000
Reserves	
Investment properties revaluation reserve	(212,566)
Hotel properties revaluation reserve	(12,076)
Retained earnings	175,110
Total effect on total equity	(49,532)

(c) **Financial instruments (HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement")**
Reclassification of redeemable preference shares as financial liabilities

In prior years, redeemable preference shares of a subsidiary were accounted for as minority interests and presented in the consolidated balance sheet separately from liabilities and as deduction from net assets.

With effect from 1 April 2005, in accordance with HKAS 32, the classification of redeemable preference shares is based on the substance of the contractual arrangement. Consequently, the shares have been classified as liabilities.

The change in accounting policy has been adopted retrospectively by reclassifying the minority interests of $1,000 as at 1 April 2005 (1 April 2004: $1,000) to other financial liabilities under non-current liabilities. There was no impact to the consolidated income statement for the years ended 31 March 2005 and 2006 resulted from this change in accounting policy.

(d) **Investment and hotel properties (HKAS 40 "Investment property", and HK(SIC) Interpretation 21 "Income taxes – Recovery of revalued non-depreciable assets")**
Changes in accounting policies relating to investment and hotel properties are as follows:

(i) Timing of recognition of movements in fair value of investment properties in the income statement
In prior years movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years a piece of freehold land in Malaysia, which the Group held for an undetermined future purpose was accounted for under the cost model in Statements of Standard Accounting Practice ("SSAP") 17 "Property, plant and equipment".

Upon adoption of HKAS 40 as from 1 April 2005, the Group has adopted a new policy for investment property. Under this new policy:

– all changes in the fair value of investment property are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and

– land held for an undetermined future purpose is recognised as investment property.

These changes in accounting policy have been adopted retrospectively by increasing the opening balance of retained earnings as of 1 April 2005 by $1,406,020,000 (1 April 2004: $1,263,034,000) to include all of the Group's previous investment properties revaluation reserve. In addition, the land held for development is reclassified as investment properties, with comparative figures restated accordingly.

As a result of this new policy, the Group's profit before taxation for the year ended 31 March 2006 has increased by $212,566,000 (2005: $142,986,000), being the increase in the fair value of the Group's investment properties (including those reclassified as investment property as a result of this change in policy).

(ii) Measurement of deferred tax on movements in fair values of the investment and hotel properties
In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment and hotel properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment and hotel properties. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 April 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of the investment and hotel properties using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the properties would have been depreciable had the Group not adopted the fair value model.

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained earnings and hotel properties revaluation reserve as of 1 April 2005 by $245,797,000 and $296,145,000 (1 April 2004: $220,759,000 and $223,248,000) respectively and increasing deferred tax liabilities by $541,942,000 (1 April 2004: $444,007,000).

As a result of this new policy, the Group's taxation expense for the year ended 31 March 2006 has increased by $37,456,000 (2005: $25,038,000).

(e) **Definition of related parties (HKAS 24 "Related party disclosures")**
As a result of the adoption of HKAS 24, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party to the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20 "Related party disclosures", still been in effect.

3. Segment reporting

An analysis of the Group's revenue and results, assets and liabilities, and other information for the years ended 31 March 2006 and 2005 by business segments is as follows:

(a) **Segment revenue and results**

	Segment revenue Year ended 31 March		Segment profit/(loss) Year ended 31 March	
	2006	2005	**2006**	2005 (restated)
	$'000	*$'000*	***$'000***	*$'000*
Discontinued operation				
Hotel operation *(Note 4)*	**250,340**	316,274	**79,301**	100,344
Continuing operations				
Property leasing	**75,677**	101,789	**71,514**	95,458
Golf and recreational club operation	**18,914**	21,692	**(10,753)**	(5,349)
	94,591	123,481	**60,761**	90,109
	344,931	439,755	**140,062**	190,453
Valuation gains on investment properties			**212,566**	142,986
Unallocated other revenue			**18,022**	5,133
Unallocated operating income and expenses			**(28,375)**	(27,537)
Profit from operations			**342,275**	311,035
Finance costs			**(166)**	(157)
Reversal of impairment loss in respect of other properties			**3,402**	14,676
Profit before taxation			**345,511**	325,554
Income tax			**(58,090)**	(52,652)
Profit for the year			**287,421**	272,902

