**Teem Foundation Group Ltd.**
**浩基集團有限公司***
(incorporated in Bermuda with limited liability)
Stock Code: 628


# Annual Report 07

* For identification purpose only

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# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**
Lum Chor Wah, Richard
Pun Yuen Sang
Tang Hin Keung, Alfred

**Independent Non-executive Directors**
Leung Chi Hung
Tsui Robert Che Kwong
Cheung Yim Kong, Johnny

## QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Leung Wai Man

## AUDITORS

HLB Hodgson Impey Cheng
*Chartered Accountants*
*Certified Public Accountants*

## PRINCIPAL BANKERS

Hang Seng Bank
DBS Bank

## SOLICITORS

**As to Hong Kong Law**
Arculli Fong & Ng
Michael Li & Co.

**As to Bermuda Law**
Conyers Dill & Pearman

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2108
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

## SHARE REGISTRARS

**Principal Share Registrar and Transfer Office**
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

**Hong Kong Branch Share Registrar and Transfer Office**
Union Registrars Limited
Room 1803, Fook Lee Commercial Centre
Town Place
33 Lockhart Road
Wanchai
Hong Kong

## INVESTOR RELATIONS

www.teemfoundationgroup.com

# Chairman's Statement

On behalf of the board of directors (the "Board"), I am pleased to present the annual report and financial results of Teem Foundation Group Ltd. (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2007.

I am extremely delighted to report that after years of continuous loss and active peruse of investment opportunities, the Board has successfully identified the right partners and the Company has redirected itself for achieving a milestone after another by participating in the growing Macau gaming and entertainment sector.

Macau, in particular, the gaming and entertainment sector is a hot business to pursue and we are of no exception.

After months of working on the circular for the acquisition of the 49% interest in the profit streams of our partners' operation at the U.S. casinos at Macau, the circular was dispatched on 11 December 2006 and the special general meeting took place on 29 December 2006. The 49% acquisition was completed on 4 January 2007 and the results of the acquiree company started booking into the account of the Company. Nonetheless, as part of the conditions of the acquisition, the profit achieved by the acquiree company for the period from 16 March 2006 to 3 January 2007 had been retained and distributed to the Company as dividend by mid January 2007.

The cumulative dividend received and receivable by the acquiree company for the period from 16 March 2006 to 31 March 2007 amounted to HK$103,000,000 that benefits the Group in both profits and bringing in additional positive cashflow.

After months of active observation, by early 2007, we feel comfortable with the integrity of the partners, the ability of our partners in bringing in customers to gamble at Sands Macao and Wynn Resort Macau. We have proposed to acquire the remaining balance, i.e. 51% of the profit streams of the two gaming promoters, namely, the Sat Ieng Sociedade Unipessoal Limitada (the "Sat Ieng") and Dore Entretenimento Sociedade Unipessoal Limitada (the "Dore") in February 2007.

The circular for the captioned acquisition was dispatched on 22 May 2007 and the special general meeting held on 8 June 2007 has approved the said acquisition, the Group is now holding 100% interest in the profit streams of the two gaming promoters.

In essence, the *Gross Income (or Revenue) would be 0.4% of the aggregate rolling turnover of Sat Ieng and Dore*.

*The expenses would be*

*(a) the operating expenses of the Company (as we are not involving in the operations of the gaming promoters); and*

*(b) the interest expenses arisen as a result of the convertible bonds and the promissory notes.*

On the operating expenses side, the Company continues to implement its stringent cost control whereby unnecessary expenses would be reduced. Please be rest assured that the management team would use its best effort in controlling the expense to the basic necessity.

As we have entered this market with a good start and are striving to work hard to gain more ground. The Board is confident in the future outlook of the captioned line of business.

On the other hand, the trading of fire-rated doors/logs remains difficult and unpredictable in terms of profit margin, recoverability of receivables, bidding of projects, ... . We would maintain a prudent policy in this area and as such, we anticipate that the same would remain at a low level.

The investment at Tuen Mun as it is not in line with the Group's strategy, would also be disposed at the earliest timing.

***Following the acquisitions and having considered the available resources in terms of both the financial and the managerial as well as the prospect, the Group would devote most, if not all, of its resources to the captioned Macau operation.***

There are some 25 casinos operating in the Macau already and there would be another 12 to come by 2009 with some more still at the pipeline, the Macau would further re-engineer itself for attaining another stage of providing entertainment activities.

In fact, according to the report by Deutsche Bank, they are confident that Venetian Macau will successfully revolutionise the meetings, incentives, conventions and expositions (MICE) in the Asian market, that Venetian Macau will drive multi day stays and significant non-gaming revenues and that the creation of virgin customers will benefit the competitors in the market as well as those who stay at Venetian Macau will share their wallets amongst numerous properties.

Macau has attracted 22,000,000 of visitors in 2006, a growth of 17.6% and has achieved another growth of 21.37% for the first quarter of 2007 which amounted to 6,400,000 visitors. Macau's casinos have outpaced the Las Vegas in both having the biggest amount of gaming revenue of MOP55,900,000,000 and being the one that has the largest number of tables at a single casino, i.e. Sands Macao in the world. Different from the Las Vegas model, the VIPs account for circa 65% gaming revenue of the Macau (vs. ~8% at Las Vegas) and the casinos rely heavily on the gaming promoters in bringing in customers. The significance of U.S. style casinos can also be seen from the fact that irrespective of the limited "hotels" operated under their license, i.e. one venue for Sands Macao and one venue for Wynn Resort, Macau, the two together accounts for ~30-35% of the VIPs business at Macau – *the American has the vision in running the entertainment business*.

Moreover, the belief that the "*Big gaming promoter would phase out the small one*" and the "*Better one would phase out the tired one*" has a definite advantage to the Company's partners.

2006/07 saw our Group's venturing into a new market – Macau and the Board is glad to note that the investment decision has proved to be an excellent one. Based on the most updated figures, in looking ahead, the financial year 2007/08 would be a promising year for the Group with the understanding that (a) the factors limiting the growth in business of our partners, such as, limited guest rooms available and the tables available would be resolved in the later part of the fiscal 2007/08 and (b) with the proven successful model, the Group may target additional partner(s) that would have a presence in promising casino(s). To the least, the Group's bottom line figure would be cushioned by the profit guarantees provided by our existing partners of HK$250,000,000 for the year ending 31 March 2008 and HK$275,000,000 for the year ending 31 March 2009.

While remaining bullish over the future of the operation of the gaming promoters' business at Macau, the management team would continue adopting the followings:

1) ensuring an international level of corporate governance that will meet the requirements of laws and regulations in both Hong Kong and Macau;

2) monitoring the development/growth in business of the Company's existing partners;

3) partnering with promising partner(s) under the similar model as adopted for the case of Sat Ieng and Dore;

4) adopting a stronger matrix management system to improve organisational effectiveness; and

5) developing internal competencies and controlling operating expenses.

The past years have seen the Group facing a host of tough decisions. Many of which are difficult to make, especially the need to layoff some of the staff in order to save cost in view of the business potential. But, we have weathered it and start grasping the fruits. In future, we have to continue to be adaptive and creative in developing our new core business. The Group has a sound financial status and has a very supportive major shareholder as well as partners to support us for expansion plans. It is our top priority to push the Company to the position of being a forerunner in the Macau gaming and entertainment sector, and the shareholders be rest assured that we are more dedicated than ever in working to make this happen.

# Chairman's Statement (Continued)

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank the shareholders in their consideration in tolerating the last few years' losses and/or the timing taken to complete the acquisition and their continuous support and confidence in the Group, our partners in exceptionally "entertaining" our various amendments requests. I would also like to thank the management team and all staff member to their dedicated service and hard work during the past years. Special thanks have to be given to our independent non-executive directors who have taken their personal time to assist in understanding the operations of gaming promoters. Needless to say, special thanks must go to our major shareholder, namely, Smart Town Holdings Limited which has extended an interest free credit to the Company. Without which, the Company would not have the necessary resources to pay the deposit for locking the deal for further discussion. Please be rest assured that we would try our best to consolidate our foundation and seek new opportunities to reciprocate your continuous support. As a first move, we would be more than happy to distribute dividend to you, our shareholders, subjected to your approval at the forthcoming annual general meeting.

**Lum Chor Wah, Richard**

Hong Kong, 22 June 2007

# Management Discussion and Analysis

### Financial Review

For the year ended 31 March 2007, the turnover of the Group was HK$6,353,000, representing a 40.3% decrease over the corresponding figure of HK$10,645,000 in 2006. The decrease in turnover was a result of the sluggish market conditions in the Group's timber business.

The profit for the year was HK$21,088,000 compared to a loss of HK$15,307,000 in the year ended 31 March 2006. Basic and diluted earnings per share for the year under review were HK3.08 cents (2006: basic and diluted loss per share of HK2.28 cents). Such significant turnaround in the overall results was attributable to the Group's successful efforts to diversify its earning base from trading of timber logs and provision of installation and decoration services only into investment in sharing profit streams generated from gaming business in Macau.

With the decrease in the Group's turnover, cost of sales decreased from HK$9,551,000 in the year ended 31 March 2006 to HK$6,159,000 in the year ended 31 March 2007. Gross profit margin decreased from 10.3% in the year ended 31 March 2006 to 3.1% in the year ended 31 March 2007. The deterioration in gross profit margin was mainly attributed to the intense competition in timber logs trading which placed strong pressure on the Group's selling prices.

As announced by the Company on 18 September 2006, Team Jade Enterprises Limited ("Team Jade"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement to acquire from Rich Game Capital Inc. ("Rich Game") the entire share capital of Youngrich Limited ("Youngrich") at a total consideration of HK$539,000,000 (the "Acquisition") on 28 August 2006. Youngrich is an investment holding company and the major asset of Youngrich is its 49% equity interest in Worth Perfect International Limited ("Worth Perfect"). The major assets of Worth Perfect are the profit agreements signed with Global Rainbow Ltd. ("Global") and Smart Gallant Limited ("Smart"). Pursuant to the profit agreements, 0.4% of the rolling turnover generated by Sat Ieng Sociedade Unipessoal Limitada ("Sat Ieng") and Dore Entretenimento Sociedade Unipessoal Limitada ("Dore") and/or their customers at Sands Macao Paiza Club gaming rooms and Wynn Macau VIP gaming rooms respectively and such other VIP gaming rooms whereby Sat Ieng or Dore is a duly appointed junket representative or such other VIP gaming rooms whereby Sat Ieng or Dore can procure the sale/assignment of a percentage of rolling turnover generated by the duly appointed junket representatives. Pursuant to a deed of guarantee given by Mr. Tang Chien Chang ("Mr. Tang"), the sole owner of Global and Sat Ieng, and Mr. Jean Christophe Scolari ("Mr. Scolari"), the sole owner of Smart and Dore, the profit streams of Worth Perfect generated from the profit agreements for the two years ending 15 March 2008 shall not be less than HK$400,000,000 (the "Profit Guarantee"). Taking into account the Group's 49% equity interest in Worth Perfect, the Group will receive at least HK$196,000,000 in the two years ending 15 March 2008. On 4 January 2007, the Acquisition was completed. The consideration was settled by the cash payments of HK$160,000,000, the issue of convertible bond of HK$134,400,000 by the Company to Rich Game and the issue of promissory notes of HK$244,600,000 by the Company to Rich Game. The cash payments of HK$160,000,000 were financed by the issue of promissory note in the same amount to Smart Town Holdings Limited ("Smart Town"), a substantial shareholder of the Company. Please refer to the Company's circular dated 11 December 2006 for details.

