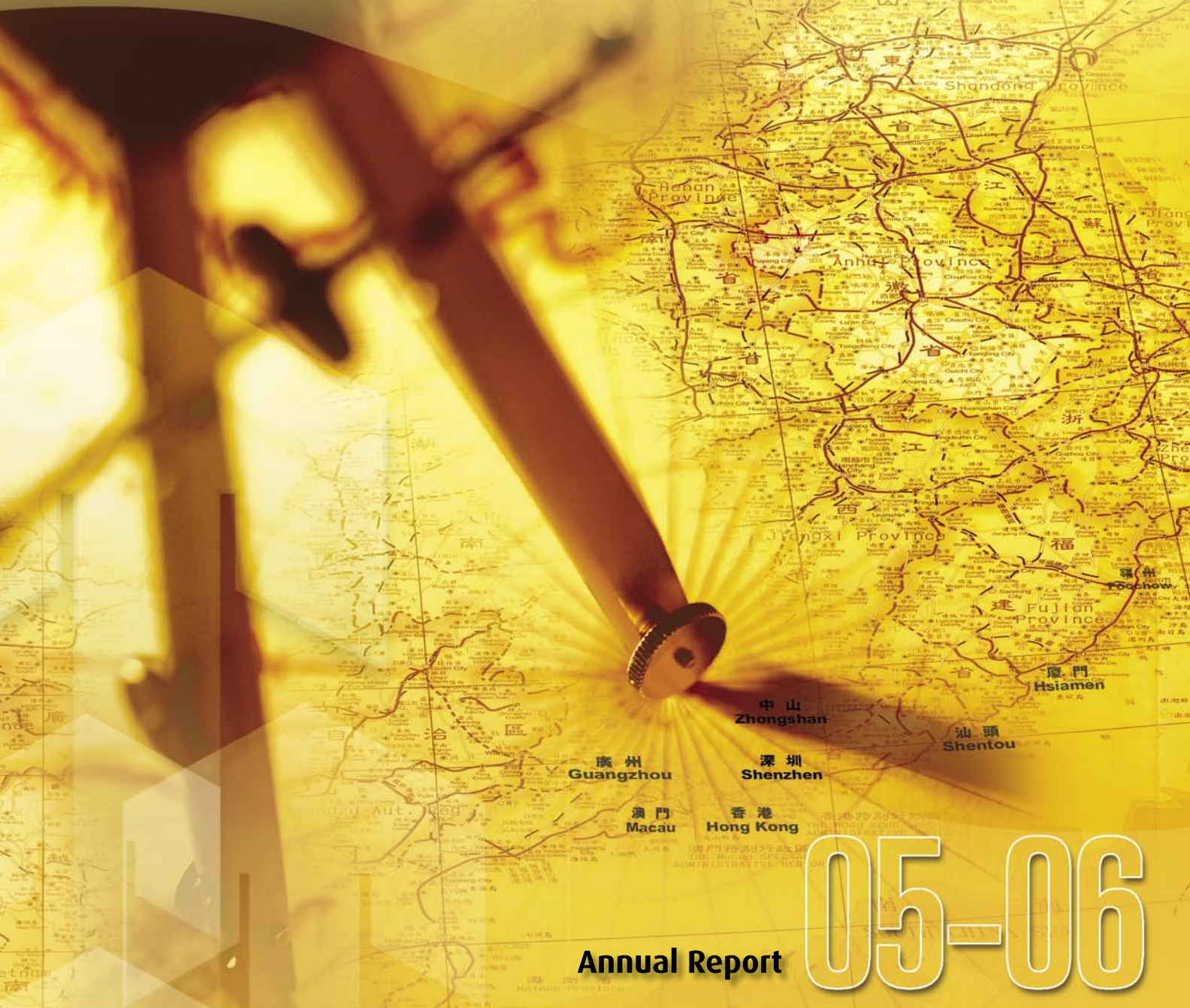




# Termbray Industries International (Holdings) Limited

Stock Code: 0093



Annual Report

05-06





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## Corporate Information

### EXECUTIVE DIRECTORS

Mr. Lee Lap, *Chairman & CEO*  
Mdm. Leung Lai Ping  
Mr. Wong Shiu Kee

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Lee Tung Hai, Leo, G.B.S., LL.D., J.P.  
Mr. Chan Siu Kang  
Mr. Lo Yiu Hee

### NON-EXECUTIVE DIRECTOR

Mr. Lee Ka Sze, Carmelo

### QUALIFIED ACCOUNTANT

Mr. Wong Shiu Kee

### COMPANY SECRETARY

Mr. Lo Tai On

### AUDIT COMMITTEE

Dr. Lee Tung Hai, Leo, G.B.S., LL.D., J.P.  
Mr. Lee Ka Sze, Carmelo  
Mr. Chan Siu Kang  
Mr. Lo Yiu Hee

### REMUNERATION COMMITTEE

Mr. Lee Lap  
Mr. Chan Siu Kang  
Mr. Lo Yiu Hee

### REGISTERED OFFICE

Clarendon House  
Church Street  
Hamilton HM11  
Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Flat B, 8/F, Waylee Industrial Centre,  
30-38 Tsuen King Circuit,  
Tsuen Wan, New Territories, Hong Kong.  
Telephone: (852) 2487 5211  
Facsimile: (852) 2480 4214  
Email: group@termbray.com.hk

### HONG KONG REGISTRAR AND TRANSFER OFFICE

Standard Registrars Limited  
26th Floor, Tesbury Centre,  
28 Queen's Road East,  
Wanchai, Hong Kong.  
Telephone: (852) 2980 1768  
Facsimile: (852) 2528 3158

### LISTING INFORMATION

The Listing Code of the Company's shares on  
The Stock Exchange of Hong Kong Limited 0093

### PRINCIPAL BANKER

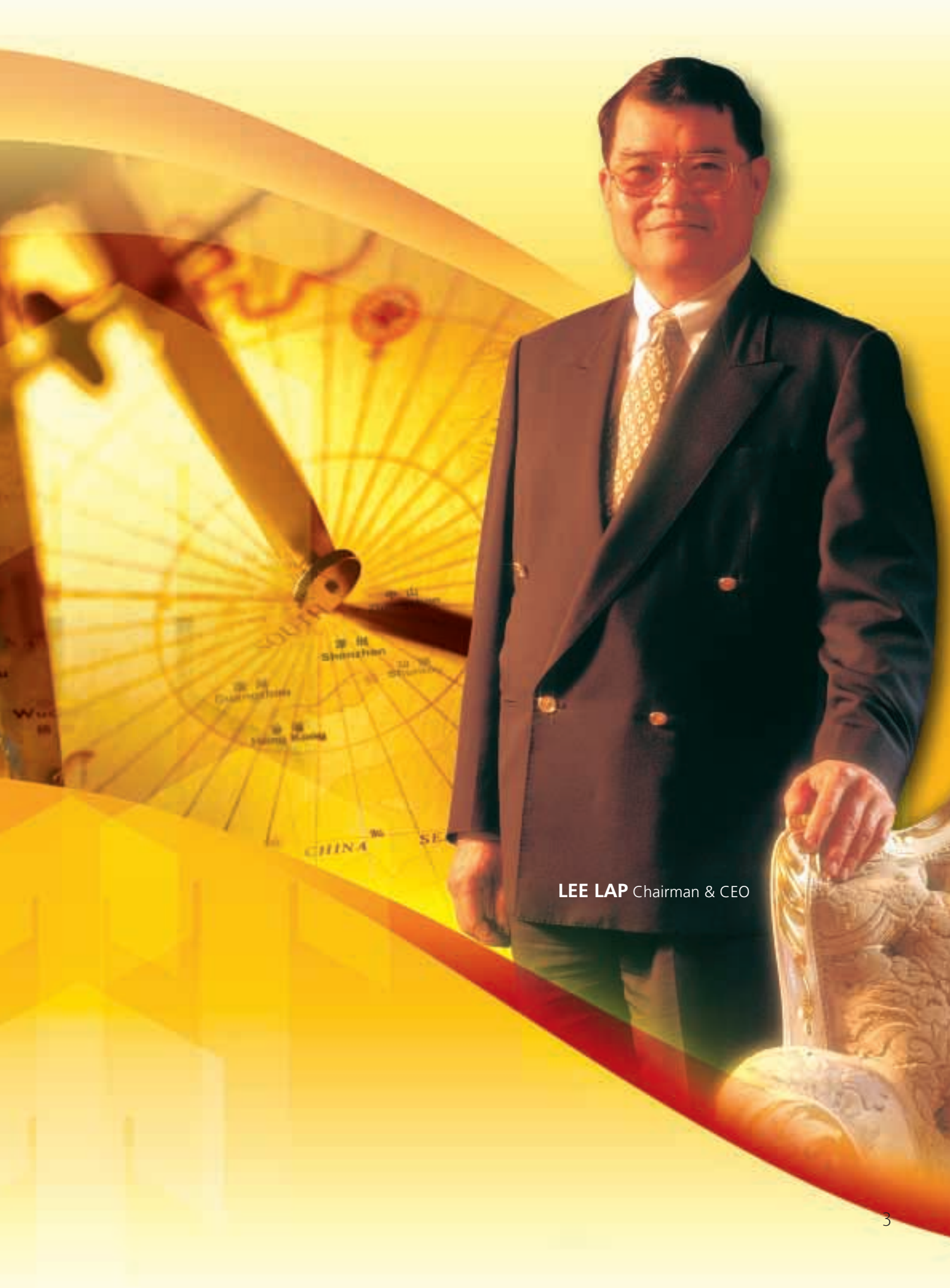
The Hongkong & Shanghai Banking  
Corporation Limited

### LEGAL ADVISORS IN HONG KONG

Woo, Kwan, Lee & Lo

### AUDITORS

Deloitte Touche Tohmatsu



**LEE LAP** Chairman & CEO

## Chairman's Statement

### RESULTS

I report to shareholders the results of Termbray Industries International (Holdings) Limited (the "Company") and its subsidiaries (together "the Group") for the financial year ended 31st March, 2006. The Group recorded a profit attributable to shareholders for the year ended 31st March, 2006 of HK\$3,975,000 compared with loss attributable to shareholders of HK\$36,567,000 for the last year.

### DIVIDENDS

The board of directors of the Company does not recommend the payment of a dividend in respect of the year (2005: Nil).

### REVIEW OF OPERATIONS

#### Property Investment & Development

The operating environment for the Group's core business - property investment and development remains tough during the year under review. Property market in Guangdong Province, PRC is still generally slack. The activities of the Group's property projects, which are mainly located in Guangdong Province, continue at a low level during the year.

The Group's completed properties for sale - Ever Success Plaza, comprising of over 440 residential units standing on 3 levels of commercial arcades and car parks, is located at a convenient and prime location with a river view in Zhongshan, Guangdong Province. The competition of the property market in Zhongshan is keen. There are abundant supplies of properties with modern design. During the year, the management has launched a series of advertising campaign and put much effort in marketing the properties. The market response is positive. The rental income earned by the Group during the period is increased significantly. As at 31st March, 2006, 228 residential units remained to be sold, out of which 159 residential units were let out. All the floor areas of the commercial arcades were let out. The tenants of the commercial arcades have been trying hard to improve the customers' flow.