(b) **Segment assets and liabilities**

	Assets At 31 March		Liabilities At 31 March	
	2006	2005 (restated)	**2006**	2005 (restated)
	$'000	*$'000*	***$'000***	*$'000*
Discontinued operation				
Hotel operation *(Note 4)*	**781**	2,184,667	**781**	38,700
Continuing operations				
Property leasing	**4,192,010**	1,812,623	**6,749**	26,293
Golf and recreational club operation	**212,804**	219,782	**16,231**	16,925
	4,404,814	2,032,405	**22,980**	43,218
	4,405,595	4,217,072	**23,761**	81,918
Unallocated items	**602,160**	495,816	**596,628**	560,144
	5,007,755	4,712,888	**620,389**	642,062

(c) **Other segment information**

	Depreciation Year ended 31 March		Capital expenditure Year ended 31 March	
	2006	2005	**2006**	2005
	$'000	*$'000*	***$'000***	*$'000*
Discontinued operation				
Hotel operation *(Note 4)*	**13,470**	16,914	**10**	380
Continuing operations				
Property leasing	**165**	187	**13,619**	11,329
Golf and recreational club operation	**5,162**	5,413	**410**	6,543
	5,327	5,600	**14,029**	17,872
Unallocated items	**2,892**	1,402	**167**	543
	21,689	23,916	**14,206**	18,795

Segment information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and results were derived from activities outside Hong Kong.

4. Discontinued operation – Hotel operation

On 28 July 2004, the Directors made an announcement of their decision to pursue the possibility of redeveloping the property comprising the Hyatt Regency Hotel and the Hyatt Regency Shopping Arcade (the "Property") into a building with mainly retail components. On 20 October 2004, the Directors made a further announcement stating that they had resolved to proceed with the proposal to redevelop the Property as mentioned in the aforesaid announcement.

The operations of the Hyatt Regency Hotel and the Hyatt Regency Shopping Arcade had ceased from 1 January 2006. The Property is now under demolition and a new building will be constructed. Barring unforeseen circumstances, it is expected by the Directors that the time period for the redevelopment will be three to four years from commencement of the redevelopment work.

As a result, hotel operation is classified as discontinued operation from 1 January 2006.

(a) **The results of the discontinued operation for the current and prior years were as follows:**

	Year ended 31 March	
	2006	2005
	$'000	*$'000*
Turnover	**250,340**	316,274
Cost of services/sales	**(99,049)**	(128,784)
	151,291	187,490
Other net income	**1,423**	–
Selling expenses	**(11,666)**	(18,213)
Administrative expenses	**(61,747)**	(68,933)
Profit before taxation	**79,301**	100,344
Income tax	**(8,359)**	(19,575)
Profit for the year	**70,942**	80,769

(b) **The cash flows of the discontinued operation for the current and prior years were as follows:**

	Year ended 31 March	
	2006	2005
	$'000	*$'000*
Net cash generated from operating activities	**46,084**	113,502
Net cash generated from/(used in) investing activities	**1,414**	(376)

5. Other revenue and net income

	Year ended 31 March	
	2006	2005
	$'000	*$'000*
(a) Other revenue		
Interest income	**15,927**	2,592
Dividend income from listed securities	**340**	553
Management fee received from holding company	**1,200**	1,200
Others	**555**	788
	18,022	5,133
(b) Other net income		
Net profit on disposal of fixed assets	**1,565**	2,800
Net exchange (losses)/gains	**(533)**	448
Net realised and unrealised gains/(losses) on listed securities	**354**	(574)
	1,386	2,674

6. Profit before taxation

Profit before taxation is arrived at after charging:

	Year ended 31 March	
	2006	2005
	$'000	*$'000*
(a) Finance costs		
Interest on government lease premiums payable	**124**	126
Finance charges on obligations under finance leases	**42**	31
	166	157
(b) Other items		
Cost of inventories	**31,743**	36,359
Depreciation	**21,689**	23,916

