



ASIA STANDARD HOTEL GROUP LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 00292)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31ST MARCH 2006

FINANCIAL HIGHLIGHTS

(in HK\$ million, except otherwise indicated)

| | 2006 | 2005 (Restated) | Change |
|---|-------|--------------------|--------|
| Gross operating profit [#] | 136 | 105 | +30% |
| Net debt | 837 | 1,190 | -30% |
| 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% |
| Dividend (HK cents) | 0.32 | Nil | N/A |

[#] Represents operating profit before non-cash accounting charges

* These are unaudited supplementary information taking into account the fair market value of hotel properties in addition to those in accordance with Hong Kong Financial Reporting Standards

The Directors of Asia Standard Hotel Group Limited (the “Company”) announce that the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March 2006 together with the comparative figures for the year ended 31st March 2005 were as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st March 2006

| | Note | 2006 HK\$'000 | 2005 HK\$'000 (restated) |
|--|------|------------------|--------------------------------|
| Turnover | 3 | 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 | 4 | (90,241) | (86,529) |
| Operating profit | 5 | 45,306 | 18,170 |
| Interest income | | 2,683 | 2,140 |
| Net (loss)/gain from financial assets | 6 | (11,731) | 58,601 |
| Finance costs | | (54,280) | (37,695) |
| (Loss)/profit before income tax | | (18,022) | 41,216 |
| Income tax expense | 7 | (2,821) | (12,009) |
| (Loss)/profit attributable to shareholders | | (20,843) | 29,207 |
| Dividend | 8 | 30,279 | – |
| (Loss)/earnings per share | 9 | 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 | | 877,179 | 894,931 |
| Leasehold land | | 1,325,426 | 1,346,063 |
| Goodwill | | 13,188 | 13,188 |
| Deferred tax assets | | 40,130 | 42,951 |
| | | 2,255,923 | 2,297,133 |
| CURRENT ASSETS | | | |
| Inventories | | 2,566 | 2,690 |
| Derivative financial instruments | | 1,257 | – |
| Financial assets at fair value through profit or loss | | 61,957 | 93,137 |
| Trade and other receivables | 10 | 50,181 | 82,004 |
| Tax recoverable | | 200 | 200 |
| Bank balances and cash | | 44,677 | 64,972 |
| | | 160,838 | 243,003 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 47,480 | 47,585 |
| Tax payable | | 10,973 | 10,973 |
| Bank overdraft-unsecured | | – | 8,778 |
| Borrowings | | 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 | | 863,880 | 1,208,092 |
| NET ASSETS | | 1,476,485 | 1,227,030 |
| EQUITY | | | |
| Share capital | | 126,162 | 101,042 |
| Reserves | | 1,350,323 | 1,125,988 |
| | | 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.

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

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

(i) Hotel properties

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

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

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

(ii) Leasehold land

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

(iii) Goodwill

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

(iv) Share-based payments

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

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

(v) Financial instruments

The adoption of HKAS 32 and HKAS 39 has resulted in a change in the accounting policy relating to the recognition of derivative financial instruments at fair value and measurement of 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 3 – prospectively after the adoption date.

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

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 |

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

| | HKAS 16 HK\$'000 | HKAS 17 HK\$'000 | HKAS 32 & HKAS 39 HK\$'000 | HKFRS 2 HK\$'000 | Total HK\$'000 |
|--|---------------------|---------------------|----------------------------------|---------------------|--------------------|
| At 31st March 2006 | | | | | |
| <i>Increase/(decrease) in net assets/equity:</i> | | | | | |
| 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 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) |
| At 31st March 2005 | | | | | |
| <i>Increase/(decrease) in net assets/equity:</i> | | | | | |
| 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) | (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 | | | | | |
| <i>Increase/(decrease) in net assets/equity:</i> | | | | | |
| Hotel buildings | (1,640,034) | (1,527,516) | - | - | (3,167,550) |
| Property, plant and equipment | 915,367 | - | - | - | 915,367 |
| Leasehold land | - | 1,366,700 | - | - | 1,366,700 |
| Deferred income tax assets | 40,543 | - | - | - | 40,543 |
| Total assets | (684,124) | (160,816) | - | - | (844,940) |
| Convertible notes | - | - | 489 | - | 489 |
| Deferred income tax liabilities | 24,746 | - | - | - | 24,746 |
| Net assets | (659,378) | (160,816) | 489 | - | (819,705) |
| Hotel properties revaluation reserve | (439,145) | - | - | - | (439,145) |
| Exchange reserve | 266 | - | - | - | 266 |
| Other reserve | - | - | 1,363 | - | 1,363 |
| Revenue reserve | (220,499) | (160,816) | (874) | - | (382,189) |
| Equity | (659,378) | (160,816) | 489 | - | (819,705) |