With regard to the investment in Cong Hua White Swan Bow Yuen Real Estate Development Limited ("Cong Hua Bow Yuen"), the Group has continued the negotiation with the PRC joint venture partner for extension of the joint venture period. The chance for the extension of the joint venture period of Cong Hua Bow Yuen remains very remote. Provision for impairment loss against the property held by Cong Hua Bow Yuen had been made in the financial statements of the Group in the prior year.





## Treasury Investment Activity

The Group still holds a substantial amount of funds of approximately HK\$0.6 billion which have been placed as short term bank deposits or invested in money market funds with international financial institutions or fixed income notes generating a stable source of income to the Group. The continuing upward trend in interest rate environment has resulted in an improved income earned by the Group from these assets. On the other hand, the foreseeing upward trend in interest rate has an unfavourable impact on the debt securities market. The Group suffered an unrealised holding loss on investment in securities. However, the Group does not have any funding need to realise the investments.

## PROSPECTS

The global economy sustained rapid growth during the year under review, while Asia Pacific region with China ("PRC") in particular, continued to be leading in the economic growth.

The global economy is expected to continue to grow in coming year, while China remains acting as a key driver. The appreciation of Renminbi has created an environment for prosperous future of China's economy. China's imports and exports will continue to record strong growth, particularly in the region of Pearl River Delta. The Group is confident to capitalise on these opportunities and will grasp every business opportunities available to build up its own distinctive strength and to explore new business in the PRC.

With the substantial available fund on hand, the Group is actively seeking investment opportunities in order to achieve a diversification in business activities which will result in a steady growth in the Group's long term performance. The Group is open minded on what areas the funds will be invested, but will always take a cautious and prudent approach in making investment decisions.

On the other hand, there exists some underlying risk factors such as oil and commodity price volatility, interest rate movements and natural disasters which cannot be ignored. The Group remains cautiously optimistic about the year ahead and has the confidence to strengthen its competitiveness and to build value for our shareholders.

Finally, I would like to thank my fellow directors for their invaluable advice and the staff members for their hard work and dedication to the Group during the past year.

### Lee Lap

*Chairman & C.E.O.*

Hong Kong, 7th July, 2006

## Management Discussion and Analysis

### RESULTS

During the current year under review, the Group achieved a turnover of HK\$5,399,000 and profit attributable to shareholders of HK\$3,975,000, compared with the turnover of HK\$3,095,000 and loss attributable to shareholders of HK\$36,567,000 recorded in last year.

### SEGMENT INFORMATION

Turnover represents rental income from leasing of properties.

Segment information is set out below:

#### (A) Business segments

The Group is principally engaged in property development and property investment.

Segment information about this business is presented below:

##### (i) Results

	Turnover		Contribution to profit (loss)	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Property development and property investment				
Property development	–	–	–	(36,578)
Property letting	5,399	3,095	2,794	1,684
	5,399	3,095		
Segment results			2,794	(34,894)
Other income (note (a))			18,035	5,502
Negative goodwill released to income			–	6,601
Less: Provision for loss on settlement of legal case			(3,000)	–
Unallocated administrative expenses			(13,724)	(13,776)
Profit (loss) before taxation			4,105	(36,567)
Taxation			(130)	–
Profit (loss) for the year			3,975	(36,567)

Notes:

- (a) Other income represents mainly net income from short-term treasury activities, including investments in securities and money market funds and the placement of bank deposits.
- (b) In prior year, the loss attributable to the property development of HK\$36,578,000 shown above comprised write down of properties for sale and impairment loss on properties for development amounted to HK\$16,000,000 and HK\$20,578,000 respectively.

## (B) Geographical segments

The Group's principal activities, comprising property development and property investment, are carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by location of customers:

	Turnover from geographical market	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	1,440	62
The PRC	3,959	3,033
	5,399	3,095

A more detailed analysis of the Group's segment information is set out in note 7 to the consolidated financial statements.



# Management Discussion and Analysis

## LIQUIDITY AND FINANCIAL RESOURCES

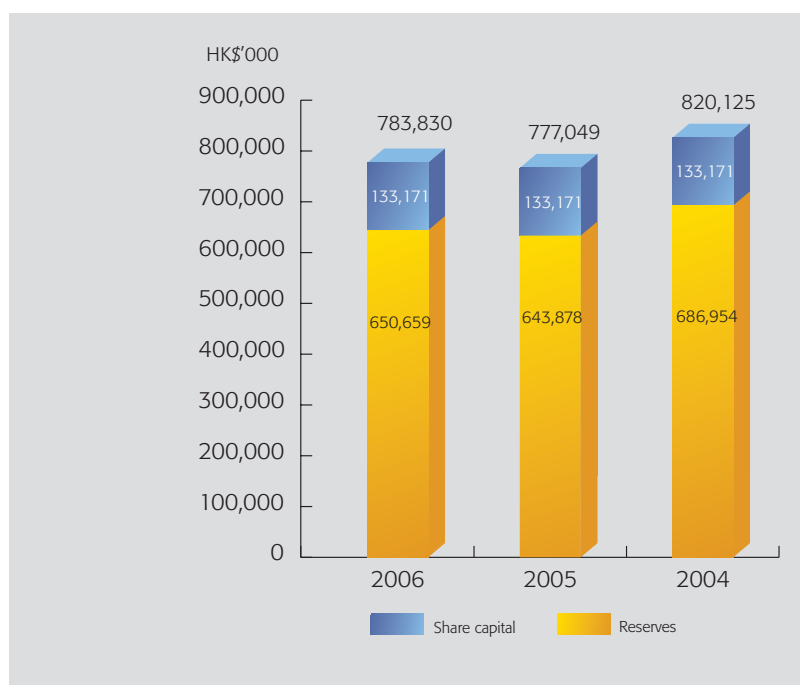
As at 31st March, 2006, the Group remains cash-rich and has no bank borrowings and no material capital expenditure commitments or financial obligations. All operations are financed internally by shareholders' funds. There is no maturity profile of debt and obligation.

Cash and other liquid assets amounted to HK\$595,568,000 and accounted for 82.9% of total current assets.

Exchange risk of the Group is not significant as the assets of the Group comprised substantially of cash, fixed income notes or money market funds denominated in United States currency which is officially pegged to the Hong Kong currency. No financial instrument are needed for hedging purposes in respect of interest rate and currency.

## CAPITAL STRUCTURE

As at 31st March, 2006, the Group had no long term borrowings and its operations were financed entirely by shareholders' funds.





## ORDER BOOK

Due to its business nature, the Group has no order book at 31st March, 2006. The Group has no new product and services to be introduced to the market.

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's largest customer and five largest customers accounted for approximately 41.1% and 73.9% respectively of the Group's turnover for the year. The five largest suppliers of the Group accounted for less than 30% of the Group's total purchases for the year.

During the year, the Group has not made any purchases other than incurring rental outgoings and overhead expenses.

Save as the connected transaction disclosed in page 19 of this report, none of the Company's directors, their associates or any shareholders of the Company (who to the best of the knowledge of the Company's directors owned more than 5% of the Company's issued shares) had a beneficial interest in any of the Group's five largest customers and the five largest suppliers.

## STAFF AND EMOLUMENT POLICY

As at 31st March, 2006, the Group employed 61 staff at market remunerations with staff benefits such as insurance, provident fund scheme and discretionary bonus.

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence. The emoluments of the directors are reviewed by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics. No director, or any of his associates, and executive is involved in dealing his own remuneration. The Company has a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out on page 20 of the report of directors.

## Directors' Report

The directors of the Company present their annual report together with the audited consolidated financial statements of the Group for the year ended 31st March, 2006.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries during the year were property investment and development.

### RESULTS

The results of the Group for the year ended 31st March, 2006 and the state of affairs of the Group as at that date are set out in the consolidated financial statements on pages 30 to 67.

### DIVIDEND

The directors do not recommend the payment of a dividend (2005: Nil).

### SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the consolidated financial statements. There was no movement in the Company's share capital during the year.

### PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of the movements in the property, plant and equipment and investment properties of the Group during the year are set out in notes 15 and 17 to the consolidated financial statements respectively.

### MAJOR PROPERTIES

Particulars of the Group's major completed properties for sale are set out on page 68.

### RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 32.



## DONATIONS

During the year, the Group had not made any charitable and other donations (2005: Nil).

## FIVE YEAR FINANCIAL SUMMARY

A five year financial summary of the Group is set out on pages 69 and 70.

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31st March, 2006 were as follows:

	2006 HK\$'000	2005 HK\$'000
Contributed surplus	191,810	191,810
Retained profits	125,923	127,511
	<b>317,733</b>	319,321

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## Directors' Report

### DIRECTORS

The directors of the Company during the financial year and up to the date of this report were:

#### Executive Directors

Mr. Lee Lap  
Mdm. Leung Lai Ping  
Mr. Wong Shiu Kee

#### Independent Non-executive Directors

Dr. Lee Tung Hai, Leo, G.B.S., LL.D., J.P.  
Mr. Chan Siu Kang  
Mr. Lo Yiu Hee

#### Non-executive Director

Mr. Lee Ka Sze, Carmelo

In accordance with the Company's Bye-laws 99, Mdm. Leung Lai Ping and Mr. Lee Ka Sze, Carmelo shall retire from the board by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. In addition, Mr. Lee Lap shall be subject to and offer himself for re-election at the forthcoming Annual General Meeting.

The Company has received annual confirmation from each of the independent non-executive directors as regards their independence to the Company pursuant to paragraph 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers that each of the independent non-executive directors is independent to the Company.

### DIRECTORS' SERVICE CONTRACTS

Each of the independent non-executive directors and non-executive director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company from 30th September, 2004 to 31st December, 2006. The appointment shall terminate on the earlier of (i) 31st December, 2006, or (ii) the date on which the director ceases to be director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

Other than the aforesaid, none of the directors had any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS

### Executive Directors

**Mr. Lee Lap**, aged 63, is the Chairman and Chief Executive Officer of the Company. He is the founder of the Group and has been actively involved in the printed circuit board and electronics industry in Hong Kong since 1968. Mr. Lee is responsible for overall policy and decision making and business development of the Group. Mr. Lee is an honorary citizen of Zhongshan, Shenzhen and Guangzhou in PRC.

**Madam Leung Lai Ping**, aged 57, is the wife of Mr. Lee Lap. She has been involved in overall policy and decision making and general administration of the Group since 1968.

**Mr. Wong Shiu Kee**, aged 42, is the Finance Director of the Company. He first joined the Company in 1991 and rejoined the Company in October, 2000. With over 20 years of experience in financial management, he is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants, and is also a qualified Chartered Secretary designated as ACIS and ACS.