7. Income tax

	Year ended 31 March 2006 $'000	2005 (restated) $'000
Current tax – Hong Kong profits tax		
Provision for the year	**16,539**	31,937
Over-provision in respect of prior years	**(905)**	(2,511)
	15,634	29,426
Current tax – Overseas		
Provision for the year	**57**	86
Deferred tax		
Changes in fair value of investment properties	**37,456**	25,038
Origination and reversal of temporary differences	**4,943**	(1,898)
	42,399	23,140
	58,090	52,652

The provision for Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

8. Dividends

	Year ended 31 March 2006 $'000	2005 $'000
(a) Dividends payable to equity shareholders of the Company attributable to the year		
No interim dividend declared and paid (2005: 8 cents per share)	**–**	28,800
No final dividend proposed after the balance sheet date (2005: 8 cents per share)	**–**	28,800
	–	57,600

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

	2006 $'000	2005 $'000
(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year		
Final dividend in respect of the previous financial year, approved and paid during the year, of 8 cents (2005: 10 cents) per share	**28,800**	36,000

9. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of $287,421,000 (2005 (restated): $272,902,000) and 360,000,000 (2005: 360,000,000) ordinary shares in issue during the year. There were no potential dilutive ordinary shares in existence in 2005 and 2006.

10. Accounts receivable, deposits and prepayments

Included in accounts receivable, deposits and prepayments are accounts receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 31 March 2006 $'000	2005 $'000
Current	**559**	9,122
1 to 3 months overdue	**436**	1,908
More than 3 months overdue but less than 12 months overdue	**952**	822
Total accounts receivable, net of impairment losses for bad and doubtful debts	**1,947**	11,852
Deposits and prepayments	**3,865**	4,546
	5,812	16,398

Debts are generally due within 45 days in respect of hotel operation and 14 days in respect of property leasing from the date of billing. Debtors of the hotel operation with balances that are 60 days overdue are requested to settle all outstanding balances before any further credit is granted. For debtors of property leasing, legal action will be taken against overdue debtors whenever the situation is appropriate.

11. Accounts payable, other payables and accruals

All of the accounts payable, other payables and accruals except for $948,000 (2005: $1,223,000), mainly represented retention monies payable, is expected to be settled within one year.

Included in accounts payable, other payables and accruals are accounts payable with the following ageing analysis as of the balance sheet date:

	At 31 March 2006 $'000	2005 $'000
Due within 1 month or on demand	**504**	4,112
Due after 1 month but within 3 months	**3,185**	463
Due after 3 months but within 6 months	**183**	33
Due after 6 months but within 12 months	**–**	2
Due after 12 months	**259**	299
Total accounts payable	**4,131**	4,909
Other payables and accruals	**15,726**	43,642
	19,857	48,551

DIVIDEND

The Board has resolved that in view of the cessation of the Group's main sources of income, no final dividend will be paid to shareholders. As no interim dividend was paid during the year, no dividend will be paid for the entire year (2005: 16 cents per share).