During the year ended 31 March 2007, the Group received a total cash dividend of HK$89,276,000 from Worth Perfect. As the completion of the Acquisition took place on 4 January 2007, the Group only took up the last quarter results of its 49% share in Worth Perfect, which was HK$40,566,000, instead of the 49% of the full year results of HK$99,729,000. The difference of HK$59,163,000 was related to pre-acquisition and not included in the Group's consolidated income statement for the year ended 31 March 2007. If the Acquisition were completed on 1 April 2006, certain figures of the Group's pro-forma consolidated income statement for the year ended 31 March 2007 would be as follows:

| | **As reported** *HK$'000* | **Pro-forma** *HK$'000* |
|---|---|---|
| Share of results of an associate | 40,566 | 99,729 |
| Finance costs | (7,136) | (29,527) |
| Profit for the year | 21,088 | 57,860 |

In view of the contribution by Worth Perfect, the directors believe that the strategy for expanding into the gaming and entertainment sector in Macau is a right move in strengthening the Group's earning base and providing the Group with substantial and steady income.

Administration expenses increased from HK$7,255,000 in the year ended 31 March 2006 to HK$14,828,000 in the year ended 31 March 2007. The increase was mainly attributed to the substantial legal and professional fees of HK$7,500,000 incurred in association with the Acquisition. With a view to maintaining a low level of operating costs, the Group implemented a set of stringent cost control procedures in its operation through streamlining its operation and reduction in unnecessary headcount.

Finance costs for the year ended 31 March 2007 amounted to HK$7,136,000, a 25,386% increase from HK$28,000 as compared to the corresponding figure for the previous year. The substantial increase in finance costs was attributed to the issue of the convertible bond and the promissory notes to Rich Game in relation to the Acquisition and the adoption of HKAS 39 *Financial Instruments: Recognition and Measurement*, where the interest expenses on the convertible bond and the promissory notes were calculated at the prevailing market interest of similar instruments of 8%, instead of the coupon rates of 5%. Based on the coupon rates of 5%, the interest expenses on convertible bond and promissory notes for the year ended 31 March 2007 amounted to HK$4,460,000.

In view of the strong cashflow generated by Worth Perfect and its bright prospect, Team Jade entered into a conditional sale and purchase agreement with Rich Game, a vendor and warrantor, and Global, Smart, Mr. Tang and Mr. Scolari as warrantors on 27 February 2007 in relation to the acquisition of the entire issued share capital of Richsense Limited ("Richsense") for a total consideration of HK$765,000,000. The major asset of Richsense is its 51% equity interest in Worth Perfect. In addition to the Profit Guarantee, Mr. Tang and Mr. Scolari have given a further joint and several guarantee to Worth Perfect that the profit streams of Worth Perfect generated from the profit agreements for the year ending 15 March 2009 shall not be less than HK$275,000,000. Following the completion of the acquisition of Richsense, the Group will have 100% equity interest in Worth Perfect and receive at least HK$460,000,000 for the period from 11 June 2007 to 15 March 2009. Please refer to the Company's circular dated 22 May 2007 for details. The acquisition of Richsense was completed on 11 June 2007. The directors believe that the acquisition of Richsense further provides the Group with substantial and steady income and substantially improves the Group's profitability.

Other than the Acquisition and the acquisition of Richsense, the Group did not have any material acquisitions and disposals of subsidiaries and associated companies during the year ended 31 March 2007.

At 31 March 2007, the Group has provided corporate guarantee of HK$389,000 (2006: HK$1,633,000) to certain financial institutions in connection with hire purchase contracts granted to certain subsidiaries disposed in the year ended 31 March 2005. Pursuant to the agreements dated 8 November 2004 and 21 March 2005, the purchaser has agreed to provide counter indemnities to the Company for its corporate guarantee provided. During the year ended 31 March 2007, no delinquent record was noted and none of the guarantees had been called. Save as disclosed above, the Group had no contingent liabilities at 31 March 2007.

At 31 March 2007, the Group had a commitment in respect of the acquisition of Richsense amounted to HK$765,000,000, which will be financed by the Group's internal resources and the issues of convertible bond, promissory notes and the Company's new shares. At 31 March 2007, the Group paid refundable deposits of HK$312,421,000 to Rich Game.

During the year ended 31 March 2007, the Group had not created any charge on its assets.

### Operation Review

The Group currently has two business divisions, which are (i) investments in the Macau gaming and entertainment sector; and (ii) the trading of timber logs, and the provision of installation and decoration services. Due to the sluggish market conditions, the Group has scaled down its timber and services business.

The decrease in turnover was a result of the Group's prudent approach in securing sale orders as the Group has experienced problems in collecting trade receivables in previous years, which placed strong pressure in the Group's cashflow. As a result, the Group is now only seeking business with quality customers who have good repayment history. It, in turn, affected the volume of the Group's timber and services business in the year ended 31 March 2007. In addition, the surge in oil price has squeezed the profit margin in timber trading. As such, the Group had a relatively low level of trading activities in the second half of 2007 fiscal year.

For the investment in gaming and entertainment sector in Macau, the Group received a total cash dividend of HK$89,276,000 during the year ended 31 March 2007. Sat Ieng and Dore in aggregate generated an average monthly rolling turnover of HK$6,900,000,000 for the period from 4 January 2007 to 31 March 2007, 0.4% of which was HK$27,600,000. The superb performances of Sat Ieng and Dore were beyond the directors' expectation and the actual profit received by Worth Perfect for the year ended 15 March 2007 was well exceeded the Profit Guarantee for the year ended 15 March 2007 of HK$150,000,000 by HK$46,000,000 or 31%. As reported by Sat Ieng and Dore, the aggregate average monthly rolling turnover was HK$10,000,000,000 for the months of April and May 2007, 0.4% of which was HK$40,000,000. The figures of monthly rolling turnover have proved the business models and the extensive client bases of Sat Ieng and Dore are sound and solid. The directors have confidence that the Group's investment in gaming and entertainment sector has laid a solid foundation on the Groups' long-term profitability.

In line with the Group's business strategy to focus on investment in gaming and entertainment sector, the Group will seek an opportunity to dispose its investment property in Tuen Mun in order to streamline its operations.

### Liquidity and Financial Resources

During the year ended 31 March 2007, the Group funded its operation by cash generated from its operating activities, convertible bond, promissory notes and issues of new shares. Total equity amounted to HK$594,946,000 at 31 March 2007.

The Group had cash and cash equivalents of HK$101,512,000 at 31 March 2007 (2006: HK$29,985,000). At 31 March 2007, the Group had a net current asset of HK$419,134,000 (2006: HK$34,395,000). The current ratio calculated on the basis of current assets divided by current liabilities of the Group was 126.9 at 31 March 2007 (2006: 16.6). The improvements in the Group's cash position and current ratio were attributed to the monthly cash dividends paid by Worth Perfect and the issue of 206,000,000 new shares in the year ended 31 March 2007 as detailed below.

On 14 February 2007, the Company entered into a placing agreement with a placing agent and Smart Town and a subscription agreement with Smart Town. Pursuant to the placing agreement, the placing agent placed 206,000,000 shares to professional and institutional investors at a price of HK$1.525 per share on behalf of Smart Town. Pursuant to the subscription agreement, the Company raised HK$307,000,000 (net of expenses) by issuing 206,000,000 new shares to Smart Town at a price of HK$1.525 per share to finance the acquisition of Richsense.

At 31 March 2007, the face values of the Group's total outstanding borrowings, amounted to HK$539,000,000 (2006: Nil), the fair values of which were HK$372,026,000 (2006: Nil), representing the convertible bond of HK$134,400,000, with a conversion price of HK$1.00 per share, which is unsecured, interest bearing at 5% per annum and maturing on 3 January 2017; the promissory notes issued to Rich Game of HK$244,600,000 which are unsecured, interest bearing at 5% per annum and maturing on 3 January 2017; the promissory note issued to Smart Town of HK$160,000,000 which is unsecured, non-interest bearing and maturing on 3 January 2017. The Group's gearing ratio calculated on the basis of total borrowings at fair value divided by total equity was 0.63 at 31 March 2007 (2006: Nil).

To protect the Group's investment in Worth Perfect, Rich Game has undertaken that:

(i) the convertible bond of HK$134,400,000 and the promissory note of HK$61,600,000 held in escrow in the Company's lawyers until the Profit Guarantee have been fully paid to Worth Perfect;

(ii) if the profit actually received or receivable by Worth Perfect is less than the Profit Guarantee during the relevant period, the Company can deduct the shortfall from the outstanding sums under the convertible bond and the promissory note;

(iii) the convertible bond of HK$134,400,000 shall not be converted into the shares of the Company until the Profit Guarantee has been fully paid to Worth Perfect; and

(iv) if the gaming promoter licence of Sat Ieng or Dore is terminated or is not renewed at any time before the maturity of the promissory notes, Rich Game shall return the promissory notes of HK$244,600,000 to the Company.

The management has adopted a prudent policy in financial management policy, closely monitoring the Group's fund position and maintaining a sound financial position of the Group. All bank deposits are in Hong Kong Dollars in order to keep a minimum exposure to foreign exchange risks. As the majority of the cash inflows and outflows are denominated in Hong Kong Dollars, the Group has not adopted any hedging policy or entered into any derivative products, which are considered not necessary for the Group's treasury activities.

### Employment and Remuneration Policy

The Group has adopted a prudent policy in recruitment of suitable candidates in filling the vacancy. As such, the headcount is limited to 6 at 31 March 2007 (2006: 7). Accordingly, the staff costs (including directors' remuneration) for the year ended 31 March 2007 amounted to HK$2,738,000 (2006: HK$3,728,000).

Following the completion of the acquisition of Richsense, the Group will recruit additional professionals who have extensive experience in corporate and/or gaming to strengthen its management team. Staff costs are expected to increase in the year ending 31 March 2008.

The Group believes that the key to success lies in its staff and recruits individuals based on their competencies, merit and development potential. The Group's remuneration policies are formulated on the performance of individual qualifications and performance and on the basis of the salaries trends and will be reviewed regularly. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded according to the assessment of individual performance for the purposes of providing competitive package and long term retention of management talents.