### Independent Non-executive Directors

**Dr. Lee Tung Hai, Leo**, G.B.S., LL.D., J.P., aged 84, is the Chairman of Tung Tai Group of Companies and an independent non-executive or non-executive director of several public listed companies in Hong Kong, including Beijing Enterprises Holdings Limited, K. Wah International Holdings Limited, Asia Financial Holdings Limited, Liu Chong Hing Investment Limited and Shell Electric Mfg. (Holdings) Co., Ltd. In the past three years, Dr. Lee was a former independent non-executive director of Prime Investments Holdings Limited. He is a member of a number of public services committees and heads many social service organisations, including as an Advisor of the Advisory Board of the Tung Wah Group of Hospitals, Chairman of the Association of Chairmen of the Tung Wah Group of Hospitals, Chairman of Friends of Hong Kong Association and Vice President of the China Overseas Friendship Association. Dr. Lee served as a Standing Committee Member of the eighth and ninth National Committee of the Chinese People's Political Consultative Conference; an Adviser on Hong Kong Affairs to Hong Kong & Macau Affairs Office of the State Council and Xinhua News Agency, Hong Kong Branch; a member of the Preparatory Committee for the Hong Kong Special Administrative Region; and a member of the Selection Committee for the first Government of the HKSAR. He has been honoured with awards by different governments, which include Cavaliere di Gran Croce of Italy, O.B.E. of Great Britain, Chevalier Legion d'Honneur of France, Commandeur de l'Ordre de Leopold II of Belgium and Gold Bauhinia Star of the Hong Kong Special Administrative Region Government of the People's Republic of China. Dr. Lee has over 40 years of experience in business management.

**Mr. Chan Siu Kang**, aged 69, is a graduate of the National Taiwan University with bachelor's degree in Electrical Engineering. Mr. Chan has 30 years' manufacturing and senior management experience in the electronics industry. Among which, he has held 20 years in the role as general manager and director.



## Directors' Report

**Mr. Lo Yiu Hee**, aged 48, holds a master's degree in business administration from the Chinese University of Hong Kong. Mr. Lo is a fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia. Mr. Lo has over 20 years of experience in finance and accounting in various listed companies. Mr. Lo was the former executive director of BEP International Holdings Limited, a company listed in Hong Kong. Mr. Lo is presently the Vice Chairman of the Hong Kong General Chamber of Textiles Limited and the Councilor of the CPA Australia, Hong Kong China Division.

### Non-Executive Director

**Mr. Lee Ka Sze, Carmelo**, aged 46, has been an independent non-executive director of the Company since March, 1997. On 30th September, 2004, he was re-designated as a non-executive director of the Company. He holds a Bachelor of Laws degree from the University of Hong Kong. He is a practising solicitor and a partner of Woo, Kwan, Lee & Lo.

### SENIOR MANAGEMENT

The directors are closely involved in and are directly responsible for all activities of the Group. The board of directors considers that only the above-mentioned three Executive Directors are regarded as members of the Group's senior management.

### EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

Details of the emoluments of directors and senior employees are set out in note 12 to the consolidated financial statements.

## DIRECTORS' INTERESTS IN SHARES AND OPTIONS

As at 31st March, 2006, the interests of the Company's directors, chief executives and their associates in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), were as follows:

### (A) Long Positions in the Shares of the Company

Name of directors	Number of ordinary shares of HK\$0.08 each held				Total	Percentage of total issued shares
	Personal interest	Family interest	Corporate interest	Other interest		
Mr. Lee Lap	37,500,000	37,500,000 <i>(note 2)</i>	884,752,780 <i>(note 1)</i>	–	959,752,780	57.66%
Mdm. Leung Lai Ping	37,500,000	922,252,780 <i>(note 3)</i>	–	–	959,752,780	57.66%

*Notes:*

- (1) The shares included under the corporate interest of Mr. Lee Lap refer to the 884,752,780 shares held by Lee & Leung (B.V.I.) Limited of which Mr. Lee Lap and his spouse, Mdm. Leung Lai Ping, are owners holding 68% and 32% of its issued share capital respectively.
- (2) The shares held under family interest of Mr. Lee Lap refer to the 37,500,000 shares held by Mdm. Leung Lai Ping under her personal interest.
- (3) The shares held under family interest of Mdm. Leung Lai Ping refer to the 37,500,000 shares held by Mr. Lee Lap under his personal interest and 884,752,780 shares under his corporate interest.

## Directors' Report

### (B) Long Positions in Shares of Associated Corporations

Name of directors	Name of subsidiary	Number of non-voting deferred shares held
Mr. Lee Lap	Applied Industrial Company Limited	1,000
	Lee Plastics Manufacturing Company Limited	250,000
	Magnetic Electronics Limited	5,000
	Termbray Electronics Company Limited	7,000
Mdm. Leung Lai Ping	Applied Industrial Company Limited	1,500
	Lee Plastics Manufacturing Company Limited	250,000
	Termbray Electronics Company Limited	3,000

Note: All the above non-voting deferred shares are held by the above directors personally as beneficial owners.

### (C) Long Positions in Shares Options Granted by the Company

Name of directors	Number of share options outstanding at 1st April, 2005 and 31st March, 2006	Percentage of total issued shares
Mr. Lee Lap	30,000,000	1.80%
Mdm. Leung Lai Ping	30,000,000	1.80%

Note: These share options were granted at an aggregate consideration of HK\$2 on 31st August, 2001 under the share option scheme approved by the shareholders of the Company on 22nd August, 2001 and are exercisable at HK\$0.261 per share at any time between 1st October, 2001 and 30th September, 2006. No options to subscribe for shares in the Company were granted, exercised, lapsed or cancelled during the year. No other share option was outstanding during the year.

Apart from the share option scheme of the Company, at no time during the year was the Company or any of its subsidiaries 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.

Saved as disclosed herein, as at 31st March, 2006, none of the directors or chief executive of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO.





## **DIRECTORS' INTERESTS IN CONTRACTS**

During the year, the Group had entered into transactions with Panda Investment Company Limited (“Panda Investment”) as described in notes 34(a) and (b) to the consolidated financial statements. Mr. Lee Lap and Mdm. Leung Lai Ping have controlling interests in Panda Investment.

During the year, the Group’s property has been leased to Mr. Lee Wing Keung, the son of Mr. Lee Lap, details of which are disclosed in the section headed “Connected Transaction”.

Save as aforementioned, no other contracts of significance in relation to the Group’s business to which the Company, its holding company or any of its subsidiaries was a party or were parties and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **DIRECTORS' INTEREST IN COMPETING BUSINESS**

Pursuant to paragraph 8.10 of the Listing Rules, the Company discloses that Mr. Lee Lap and Mdm. Leung Lai Ping are interested in companies engaged in property investment and development in Mainland China and Hong Kong (“Competing Business”).

The board of directors of the Company has established procedures to identify any conflict of interest due to the interests of Mr. Lee Lap and Mdm. Leung Lai Ping. If conflict of interest arises, Mr. Lee Lap and Mdm. Leung Lai Ping will abstain from participating in making any decision. The Company is therefore capable of carrying on its business independently of, and at arm’s length from the Competing Business.

## **MANAGEMENT CONTRACTS**

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

## Directors' Report

### SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2006, the person interested in 5% or more of the issued share capital of the Company as recorded in the register kept by the Company pursuant to Section 336 of the SFO were as follows:

#### (A) Ordinary Share of the Company

Name of shareholders	Capacity	Number of issued ordinary shares of HK\$0.08 each held	Percentage of the issued share capital of the Company
Mr. Lee Lap	Beneficial owner, held by controlled corporation and held by spouse	959,752,780 (note 1)	57.66%
Mdm. Leung Lai Ping	Beneficial owner, held by controlled corporation and held by spouse	959,752,780 (note 1)	57.66%
Lee & Leung (B.V.I.) Limited (note 2)	Beneficial owner	884,752,780	53.15%
Cosmo Telecommunication Inc. (note 3)	Beneficial owner	151,202,960	9.08%
Ms. Jing Xiao Ju	Held by controlled corporation	151,202,960	9.08%
East Glory Trading Limited (note 4)	Beneficial owner	103,397,540	6.21%
Master Winner Limited (note 4)	Held by controlled corporation	103,397,540	6.21%
Mr. Yuan Qinghua	Held by controlled corporation	103,397,540	6.21%

Notes:

- (1) It represents 884,752,780 shares held by Lee & Leung (B.V.I.) Limited, 37,500,000 shares held by himself/herself and 37,500,000 shares of the Company held by his/her spouse.
- (2) Lee & Leung (B.V.I.) Limited is owned 68% by Mr. Lee Lap and 32% by his spouse, Mdm. Leung Lai Ping and its interest in the issued share capital of the Company is included in the interest held by Mr. Lee Lap and Mdm. Leung Lai Ping respectively.
- (3) Cosmo Telecommunication Inc. is a wholly owned by Ms. Jing Xiao Ju.
- (4) East Glory Trading Limited is wholly owned by Master Winner Limited, which in turn is wholly owned by Mr. Yuan Qinghua.

## (B) Share Option

Name	Capacity	Number of share options	Number of underlying shares
Mr. Lee Lap	Beneficial owner	30,000,000	30,000,000
Mdm. Leung Lai Ping	Beneficial owner	30,000,000	30,000,000

Saved as disclosed above, the Company has not been notified of any other interests or short positions in the shares or the underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 31st March, 2006.

## CONNECTED TRANSACTION

Pursuant to Chapter 14A of the Listing Rules, the Company discloses the following continuing connected transaction entered into during the year:

On 11th March, 2005, Termbray (Fujian) Land Development Company Limited, a wholly owned subsidiary of the Company, as lessor and Mr. Lee Wing Keung as lessee entered into a lease agreement, pursuant to which the lessee will lease a residential property in the Hong Kong Island with a saleable area of approximately 306 square metres from the lessor for a term of three years commencing on 16th March, 2005 at a monthly rent of HK\$120,000 (inclusive of rates, management fees, utility charges and maintenance fees of security alarm system) for domestic purposes.

The rental income earned by the Group during the current year is HK\$1,440,000 (2005: HK\$62,000).

Mr. Lee Wing Keung is the son of Mr. Lee Lap, Chairman and Chief Executive Officer of the Company, and, as such, is treated as an associate of Mr. Lee Lap under Rule 14A.11(4)(b) of the Listing Rules and thereby is a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the signing of the lease agreement constitutes a continuing connected transaction for the Company under the Listing Rules.

The independent non-executive directors of the Company have reviewed the above transaction and opined that the connected transaction has been entered into:

- (i) in the ordinary and usual course of business of the Company, and
- (ii) on normal commercial terms, and
- (iii) in accordance with the relevant agreement governing it on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Directors' Report

### SHARE OPTION SCHEME

A share option scheme of the Company was adopted on 22nd August, 2001 as an incentive to the employees of the Group. The directors may, at their discretion, invite full time employees including executive directors of the Group, to take up options to subscribe for shares of the Company at a price to be determined by the directors which will be the higher of a price being not less than 80% of the average closing prices of the shares of the Company on the five trading days immediately preceding the date on which the option is offered or the nominal value of a share. The maximum number of shares in respect of which options may be granted (together with shares issued pursuant to options exercised or cancelled and shares in respect of which any options remain outstanding) under the scheme and any other share option schemes will not exceed 10% of the issued share capital of the Company from time to time, excluding any shares issued on exercise of options granted pursuant to the scheme. No employee shall be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for such number of shares, exceeding 25% of the aggregate number of shares for the time subject to the scheme. The offer of a grant of share option may be accepted within 28 days from the date of offer with a payment of nominal consideration of HK\$1.00 by the grantee. Each option gives the holder the right to subscribe for one share at the relevant exercise price. The exercisable period of an option should not exceed a period of five years commencing on the expiry of a period of not less than one month after the option is accepted. Full amount of the subscription price of the share must be paid upon the exercise of options.