BUSINESS REVIEW

- The Group achieved a profit from operations of approximately $342.3 million for the financial year ended 31 March 2006, representing an increase of approximately 10.0% compared with the previous financial year. The increment was mainly attributable to the valuation gains on investment properties of $212.6 million. Excluding the valuation gains on investment properties, the profit from operations for the financial year ended 31 March 2006 was $129.7 million, representing a decrease of approximately 22.8% compared with last financial year. Such decrease was mainly due to the cessation of the main business of the Group, the operations of Hyatt Regency Hong Kong (the "Hotel") and the Hotel's shopping arcade since 1 January 2006 for redevelopment purpose. The closure of the Hotel and the Hotel's shopping arcade resulted in a drop in segment profit of 21.0% and 25.1% respectively when comparing the nine-month result in the financial year to the twelve-month period in the previous year.
- The average room rate obtained at the Hotel during the nine-month period from 1 April 2005 to 31 December 2005 was $982, representing an increase of approximately 7.8% in comparison with the previous financial year.
- The average room occupancy rate of the Hotel during the nine-month period from 1 April 2005 to 31 December 2005 was 87.2% as compared with 89.9% for the previous financial year.
- Rental income from the Hotel's shopping arcade amounted to $75.4 million for the nine-month period from 1 April 2005 to 31 December 2005, compared with the previous financial year, representing a decrease of 25.8%.
- Interest income amounted to $15.9 million, increased by $13.3 million due to rising interest rates during the year.
- As at 31 March 2006, the property under redevelopment of the Group was revalued at $4,180.0 million by an independent professional valuer and the valuation gains of $209.6 million were recognised in the consolidated income statement during the year.
- As at 31 March 2006, the total equity for the Group was $4,387.4 million, compared with $4,070.8 million (restated) as at 31 March 2005. The Group's gearing ratio is nil.
- As at 31 March 2006, the total number of employees of the Group, including executive directors and employees of Austin Hills Golf Resort, the Group's resort development project in Johor Bahru, Malaysia, was 145 and the related costs incurred during the financial year were approximately $27.2 million.

OUTLOOK

As announced on 20 October 2004 and disclosed in the subsequent announcements, the Directors have resolved to proceed with the proposal to redevelop the property comprising the Hotel and the Hotel's shopping arcade into a building comprising mainly retail components. Demolition of the existing building is in progress and is expected to be completed in September 2006. Barring unforeseen circumstances, the time period for the entire redevelopment project will be three to four years from commencement of the redevelopment work. The cessation of the Hotel and the Hotel's shopping arcade operations, which are the Group's main sources of income, will have a very substantial negative impact on the revenue and results of the Group during the redevelopment period. However, the Directors consider that upon completion of the redevelopment, it will increase the return to the Group in the long run and will enhance value for shareholders because it is believed that a retail development is likely to generate a higher return on capital in the long term than the hotel operation.

As at the date of this announcement, the entire redevelopment project is scheduled for completion in 2009. The present estimated cost of construction for this project is around $1 billion. This will be financed by external borrowings and arrangements are in progress in this regard. It is likely that no dividend will be paid before completion of the project.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of the Company will be held on Thursday, 28 September 2006.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining eligibility to attend the forthcoming Annual General Meeting, the Register of Members of the Company will be closed from Friday, 22 September 2006 to Thursday, 28 September 2006 (both days inclusive), during which period no transfer of shares will be registered.

PURCHASE, SALE OR REDEMPTION BY THE COMPANY AND ITS SUBSIDIARIES OF ITS LISTED SECURITIES

There were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied throughout the year with all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") which apply to the Company for the year under review, except that (i) prior to the amendments to the Articles of Association of the Company approved by the shareholders in the annual general meeting of the Company on 14 September 2005, the executive chairman of the Company was not subject to retirement by rotation, which was inconsistent with code provision A.4.2 and (ii) the roles of chairman and chief executive officer were not separated and performed by two different individuals, which was inconsistent with code provision A.2.1.

In respect of the deviation from code provision A.2.1, Mr Cheong Hooi Hong is both the Chairman and the chief executive officer of the Company and the Board of Directors considers that the current structure does not have any adverse effect on the Company.

Details of compliance are set out in the Corporate Governance Report contained in the Company's annual report.

ANNUAL REPORT

The Company's annual report containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and dispatched to shareholders in due course.

As at the date of this announcement, Mr Cheong Hooi Hong, Mr Cheong Kheng Lim, Mr Cheong Keng Hooi, Mr Cheong Sim Lam and Ms Cheong Been Kheng are executive directors, Mr Sin Cho Chiu, Charles and Mr Lau Wah Sum are non-executive directors, and Mr Chow Wan Hoi, Paul, Mr Yau Allen Lee-Nam and Mr Lee Chung are independent non-executive directors.

By Order of the Board
Associated International Hotels Limited
Ng Sau Fong
Company Secretary

Hong Kong, 6 July 2006