### Future Prospects

2006/07 marked a new page for the Group. The unfavourable market conditions in timber and services business have forced the management to seek diversification opportunities and to turn our focus to a more promising and growth potential business: the gaming and entertainment business in Macau.

Given the turnaround of the Group's overall results in the year ended 31 March 2007, the directors believe that the Group's strategy is in a right direction. The Acquisition represents our first step in expanding into the booming gaming and entertainment sector in Macau. With the acquisition of Richsense completed on 11 June 2007, the Group has been in a more favourable position for negotiating any possible acquisitions of gaming related business in Macau. The Group will continue to seek opportunities for expansion and/or acquisition to extend its market share in the gaming and entertainment sector in Macau.

Finally, following the completion of the acquisition of Richsense, the Group will have a substantial monthly cash inflow as the profit agreements stipulated that the profit streams are settled on monthly basis. Therefore, the Company will have more funds available. The directors consider to declare and pay dividends quarterly out of the available fund after taking into account the operating costs and liabilities of the Group.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS

**Mr. Lum Chor Wah, Richard**, aged 47, joined the Company in June 2004. He is the Chairman of the Company and has over 18 years of experience in the field of corporate finance and investment advisory including the provision of advice in relation to group restructuring and fund raising. He is a licensed financial planner of the People's Republic of China, a member of the Society of Registered Financial Planners in Hong Kong, a fellow member of Hong Kong Institute of Directors, an associate member of Institute of Financial Accountants, United Kingdom and a member of the Certified Risk Planner of Hong Kong. He had worked in a senior position for an international bank for around seven years and had been the executive director of three companies listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is responsible for the investors relationship, investment and corporate finance activities, administrative and financial aspects of the Company. Mr. Lum is primarily responsible for the overall operation and management of the Group.

**Mr. Pun Yuen Sang**, aged 57, joined the Company in April 2002. He was the vice president of Tung Fai Leather Goods Co., Limited from 1989 to 1990. He has various experiences in the store development by working in Duty Free Shoppers International Limited as Department Manager for 5 years. Mr. Pun is responsible for the business planning and strategic development of the Group.

**Mr. Tang Hin Keung, Alfred**, aged 63, joined the Company in April 2002. He is a registered futures commission merchant and commodity trading advisor with Commodity Futures Trading Commission in the United States of America. Mr. Tang is primarily responsible for the business development and strategic planning of the Group.

## INDEPENDENT NON EXECUTIVE DIRECTORS

**Mr. Leung Chi Hung**, aged 51, joined the Company as an independent non-executive director in April 2002. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. Mr. Leung is also a certified public accountant (Practising) in Hong Kong and a director of the corporate practice Arthur Mo & Co. Limited. He is also an independent non-executive director of Daido Group Limited, a company listed on the Main Board of the Stock Exchange.

**Mr. Tsui Robert Che Kwong**, aged 53, joined the Company as an independent non-executive director in August 2004. He is the sole proprietor of Robert C.K. Tsui & Co., a firm of solicitors in Hong Kong. Mr. Tsui is also an independent non-executive director of Shanghai Merchants Holdings Limited, a company listed on the Main Board of the Stock Exchange.

**Mr. Cheung Yim Kong, Johnny**, aged 52, joined the Company as an independent non-executive director on 16 November 2006. Mr. Cheung has extensive experience in the field of gambling focused entertainment and management. In his 17 years of experience in cruise gambling industry, Mr. Cheung headed M.V. Jimei, M.V. Crown, M.V. Macau Success. Mr. Cheung was also highly involved in operation and management of VIP casinos in Macau.

**Mr. Lam Allan Shu Cheuk**, aged 49, joined the Company as an independent non-executive director in November 2004. Mr. Lam has over 25 years of experience in the fields of banking, investment advisory, corporate finance and accounting. He is currently an executive director of a private company which provides corporate advisory services for companies in the Greater China region. Mr. Lam resigned as a director on 16 November 2006.

# Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. During the year, the Group was principally engaged in investing in operations which receive the profit streams from the entertainment related business and the trading of timber logs and provision of services. In the prior years, the Group was also principally involved in the provision and installation of fire-rated timber door sets and the provision of interior decoration and renovation services. These activities were minimal in the current year. The activities of its principal subsidiaries are set out in note 35 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 36.

No interim dividend was paid during the year (2006: Nil), the directors recommend the payment of a final dividend of HK2 cents (2006: Nil) per share in respect of the year to shareholders on the register of members on 1 August 2007. The recommendation has been incorporated in the financial statements as an allocation of contributed surplus within the equity section of the balance sheet.

## SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 80. This summary does not form part of the financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment and investment property of the Company and the Group during the year are set out in notes 15 and 16 to the financial statements, respectively.

## SHARE CAPITAL

Details of movements in the Company's share capital, together with the reason therefor are set out in note 22 to the financial statements.

## SHARE OPTION SCHEMES

Particulars of the Company's share option scheme are set out in note 22(b) to the financial statements.

No share option was outstanding at 1 April 2006 and 31 March 2007 and no share option was granted under the share option scheme during the year.

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution to shareholders, calculated in accordance with the provision of the Companies Act 1981 of Bermuda (as amended), amounted to HK$31,164,000, of which HK$17,911,000 has been proposed as a final dividend for the year.

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 100% of the total sales for the year and sales to the largest customer included therein amounted to 100%. The Group's sole supplier accounted for 100% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital had any beneficial interest in the Group's five largest customers or the sole supplier.

## DIRECTORS

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

*Executive directors:*

Mr. Lum Chor Wah, Richard
Mr. Pun Yuen Sang
Mr. Tang Hin Keung, Alfred

*Independent non-executive directors:*

Mr. Leung Chi Hung
Mr. Tsui Robert Che Kwong
Mr. Cheung Yim Kong, Johnny (appointed on 16 November 2006)
Mr. Lam Allan Shu Cheuk (resigned on 16 November 2006)

## DIRECTORS (Continued)

In accordance with the Company's bye-laws, Mr. Tang Hin Keung, Alfred and Mr. Cheung Yim Kong, Johnny will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 13 to 14 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

Mr. Pun Yuen Sang and Mr. Tang Hin Keung, Alfred, have each entered into a service contract with the Company for a team of two years commencing from 1 July 2002, which shall continue thereafter until terminated by either party giving to the other not less than six month's prior written notice, with such notice not expiring earlier than 1 July 2004.

Mr. Lum Chor Wah, Richard, has entered into a service contract with the Company for a term of two years commencing from 1 August 2004, which shall continue thereafter until terminated by either party giving to the other not less than six month's prior written notice, with such notice not expiring earlier than 1 August 2006.

Apart from the foregoing, no director has entered into any service agreements with any members of the Group excluding contracts expiring or determinable by the employee within one year without payment of compensation other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party during the year.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the interests of the directors in the share and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) , as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

**Long positions:**

| Name of director | *Notes* | Capacity | Interest in shares | Interest in underlying shares | Total interest | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|---|
| Mr. Tang Hin Keung, Alfred | *1* | Interest of corporation | 101,400,000 | Nil | 101,400,000 | 11.55% |
| Mr. Pun Yuen Sang | *1* | Interest of corporation | 101,400,000 | Nil | 101,400,000 | 11.55% |

*Note:*

1. Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang are interested in these shares through Pan-Star Nominees Limited, a company which is 40%, 30% and 30% beneficially owned by Mr. Wei Ming, Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang, respectively.

Saved as disclosed above, at 31 March 2007 and other than certain nominee interests in the subsidiaries held in trust for the Company, none of the directors had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director of the Company or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

**Long positions:**

| Name | *Notes* | Capacity | Interest in shares | Interest in underlying shares | Total interest | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|---|
| Smart Town Holdings Limited | *1* | Beneficial owner | 206,880,000 | Nil | 206,880,000 | 23.56% |
| Mr. Yeung Tong Ming Kwong | *1* | Interest of corporation | 206,880,000 | Nil | 206,880,000 | 23.56% |
| Mr. Liu Ching Hua | *1* | Interest of corporation | 206,880,000 | Nil | 206,880,000 | 23.56% |
| Ms. Ho Wai Chun Priscilla | *2* | Interest of spouse | 206,880,000 | Nil | 206,880,000 | 23.56% |
| Ms. Lam Ngar Lan | *3* | Interest of spouse | 206,880,000 | Nil | 206,880,000 | 23.56% |
| Pan-Star Nominees Limited | *4* | Beneficial owner | 101,400,000 | Nil | 101,400,000 | 11.55% |
| Mr. Wei Ming | *4* | Interest of corporation | 101,400,000 | Nil | 101,400,000 | 11.55% |
| Rich Game Capital Inc. | *5* | Beneficial owner | Nil | 205,960,000 | 205,960,000 | 23.46% |
| Global Rainbow Ltd. | *5* | Interest of corporation | Nil | 105,039,600 | 105,039,600 | 11.96% |
| Mr. Tang Chien Chang | *5* | Interest of corporation | Nil | 105,039,600 | 105,039,600 | 11.96% |
| Smart Gallant Limited | *5* | Interest of corporation | Nil | 100,920,400 | 100,920,400 | 11.49% |
| Mr. Jean-Christophe Scolari | *5* | Interest of corporation | Nil | 100,920,400 | 100,920,400 | 11.49% |
| Deutsche Bank Aktiengesellschaft | *6* | Security interest and beneficial owner | 144,936,000 | Nil | 144,936,000 | 16.51% |
| PMA Capital Management Ltd. | *7* | Interest of corporation | 129,200,000 | Nil | 129,200,000 | 14.72% |
| Diversified Asian Strategies Fund | | Beneficial owner | 58,216,000 | Nil | 58,216,000 | 6.63% |
| Indus Capital Partners, LLC | *8* | Beneficial owner | 112,764,000 | Nil | 112,764,000 | 12.84% |
| Mr. Kasowitz Sheldon Fenton | *8* | Interest of corporation | 112,764,000 | Nil | 112,764,000 | 12.84% |
| Mr. Kowitz David Nathan | *8* | Interest of corporation | 112,764,000 | Nil | 112,764,000 | 12.84% |
| Indus Asia Pacific Fund, Ltd. | *9* | Beneficial owner | 46,100,000 | Nil | 46,100,000 | 5.25% |
| Indus Asia Pacific Master Fund, Ltd. | *9* | Interest of corporation | 46,100,000 | Nil | 46,100,000 | 5.25% |

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

*Notes:*

1 The shares are held by Smart Town Holdings Limited, which is 50% beneficially owned by Mr. Yeung Tony Ming Kwong and 50% beneficially owned by Mr. Liu Ching Hua.