The scheme will remain in force for a period of ten years commencing on 22nd August, 2001.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") amended the rules for share option schemes under the Listing Rules. The new requirements have become effective from 1st September, 2001 and render some of the provisions of the Company's share option scheme, including the basis of determining the subscription price, no longer applicable. According to the Listing Rules, the subscription price of the options will be determined as the highest of (i) the nominal value of the share of Company, (ii) the average of the closing prices of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option, and (iii) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant of the option. Unless approved by shareholders of the Company in the manner as set out in the Listing Rules, the total number of shares issued and to be issued upon exercise of the options granted to each employee (other than directors of the Group), including both exercised and outstanding options, in any 12 months period must not exceed 1% of the shares of the Company in issue.

On 31st August, 2001, the Company granted pursuant to the scheme to each of Mr. Lee Lap and Mdm. Leung Lai Ping, both being directors of the Company, options to subscribe for 30,000,000 shares at an exercise price of HK\$0.261 per share exercisable at any time between 1st October, 2001 to 30th September, 2006.

During the year, no option was granted, exercised, lapsed nor cancelled pursuant to the scheme. All the said options granted under the scheme, of which 60,000,000 shares to be subscribed for, remained outstanding as at 31st March, 2006.

## PROVIDENT FUND SCHEME

The Group has a mandatory provident fund scheme (“MPF Scheme”) managed by a banking group. All staff employed in Hong Kong joined the MPF Scheme. The MPF Scheme is a defined contribution scheme and the assets of which are held separately from those of the Group in independently administered funds. Both of the employer and the employee are required to make mandatory contributions to the MPF Scheme calculated at 5% of the employee’s monthly relevant income, subject to the rules and regulations of the Mandatory Provident Fund Schemes Ordinance. As at 31st March, 2006, the Group had no forfeited contributions (2005: Nil) available to offset future employers’ contributions to the MPF Scheme.

The employees of the Company’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contributions.

The contribution made by the Group charged to the consolidated income statement in respect of the year are as follows:

	2006 HK\$’000	2005 HK\$’000
Gross employers’ contributions	117	104
Less: Forfeited contributions	–	–
Net contributions	117	104

## PUBLIC FLOAT

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s Bye-laws although there are no statutory restrictions against such rights under the laws in Bermuda.



## Directors' Report

### AUDITORS

The consolidated financial statements for the three years ended 31st March, 2006 were audited by Messrs. Deloitte Touche Tohmatsu.

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

**Lee Lap**

*Chairman & CEO*

Hong Kong, 7th July, 2006



## Corporate Governance Report

The Company are committed to maintaining a high standard of corporate governance. We firmly believe that to maintain a good, solid and sensible framework of corporate governance will ensure the Company to run its business in the best interests of its shareholders as a whole.

The Company adopted all the code provisions in the Code on Corporate Governance Practices ("the Code") contained in Appendix 14 of the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices.

The Company has complied during the year ended 31st March, 2006 with the Code except code provision C.2 on internal control (which will be implemented for accounting periods commencing on or after 1st July, 2005) and the following:

1. Pursuant to code provision A.2.1, the roles of chairman and chief executive officer of an issuer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. Mr. Lee Lap is currently the chairman and chief executive officer of the Group. Having considered the current business operation and the size of the Group, the Board is of the view that Mr. Lee Lap acting as both the chairman of the Board and also as the chief executive officer of the Group is acceptable and in the best interest of the Group. The Board will review this situation periodically.
2. Pursuant to code provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company is subject to a private act called "The Termbay Industries International (Holdings) Limited Act 1991". Section 4(g) of the said Act provides that: "Notwithstanding anything contained in the Companies Act or rule of law to the contrary, the directors of the Company shall not be required to be elected at each annual general meeting, but shall (save for any chairman or managing director) be subject to retirement by rotation in such manner and at such frequency as the bye-laws may provide." Accordingly, the chairman and managing director of the Company may not be made subject to retirement by rotation.

In view of the above and paragraph 4.2 of the Code, the Company at the annual general meeting held on 19th August, 2005 amended its existing bye-laws to provide that every director of the Company, other than directors holding the office of chairman or managing director, shall be subject to retirement by rotation at least once every three years while directors holding the office of chairman or managing director shall be subject to re-election once every 3 years.

## Corporate Governance Report

### BOARD OF DIRECTORS

The Board of Directors (the "Board") is charged with leading the Group in a responsible and effective manner. Each director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the shareholders. The duties of the Board include establishing the strategic direction of the Group, setting objectives and monitoring the performance of the Group.

The Board has established schedule of matters specifically reserved to the Board for its decision and those reserved for the management. The Board reviews this schedule on a periodic basis to ensure that it remains appropriate to the needs of the Company.

The Board of the Company consists of 3 executive directors, 3 independent non-executive directors and one non-executive director. Their brief biographical details are described on pages 13 and 14 of the Annual Report.

The independent non-executive directors, all of whom are independent of the management of the Company, are highly experienced professionals coming from a diversified industrial background. They ensure that the Board maintains high standards of financial and other mandatory reporting as well as providing adequate check and balance to safeguard the interest of shareholders and the Company as a whole.

Each of the independent non-executive directors and non-executive director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company from 30th September, 2004 to 31st December, 2006. The appointment shall terminate on the earlier of (i) 31st December, 2006, or (ii) the date on which the director ceases to be director for any reasons pursuant to the bye-laws of the Company or any other applicable laws.

The full Board meets no less than four times a year to review the financial and operating performance of the Group. Additional board meetings were held when necessary. Due notice and board papers were given to all directors prior to the meeting in accordance with the Listing Rules and the Code. The Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense.

There were six board meetings held in the financial year ended 31st March, 2006. The attendance record of each director is shown below. All business transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.

<b>Name of director</b>	<b>No. of board meeting attended</b>
Mr. Lee Lap	6
Mdm. Leung Lai Ping	3
Mr. Wong Shiu Kee	6
Dr. Lee Tung Hai, Leo	3
Mr. Lee Ka Sze, Carmelo	4
Mr. Chan Siu Kang	3
Mr. Lo Yiu Hee	4

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"), as the code of conduct regarding directors' securities transactions.

The Company have made specific enquiry of all directors that they have complied with the Model Code throughout the year ended 31st March, 2006.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

## **BOARD COMMITTEES**

To strengthen the functions of the Board and to enhance its expertise, there are two Board committees namely, the Audit Committee and Remuneration Committee formed under the Board, with each performing different functions.

### **AUDIT COMMITTEE**

The Audit Committee, which is chaired by Dr. Lee Tung Hai, Leo, has been established with defined terms of reference in alignment with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code of the Listing Rules. Other members are Mr. Lee Ka Sze Carmelo, Mr. Chan Siu Kang and Mr. Lo Yiu Hee.

## Corporate Governance Report

The Audit Committee meets no less than twice a year with the senior management. The role and function of the Audit Committee include: to review the accounting principles and practices adopted by the Group and other financial reporting matters, to assure the completeness, accuracy and fairness of the financial statements of the Group, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, and to review all significant business affairs managed by the executive directors in particular on connected transactions. The Audit Committee also provides advice and recommendations to the Board and oversees all matters relating to the external auditors, and it plays an important role in monitoring and safeguarding the independence of external auditors.

The Audit Committee met three times during the financial year ended 31st March, 2006. Set out below is the summary of work done during the year under review:

- to review the financial statements of the Group for the year ended 31st March, 2005 and for the six months ended 30th September, 2005;
- to discuss on the effectiveness of the internal control system;
- to review the auditors' statutory audit plan and the letters of representation; and
- to consider and approve the 2006 audit fees.

The attendance record of each member is shown below. All business transacted at the above meetings are well-documented and maintained in accordance with applicable laws and regulations.


Name of audit committee member	No. of meeting attended
Dr. Lee Tung Hai, Leo	3
Mr. Lee Ka Sze, Carmelo	3
Mr. Chan Siu Kang	2
Mr. Lo Yiu Hee	3

### REMUNERATION COMMITTEE

The Remuneration Committee, which is chaired by Mr. Lee Lap, has been established with defined terms of reference. Other members are Mr. Chan Siu Kang and Mr. Lo Yiu Hee.

The Company aims to design remuneration policies that attract and retain executives needed to run the Group successfully and to motivate executives to pursue appropriate growth strategies whilst taking into account performance of the individual. The remuneration should reflect performance, complexity and responsibility of the individual; and the remuneration package will be structured to include salary, bonus and share options scheme to provide incentives to directors and senior management to improve their individual performances.





The role and function of the Remuneration Committee include formulation of the remuneration policy, review and recommending to the Board the annual remuneration policy, and determination of the remuneration of the executive directors.

Set out below is the summary of work of the Remuneration Committee done during the year under review:

- to review the remuneration policy for the year ended 31st March, 2006;
- to review the remuneration of the executive directors and the independent non-executive directors and non-executive director; and
- to review the annual share option policy.

The Remuneration Committee meets once during the financial year ended 31st March, 2006 with the presence of all members of the Remuneration Committee.

## **OTHER INFORMATION**

The Board of Directors has not established a nomination committee. According to the articles of association of the Company, the Board has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. In assessing nomination of new directors, the Board will take into consideration of the nominee's qualification, ability and potential contributions to the Company. There was no change of the composition of the Board during the year under review.

The Company had not established its own website. Full text of the terms of reference of Audit Committee and Remuneration Committee will be supplied upon request.

## Corporate Governance Report

### AUDITORS' REMUNERATION

The remuneration in respect of services provided by Deloitte Touche Tohmatsu for the Group for the year ended 31st March, 2006 are analysed as follows:

	<b>31st March, 2006 HK\$</b>	31st March, 2005 HK\$
Audit service	<b>400,000</b>	343,000
Non audit services	<b>109,000</b>	91,000
	<b>509,000</b>	434,000

*Note:* The remuneration for non audit services mainly includes fee regarding the review of the interim financial report of the Group for the six months ended 30th September, 2005 amounted to HK\$88,000 (2005: HK\$72,000).

### SHAREHOLDER COMMUNICATION

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure its shareholders are kept well informed of key business imperatives. These include annual general meeting, annual report, various notices, announcements and circulars. Procedure for voting by poll has been included in circular of the Company accompanying notice convening general meeting and has been read out by the Chairman at the general meeting.

At the 2005 annual general meeting, a separate resolution was proposed by the Chairman in respect of each separate issue, including re-election of directors. The Chairman of the Board of Directors and members of Audit Committee and Remuneration Committee attended the 2005 Annual General Meeting to answer questions of shareholders.

