

Notes to the Financial Statements

For the year ended 31st March, 2004

1. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAP(s)”) and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income taxes
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The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. Details of this revised accounting policy are set out in note 2. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and accordingly, no prior period adjustment has been required.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable SSAPs and interpretations issued by the HKSA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

The measurement basis used in the preparation of the financial statements is historical cost, as modified by the revaluation of investments in securities.

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.

Notes to the Financial Statements

For the year ended 31st March, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Goodwill/negative goodwill

Goodwill/negative goodwill arising on consolidation represents the excess/shortfall of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill/negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, or at such time as the goodwill is determined to be impaired. Negative goodwill will be credited to the income statement at the time of disposal of the relevant subsidiary.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet. On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Negative goodwill arising on acquisitions on or after 1st April, 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the year in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

(c) Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Property, plant and equipment

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

Notes to the Financial Statements

For the year ended 31st March, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment (continued)

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, on a straight line basis, as follows:

Category of assets	Estimated useful lives
Leasehold land	Over the remaining term of the relevant lease
Buildings	25 to 40 years or over the remaining term of the relevant lease, whichever is shorter
Other assets	4 to 10 years

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

(e) Properties for development

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

(f) Properties for sale

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

(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.

Notes to the Financial Statements

For the year ended 31st March, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments in securities, which are not held for an identified long-term strategic purpose, are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

(j) Foreign currencies

Transactions in foreign currencies are translated at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

(k) Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

(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 net profit as reported in the 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.

Notes to the Financial Statements

For the year ended 31st March, 2004

2. 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 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 tax 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.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) Revenue recognition

Revenue is recognised on the following bases when it is probable that the economic benefits associated with the transactions will flow to the Group and these benefits can be measured reliably:

(i) *Sale of properties*

Revenue from the sale of properties is recognised on the execution of a binding sales agreement.

(ii) *Rental income*

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

Notes to the Financial Statements

For the year ended 31st March, 2004

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

(iii) Interest income

Interest income from money market funds, debt securities and bank deposits is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Retirement benefit costs

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

3. TURNOVER AND SEGMENT INFORMATION

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

The following is an analysis of the turnover and contribution to profit of the Group:

	Turnover		Contribution to profit before taxation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property development and investment				
Sale of completed properties	–	312	–	(7)
Property letting	3,370	3,004	2,350	2,113
	3,370	3,316		
Segment results			2,350	2,106
Other activities			13,468	14,605
Less: Unallocated administrative and other expenses			(13,998)	(14,223)
			1,820	2,488

Notes to the Financial Statements

For the year ended 31st March, 2004

3. TURNOVER AND SEGMENT INFORMATION (continued)

Notes:

- (i) The Group's property development and investment activities were carried out in the Mainland China (the "PRC").
- (ii) Other activities comprise mainly of treasury activities, including investments in securities and money market funds operating in the United States of America, European countries and Hong Kong, and the placement of bank deposits in Hong Kong.
- (iii) No depreciation or amortisation and other non-cash expenses are included in segment results.

The following is an analysis of the assets and liabilities of the Group by geographical location:

	Assets		Liabilities	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
The PRC				
Property development and investment	151,651	151,560	2,340	4,704
Hong Kong and other jurisdictions				
Other activities (<i>Note (i)</i>)	579,858	594,079	–	–
	731,509	745,639	2,340	4,704
Unallocated assets/liabilities	108,021	108,486	16,649	30,802
	839,530	854,125	18,989	35,506

Notes:

- (i) The assets employed in other activities comprise investments in securities, money market funds and bank deposits as follows:

	2004 HK\$'000	2003 HK\$'000
Debt securities and money market funds operating in:		
United States of America	342,196	360,843
European countries	235,611	214,425
Hong Kong	–	15,736
	577,807	591,004
Equity securities operating in Hong Kong	703	–
Bank deposits placed in Hong Kong	1,348	3,075
	579,858	594,079

- (ii) Substantially all of the property, plant and equipment of the Group acquired in the year are located in Hong Kong. These additions are not attributable to any specific activities.

Notes to the Financial Statements

For the year ended 31st March, 2004

4. OTHER OPERATING INCOME

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Interest income from		
– investments in money market funds	3,623	8,384
– investments in securities	8,817	4,846
– bank deposits	70	136
	12,510	13,366
Realised gain on disposal of investments in securities	842	550
Other income	1,873	21
	15,225	13,937

5. PROFIT BEFORE TAXATION

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditors' remuneration	350	350
Depreciation of property, plant and equipment	2,821	3,053
Staff costs including directors' emoluments (<i>Note</i>)	6,480	6,426
Operating lease rentals in respect of land and buildings	360	430
(Gain) loss on disposal/write-off of property, plant and equipment	(50)	197
Rental income less outgoings of HK\$1,020,000 (2003: HK\$891,000)	(2,350)	(2,113)

Note: Included in staff costs are contributions paid or payable under the Group's retirement benefit schemes amounting to HK\$117,000 (2003: HK\$118,000) in respect of the year.