2 Ms. Ho Wai Chun Priscilla is the spouse of Mr. Yeung Tong Ming Kwong, who beneficially owns 50% of the shareholdings of Smart Town Holdings Limited.

3 Ms. Lam Ngar Lan is the spouse of Mr. Liu Chng Hua who beneficially owns 50% of the shareholdings of Smart Town Holdings Limited.

4 The shares are held by Pan-Star Nominees Limited, which are 40%, 30% and 30% beneficially owned by Mr. Wei Ming, Mr. Tang Hin Keung, Alfred and Mr. Pun Yuen Sang respectively.

5 Rich Game Capital Inc. is owned as to 51% by Global Rainbow Ltd. which is in turn wholly-owned by Mr. Tang Chien Chang; and as to 49% by Smart Gallant Limited which is in turn wholly-owned by Mr. Jean-Christophe Scolari.

6 1,175,042 shares are held by Deutsche Bank Aktiengesellschaft as beneficial owner and 143,760,958 shares are held by DBA as security interests in shares.

7 The shares are held by various wholly-owned subsidiaries of PMA Capital Management Ltd., of which 58,216,000 shares are held by Diversified Asian Strategies Fund, 37,736,000 shares are held by PMA Prospect Fund, 7,608,000 shares are held by Asian Diversified Total Return Limited Duration Company and 36,752,000 shares held by PMA Asian Opportunities Fund.

8 Indus Capital Partners, LLC is 35.3% and 35.3% held by Mr. Kasowitz Sheldon Fenton and Mr. Kowitz David Nalhan, respectively.

9 Indus Asia Pacific Master Fund, Ltd holds 72.6% shareholding interest in Indus Asia Pacific Fund, Ltd.

Save as disclosed above, at 31 March 2007, no person, other than a director of the Company, whose interest is set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold 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 or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 36 to the financial statements.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 22 to 32.

## AUDITORS

A resolution for the reappointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Lum Chor Wah, Richard**
*Chairman*

Hong Kong
22 June 2007

# Corporate Governance Report

## CODE ON CORPORATE GOVERNANCE PRACTICES

The Company believes that good corporate governance is crucial to safeguard for the interests of the shareholders and investors of the Company and to enhance the development of the Group. As such, the Board is committed to maintain a high standard of corporate governance with a view to enhance the management of the Company as well as to preserve the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness.

In the opinion of the Board, the Company had complied with all code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the financial year, except for the deviation from Code A.2.1 and Code A.4.1 of the CG Code as described below in the sections of "Chairman and Chief Executive Officer" and "Appointments, Re-election and Removal of Directors". Following sustained development of the Company, the Board and senior management will continue to monitor the corporate governance practices of the Company to ensure that daily business activities and decision making processes are regulated in a proper and prudent manner.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard under the Model Code. Having made specific enquiry of all directors, the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 March 2007.

## BOARD OF DIRECTORS

The Board comprises of three executive directors, namely Mr. Lum Chor Wah, Richard, Mr. Pun Yuen Sang and Mr. Tang Hin Keung, Alfred and three independent non-executive directors, namely Mr. Leung Chi Hung, Mr. Tsui Robert Che Kwong and Mr. Cheung Yim Kong Johnny. One of the independent non-executive directors possess appropriate professional accounting qualifications and financial management expertise. All of the independent non-executive directors have signed their respective confirmation letters to the Company confirming their independence as set out in rule 3.13 of the Listing Rules. Biographical details of the directors are set out in the section of "Biographical Details of Directors" on pages 13 to 14. The Board possesses a balanced mix of skills and expertise which supports the continuing development of the Company.

All directors have provided graved concern, sufficient time and attention to all the significant issues and affairs of the Group. Each executive director has accumulated sufficient and valuable experience to hold his position in order to ensure that his fiduciary duties have been carried out in an efficient and effective manner.

## BOARD OF DIRECTORS (Continued)

The Board is charged with the responsibility of setting corporate policy and overall strategy for the Group and providing effective oversight of the management of the Group's business affairs. The Board also monitors the financial performance and the internal controls of the Group's business operations. The senior management is responsible for the day-to-day operations of the Group. Mr. Lum Chor Wah, Richard is primarily responsible for the overall operation and management of the Group, while Mr. Pun Yuen Sang and Mr. Tang Hin Keung, Alfred are responsible for the business planning and strategic development of the Group.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the directors.

Such balanced Board composition, coupled with the strong independent element, is over and above the recommended practice under the CG Code for the Board to have at least one-third in number of its members comprising independent non-executive directors. The participation of independent non-executive directors in the Board brings independent judgment to ensure the interests of all shareholders of the Company have been duly considered.

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors, of whom Mr. Leung Chi Hung is a Certified Public Accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. The independent non-executive directors taken an active role in board meetings, contribute to the development of strategies and policies and make sound judgment in various aspects. They will take lead when potential conflicts of interest arise. They are also the members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company, including various site visits to the venues of the Company's partners at Sands Macao and Wynn Resort, Macau. Thus, the Board considers the current board size as adequate for its present operations.

The Board considers that all of the independent non-executive directors are independent and has received from each of them the annual confirmation of independence required by Rule 3.13 of the Listing Rules.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at board meetings.

## BOARD OF DIRECTORS (Continued)

**Chairman and Chief Executive Officer**

Code A.2.1 of CG Code provides, inter alia, that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Company does not officially have a position of Chief Executive Officer. However, Mr. Lum Chor Wah, Richard has been assuming the roles of both the Chairman and Chief Executive Officer of the Company. In this regard, the Company has deviated from Code A.2.1 of CG Code. The Board intends to maintain this structure in the future as it believes that it would provide the Group with strong and consistent leadership and allow the Group's business operations, planning and decision making as well as execution of long-term business strategies to be carried out more effectively and efficiently. Nonetheless, the Board would review and monitor the situation on a regular basis and would ensure that the present structure would not impair the balance of power in the Company.

## APPOINTMENTS RE-ELECTION AND REMOVAL OF DIRECTORS

In order to ensure full compliance with Code AA.1 and AA.2, a special resolution approving the amendments of the bye-laws of the Company (the "Bye-Laws") was duly passed on 24 August 2005. According to Bye-law B6(2) of the Bye-laws, a director appointed by the Board to fill a casual vacancy shall hold office until the next general meeting and the Bye-law 87(1), every director including the Chairman and/or the Managing Director of the Company) shall be subject to retirement at least once every three years. Also according to Bye-law 90, a director appointed to an office as Managing Director, joint Managing Director or Deputy Managing Director shall also be subject to rotation, resignation and removal as the other directors of the Company.

The executive director Mr. Lum Chor Wah Richard and Mr. Pun Yuen Sang, were re-elected as directors of the Company at the 2006 annual general meeting for a term of no more than three years and subject to retirement by rotation in accordance with the Bye-Laws.

Mr. Tang Hin Keung, Alfred and Mr. Cheung Yim Kong, Johnny will retire at the forthcoming annual general meeting and will offer themselves for re-election. Their proposed term of office shall not be more than three years and is subject to retirement by rotation in accordance with the Bye-Laws.

The independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Bye-Laws.

## REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established on 1 November 2005 and currently comprises two independent non-executive directors, Mr. Tsui Robert Che Kwong (Chairman) and Mr. Leung Chi Hung and an executive director, Mr. Pun Yuen Sang.

The Remuneration Committee is accountable to the Board and its primary role is to conduct annual review of the policy and structure for all remuneration of directors and senior management and to make recommendations to the Board on such policy and structure and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also has the delegated responsibility to determine the remuneration packages of all executive directors and senior management proposed by the human resources management and make recommendations to the Board of the remuneration of non-executive Directors. The Remuneration Committee assists the Board to regularly review and formulate fair and competitive remuneration packages which attract, retain and motivate directors and senior management of the quality required to run the Company successfully.

The Remuneration Committee meets at least once a year, with the attendance of representatives from the Human Resources Department and the Company Secretary. The Remuneration Committee submits its written report to the Board after each Remuneration Committee meeting, making recommendations of the director's fee and other remuneration related matters.

The directors' remuneration for the year ended 31 March 2007 is set out in note 11 to the financial statements.

The terms of reference of the Remuneration Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## AUDIT COMMITTEE

The Audit Committee of the Company has been in place since 6 July 2002. It comprises three independent non-executive directors, Mr. Leung Chi Hung as the Chairman and Mr. Tsui Robert Che Kwong and Mr. Cheung Yim Kong Johnny. None of the members of the Audit Committee is a member of the former or existing auditors of the Company. The Audit Committee has adopted the principles set out in the CG Code.

The Audit Committee is accountable to the Board and its primary role is to assist the Board to monitor the Company's financial reporting process, to consider the nature and scope of audit reviews, to ensure the effective internal control and risk management systems are in place and to review the Group's interim and annual financial statements. The Audit Committee has access to and maintains an independent communication with the external auditors and the management to ensure effective information exchange on all relevant financial accounting matters.

## AUDIT COMMITTEE (Continued)

During the year, the Audit Committee held two meetings, with attendance of the Financial Controller, the Qualified Accountant and the Company Secretary. The Audit Committee submits its written report to the Board after each Audit Committee meeting, drawing the Board's attention to important issues that the Board should be award of, identifying any matters in respect of which it considers that action or improvement is needed and making appropriate recommendations.

In discharging its duties, the principal work performed by the Audit Committee during the year included the following:

a. Review of the interim and annual financial statements of the Group, with a recommendation to the Board for approval, examination of significant matters to the external auditors' interim review and annual audit, and review of the accounting policies and practices adopted by the Group;

b. Review of new and/or revised accounting standards and practices applicable to the Group and their impacts to the Group;

c. Review of internal control and risk management systems and assessment of their effectiveness to ensure that appropriate measures are in place to safeguard all significant assets and operations of the Group as well as to support continuous growth;

d. Review of overall accounts receivable of the Group and the effectiveness of credit control, and reinforcing education to the management and the operation units the importance of adherence to the established credit control measures;

e. Review of audit strategy, approach and methodologies and assessment of key audit risks with the external auditors in the audit planning stage; and

f. Report of the findings and making recommendations to the Board for improvements or implementations in respect of the above matters.

The terms of reference of the Audit Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

## NOMINATION COMMITTEE

The Nomination Committee of the Company was established on 1 November 2005 with specific written terms of reference which deal clearly with its authority and duties. The terms of reference of the Nomination Committee, a copy of which is posted on the Company's website, are consistent with the terms set out in the relevant section of the CG Code.

The Nomination Committee is responsible for recommending to the Board all new appointments of directors and senior executives of the Company, The Nomination Committee had considered the following proposal and made recommendation to the Board:

The Nomination Committee has also assessed the independence of the independent non-executive directors of the Company.

The Nomination Committee is provided with sufficient resources, including the advice of professional firms, to discharge its duties, if necessary.