### DIRECTORS' RESPONSIBILITY FOR PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibilities in preparing the financial statements. The statement of the auditors about their reporting responsibilities on the financial statements is set out in the Auditors' Report on page 29.

### CONCLUSION

The Company strongly believes that the quality and standard of corporate governance reflects the quality of the management and the operations of the Group's business. Good corporate governance can safeguard the proper use of funds and effective allocation of resources and to protect shareholders' interests. The management wholeheartedly advocates of the good practice in corporate governance and will try our best to maintain, strengthen and improve the standard and quality of the Group's corporate governance.

## **Deloitte.** **德勤**

### **TO THE MEMBERS OF TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Termbay Industries International (Holdings) Limited (the "Company") and its subsidiaries (together with the Company referred to as the "Group") on pages 30 to 67 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 consolidated financial statements which give a true and fair view. In preparing consolidated financial statements 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 financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, 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 consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **OPINION**

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March, 2006 and of the profit 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.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

7th July, 2006

## Consolidated Income Statement

For the year ended 31st March, 2006

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
<b>TURNOVER</b>	7	<b>5,399</b>	3,095
Rental outgoings		<b>(2,272)</b>	(1,078)
Rental income less outgoings		<b>3,127</b>	2,017
Other income	8	<b>21,295</b>	16,047
Losses arising from changes in fair value of investments held for trading		<b>(3,260)</b>	–
Unrealised holding loss on other securities		–	(9,951)
Realised loss on disposal of other securities		–	(594)
Administrative expenses		<b>(14,057)</b>	(14,109)
Provision for loss on settlement of legal action	9	<b>(3,000)</b>	–
Write down of properties for sale		–	(16,000)
Impairment loss on properties for development	10	–	(20,578)
Negative goodwill released to income	10	–	6,601
<b>PROFIT (LOSS) BEFORE TAXATION</b>	11	<b>4,105</b>	(36,567)
Taxation	13	<b>(130)</b>	–
<b>PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>3,975</b>	(36,567)
		<b>HK Cents</b>	HK Cents
<b>EARNINGS (LOSS) PER SHARE</b>	14		
Basic		<b>0.24</b>	(2.20)
Diluted		<b>0.23</b>	N/A

# Consolidated Balance Sheet

At 31st March, 2006

	<i>Notes</i>	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000 (restated)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	15	<b>9,269</b>	11,427
Prepaid lease payments for land	16	<b>67,871</b>	68,469
Investment properties	17	<b>3,692</b>	3,801
Properties for development	18	–	–
Pledged bank deposits	27 & 32(b)	<b>2,117</b>	2,112
		<b>82,949</b>	85,809
<b>CURRENT ASSETS</b>			
Properties for sale	19	<b>113,520</b>	110,875
Trade and other receivables	20	<b>6,289</b>	6,688
Deposits and prepayments		<b>2,436</b>	2,421
Prepaid lease payments for land	16	<b>598</b>	598
Available-for-sale investments	21	<b>339,251</b>	–
Investments held for trading	22	<b>239,665</b>	–
Other securities	23	–	271,937
Investments in money market funds	24	–	298,386
Pledged bank deposits	27 & 32(a)	<b>465</b>	465
Bank balances and cash	27	<b>16,187</b>	16,365
		<b>718,411</b>	707,735
<b>CURRENT LIABILITIES</b>			
Trade and other payables and accrued charges	25	<b>6,165</b>	6,263
Deposits received		<b>1,035</b>	871
Provisions	26	<b>6,430</b>	4,725
Amount due to a related company	27 & 34(b)	<b>370</b>	1,236
Taxation liabilities		<b>3,114</b>	2,984
		<b>17,114</b>	16,079
<b>NET CURRENT ASSETS</b>		<b>701,297</b>	691,656
<b>NET ASSETS</b>		<b>784,246</b>	777,465
<b>CAPITAL AND RESERVES</b>			
Share capital	28	<b>133,171</b>	133,171
Reserves	29	<b>650,659</b>	643,878
Equity attributable to equity holders of the Company		<b>783,830</b>	777,049
Minority interests		<b>416</b>	416
<b>TOTAL EQUITY</b>		<b>784,246</b>	777,465

The consolidated financial statements on pages 30 to 67 were approved and authorised for issue by the board of directors on 7th July, 2006 and are signed on its behalf by:

**Lee Lap**  
Director

**Wong Shiu Kee**  
Director



## Consolidated Statement of Changes in Equity

For the year ended 31st March, 2006

	Attributable to equity holders of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Exchange translation reserve HK\$'000	Negative goodwill HK\$'000	Accumulated profits (loss) HK\$'000	Minority interests HK\$'000		
At 1st April, 2004	133,171	132,550	(361)	6,601	548,164	820,125	416	820,541
Arising from translation of financial statements of foreign operations recognised in equity	-	-	92	-	-	92	-	92
Loss for the year	-	-	-	-	(36,567)	(36,567)	-	(36,567)
Negative goodwill released to income	-	-	-	(6,601)	-	(6,601)	-	(6,601)
Total recognised profit (loss) for the year	-	-	92	(6,601)	(36,567)	(43,076)	-	(43,076)
At 31st March, 2005	133,171	132,550	(269)	-	511,597	777,049	416	777,465
Arising from translation of financial statements of foreign operations recognised in equity	-	-	2,806	-	-	2,806	-	2,806
Profit for the year	-	-	-	-	3,975	3,975	-	3,975
Total recognised profit for the year	-	-	2,806	-	3,975	6,781	-	6,781
<b>At 31st March, 2006</b>	<b>133,171</b>	<b>132,550</b>	<b>2,537</b>	<b>-</b>	<b>515,572</b>	<b>783,830</b>	<b>416</b>	<b>784,246</b>

# Consolidated Cash Flow Statement

For the year ended 31st March, 2006

	2006 HK\$'000	2005 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit (loss) before taxation	4,105	(36,567)
Adjustments for:		
Depreciation of property, plant and equipment	1,686	2,253
Depreciation of investment properties	109	109
Amortisation of prepaid lease payments for land	598	598
Provision for loss on settlement of legal action	3,000	–
Losses arising on changes in fair value of investments held for trading	3,260	–
Unrealised holding loss on other securities	–	9,951
Realised loss on disposal of other securities	–	594
Loss on disposal of property, plant and equipment	330	–
Write down for properties for sale	–	16,000
Impairment loss on properties for development	–	20,578
Negative goodwill released to income	–	(6,601)
Interest income	(20,796)	(15,728)
Operating cash flows before movements in working capital	(7,708)	(8,813)
(Increase) decrease in trade and other receivables, deposits and prepayments	(70)	520
Increase (decrease) in trade and other payables and accrued charges and deposits received	63	(441)
Decrease in provisions	(1,295)	(1,314)
Decrease in amount due to a related company	(866)	(610)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(9,876)</b>	<b>(10,658)</b>
<b>INVESTING ACTIVITIES</b>		
Interest received	21,255	14,748
(Increase) decrease in pledged bank deposits	(5)	694
Purchase of property, plant and equipment	(213)	–
Proceeds from disposal of property, plant and equipment	355	–
Purchase of available-for-sale investments	(40,865)	–
Purchase of investments held for trading	(5,210)	–
Purchase of other securities	–	(67,607)
Proceeds from disposal of investments held for trading	34,222	–
Proceeds from disposal of other securities	–	18,578
Proceeds from redemption of money market funds	–	46,671
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>9,539</b>	<b>13,084</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(337)</b>	<b>2,426</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>16,365</b>	<b>13,847</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>159</b>	<b>92</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>16,187</b>	<b>16,365</b>
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	16,187	16,365

# Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

## 1. GENERAL

The Company is a public company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The addresses of the registered office and the principal place of business of the Company are disclosed in the section headed "Corporate information" of the Company's Annual Report.

The principal activities of the Group are property development and property investment.

The consolidated financial statements are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars, while the function currency of the subsidiaries registered in the People's Republic of China ("PRC") is Renminbi.

The directors consider the Company's ultimate holding company to be Lee & Leung (B.V.I.) Limited, a company incorporated in the British Virgin Islands.

## 2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas:

### Share-based Payments

In the current year, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. The Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 in accordance with the relevant transitional provisions. As the share options of the Company were granted before that date, the adoption of HKFRS 2 has had no impact to the results of the Group for the current and prior years.

## 2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

### Financial Instruments

In the current year, the Group has applied HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement”. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the consolidated financial statements. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

#### *Classification and measurement of financial assets*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”) issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. The classification depends on the purpose for which the assets are acquired. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortised cost using the effective interest method. The Group’s other investments held for trading purposes with an aggregate carrying amount of HK\$271,937,000 and investments in money market funds with an aggregate carrying amount of HK\$298,386,000 have been accounted for as “investments held for trading” and “available-for-sale investments” respectively on 1st April, 2005.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (continued)

#### Financial Instruments (continued)

##### *Financial assets and financial liabilities other than debt and equity securities*

From 1st April, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables” or “held-to-maturity financial assets”. Financial liabilities are generally classified as “financial liabilities at fair value through profit or loss” or “financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)”. “Other financial liabilities” are carried at amortised cost using the effective interest method.

The adoption of HKAS 39 has had no material impact on the results of the Group for the current year.

#### Leasehold Interest in Land

In previous years, leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 “Leases”. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the leasehold land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments for land under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. As a result of the adoption of HKAS 17 on a retrospective basis, the leasehold interests in land with an aggregate carrying amount of HK\$69,665,000 at 1st April, 2004, which were previously included in property, plant and equipment, have been reclassified as prepaid lease payments for land. The adoption of HKAS 17 has had no material impact on the results of the Group for the current and prior years.

### 3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES

The changes in the accounting policies described in note 2 have had no material impact to the results of the Group for the current and prior years. The cumulative effects of the changes in these accounting policies as at 31st March, 2005 and 1st April, 2005 are summarised below:

Balance sheet items	As at	Effects of adoption of		Reclassif-	As at	Effects of	As at
	31st March, 2005 (as originally stated)	HKAS 1	HKAS 17	ication	31st March, 2005 (as restated)	adoption of	1st April, 2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	84,295	-	(69,067)	(3,801)	11,427	-	11,427
Prepaid lease payments for land							
– Non-current	-	-	68,469	-	68,469	-	68,469
– Current	-	-	598	-	598	-	598
Investment properties	-	-	-	3,801	3,801	-	3,801
Available-for-sale investments	-	-	-	-	-	298,386	298,386
Investments held for trading	-	-	-	-	-	271,937	271,937
Other securities	271,937	-	-	-	271,937	(271,937)	-
Investments in money market funds	298,386	-	-	-	298,386	(298,386)	-
Total effects on assets and liabilities		-	-	-		-	
Capital and Reserves							
Minority interests	-	416	-	-	416	-	416
Total effects on equity		416	-	-		-	
Minority interests	416	(416)	-	-	-	-	-



## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 3. SUMMARY OF THE EFFECTS OF CHANGES IN ACCOUNTING POLICIES (continued)

The financial effects of the changes in the accounting policies described in note 2 to the Group's equity at 1st April, 2004 are summarised below:

	As at 1st April, 2004 (as originally stated) HK\$'000	Effects of adoption of HKAS 1 HK\$'000	As at 1st April, 2004 (as restated) HK\$'000
Capital and Reserves			
Minority interests	–	416	416
Total effects on equity		416	
Minority interests	416	(416)	–

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendments and interpretations will have no material impact on the consolidated financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures <sup>2</sup>
HKAS 21 (Amendment)	Net investment in a foreign operation <sup>2</sup>
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions <sup>2</sup>
HKAS 39 (Amendment)	The fair value option <sup>2</sup>
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts <sup>2</sup>
HKFRS 6	Exploration for and evaluation of mineral resources <sup>2</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease <sup>2</sup>
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds <sup>2</sup>
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment <sup>3</sup>
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>4</sup>
HK(IFRIC) – INT 8	Scope of HKFRS 2 <sup>5</sup>
HK(IFRIC) – INT 9	Reassessment of embedded derivatives <sup>6</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st June, 2006.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with the HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

A summary of the significant accounting policies adopted by the Group is set out below.