3. Turnover and segment information

An analysis of the Group's turnover and results by business segments and geographical segments are set out below:

| Business segments | Hotel operation | Catering services | Travel agency | Total |
|--|-----------------|-------------------|---------------|---------------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended 31st March 2006 | | | | |
| Room rentals | 201,785 | - | - | 201,785 |
| Food and beverages | 47,459 | - | - | 47,459 |
| Ancillary services | 9,203 | - | - | 9,203 |
| Rental income | 12,456 | - | - | 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) |
| Business segments | | | | |
| | Hotel operation | Catering services | Travel agency | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended 31st March 2005 (restated) | | | | |
| Room rentals | 172,025 | - | - | 172,025 |
| Food and beverages | 39,710 | - | - | 39,710 |
| Ancillary services | 8,271 | - | - | 8,271 |
| Rental income | 11,089 | - | - | 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 |
| 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 | 1,274,176 | 2,160 | 13,267 | 1,289,603 |
| Unallocated corporate liabilities | - | - | - | 23,503 |
| 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 |
| Geographical segments | | | | |
| | Turnover | Operating profit | Total assets | Capital expenditure |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Year ended 31st March 2006 | | | | |
| Hong Kong | 483,393 | 34,938 | 2,098,734 | 19,872 |
| Canada | 77,575 | 8,519 | 307,976 | 2,727 |
| Mainland China | 8,824 | 1,849 | 10,051 | 57 |
| | 569,792 | 45,306 | 2,416,761 | 22,656 |
| Year ended 31st March 2005 (restated) | | | | |
| Hong Kong | 493,118 | 15,737 | 2,223,484 | 7,006 |
| Canada | 67,910 | 1,595 | 308,932 | - |
| Mainland China | 8,220 | 838 | 7,720 | 4 |
| | 569,248 | 18,170 | 2,540,136 | 7,010 |

4. 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 of goodwill | - | 10,924 |
| Amortisation of goodwill | - | 3,806 |
| | <u>90,241</u> | <u>86,529</u> |

5. 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 | <u>12,457</u> | <u>11,089</u> |
| Charging | | |
| Impairment of goodwill | - | 10,924 |
| Amortisation of goodwill | - | 3,806 |
| Provision for long term investment | - | 1,601 |
| Cost of goods sold | <u>20,136</u> | <u>17,496</u> |

6. 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 | <u>1,976</u> | <u>335</u> |
| | <u>(11,731)</u> | <u>58,601</u> |

7. 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 HK\$'000 | 2005 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) |
| Taxation expense | <u>2,821</u> | <u>12,009</u> |

8. Dividend

| | 2006 HK\$'000 | 2005 HK\$'000 |
|--|------------------|------------------|
| Proposed final dividend of HK0.32 cent (2005: Nil) per share | <u>30,279</u> | - |

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.

9. (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: 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 31st 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.

10. Trade and other receivables

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

| | 2006 HK\$'000 | 2005 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 |
| | <u>39,614</u> | <u>36,722</u> |

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.

11. Trade and other payables

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

| | 2006 HK\$'000 | 2005 HK\$'000 |
|---------------------|------------------|------------------|
| 0 day to 60 days | 17,309 | 16,578 |
| 61 days to 120 days | 33 | 308 |
| More than 120 days | <u>1,066</u> | <u>1,366</u> |
| | <u>18,408</u> | <u>18,252</u> |

12. Post balance sheet event

On 17 May 2006, the Group issued 3,154,054,340 shares of HK\$0.02 each at HK\$0.09 per share under the rights issue 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.

FINAL DIVIDEND

The Board of Directors has resolved to recommend at the forthcoming Annual General Meeting a final dividend of HK 0.32 cents per share (2005: Nil), payable on 25th September 2006 to shareholders whose names appear on the Register of Members on 28th August 2006.

Operational and financial review**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 options 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.

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.

The Empire Hotel, Kowloon

Empire Hotel Kowloon recorded occupancy of 92% for the year ended 31st March 2006, which is similar to that of 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.

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 4% 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.

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.

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 repayments.

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 properties 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.

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 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 repayment.

The aggregate net book value of fixed assets 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.

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.

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.

CODE OF CORPORATE GOVERNANCE PRACTICES

During the year, the Company was in compliance with the Code of Provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding 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 to 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.

AUDIT COMMITTEE

The Audit Committee members are Mr. Hung Yat Ming, Mr. Leung Wai Keung, Richard and Mr. Ip Chi Wai. The principal activities of the Audit Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Audit Committee and has reviewed the results of the Group for the year ended 31st March 2006.

BOOK CLOSURE

The Register of Members will be closed from Thursday, 24th August 2006 to Monday, 28th August 2006, both days inclusive, during which period no transfer of shares of the Company can be registered. In order to qualify for the abovementioned final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Wednesday, 23th August 2006.

By Order of the Board
POON JING
 Chairman

Hong Kong 13th July 2006

As of the date of this announcement, the Board of the Company comprises Mr. Poon Jing, Dr. Lim Yin Cheng, Mr. Fung Siu To Clement, Mr. Poon Tin Sau Robert, Mr. Wong Shu Pui as executive directors, Mr. Liang Shangli as non-executive director, Mr. Ip Chi Wai, Mr. Leung Wai Keung Richard and Mr. Hung Yat Ming as independent non-executive directors.