## BOARD AND BOARD COMMITTEE MEETINGS

The Board schedules regular Board Meetings in advance, at least four times a year at approximately quarterly intervals to give directors the opportunity to participate actively, Directors are consulted for including matters in the agenda for regular Board Meetings Special Board Meetings are convened as and when needed, together with the Audit Committee, the Remuneration Committee Meeting and the Nomination Committee Meeting as aforesaid, it provides an effective framework for the Board and Board Committees to perform their works and discharge their duties, Minutes of Board and Board Committee meetings are kept by the Company Secretary.

Details of individual directors' attendance at the Board and Board Committee Meetings held in the year are set out in the following table:

| Number of meetings | Board Meetings 28 | Audit Committee Meetings 4 | Remuneration Committee Meeting 1 | Nomination Committee Meeting 1 |
|---|---|---|---|---|
| *Executive directors:* | | | | |
| Mr. Lum Chor Wah, Richard | 28/28 | N/A | N/A | N/A |
| Mr. Pun Yuen Sang | 28/28 | N/A | 1/1 | 1/1 |
| Mr. Tang Hin Keung, Alfred | 24/28 | N/A | N/A | N/A |
| *Independent non-executive directors:* | | | | |
| Mr. Leung Chi Hung | 19/28 | 4/4 | 1/1 | 1/1 |
| Mr. Tsui Robert Che Kwong | 19/28 | 4/4 | 1/1 | 1/1 |
| Mr. Cheung Yim Kong Johnny# | 8/28 | 2/4 | N/A | N/A |
| Mr. Lam Allan Shu Cheuk* | 10/28 | 2/4 | N/A | N/A |

\# Appointed on 16 November 2006

* Resigned on 16 November 2006

## BOARD AND BOARD COMMITTEE MEETINGS (Continued)

Apart from the regular Board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required. Notice of at least 14 days has been given to all directors for all regular board meeting and all the directors can include matter for discussion in the agenda whenever they consider appropriate and necessary. The directors will receive details of agenda items for decision at least three days before the meeting and minutes of the meeting will be received by those directors within reasonable time after the meeting.

In addition, to facilitate the decision-making process, the directors are free to have access to the management for enquiries and to obtain further information, when required. The directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All directors have unrestricted access to the advices and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that Board procedures are being followed. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decision resolved at all Board meeting. The minutes are open for inspection at any reasonable time on reasonable notice by any director.

According to the CG Code requirement, the Company should arrange appropriate insurance cover in respect of legal action against its Director. In order to comply with the CG Code, the Company has arranged liabilities insurance for all directors in 2007.

## FINANCIAL REPORTING

The Board is accountable to the shareholders and is committed to presenting comprehensive and timely information to the shareholders on assessment of the Company's performance, financial position and prospects.

### Directors' Responsibilities

The directors acknowledge their responsibilities for preparing the financial statements of the Company, which give a true and fair view and comply with all applicable regulatory requirements and accounting standards. In preparing the financial statements for the year ended 31 March 2007, the directors have selected appropriate accounting policies and applied them consistently, and made judgments and estimates that are prudent and reasonable. The directors are not aware of any material uncertainties relating to events of conditions that may cast significant doubt upon the Company's ability to continue as a going concern at 31 March 2007. The Board has also conducted a review of the effectiveness of the system of internal control of the Group.

The Company has appointed a Qualified Accountant pursuant to Rule 3.24 of the Listing Rules with the designated responsibility to oversee the financial reporting procedures and internal controls and compliance with the requirements under the Listing Rules with regard to financial reporting and other accounting-related issues.

## FINANCIAL REPORTING (Continued)

**Auditors' Responsibilities**

The external auditors of the Company are HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants and they would hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31 March 2007 have been audited by HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants.

The Audit Committee is responsible for considering the appointment of the external auditor and also reviews any non-audit functions performed by the external auditors of the Company, in particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming the independence and objectivity and holds meetings with HLB Hodgson Impey Cheng, Chartered Accountants, Certified Public Accountants to discuss the scope of their audit.

For the year ended 31 March 2007, the external auditors of the Company provided the following services to the Group:

| | **2007**<br>***HK$'000*** | 2006<br>*HK$'000* |
|---|---|---|
| Audit services | **580** | 580 |
| Other advisory services | **3,273** | – |

The Audit Committee is of the view that the auditors' independence was not affected by the provision of these non-audit related services during the year ended 31 March 2007.

A statement by the auditors about their reporting responsibilities is included in the Independent Auditors' Report on page 33.

## INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness through the Audit Committee. The Board has the overall responsibility for approving and reviewing internal control policy while the responsibility of day-to-day management of operational risks and implementation of mitigation measures lies with the management.

## INTERNAL CONTROL (Continued)

The internal control system is designed to provide reasonable, but not absolute, assurance on the effectiveness and efficiency of operations in achieving the established corporate objectives, safeguard the Group's assets, providing reliable financial reporting and complying with the applicable laws and regulations. Systems and procedures are also established to identify, measure, manage and control, rather than eliminate, different risks arising from different business and functional activities.

Key control procedures of the Group's internal control system are as follows:

- Segregation of duties and functions of the respective operational departments of the Group
- Monitoring the strategic plan and performance
- Designing an effective accounting and information system
- Controlling price-sensitive information

The Board has established an on-going process for (a) ensuring the Group has complied with the Code and the Listing Rules; (b) monitoring the performance and operation of the Group through review and approval of business strategies, budgets and plans and setting of key business performance targets; (c) formulating the business policy, systems and strategy of the Group as a whole; (d) controlling over capital expenditure and investments; and (e) setting standards and targets for safety and health performances.

The Board has conducted an annual review of the effectiveness of its internal control system covering all material controls, including financial, operational and compliance as well as risk management. Besides, the Group has also engaged HLB Hodgson Impey Cheng Consultants Limited (the "Consultant") to conduct the review and make recommendations for the improvement and strengthening of the internal control system.

The review by the Consultant is conducted with reference to the principles outlined in Internal Control and Risk Management – A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants. The assessment covers the major internal controls and measure, including financial, operational and compliance as well as risk management. Any material non-compliance or failures in internal controls maintained by the Group's management and relevant recommendations for improvements are reported to the Audit Committee.

Based on the assessments made by the Consultant, the Audit Committee and the Board considered that the key areas of the Group's internal control system are reasonably implemented with room for improvement. The Group shall use its best endeavor to implement the recommendations made by the Consultant in order to further improve the internal control system.

## COMMUNICATIONS WITH SHAREHOLDERS

The Company recognises the importance of maintaining an on-going communication with shareholders in a professional and timely manner so as to enable them to form their own judgment and to provide constructive feedback.

It is the Group's management philosophy to maintain a high degree of transparency and to provide appropriate and prompt disclosure of the Group's corporate strategies and new business developments.

The Group would place great emphasis on providing clear information to investors regarding its business strategy and direction, the progress of its projects and the industry environment in which the Group operates.

Enquiries and suggestions from shareholders or investors are welcomed through the following channels to the Company Secretary:

(i) By mail to the Company's head office at Room 2108, 21st Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong;

(ii) By telephone at telephone number (852) 3402-8228;

(iii) By fax at fax number (852) 3402-8136; or

(iv) By e-mail at info@teemfoundationgroup.com.

The annual general meeting is the principal forum for formal dialogue with shareholders, our directors are available at the Company's annual general meeting and extraordinary general meetings to answer questions and provide information which shareholders may enquire. According to the CG Code requirement, the Chairman of the Board should arrange for the chairman of the Audit Committee, the Remuneration Committee and Nomination Committee to answer the questions at the annual general meeting. The Board will arrange them to be present at the meeting to answer the questions, if any, of the shareholders. If they are not available by then, arrangement would be done by the respective personnel with the Chairman of the Board to answer the questions of the annual general meeting on their behalf.

Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to shareholders. The Company's announcements, press releases, and publications are circulated and are also available on the Stock Exchange's website. In order to provide effective disclosure to the shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

## COMMUNICATIONS WITH SHAREHOLDERS (Continued)

Senior management intends to regularly meet with research analysts and institutional investors, attend investors' conference and participate in non-deals roadshows in both Hong Kong and overseas.

Site visits would be arranged when deem necessary for analysts and investors to fully understand our business.

In order to promote effective communication, the Company maintains its website at www.teemfoundationgroup.com which includes the latest information relating to the Group and its business.

The Company has complied with the requirements of the Listing Rules and the Bye-Laws in respect of voting by poll and related matters.

# Independent Auditors' Report

HLB 國衛會計師事務所 Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF TEEM FOUNDATION GROUP LTD.**
*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Teem Foundation Group Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 78 which comprise the consolidated and company balance sheets at 31 March 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**HLB Hodgson Impey Cheng**
*Chartered Accountants*
*Certified Public Accountants*

Hong Kong, 22 June 2007

# Consolidated Income Statement

For the year ended 31 March 2007

| | Notes | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|---|
| **Turnover** | 7 | **6,353** | 10,645 |
| **Cost of sales** | | **(6,159)** | (9,551) |
| **Gross profit** | | **194** | 1,094 |
| **Other revenue** | 7 | **96** | 72 |
| **Other income** | 10 | **2,180** | 455 |
| **Administrative expenses** | | **(14,828)** | (7,255) |
| **Other operating expenses** | | **–** | (714) |
| **Impairment loss recognised in respect of goodwill** | | **–** | (8,536) |
| **Impairment loss recognised in respect of investment property** | | **–** | (395) |
| **Share of results of an associate** | 19 | **40,566** | – |
| **Profit/(loss) from operating activities** | 10 | **28,208** | (15,279) |
| **Finance costs** | 8 | **(7,136)** | (28) |
| **Profit/(loss) before taxation** | | **21,072** | (15,307) |
| **Taxation** | 9 | **16** | – |
| **Profit/(loss) for the year** | | **21,088** | (15,307) |
| **Attributable to:** | | | |
| **Equity holders of the Company** | | **21,088** | (15,307) |
| **Dividend – proposed final dividend** | 14 | **17,911** | – |
| **Earnings/(loss) per share attributable to the equity holders of the Company** | | | |
| Basic and diluted | 13 | **HK3.08 cents** | HK(2.28 cents) |

All of the Group's operations are classed as continuing.

The accompanying notes form an integral part of these financial statements.