### (a) Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interest of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

### (b) Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and any identified impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, and after taking into account their estimated residual value, using the straight line method.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (b) Property, plant and equipment (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

#### (c) Leasehold interest in land

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are classified as prepaid lease payments for land under operating leases, which are carried at cost and amortised over the lease term on a straight line basis.

#### (d) Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is provided to write off the cost of investment properties over their estimated useful lives, using the straight line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the period in which the item is derecognised.

#### (e) Properties for development

Properties for development are stated at cost less any identified impairment loss.

#### (f) Properties for sale

Properties for sale are stated at the lower of cost and net realisable value.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### (h) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

The Group's financial assets are classified into one of the categories set out below. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

#### Investments held for trading

Investments held for trading are classified under the category of financial assets at fair value through profit or loss. At each balance sheet date subsequent to initial recognition, investments held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

# Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Financial instruments (continued)

#### Financial assets (continued)

##### Available-for-sale investments

At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, until the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale investments are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment loss was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment loss is reversed does not exceed what the amortised cost would have been had the impairment loss not been recognised.

##### Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Financial instruments (continued)

#### Financial liabilities and equity (continued)

##### Financial liabilities

Financial liabilities (including trade and other payables and amount due to a related company) are subsequently measured at amortised cost, using the effective interest method.

##### Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

### (i) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### (j) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements.



## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (j) Foreign currencies (continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company at the rates of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

#### (k) Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessors are accounted for as operating leases.

##### *The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

##### *The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

#### (l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

## 4. SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) Taxation (continued)

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### (m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of related direct taxes.

#### *Rental income*

Rental income is recognised on a straight line basis over the relevant lease term.

#### *Interest income*

Interest income from a financial asset is recognised on a time basis, taking into account the principal amounts outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

### (n) Retirement benefit costs

Payments to the retirement benefit schemes are charged as an expense as they fall due.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

#### **Write down of properties for sale**

Included in the consolidated balance sheet at 31st March, 2006 are properties for sale with an aggregate carrying amount of HK\$114 million. Management assessed the recoverability of these assets based on an estimation of the recoverable amount of the underlying properties which involves, inter-alia, considerable analyses of current market price of properties of a comparable standard and location. If the net realisable value of the properties is less than expected as a result of an adverse change in market condition or an escalation of cost, impairment losses may result.

#### **Provisions for warranties and undertakings**

Included in provisions at 31st March, 2006 is the outstanding balance of provisions amounted to HK\$3.4 million which is estimated by management for costs and expenses required to discharge the Group's obligations and liabilities under the warranties and undertakings in connection with the disposal of subsidiaries (see note 26). If the actual costs and expenses incurred for discharging the Group's obligations and liabilities are more or less than the outstanding balance of the provisions, the difference between the balance of provisions and the actual costs and expenses incurred would have to be recognised in the consolidated financial statements.

### 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, investments held for trading, trade and other receivables, trade payables, pledged bank deposits and bank balances and cash. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### **Market risk**

##### *(i) Foreign exchange risk*

The Group's financial assets and financial liabilities are substantially denominated in Hong Kong dollars or United States dollars which is pegged to the Hong Kong dollars. Accordingly, the management considers the foreign exchange risk to the Group is not significant.

## 6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Market risk (continued)

#### (ii) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing financial assets. Interest bearing financial assets are mainly available-for-sale investments, investments held for trading and bank deposits. As these investments and bank deposits are respectively arranged at fixed rates and variable rates over the period, thus exposing the Group to both fair value interest rate risk and cash flow interest rate risk. Management monitors interest rate risk exposure and will consider hedging significant interest rate exposure should the need arise.

#### (iii) Other price risk

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. Therefore, other than the interest rate risk, the Group is also exposed to equity and debt security price risk. Management monitors the price movements of these assets and makes appropriate investment decisions.

### Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group reviews the recoverable amount of each individual balance of receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is reduced.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and the PRC, with exposure spread over a number of counterparties and customers.

The credit risk on the Group's liquid funds, including available-for-sale investments, investments held for trading and bank deposits, is limited because the majority of the counterparties are banks or corporations with high credit-worthiness.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 7. TURNOVER AND SEGMENT INFORMATION

Turnover represents rental income from leasing of properties.

Segment information is set out below:

#### (A) Business segments

The Group is principally engaged in property development and property investment.

Segment information about this business is presented below:

##### (i) Results

	Turnover		Contribution to profit (loss)	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Property development and property investment				
Property development	–	–	–	(36,578)
Property letting	5,399	3,095	2,794	1,684
	5,399	3,095		
Segment results			2,794	(34,894)
Other income (note (a))			18,035	5,502
Negative goodwill released to income			–	6,601
Less: Provision for loss on settlement of legal case			(3,000)	–
Unallocated administrative expenses			(13,724)	(13,776)
Profit (loss) before taxation			4,105	(36,567)
Taxation			(130)	–
Profit (loss) for the year			3,975	(36,567)

## 7. TURNOVER AND SEGMENT INFORMATION (continued)

### (A) Business segments (continued)

#### (i) Results (continued)

Notes:

- (a) Other income represents mainly net income from short-term treasury activities, including investments in securities and money market funds and the placement of bank deposits.
- (b) In prior year, the loss attributable to the property development of HK\$36,578,000 shown above comprised write down of properties for sale and impairment loss on properties for development amounted to HK\$16,000,000 and HK\$20,578,000 respectively.

#### (ii) Assets and liabilities

	Assets		Liabilities	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment assets/liabilities				
Property development and property investment	149,065	147,100	2,742	2,545
Unallocated assets/liabilities	652,295	646,444	14,372	13,534
	801,360	793,544	17,114	16,079

#### (iii) Other information

	Property development and property investment		Unallocated		Consolidated total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Capital additions	–	–	213	–	213	–
Depreciation and amortisation	333	333	2,060	2,627	2,393	2,960
Loss on disposal of property, plant and equipment	–	–	330	–	330	–
Provision for loss on settlement of legal action	–	–	3,000	–	3,000	–
Write down of properties for sale	–	16,000	–	–	–	16,000
Impairment loss on properties for development	–	20,578	–	–	–	20,578
Unrealised holding loss on other securities	–	–	–	9,951	–	9,951



## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 7. TURNOVER AND SEGMENT INFORMATION (continued)

#### (B) Geographical segments

The Group's principal activities, comprising property development and property investment, are carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's turnover by location of customers:

	Turnover from geographical market	
	2006 HK\$'000	2005 HK\$'000
Hong Kong	1,440	62
The PRC	3,959	3,033
	<b>5,399</b>	3,095

The following is an analysis of the carrying amount of assets, and additions to property, plant and equipment analysed by geographical area in which the assets are located:

	Carrying amount of assets		Additions to property, plant and equipment	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment assets				
Hong Kong	32,174	32,504	–	–
The PRC	116,891	114,596	213	–
	<b>149,065</b>	147,100	<b>213</b>	–
Other assets				
Hong Kong	57,581	60,372	–	–
The PRC	16,004	16,069	–	–
United States of America (Note)	324,817	327,363	–	–
European countries (Note)	253,893	242,640	–	–
	<b>801,360</b>	793,544	<b>213</b>	–

Note: The assets represent debt and equity securities and money market funds operating in the respective countries.

## 8. OTHER INCOME

	2006 HK\$'000	2005 HK\$'000
Interest income from		
– available-for-sale investments	11,268	–
– investments held for trading	9,459	–
– investments in money market funds	–	4,715
– debt securities	–	10,948
– bank deposits	69	65
	<b>20,796</b>	15,728
Sundry income	499	319
	<b>21,295</b>	16,047

## 9. PROVISION FOR LOSS ON SETTLEMENT OF LEGAL ACTION

In prior years, certain former subsidiaries purchased production materials amounted to approximately HK\$12,000,000 from an outside supplier for its printed circuit board manufacture activities. The production materials acquired were subsequently found to be defective and settlement of the purchases was therefore withheld by the former subsidiaries. A legal action for settlement of the purchases together with interest was taken by the supplier against these former subsidiaries. On the other hand, the said former subsidiaries instituted a legal action against the supplier claiming damages arising from the materials delivered by the supplier. In 1999, the said former subsidiaries were disposed of to outside parties. In connection with the disposal, the Group has undertaken to indemnify the purchasers the losses, if any, arising from the legal action taken by the supplier against the former subsidiaries.

Subsequent to 31st March, 2006, the former subsidiaries entered into an agreement with the outside supplier pursuant to which the former subsidiaries have paid to the outsider supplier an amount of HK\$3,000,000 for the settlement of the legal action. The loss from the settlement of HK\$3,000,000 arising from the indemnity given by the Group in this respect has been accounted for in the consolidated financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 10. IMPAIRMENT LOSS ON PROPERTIES FOR DEVELOPMENT/NEGATIVE GOODWILL RELEASED TO INCOME

The sole assets of a wholly-owned subsidiary of the Company, Cong Hua White Swan Bow Yuen Real Estate Development Company Limited ("Cong Hua Bow Yuen") were the properties for development in Cong Hua, the Guangdong Province of the PRC. The joint venture period of Cong Hua Bow Yuen expired on 26th September, 2004 and the Group had applied for an extension of the joint venture period. Should the extension of the joint venture period not be approved by the governments authorities, the assets held by Cong Hua Bow Yuen, after discharging its liabilities to be determined by the relevant parties, will revert to the PRC joint venture partner free of payment. After the discussions with the relevant government authorities through the PRC joint venture partner of Cong Hua Bow Yuen, the Company was informed on 21st January, 2005 by the PRC joint venture partner that the approval for extension of the joint venture period by the government authorities was remote. The Company had further made inquiries with government authorities. Against this background, the directors considered it appropriate to make a full provision for impairment losses against the carrying amount of the properties for development amounting to HK\$20,578,000 in the year ended 31st March, 2005. In this respect, the negative goodwill of HK\$6,601,000 arising from the acquisition of interest in Cong Hua Bow Yuen included in reserves was released to the consolidated income statement during the year ended 31st March, 2005. Details of the above had been set out in the Company's announcement dated 2nd February, 2005.