Notes to the Financial Statements

For the year ended 31st March, 2004

6. TAXATION

No provision for Hong Kong Profits Tax and overseas taxation has been made in the financial statements for either of the years presented as the Group has no assessable profits for these years.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	1,820	2,488
Tax at the applicable income tax rate of 17.5% (2002: 16%)	319	398
Tax effect of expenses not deductible for tax purpose	2,529	2,165
Tax effect of income that are not taxable for tax purpose	(2,218)	(2,312)
Tax effect of tax losses not recognised	34	30
Utilisation of tax losses previously not recognised	(664)	(281)
Tax expense for the year	–	–

Details of the deferred tax not recognised are set out in note 22.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit attributable to shareholders for the purpose of basic and diluted earnings per share	1,820	2,488

	Number of shares '000	
	'000	'000
Number of ordinary shares for the purpose of basic earnings per share	1,664,643	1,664,643
Effect of dilutive potential ordinary shares – share options	20,071	20,168
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,684,714	1,684,811

Notes to the Financial Statements

For the year ended 31st March, 2004

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	THE GROUP	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Directors' fees	200	200
Basic salaries, allowances and benefits-in-kind	6,520	6,497
Contributions to provident fund scheme	89	90
Total emoluments	6,809	6,787

The directors' fees of HK\$200,000 (2003: HK\$200,000) disclosed above were payable to independent non-executive directors.

During the year, the land and building of the Group with a rental value of HK\$1,680,000 (2003: HK\$1,680,000) were provided as accommodation to certain directors of the Company which has been included in the basic salaries, allowances and benefits-in-kind disclosed above.

The emoluments of the directors were within the following bands:

	2004 Number of Directors	2003 Number of Directors
HK\$		
Nil – 1,000,000	2	2
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	1
	5	5

Notes to the Financial Statements

For the year ended 31st March, 2004

8. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES (continued)

(b) Senior employees

Of the five individuals with the highest emoluments in the Group, three (2003: three) are directors of the Company, whose emoluments have been included above. The emoluments of the remaining two (2003: two) individuals, whose emoluments are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, allowances and benefits-in-kind	559	559
Contributions to provident fund scheme	28	28
	587	587

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery, moulds and equipment	Furniture, fixtures and leasehold improvements	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP					
COST					
At 1st April, 2003	86,685	89	8,551	6,050	101,375
Additions	–	–	58	920	978
Disposals/write-offs	–	–	–	(844)	(844)
At 31st March, 2004	86,685	89	8,609	6,126	101,509
DEPRECIATION					
At 1st April, 2003	6,215	89	3,354	2,619	12,277
Provided for the year	1,379	–	694	748	2,821
Eliminated on disposals/write-offs	–	–	–	(844)	(844)
At 31st March, 2004	7,594	89	4,048	2,523	14,254
NET BOOK VALUES					
At 31st March, 2004	79,091	–	4,561	3,603	87,255
At 31st March, 2003	80,470	–	5,197	3,431	89,098

Notes to the Financial Statements

For the year ended 31st March, 2004

9. PROPERTY, PLANT AND EQUIPMENT (continued)

The net book value of the Group's land and buildings is analysed as follows:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land and buildings in Hong Kong on:		
Long lease	74,257	75,315
Medium-term leases	4,834	5,155
	79,091	80,470

10. PROPERTIES FOR DEVELOPMENT

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Land use rights in the PRC on long lease:		
At cost	32,341	32,341
Less: Impairment loss recognised	(11,763)	(11,763)
	20,578	20,578

11. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	261,810	261,810
Amounts due from subsidiaries less allowances	406,583	407,647
	668,393	669,457

The following list contains only the particulars of the subsidiaries at 31st March, 2004 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 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, 2004 or at any time during the year.

Notes to the Financial Statements

For the year ended 31st March, 2004

11. INTERESTS IN SUBSIDIARIES (continued)

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
Cong Hua White Swan Bow Yuen Real Estate Development Company Limited ⁽ⁱⁱⁱ⁾	PRC	Registered capital of US\$12,000,000	Property development
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 holding
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

Notes to the Financial Statements

For the year ended 31st March, 2004

11. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Paid up issued share capital/ registered capital	Principal activities
Zhongshan Ever Success Properties Limited ^(iv)	PRC	Registered capital of RMB1,500,000	Property development

- (i) Operating in Hong Kong
- (ii) Operating in the PRC
- (iii) A sino-foreign cooperative joint venture established in the PRC
- (iv) A limited liability company established in the PRC

12. INSTALMENTS RECEIVABLE

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Instalments receivable from property purchasers	904	1,025
<i>Less:</i> Amounts due within one year included in trade and other receivables	(904)	(573)
	-	452

13. INVENTORIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Raw materials, at net realisable value	-	191

Notes to the Financial Statements

For the year ended 31st March, 2004

14. TRADE AND OTHER RECEIVABLES

Rentals receivable and proceeds from sales of properties are payable in accordance with the terms of the relevant agreements.

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
0 – 90 days	4,240	3,528
Over 90 days	1,941	1,348
	6,181	4,876

15. INVESTMENTS IN SECURITIES

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Unlisted debt securities	232,750	204,733
Listed equity securities in Hong Kong	703	–
	233,453	204,733
Market value of listed securities	703	–

16. INVESTMENTS IN MONEY MARKET FUNDS

The amount represents the cost of the Group's investments in money market funds which are managed by international financial institutions and are redeemable on demand.