# Consolidated Balance Sheet

At 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | *15* | **1,336** | 519 |
| Investment property | *16* | **10,200** | 10,200 |
| Goodwill | *17* | **529,218** | – |
| Interest in an associate | *19* | **13,579** | – |
| | | **554,333** | 10,719 |
| **Current Assets** | | | |
| Deposits and other receivables | *20* | **312,765** | 9 |
| Financial assets at fair value through profit or loss | *21* | **8,186** | 4,953 |
| Tax recoverable | | **–** | 1,656 |
| Cash and cash equivalents | | **101,512** | 29,985 |
| | | **422,463** | 36,603 |
| **Total Assets** | | **976,796** | 47,322 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *22(a)* | **87,800** | 67,200 |
| Reserves | *23(a)* | **489,235** | (22,086) |
| Proposed final dividend | *14* | **17,911** | – |
| **Total Equity** | | **594,946** | 45,114 |
| **LIABILITIES** | | | |
| **Non-Current Liabilities** | | | |
| Promissory notes – due after one year | *24* | **274,742** | – |
| Convertible bond – due after one year | *25* | **97,284** | – |
| Deferred tax liabilities | *26* | **6,495** | – |
| | | **378,521** | – |
| **Current Liabilities** | | | |
| Accounts payable | *27* | **893** | 893 |
| Other payables and accruals | | **2,256** | 1,315 |
| Tax payable | | **180** | – |
| | | **3,329** | 2,208 |
| **Total Liabilities** | | **381,850** | 2,208 |
| **Total Equity and Liabilities** | | **976,796** | 47,322 |
| **Net Current Assets** | | **419,134** | 34,395 |
| **Total Assets Less Current Liabilities** | | **973,467** | 45,114 |

Approved by the board of directors on 22 June 2007 and signed on its behalf by:

**Lum Chor Wah, Richard**
*Director*

**Pun Yuen Sang**
*Director*

The accompanying notes form an integral part of these financial statements.

# Balance Sheet

At 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 15 | **44** | 278 |
| Interests in subsidiaries | 18 | **745,050** | 88,187 |
| | | **745,094** | 88,465 |
| **Current Assets** | | | |
| Deposits and other receivables | 20 | **312,421** | – |
| Cash and cash equivalents | | **96,186** | 3,340 |
| | | **408,607** | 3,340 |
| **Total Assets** | | **1,153,701** | 91,805 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | 22(a) | **87,800** | 67,200 |
| Reserves | 23(b) | **521,417** | (33,573) |
| Proposed final dividend | 14 | **17,911** | – |
| **Total Equity** | | **627,128** | 33,627 |
| **LIABILITIES** | | | |
| **Non-Current Liabilities** | | | |
| Promissory notes – due after one year | 24 | **274,742** | – |
| Convertible bond – due after one year | 25 | **97,284** | – |
| Deferred tax liabilities | 26 | **6,495** | – |
| | | **378,521** | – |
| **Current Liabilities** | | | |
| Other payables and accruals | | **1,748** | 1,180 |
| Tax payable | | **–** | 30 |
| Amounts due to subsidiaries | | **146,304** | 56,968 |
| | | **148,052** | 58,178 |
| **Total Liabilities** | | **526,573** | 58,178 |
| **Total Equity and Liabilities** | | **1,153,701** | 91,805 |
| **Net Current Assets/(Liabilities)** | | **260,555** | (54,838) |
| **Total Assets Less Current Liabilities** | | **1,005,649** | 33,627 |

Approved by the board of directors on 22 June 2007 and signed on its behalf by:

**Lum Chor Wah, Richard**
*Director*

**Pun Yuen Sang**
*Director*

The accompanying notes form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

| | Issued share capital | Reserves | | | | | | Proposed final dividend | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | Share premium | Contributed surplus | Convertible bond reserve | Capital reserve | Accumulated losses | Total reserves | | |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$,000 | HK$'000 | HK'000 | HK'000 | HK$'000 |
| At 1 April 2005 | 67,200 | – | 20,607 | – | – | (27,386) | (6,779) | – | 60,421 |
| Net loss for the year | – | – | – | – | – | (15,307) | (15,307) | – | (15,307) |
| At 31 March 2006 and 1 April 2006 | 67,200 | – | 20,607 | – | – | (42,693) | (22,086) | – | 45,114 |
| Net profit for the year | – | – | – | – | – | 21,088 | 21,088 | – | 21,088 |
| Issue of ordinary shares | 20,600 | 288,022 | – | – | – | – | 288,022 | – | 308,622 |
| Equity component of convertible bond | – | – | – | 140,728 | – | – | 140,728 | – | 140,728 |
| Deferred tax arising on issue of convertible bond | – | – | – | (6,495) | – | – | (6,495) | – | (6,495) |
| Cash received in excess of fair value of promissory notes | – | – | – | – | 85,889 | – | 85,889 | – | 85,889 |
| Proposed final dividend | – | – | (17,911) | – | – | – | (17,911) | 17,911 | – |
| **At 31 March 2007** | **87,800** | **288,022** | **2,696** | **134,233** | **85,889** | **(21,605)** | **489,235** | **17,911** | **594,946** |

The accompanying notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 March 2007

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit/(loss) before taxation | | **21,072** | (15,307) |
| *Adjustments for:* | | | |
| Finance costs | *8* | **7,136** | 28 |
| Gain on disposal of a subsidiary | *10* | **(140)** | – |
| Fair value loss on financial assets at fair value through profit or loss | *10* | **(543)** | 714 |
| Impairment loss recognised in respect of investment property | *16* | **–** | 395 |
| Impairment loss recognised in respect of goodwill | *17* | **–** | 8,536 |
| Depreciation | *15* | **469** | 729 |
| Write-back of provision for impairment loss on trade receivables | *10* | **(712)** | (200) |
| Share of results of an associate | *19* | **(40,566)** | – |
| Operating loss before working capital changes | | **(13,284)** | (5,105) |
| Decrease in trade receivables | | **712** | 12,949 |
| Decrease in trade deposits | | **–** | 24,301 |
| (Increase)/decrease in deposits and other receivables | | **(312,756)** | 969 |
| Increase in financial assets at fair value through profit or loss | | **(2,690)** | (591) |
| Decrease in accounts payable | | **–** | (787) |
| Increase/(decrease) in other payables and accruals | | **941** | (2,139) |
| Cash (used in)/generated from operations | | **(327,077)** | 29,597 |
| Interest paid | | **–** | (28) |
| Hong Kong Profits Tax refund | | **1,852** | – |
| *Net cash (outflow)/inflow from operating activities* | | **(325,225)** | 29,569 |

| | Notes | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Payments to acquire property, plant and equipment | | **(1,446)** | – |
| Payment to acquire investment property | | **–** | (10,595) |
| Acquisition of a subsidiary | *28* | **(160,000)** | – |
| Proceeds from disposal of a subsidiary | *29* | **300** | – |
| Dividend income received from an associate | | **89,276** | – |
| *Net cash outflow from investing activities* | | **(71,870)** | (10,595) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | **308,622** | – |
| Proceeds from issue of a promissory note | | **160,000** | – |
| Repayment of bank loan | | **–** | (467) |
| *Net cash inflow/(outflow) from financing activities* | | **468,622** | (467) |
| **Net increase in cash and cash equivalents** | | **71,527** | 18,507 |
| **Cash and cash equivalents at the beginning of the year** | | **29,985** | 11,478 |
| **Cash and cash equivalents at the end of the year** | | **101,512** | 29,985 |
| **Analysis of the balances of cash and cash equivalents** | | | |
| Cash and cash equivalents | | **101,512** | 29,985 |

The accompanying notes form an integral part of these financial statements.

# Notes to Financial Statements

31 March 2007

## 1. GENERAL INFORMATION

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and the principal place of business in Hong Kong is Room 2108, 21/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars, which is the functional currency of the Company.

The Group was principally engaged in investing in operations which receive the profit streams from the entertainment related business and trading of timber logs and provision of services. In prior year, the Group was also principally involved in the provision and installation of fire-rated timber door sets and the provision of interior decoration and renovation services. These activities was minimal in the current year.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company and Group have applied, for the first time, a number of new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is effective for accounting periods beginning on or after 1 January 2006. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following area:

### Financial guarantee contracts

In the current year, the Group has applied Hong Kong Accounting Standard 39 ("HKAS 39") and HKFRS 4 (Amendments) *Financial Guarantee Contracts* which is effective for accounting periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 *Financial Instruments: Recognition and Measurement* as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument".

Prior to 1 January 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 *Insurance Contract* and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, financial guarantee contracts issued by the Group and not designated as at fair value through profit or loss are recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

During the year ended 31 March 2005, the Company had provided guarantees to banks in connection with the finance lease contracts granted to certain subsidiaries disposed in previous years. At 31 March 2006 and 2007, the Company was still the guarantor in respect of the finance lease contracts of the disposed subsidiaries. However, the directors consider that the fair values of the leased items were higher than the outstanding amounts. Thus, the outstanding amounts were considered immaterial and it was low probable that an outflow of resources. Thus, the adoption of the new HKFRSs had no material effect on how the results and financial position for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments have been required.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

The Company and Group have not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Group is not yet in a position to determine whether these standards and interpretations will have significant impact on how the results of operations and financial position are prepared and presented. These standards and interpretations may result in changes in the future as to how the results and financial position are prepared and presented.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures[1] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2[3] |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives[4] |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment[5] |
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions[6] |
| HK(IFRIC) – Int 12 | Service Concession Arrangements[7] |

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.
5 Effective for annual periods beginning on or after 1 November 2006.
6 Effective for annual periods beginning on or after 1 March 2007.
7 Effective for annual periods beginning on or after 1 January 2008.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. 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 the Hong Kong Companies Ordinance.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**(b) Business combinations**

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**(c) Goodwill**

*Goodwill arising on acquisitions prior to 1 January 2005*

Goodwill arising on an acquisition of a subsidiary or a jointly controlled entity for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or the relevant jointly controlled entity at the date of acquisition.

For previous, capitalised goodwill arising on acquisitions of subsidiaries, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill (net of cumulative amortisation as at 31 December 2005) is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policies below).

*Goodwill arising on acquisitions on or after 1 January 2005*

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (c) Goodwill (Continued)

*Goodwill arising on acquisitions on or after 1 January 2005* (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each assets in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### (d) Impairment losses (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. An impairment loss is 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.

### (e) Investment in an associate

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor interest in a joint venture.

The results and assets and liabilities of an associate are incorporated in the financial statements using the equity method of accounting. Under the equity method, investment in an associate is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profits or losses and of changes in equity of the associate, less any identified impairment losses. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (e) Investment in an associate (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### (f) Revenue recognition

Revenue from the sale of goods, when the significant risk and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effectively control over the goods sold.

Dividend income from investments is recognised when the shareholders' right to receive payment have been established.

Interest income from financial assets is accrued on a time basis by reference to the principal outstanding and at 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.

### (g) Property, plant and equipment

Property, plant and equipment are stated at cost or fair value less accumulated depreciation and accumulated impairment losses.

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

| | | |
|---|---|---|
| Furniture, fixtures and office equipment | : | 20% |
| Leasehold improvements | : | 20% |
| Motor vehicles and pleasure craft | : | 20% |

The assets' estimated realisable values, useful lives of the depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (h) Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in income statement for the period in which they arise.