### 11. PROFIT (LOSS) BEFORE TAXATION

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Profit (loss) before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	396	343
Amortisation of prepaid lease payments for land	598	598
Depreciation of		
– property, plant and equipment	1,686	2,253
– investment properties	109	109
Staff costs including directors' emoluments ( <i>Note</i> )	6,391	6,379
Operating lease rentals in respect of land and buildings	360	360
Loss on disposal of property, plant and equipment	330	–
Exchange losses (gains)	1,578	(311)

*Note:* The staff costs do not include the rental value of the Group's land and building provided as accommodation to certain directors of the Company which is disclosed in note 12.

## 12. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

### (a) Directors' emoluments

The emoluments paid or payable each of the directors are as follows:

	Year ended 31st March, 2006			Total HK\$'000
	Fees HK\$'000	Basic salaries, allowances and benefits- in-kind HK\$'000	Contributions to retirement benefit schemes HK\$'000	
Executive directors				
Mr. Lee Lap	–	3,020	12	3,032
Mdm. Leung Lai Ping	–	2,520	12	2,532
Mr. Wong Shiu Kee	–	910	46	956
Independent non-executive directors				
Dr. Lee Tung Hai	100	–	–	100
Mr. Chan Siu Kang	100	–	–	100
Mr. Lo Yiu Hee	100	–	–	100
Non-executive director				
Mr. Lee Ka Sze, Carmelo	100	–	–	100
	400	6,450	70	6,920

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 12. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES (continued)

#### (a) Directors' emoluments (continued)

	Year ended 31st March, 2005			Total HK\$'000
	Fees HK\$'000	Basic salaries, allowances and benefits- in-kind HK\$'000	Contributions to retirement benefit schemes HK\$'000	
Executive directors				
Mr. Lee Lap	–	2,900	12	2,912
Mdm. Leung Lai Ping	–	2,400	12	2,412
Mr. Wong Shiu Kee	–	1,041	52	1,093
Independent non-executive directors				
Dr. Lee Tung Hai	100	–	–	100
Mr. Chan Siu Kang	50	–	–	50
Mr. Lo Yiu Hee	50	–	–	50
Non-executive director				
Mr. Lee Ka Sze, Carmelo	100	–	–	100
	300	6,341	76	6,717

During the year, the land and building of the Group with a rental value of HK\$2,040,000 (2005: HK\$1,800,000) were provided as accommodation to certain directors of the Company which has been included in basic salaries, allowances and benefits-in-kind disclosed above.

#### (b) Senior employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2005: three) are directors of the Company, whose emoluments have been included above. The emoluments of the remaining two (2005: two) individuals, whose emoluments are individually below HK\$1,000,000, are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, allowances and benefits-in-kind	559	559
Contributions to retirement benefit schemes	27	28
	586	587

### 13. TAXATION

The tax expense for the year represents the Hong Kong Profits Tax calculated at 17.5% on estimated assessable profit. No provision for Hong Kong Profits Tax and overseas taxation had been made in the consolidated financial statements for last year as the Group has no assessable profits for that year.

The tax expense for the year can be reconciled to the profit (loss) before taxation per the consolidated income statement as follows:

	2006 HK\$'000	2005 HK\$'000
Profit (loss) before taxation	4,105	(36,567)
Tax at the applicable income tax rate of 17.5%	718	(6,399)
Tax effect of expenses not deductible for tax purpose	3,056	7,641
Tax effect of income that are not taxable for tax purpose	(3,659)	(3,950)
Tax effect of deductible temporary differences not recognised	280	2,923
Tax effect of tax losses not recognised	58	46
Utilisation of tax losses previously not recognised	(323)	(261)
Tax expense for the year	130	–

Details of the deferred tax not recognised are set out in note 30.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 14. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings/loss per share attributable to equity holders of the Company is based on the following data:

	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit (loss) for the year attributable to equity holders of the Company for the purposes of basic and diluted earnings/loss per share	<b>3,975</b>	(36,567)
	<b>Number of shares</b>	
	<b>'000</b>	'000
Number of ordinary shares for the purposes of basic earnings/loss per share	<b>1,664,643</b>	1,664,643
Effect of dilutive potential ordinary shares – share options	<b>29,010</b>	N/A
Number of ordinary shares for the purpose of diluted earnings per share	<b>1,693,653</b>	N/A

No diluted loss per share for the prior year is presented as the assumed exercise of the Company's share options would result in a decrease in the loss per share for that year.



## 15. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Machinery, moulds and equipment HK\$'000	Furniture, fixtures and leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>					
At 1st April, 2004 and at 31st March, 2005	6,250	89	8,609	6,126	21,074
Additions	–	–	213	–	213
Disposals	–	–	–	(1,480)	(1,480)
<b>At 31st March, 2006</b>	<b>6,250</b>	<b>89</b>	<b>8,822</b>	<b>4,646</b>	<b>19,807</b>
<b>DEPRECIATION</b>					
At 1st April, 2004	734	89	4,048	2,523	7,394
Provided for the year	673	–	693	887	2,253
At 31st March, 2005	1,407	89	4,741	3,410	9,647
Provided for the year	142	–	712	832	1,686
Eliminated on disposals	–	–	–	(795)	(795)
<b>At 31st March, 2006</b>	<b>1,549</b>	<b>89</b>	<b>5,453</b>	<b>3,447</b>	<b>10,538</b>
<b>CARRYING VALUES</b>					
<b>At 31st March, 2006</b>	<b>4,701</b>	<b>–</b>	<b>3,369</b>	<b>1,199</b>	<b>9,269</b>
At 31st March, 2005	4,843	–	3,868	2,716	11,427

The above items of property, plant and equipment are depreciated on a straight line basis over their useful lives as follows:

Category of assets	Estimated useful lives
Buildings	25 to 40 years or over the remaining lease term of the land on which the building is situated, if shorter
Other property, plant and equipment	4 to 10 years

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 15. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of the Group's buildings is analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Buildings situated on leasehold interest in land in Hong Kong on:		
Long lease	3,812	3,922
Medium-term leases	889	921
	<b>4,701</b>	4,843

### 16. PREPAID LEASE PAYMENTS FOR LAND

	2006 HK\$'000	2005 HK\$'000
The Group's prepaid lease payments for land comprise:		
Leasehold land in Hong Kong on:		
Long lease	64,960	65,472
Medium-term leases	3,509	3,595
	<b>68,469</b>	69,067
Analysed for reporting purposes as:		
Non-current	67,871	68,469
Current	598	598
	<b>68,469</b>	69,067

## 17. INVESTMENT PROPERTIES

	<b>Buildings HK\$'000</b>
<b>COST</b>	
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	<b>4,480</b>
<b>DEPRECIATION</b>	
At 1st April, 2004	570
Provided for the year	109
At 31st March, 2005	679
Provided for the year	109
<b>At 31st March, 2006</b>	<b>788</b>
<b>CARRYING VALUES</b>	
<b>At 31st March, 2006</b>	<b>3,692</b>
At 31st March, 2005	3,801

The buildings are situated on land in Hong Kong on long lease. The Group's leasehold interest in the land with the carrying amount of HK\$28,480,000 at 31st March, 2006 (2005: HK\$28,704,000) has been included in prepaid lease payments for land (note 16).

The fair value of the Group's investment properties at 31st March, 2006, which comprise of leasehold interest in land and buildings, is HK\$50,000,000 (2005: HK\$47,000,000). The fair value has been arrived at based on a valuation carried out by DTZ Debenham Tie Leung Limited ("Debenham Tie Leung"), independent qualified professional valuers not connected with the Group with appropriate qualifications and recent experiences in valuation of similar properties in the relevant locations. The valuation report was issued by Debenham Tie Leung, represented by its director who is a member of the Institute of Valuers. The valuation, which conformed to Hong Kong Institute of Surveyors Valuation Standards on Properties, was arrived at by reference to market evidence of transaction prices for similar properties.

The investment properties with the carrying amount of HK\$3,801,000 at 31st March, 2005 has been reclassified from property, plant and equipment to conform with the current year's presentation.

All of the Group's investment properties are rented out under operating leases.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 18. PROPERTIES FOR DEVELOPMENT

	2006 HK\$'000	2005 HK\$'000
Land use rights in the PRC on long lease:		
At cost	32,341	32,341
Less: Impairment loss recognised	(32,341)	(32,341)
	–	–

### 19. PROPERTIES FOR SALE

Included in properties for sale are properties carried at net realisable value amounted to HK\$64,600,000 (2005: HK\$63,077,000).

### 20. TRADE AND OTHER RECEIVABLES

Rentals receivable are payable in accordance with the terms of the relevant agreements.

The Group does not generally provide any credit period to its tenants.

The following is an aged analysis of trade and other receivables at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
1 – 90 days	4,072	5,280
Over 90 days	2,217	1,408
	6,289	6,688

The directors consider that the carrying amount of trade and other receivables approximates their fair values.

### 21. AVAILABLE-FOR-SALE INVESTMENTS

The available-for-sale investments represent investments in money market funds which are managed by international financial institutions and are redeemable on demand. Such money market funds are carried at their fair value at 31st March, 2006. The fair value is determined by the financial institutions by reference to prices of the funds' underlying investments quoted from over-the-counter markets. The average effective interest rate in respect of money market funds at 31st March, 2006 is approximately 4.4%.

## 22. INVESTMENTS HELD FOR TRADING

	HK\$'000
The fair value of the investments held for trading at 31st March, 2006 includes:	
Unlisted debt securities	239,460
Listed equity securities in Hong Kong	205
	<b>239,665</b>
Market value of listed securities	<b>205</b>

The debt securities, which substantially carry interest at fixed interest rates, are denominated in United State dollars with maturity dates ranging from 14th April, 2006 to 6th August, 2013. The average effective interest rate in respect of the debt securities at 31st March, 2006 is approximately 4.11%.

The fair value of unlisted securities is based on prices quoted by financial institutions or over the counter markets and those of the listed equity securities is based on bid prices quoted in the relevant stock exchange.

## 23. OTHER SECURITIES

	2005 HK\$'000
Unlisted debt securities	271,617
Listed equity securities in Hong Kong	320
	<b>271,937</b>
Market value of listed securities	<b>320</b>

The debt securities at 31st March, 2005, which substantially carried interest at fixed interest rates, were denominated in United State dollars with maturity dates ranged from 14th April, 2005 to 6th August, 2013. The average effective interest rate of the debt securities at 31st March, 2005 is 4.37%.

The other securities have been reclassified to investments held for trading on 1st April, 2005 upon the adoption of HKAS 39 by the Group.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 24. INVESTMENTS IN MONEY MARKET FUNDS

The amount represents the fair value at 31st March, 2005 of the Group's investments in money market funds which were managed by international financial institutions and were redeemable on demand. The investments in money market funds have been reclassified to available-for-sale investments on 1st April, 2005 upon the adoption of HKAS 39 by the Group. The average effective interest rate in respect of the money market funds at 31st March, 2005 is approximately 2.48%.