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17. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Trade and other payables, aged over 90 days	1,761	3,848
Accrued charges	5,159	4,382
	6,920	8,230

18. PROVISIONS

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Provisions for warranty and undertakings		
At beginning of the year	7,336	13,727
Utilised during the year	(1,297)	(6,391)
At end of the year	6,039	7,336

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. 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.

Notes to the Financial Statements

For the year ended 31st March, 2004

19. SHARE CAPITAL

	2004 & 2003	
	Number of shares '000	Nominal value HK\$'000
THE GROUP AND THE COMPANY		
Ordinary shares of HK\$0.08 each		
Authorised	2,800,000	224,000
Issued and fully paid	1,664,643	133,171

(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 the same 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. These options remained outstanding at 31st March, 2003 and 2004.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

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20. RESERVES

	Share premium <i>HK\$'000</i>	Exchange translation reserve <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1st April, 2002	132,550	(456)	6,601	–	543,856	682,551
Arising from translation of financial statements of subsidiaries	–	(7)	–	–	–	(7)
Profit for the year	–	–	–	–	2,488	2,488
At 31st March, 2003	132,550	(463)	6,601	–	546,344	685,032
Arising from translation of financial statements of subsidiaries	–	102	–	–	–	102
Profit for the year	–	–	–	–	1,820	1,820
At 31st March, 2004	132,550	(361)	6,601	–	548,164	686,954
THE COMPANY						
At 1st April, 2002	132,550	–	–	191,810	133,474	457,834
Loss for the year	–	–	–	–	(1,156)	(1,156)
At 31st March, 2003	132,550	–	–	191,810	132,318	456,678
Loss for the year	–	–	–	–	(1,092)	(1,092)
At 31st March, 2004	132,550	–	–	191,810	131,226	455,586

Notes:

- (a) The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1991.

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.

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20. RESERVES (continued)

(b) In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Contributed surplus	191,810	191,810
Retained profits	131,226	132,318
	323,036	324,128

The directors do not recommend the payment of a dividend in respect of the year (2003: Nil).

21. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries are unsecured and interest free with no fixed repayment terms. Repayment of the amounts will not be demanded within one year from the balance sheet date, accordingly the amounts are classified as non-current liabilities.

22. DEFERRED TAXATION

At the balance sheet date, the Group has deductible temporary differences of HK\$17,786,000 (2003: HK\$15,447,000) and unused tax losses of HK\$107,388,000 (2003: HK\$110,986,000) available for offset against future profit. No deferred tax asset has been recognised due to the unpredictability of future profit streams.

The Company did not have any significant deferred tax assets or liabilities at the balance sheet date.

23. PROJECT COMMITMENTS

At the balance sheet date, the Group had contracted project commitments in respect of property development expenditure and purchase of land use rights in the PRC amounting to an aggregate of HK\$65,347,000 (2003: HK\$65,347,000) not provided for in the financial statements.

The Company did not have any significant project commitments at the balance sheet date.

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24. OPERATING LEASE COMMITMENTS

The Group as lessor

At the balance sheet date, the Group's properties held for sale with an aggregate carrying value of HK\$51,225,000 (2003: HK\$51,389,000) were let out under operating leases. All of the properties leased out have committed tenants for the next one to eight years without termination options.

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

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	1,826	1,907
In the second to fifth years inclusive	5,074	5,814
Over five years	5,672	5,034
	12,572	12,755

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:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within one year	270	270

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

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25. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

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

- (a) Bank deposits of approximately HK\$465,000 (2003: HK\$465,000) were pledged to secure general banking facilities granted to the Group.
- (b) Guarantees were issued to banks by a subsidiary in respect of mortgage loans granted to property purchasers amounting to approximately HK\$1,412,000 (2003: HK\$2,852,000) and, in this connection, the Group's bank deposit of HK\$2,806,000 (2003: HK\$4,340,000) were pledged to the banks as security.
- (c) In prior year, certain former subsidiaries of the Company 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 the said 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. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on legal advice obtained, the directors are of the opinion that the outcome of these cases would not have a material adverse impact on the financial position of the Group.
- (d) 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 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 Financial Statements

For the year ended 31st March, 2004

26. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with Panda Investment Company Limited (“Panda Investment”), in which the Company’s directors, Mr. Lee Lap and Madam Leung Lai Ping, have controlling interests:

- (a) Pursuant to the tenancy agreements entered into between Panda Investment and a wholly-owned subsidiary of the Company, Termbray Electronics Company Limited (“Termbray Electronics”), Termbray Electronics leased certain office premises and warehouses from Panda Investment during the year at the agreed rental of HK\$360,000 (2003: HK\$430,000).
- (b) At 31st March, 2004, the Group had an amount of approximately HK\$1,846,500 (2003: HK\$16,264,000) due to Panda Investment which is unsecured, interest free with no fixed repayment terms.

27. ULTIMATE HOLDING COMPANY

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