*Leasehold land held for undetermined future use*

Leasehold land held for undetermined future use is regarded as held for capital appreciation purpose and classified as an investment property, and carried at fair value. Changes in fair value of the leasehold land are recognised directly in the income statement for the period in which changes take place.

### (i) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*The Group as lessee*

Rentals payable under operating leases are charged in income statement 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.

### (j) Foreign currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective 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 the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into presentation currency of the Company (i.e. Hong Kong dollars) at the rate 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 translation reserve). Such exchange differences are recognised in the income statement in the year in which the foreign operation is disposed of.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (j) Foreign currencies (Continued)

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

### (k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those asset. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income statement in the period in which they are incurred.

### (l) Retirement benefits costs

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

*Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

*Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly or retained profits).

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (m) 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 and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised 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 liabilities 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, and deferred tax assets are recognised to the extent that it is probable 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 the other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference will not reverse in the foreseeable future.

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 profits 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 realised. Deferred tax is charged or credited to income statement except when it relates to items charged or credited directly or 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 entity intends to settle its current tax assets and liabilities on a net basis.

### (n) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instruments. 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 the income statement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

*Financial assets*

The Group's financial assets are classified into financial assets at fair value through profit or loss and loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade basis. Regular way purchases or sale of financial assets that required 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.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated as at fair value through profit or loss on initial recognition.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

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 receivables, loan 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 the income statement 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 increased in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

*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 asset of the group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including accounts payables, other payables and accruals are subsequently measured at amortised cost, using the effective interest rate method.

Convertible bond

Convertible bond issued by the Company that contain both financial liability and equity components are classified separately in respective liability and equity components on initial recognition. On initial recognition, the fair value of the liability component is determined using the prevailing market interest of similar non-convertible debts. The difference between the proceeds of the issue of the convertible bond and the fair value assigned to the liability component, respecting the embedded call option for the holder to convert the bond into equity, is included in equity (convertible bond – equity reserve).

In subsequent periods, the liability component of the convertible bond is carried at amortised cost using the effective interest method. The equity component, represented by the option to convert the liability component into ordinary shares of the Company, will remain in convertible bond – equity reserve until the embedded option is exercised (in which case the balance stated in convertible bond – equity reserve will be transferred to share capital and share premium). Where the option remains unexercised at the expiry date, the balance stated in convertible bond – equity reserve will be released to the retained profits. No gain or loss is recognised in the income statement upon conversion or expiration of the option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the proceeds. Transactions costs relating to the equity component are charged directly to convertible bond – equity reserve. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bond using the effective interest method.

Equity instruments

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (n) Financial instruments (Continued)

*Financial guarantee contract*

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

*Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

### (o) 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 obligations. 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 its material.

### (p) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

### (q) Accounts and other receivables

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (r) Related party transactions

Parties are considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, joint-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, of any entity that is related party of the Group.

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### (s) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

### (a) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

### (b) Investment property

As described in note 16, investment property is stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. Should there are changes in assumptions due to change of market conditions, the fair value of the investment property will be changed in future.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### (a) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at fair value through profit or loss, accounts and other receivables, cash and cash equivalents, accounts payable, other payables and accruals, convertible bond and promissory notes. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

(i) Currency risk

The Group is exposed to currency risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Currency risk arises from future commercial transactions and recognised assets and liabilities.

(ii) Fair value interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing financial liabilities. The fair value interest rate risk relates primarily to fixed-rate borrowings. All interest-bearing financial liabilities are exposed to fair value interest rate risk only. The interest rates and terms of repayment of financial liabilities of the Group are disclosed in notes 24 and 25.

(iii) Price risk

The Group is exposed to equity price risk through its financial assets at fair value through profit or loss. The management monitors the price movements and takes appropriate actions when it is required.

*Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 31 March 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of the debtors 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 significantly reduced.

*Liquidity risk*

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects if fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

## 5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### (b) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

i) the fair value of financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;

ii) the fair value of other financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions; and

iii) the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, the fair value of a non-option derivative is estimated using discounted cash flow analysis and the applicable yield curve. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes model).

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follow:

a) the construction segment provides and installs fire-rated timber door sets, as well as provides interior decoration and renovation services and other carpentry works;

b) the timber segment engages in the trading of timber logs and wooden door sets; and

c) the corporate segment included general corporate income and expense items.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments

| | Construction | | Timber | | Corporate | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| **Segment revenue:** | | | | | | | | |
| Sales to external customers | **-** | 106 | **6,353** | 10,539 | **-** | – | **6,353** | 10,645 |
| Other revenue | **-** | – | **-** | – | **96** | 72 | **96** | 72 |
| Other income | **712** | 200 | **-** | – | **1,468** | 255 | **2,180** | 455 |
| Total | **712** | 306 | **6,353** | 10,539 | **1,564** | 327 | **8,629** | 11,172 |
| Segment results | **709** | 304 | **108** | (79) | **(13,175)** | (6,573) | **(12,358)** | (6,348) |
| Impairment loss recognised in respect of goodwill | **-** | – | **-** | (8,536) | **-** | – | **-** | (8,536) |
| Impairment loss recognised in respect of investment property | **-** | – | **-** | – | **-** | (395) | **-** | (395) |
| Share of results of an associate | **-** | – | **-** | – | **40,566** | – | **40,566** | – |
| Finance costs | **-** | – | **-** | – | **(7,136)** | (28) | **(7,136)** | (28) |
| Profit/(loss) before tax | | | | | | | **21,072** | (15,307) |
| Taxation | | | | | | | **16** | – |
| Net profit/(loss) attributable to equity holders of the Company | | | | | | | **21,088** | (15,307) |
| **Segment assets and liabilities:** | | | | | | | | |
| Segment assets | **9** | 10 | **172** | – | **976,615** | 45,656 | **976,796** | 45,666 |
| Unallocated assets | | | | | | | **-** | 1,656 |
| Total assets | | | | | | | **976,796** | 47,322 |
| Segment liabilities | **1,028** | 1,028 | **180** | – | **380,642** | 1,180 | **381,850** | 2,208 |
| Total liabilities | | | | | | | **381,850** | 2,208 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

### (a) Business segments (Continued)

| | Construction | | Timber | | Corporate | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Other information:** | | | | | | | | |
| Capital expenditure | **-** | – | **-** | – | **592,953** | 10,595 | **592,953** | 10,595 |

### (b) Geographical segments

The following tables present revenue and assets and capital expenditure information for the Group's geographical segments.

| | Hong Kong | | United States of America | | Total | |
|---|---|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Segment revenue:** | | | | | | |
| Sales to external customers | **6,353** | 106 | **-** | 10,539 | **6,353** | 10,645 |
| Other revenue | **96** | 72 | **-** | – | **96** | 72 |
| Other income | **2,180** | 455 | **-** | – | **2,180** | 455 |
| | **8,629** | 633 | **-** | 10,539 | **8,629** | 11,172 |
| **Other segment information:** | | | | | | |
| Segment assets | **976,796** | 45,666 | **-** | – | **976,796** | 45,666 |
| Unallocated assets | | | | | **-** | 1,656 |
| | | | | | **976,796** | 47,322 |
| Capital expenditure | **592,953** | 10,595 | **-** | – | **592,953** | 10,595 |

## 7. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| **Turnover** | | |
| Trading of timber logs | **6,353** | 10,539 |
| Contract revenue | **–** | 106 |
| | **6,353** | 10,645 |
| **Other revenue** | | |
| Interest income | **61** | 59 |
| Dividend income | **35** | 13 |
| | **96** | 72 |

## 8. FINANCE COSTS

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Interest on obligations under finance leases | **–** | 28 |
| Imputed interest expense on: | | |
| Promissory notes *(note 24)* | **5,270** | – |
| Convertible bond *(note 25)* | **1,866** | – |
| | **7,136** | – |
| Total finance costs | **7,136** | 28 |

## 9. TAXATION

Hong Kong Profits Tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising from Hong Kong during the year.

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Charge for the year – Hong Kong | **(15)** | – |
| Over-provision in prior years | **31** | – |
| Tax credit | **16** | – |

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

| | **2007** | | 2006 | |
|---|---|---|---|---|
| | ***HK$'000*** | **%** | *HK$'000* | *%* |
| Profit/(loss) before taxation | **21,072** | | (15,307) | |
| Tax at the statutory tax rate | **3,687** | **17.5** | (2,679) | (17.5) |
| Tax effect of share of results of an associate | **(7,099)** | **(33.6)** | – | – |
| Tax effect of income not taxable for tax purpose | **(362)** | **(1.7)** | (62) | (0.4) |
| Tax effect of expenses not deductible for tax purpose | **1,333** | **6.3** | 1,626 | 10.6 |
| Tax effect of tax losses not recognised | **2,486** | **11.8** | 1,115 | 7.3 |
| Over-provision in prior years | **(31)** | **(0.2)** | – | – |
| Tax effect of unrecognised temporary difference | **(30)** | **(0.2)** | – | – |
| Tax income at the Group's effective rate | **(16)** | **(0.1)** | – | – |

## 10. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Depreciation | **469** | 729 |
| Impairment loss recognised in respect of goodwill | **–** | 8,536 |
| Impairment loss recognised in respect of investment property | **–** | 395 |
| Auditors' remuneration | **580** | 580 |
| Staff costs (excluding directors' remuneration – note 12): | | |
| Salaries and wages | **856** | 1,697 |
| Pension scheme contributions | **26** | 31 |
| | **882** | 1,728 |
| Fair value loss on financial assets at fair value through profit or loss | **–** | 714 |
| Minimum lease payments under operating leases in respect of land and buildings | **914** | 495 |
| and after crediting: | | |
| Other income | | |
| Gain on disposal of a subsidiary | **140** | – |
| Gain on disposals of financial assets at fair value through profit or loss | **785** | 255 |
| Fair value gain on financial assets at fair value through profit or loss | **543** | – |
| Write-back of provision for impairment loss on trade receivables | **712** | 200 |
| | **2,180** | 455 |

## 11. DIRECTORS' REMUNERATION

The board of directors of the Company is currently composed of three executive directors and three independent non-executive directors. Directors' remuneration for the year disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| Name of director | Fee | | Salaries and bonus | | Pension scheme contributions | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| **Executive director** | | | | | | | | |
| Mr. Lum Chor Wah Richard | **-** | – | **650** | 650 | **12** | 12 | **662** | 662 |
| Mr. Pun Yuen Sang | **-** | – | **500** | 500 | **12** | 12 | **512** | 512 |
| Mr. Tang Hin Keung, Alfred | **-** | – | **500** | 500 | **12** | 12 | **512** | 512 |
| Mr. Yeung Tony Ming Kwong (resigned on 31 November 2005) | **-** | – | **-** | 160 | **-** | 4 | **-** | 164 |
| **Independent non-executive director** | | | | | | | | |
| Mr. Leung Chi Hung | **50** | 50 | **-** | – | **-** | – | **50** | 50 |
| Mr. Tsui Robert Che Kwong | **50** | 50 | **-** | – | **-** | – | **50** | 50 |
| Mr. Lam Allan Shu Cheuk (resigned on 16 November 2006) | **25** | 50 | **-** | – | **-** | – | **25** | 50 |
| Mr. Cheung Yim Kong, Johnny (appointed on 16 November 2006) | **45** | – | **-** | – | **-** | – | **45** | – |
| | **170** | 150 | **1,650** | 1,810 | **36** | 40 | **1,856** | 2,000 |

## 12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: three) directors, details of whose remuneration are set out in note 11 to the financial statements above. Details of the remuneration of the remaining two (2006: two) non-directors, highest paid employees for the year are as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **657** | 954 |
| Pension scheme contributions | **20** | 12 |
| | **677** | 966 |

All their emoluments were within HK$1,000,000.