### 25. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

The following is an analysis of trade and other payables and accrued charges at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Trade and other payables, aged over 90 days	1,800	1,823
Accrued charges	4,365	4,440
	<b>6,165</b>	6,263

The directors consider that the carrying amount of trade and other payables and accrued charges approximates their fair value.

### 26. PROVISIONS

	2006 HK\$'000	2005 HK\$'000
Provisions for warranties and undertakings ( <i>Note below</i> )		
At beginning of the year	4,725	6,039
Utilised during the year	(1,295)	(1,314)
At end of the year	3,430	4,725
Provision for settlement of legal action ( <i>Note 9</i> )		
Provided for the year and at end of the year	3,000	–
Total at end of the year	<b>6,430</b>	4,725

*Note:* The provision represents management's best estimate of the costs and expenses required to discharge the Group's obligations and liabilities under the warranties and undertakings given in connection with the disposal of subsidiaries in prior years as referred to in note 32(c). The timing of payment for such costs and expenses is dependent upon finalisation of certain matters requiring the approval of the PRC local authorities, therefore it is not practicable to estimate with certainty the timing of payment at this stage.

## 27. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Other financial assets include pledged bank deposits and bank balances and cash. Pledged bank deposits and bank balances and cash, which comprise short-term bank deposits, carry interest at effective interest rates ranging from 0.1% to 4.4% (2005: 0.1% to 3%) per annum.

Other financial liabilities include amount due to a related company.

The directors consider that the carrying amounts of these financial assets and liabilities approximate their respective fair values.

## 28. SHARE CAPITAL

	2006 & 2005	
	Number of shares '000	Nominal value HK\$'000
<b>Ordinary shares of HK\$0.08 each</b>		
Authorised	<b>2,800,000</b>	<b>224,000</b>
Issued and fully paid	<b>1,664,643</b>	<b>133,171</b>

### (a) Ordinary shares

There was no change in the share capital of the Company for either of the years presented.

### (b) Share options

Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 22nd August, 2001, the Company adopted a new share option scheme to replace the scheme adopted in 1991 which was terminated on that date.

Under the new share option scheme, the Company granted options on 31st August, 2001 to its directors to subscribe for a total of 60,000,000 ordinary shares in the Company at the subscription price of HK\$0.261 per share exercisable during the period from 1st October, 2001 to 30th September, 2006. The consideration for the options granted amounted to HK\$2, which was recognised in the income statement when received. There was no exercise of the options during the year and these options remained outstanding at 31st March, 2005 and 2006.



## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 29. RESERVES

Details of the reserves of the Group have been disclosed in the consolidated statement of changes in equity on page 32.

The directors do not recommend the payment of a dividend in respect of the year (2005: Nil).

### 30. DEFERRED TAXATION

At the balance sheet date, the Group has deductible temporary differences of HK\$32,296,000 (2005: HK\$31,696,000) and unused tax losses of HK\$91,314,000 (2005: HK\$92,827,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Substantially all of the tax losses may be carried forward indefinitely.

During the year ended 31st March, 2005, the unused tax losses of the Group of HK\$15,756,000 had been disallowed by the Hong Kong Inland Revenue Department as available for off-setting future assessable profits. No deferred tax asset had been recognised on such unused tax losses in prior years. Hence no adjustment on the Group's deferred taxation was required.

### 31. OPERATING LEASE COMMITMENTS

#### The Group as lessor

At the balance sheet date, the Group's investment properties (comprising leasehold interest in land and building) and properties held for sale with carrying amounts of HK\$32,172,000 (2005: HK\$32,505,000) and HK\$81,505,000 (2005: HK\$53,750,000) respectively were let out under operating leases, some of which contain rent free periods and rental escalation over the lease terms. All of the properties leased out have committed tenants for the next one to six years without termination options.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 HK\$'000	2005 HK\$'000
Within one year	3,663	3,376
In the second to fifth years inclusive	7,025	8,315
Over five years	878	3,668
	<b>11,566</b>	15,359

### 31. OPERATING LEASE COMMITMENTS (continued)

#### The Group as lessee

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	270	270

Operating lease payments represent rentals payable by the Group for office premises and warehouses. These are negotiated and rentals are fixed on an annual basis.

### 32. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Details of assets pledged and contingent liabilities of the Group outstanding at the balance sheet date are as follows:

- (a) Bank deposits of HK\$465,000 (2005: HK\$465,000) were pledged to secure the credit facilities granted to the Group.
- (b) Guarantees were issued to banks by a subsidiary in respect of mortgage loans granted to property purchasers amounted to approximately HK\$411,000 (2005: HK\$775,000) and, in this connection, the Group's bank deposits of HK\$2,117,000 (2005: HK\$2,112,000) were pledged to the banks as security.
- (c) In connection with the disposal in 1999 of the subsidiaries engaged in the business of manufacture and sale of printed circuit boards, the Group has given warranties and undertakings to the purchaser, which are mainly in relation to securing title documents for certain properties held by the former subsidiaries, as specified in the agreement for the disposal of these subsidiaries. During the year ended 31st March, 2001, the Group received notification from the purchaser raising claims against the Group arising from the warranties and undertakings. It is the intention of the management to contest the claims vigorously. No legal proceedings have yet been instituted against the Group for these claims. Based upon legal advice obtained, management is of the opinion that such claims, if materialised, would not result in any material liabilities to the Group in excess of the amounts already provided for in the financial statements.

## Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

### 33. RETIREMENT BENEFIT PLANS

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Company's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the PRC government. The subsidiary is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to this retirement benefit scheme is to make the specified contributions.

The contributions payable to the schemes by the Group in respect of the year which were charged to the consolidated income statement amounted to HK\$117,000 (2005: HK\$104,000).

### 34. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

- (a) Pursuant to the tenancy agreements entered into between Panda Investment Company Limited ("Panda Investment") and a wholly-owned subsidiary, Termbay Electronics Company Limited ("Termbay Electronics"), Termbay Electronics leased certain office premises and warehouses from Panda Investment during the year at the agreed rental of HK\$360,000 (2005: HK\$360,000). The Company's directors, Mr. Lee Lap and Madam Leung Lai Ping, have controlling interests in Panda Investment.
- (b) At 31st March, 2006, the Group had an amount of approximately HK\$370,000 (2005: HK\$1,236,000) due to Panda Investment which is unsecured, interest free and repayable on demand.
- (c) Pursuant to the tenancy agreement entered into between Mr. Lee Wing Keung, a son of Mr. Lee Lap, and a wholly-owned subsidiary, Termbay (Fujian) Land Development Company Limited ("Termbay Fujian"), Termbay Fujian leased its land and building to Mr. Lee Wing Keung for a period of 3 years commencing from 16th March, 2005 at the monthly rental of HK\$120,000 determined by reference to the market rental value of the property as valued by a property valuer. The rental income recognised in the consolidated income statement for the year is HK\$1,440,000 (2005: HK\$62,000).
- (d) The compensation of key management personnel paid or payable by the Group in respect of the year, substantially all of which comprised of short term benefits attributable to the directors of the Company, amounted to HK\$6,920,000 (2005: HK\$6,717,000), details of which are set out in note 12.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

### 35. PARTICULARS OF SUBSIDIARIES

The following list contains only the particulars of the subsidiaries at 31st March, 2006 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length. All the principal subsidiaries are wholly owned subsidiaries and, unless otherwise specified, are operating in their place of incorporation/establishment. None of the subsidiaries had any loan capital outstanding at 31st March, 2006 or at any time during the year.

Name of company	Place of incorporation/ establishment	Paid up issued share capital/ registered capital	Principal activities
<i>Direct subsidiary:</i>			
Termbray Electronics (B.V.I.) Limited (i)	British Virgin Islands	100 ordinary shares of US\$1 each	Investment holding
<i>Indirect subsidiary:</i>			
Bow Yuen Industries Limited (ii)	Hong Kong	28,000 ordinary shares of HK\$1 each	Investment holding
Ever Success Properties Limited (ii)	Hong Kong	100 ordinary shares of HK\$1 each	Investment holding
Termbray (China) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Investment holding
Termbray (Fujian) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Property investment
Termbray (Guangzhou) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Property holding
Termbray Electronics Company Limited	Hong Kong	2 ordinary shares of HK\$100 each and 10,000 non-voting deferred shares of HK\$100 each	Investment holding and treasury activities
Zhongshan Ever Success Properties Limited (iii)	The PRC	Registered capital of RMB1,500,000	Property development

(i) Operating in Hong Kong

(ii) Operating in the PRC

(iii) A limited liability company established in the PRC

## List of Major Properties

### PROPERTIES FOR SALE

Property location	Usage	Approximate gross floor area Sq.m.	Group's attributable interest %
90-124 An Lan Road, Zhongshan, Guangdong Province	Commercial and car park Residential	16,452 27,020	100 100

## Five Year Financial Summary

The following tables summarize certain consolidated financial information in respect of the Group's results, assets and liabilities for the last five financial years, as extracted from the audited financial statements.

### CONSOLIDATED RESULTS

	Year ended 31st March,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	<b>5,399</b>	3,095	3,370	3,316	2,258
Profit (loss) before taxation	<b>4,105</b>	(36,567)	1,820	2,488	506
Taxation	<b>(130)</b>	–	–	–	–
Profit (loss) for the year attributable to shareholders	<b>3,975</b>	(36,567)	1,820	2,488	506

## Five Year Financial Summary

### CONSOLIDATED ASSETS AND LIABILITIES

	As at 31st March,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-current assets					
Property, plant and equipment	9,269	11,427	13,680	14,816	16,085
Prepaid lease payments for land	67,871	68,469	69,067	69,665	70,262
Investment properties	3,692	3,801	3,910	4,019	4,127
Properties for development	–	–	20,578	20,578	20,578
Other non-current assets	2,117	2,112	2,806	4,792	6,435
Current assets	718,411	707,735	729,489	740,255	734,864
<b>TOTAL ASSETS</b>	<b>801,360</b>	793,544	839,530	854,125	852,351
<b>TOTAL LIABILITIES</b>	<b>(17,114)</b>	(16,079)	(18,989)	(35,506)	(36,213)
<b>NET ASSETS</b>	<b>784,246</b>	777,465	820,541	818,619	816,138
Equity attributable to equity holders of the Company	783,830	777,049	820,125	818,203	815,722
Minority interests	416	416	416	416	416
<b>TOTAL EQUITY</b>	<b>784,246</b>	777,465	820,541	818,619	816,138

### PER SHARE DATA

	Year ended 31st March,				
	2006 HK cents	2005 HK cents	2004 HK cents	2003 HK cents	2002 HK cents
Basic earnings (loss) per share	0.24	(2.20)	0.11	0.15	0.03
Dividends per share	–	–	–	–	–
Net assets per share	47.11	46.70	49.29	49.18	49.03

Note: As a result of the adoption of the new HKFRSs as explained in note 2 to the consolidated financial statements, certain balance sheet items at 31st March, 2002, 2003, 2004 and 2005 have been restated to conform with the current year's presentation.