## 13. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

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

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings/(loss) | | |
| Earnings/(loss) attributable to the equity holders of the Company for the purposes of basic earnings/(loss) per share | **21,088** | (15,307) |
| Effect of dilutive potential ordinary shares: Interest on convertible bond, net of tax | **1,866** | – |
| Earnings/(loss) attributable to equity holders of the Company for the purpose of diluted earnings/(loss) per share | **22,954** | (15,307) |

| | Number of shares | |
|---|---|---|
| | **2007** | 2006 |
| | ***'000*** | *'000* |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per shares | **684,936** | 672,000 |
| Effect of dilutive potential ordinary shares: Convertible bond | **32,035** | – |
| Weight average number of ordinary shares for the purpose of diluted earnings/(loss) per share | **716,971** | 672,000 |

Basic and diluted earnings per share for the year ended 31 March 2007 have been presented in a single line as the effect of the assumed conversion of the Company's outstanding convertible bond would be anti-dilutive.

## 14. DIVIDEND – PROPOSED FINAL DIVIDEND

The final dividend of HK2 cents (2006: Nil) per share has been proposed by the directors and is subject to the approval by the shareholders at the forthcoming annual general meeting. The financial statements do not reflect the dividend payable.

## 15. PROPERTY, PLANT AND EQUIPMENT

**The Group**

| | Leasehold improvements | Furniture, fixtures and office equipment | Motor vehicles and pleasure craft | Total |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost:** | | | | |
| At 1 April 2005 and 31 March 2006 | 3,505 | 780 | 3,600 | 7,885 |
| Additions | 1,235 | 211 | – | 1,446 |
| Disposal of a subsidiary | – | – | (2,745) | (2,745) |
| **At 31 March 2007** | **4,740** | **991** | **855** | **6,586** |
| **Accumulated depreciation and impairment:** | | | | |
| At 1 April 2005 | 3,505 | 747 | 2,385 | 6,637 |
| Charged for the year | – | 9 | 720 | 729 |
| At 31 March 2006 and 1 April 2006 | 3,505 | 756 | 3,105 | 7,366 |
| Charged for the year | 109 | 25 | 335 | 469 |
| Disposal of a subsidiary | – | – | (2,585) | (2,585) |
| **At 31 March 2007** | **3,614** | **781** | **855** | **5,250** |
| **Net book value:** | | | | |
| **At 31 March 2007** | **1,126** | **210** | **–** | **1,336** |
| At 31 March 2006 | – | 24 | 495 | 519 |

**15. PROPERTY, PLANT AND EQUIPMENT** (Continued)

**The Company**

| | Leasehold improvements HK$'000 | Furniture, Fixtures and office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| At 1 April 2005 and 31 March 2006 | 3,263 | 468 | 855 | 4,586 |
| Additions | – | 30 | – | 30 |
| **At 31 March 2007** | **3,263** | **498** | **855** | **4,616** |
| **Accumulated depreciation and impairment:** | | | | |
| At 1 April 2005 | 3,263 | 438 | 200 | 3,901 |
| Charged for the year | – | 7 | 400 | 407 |
| At 31 March 2006 and 1 April 2006 | 3,263 | 445 | 600 | 4,308 |
| Charged for the year | – | 9 | 255 | 264 |
| **At 31 March 2007** | **3,263** | **454** | **855** | **4,572** |
| **Net book value:** | | | | |
| **At 31 March 2007** | **–** | **44** | **–** | **44** |
| At 31 March 2006 | – | 23 | 255 | 278 |

## 16. INVESTMENT PROPERTY

| Fair value | The Group *HK$'000* |
|---|---|
| At 1 April 2005 | – |
| Additions during the year | 10,595 |
| Fair value losses on investment property | (395) |
| **At 31 March 2006 and 31 March 2007** | **10,200** |

The fair value of the Group's investment property at 31 March 2007 has been arrived at on the basis of a valuation carried out on that date by Messrs. Grant Sherman Appraisal Limited ("Grant Sherman"), independent qualified professional valuers not connected with the Group. Grant Sherman are members of the Hong Kong Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals purposes are measured using the fair value model and are classified and accounted for as investment property.

The carrying amount of investment property shown above comprises:

| | **2007** **HK$'000** | 2006 *HK$'000* |
|---|---|---|
| Land in Hong Kong: | | |
| Long-term lease | **10,200** | 10,200 |

## 17. GOODWILL

| | The Group HK$'000 |
|---|---|
| **Cost:** | |
| At 1 April 2005 | 12,491 |
| Elimination of goodwill on adoption of HKFRS 3 | (3,955) |
| At 31 March 2006 and 1 April 2006 | 8,536 |
| Additions arising from acquisition of a subsidiary *(note 28)* | 529,218 |
| **At 31 March 2007** | **537,754** |
| **Accumulated impairment:** | |
| At 1 April 2005 | 3,955 |
| Elimination of goodwill on adoption of HKFRS 3 | (3,955) |
| Impairment loss recognised | 8,536 |
| **At 31 March 2006 and 31 March 2007** | **8,536** |
| **Carrying amounts:** | |
| **At 31 March 2007** | **529,218** |
| At 31 March 2006 | – |

As explained in note 6 to the financial statements, the Group uses business segments as its primary segment for reporting segment information. For the purpose of impairment testing, goodwill with indefinite useful lives have been allocated to one individual cash generating units (CGUs) determined based on the related segment. The carrying amounts of goodwill (net of impairment losses) at 31 March 2007 allocated to this unit is as follow:

| | Goodwill HK$'000 |
|---|---|
| Corporate | **529,218** |

During the year ended 31 March 2007, management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

## 17. GOODWILL (Continued)

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a five-year period, which represents the management's best estimate of future cash flow from respective CGU, and a discount rate of approximately 30% (2006: 7.75%). The cash flows beyond five-year period are extrapolated using a zero growth rate for an indefinite period. Another key assumption is the budgeted revenue, which is determined based on the CGUs' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the above CGUs to exceed the aggregate recoverable amount of the above CGUs.

## 18. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Investment costs | **36,801** | 36,801 |
| Less: Impairment loss recognised | **(8,618)** | (8,618) |
| | **28,183** | 28,183 |
| Amounts due from subsidiaries | **753,167** | 78,304 |
| Less: Impairment loss recognised | **(36,300)** | (18,300) |
| | **745,050** | 88,187 |

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

The directors consider the fair value of the amounts due from/to subsidiaries at the balance sheet date approximates to the corresponding carrying amounts.

The directors had reviewed the net asset values of the Company's subsidiaries for the year ended 31 March 2007 and considered a provision for impairment of approximately HK$18,000,000 (2006: HK$18,300,000) should be made in respect of amounts due from subsidiaries.

Particulars of the Company's subsidiaries at 31 March 2007 are set out in note 35 to the financial statements.

## 19. INTEREST IN AN ASSOCIATE

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| **At 1 April 2006** | **–** | – |
| Acquisition of a subsidiary *(note 28)* | **62,289** | – |
| Share of post-acquisition profits, net of dividend received | **(48,710)** | – |
| **At 31 March 2007** | **13,579** | – |

Details of the Group's associate at 31 March 2007 are as follows:

| Name of associate | Place of incorporation or operation | Class of share held | Percentage of equity attributable directly to the Group | Principal activity |
|---|---|---|---|---|
| Worth Perfect International Limited | British Virgin Islands | Ordinary | 49% | Sharing the profit streams from the entertainment related business |

The summarised financial information in respect of the Group's associate is set out below:

| | **2007** | 2006 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total assets | **27,712** | – |
| Total liabilities | **–** | – |
| Net assets | **27,712** | – |
| Group's share of net asset of an associate | **13,579** | – |
| Turnover for the period from 4 January 2007 to 31 March 2007 | **83,191** | – |
| Profit for the period from 4 January 2007 to 31 March 2007 | **82,788** | – |
| Group's share of results of an associate for the period from 4 January 2007 to 31 March 2007 | **40,566** | – |

## 20. DEPOSITS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Deposits | **312,756** | – | **312,421** | – |
| Other receivables | **9** | 9 | **–** | – |
| | **312,765** | 9 | **312,421** | – |

*Note:*

(i) A refundable deposit of HK$312,421,000 for the acquisition of the entire issued share capital of Richsense Limited is included. Please refer to note 36 to the financial statements for details.

The directors consider that the fair value of the Group's deposits and other receivables at the balance sheet date was approximately their carrying amounts.

## 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Held for trading | | |
| Equity securities, at fair value | | |
| – Listed in Hong Kong | **8,186** | 4,953 |

The fair values of the financial assets are determined based on the quoted market bid prices available on the relevant stock exchanges.

## 22. SHARE CAPITAL

### (a) Shares

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **'000** | *'000* | ***HK$'000*** | *HK$'000* |
| *Authorised:* | | | | |
| Ordinary shares of HK$0.1 each | **1,000,000** | 1,000,000 | **100,000** | 100,000 |
| *Issued and fully paid:* | | | | |
| At beginning of year | **672,000** | 672,000 | **67,200** | 67,200 |
| Issue of ordinary shares *(note i)* | **206,000** | – | **20,600** | – |
| At end of year | **878,000** | 672,000 | **87,800** | 67,200 |

*Note:*

(i) During the year ended 31 March 2007, the Company placed 206,000,000 ordinary shares of HK$0.1 each at a placing price of HK$1.525 per share. 134,400,000 and 71,600,000 new ordinary shares were issued on 27 February 2007 and 28 March 2007 respectively for the purpose of increasing general working capital of the Group. The new shares rank pari passu with the existing shares in all respects.

### (b) Share option scheme

A share option scheme (the "Scheme") was conditionally approved by a written resolution of all shareholders of the Company dated 6 July 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The purpose of the Scheme is to enable the Company to grant options to selected employees and directors as an incentive or reward for their contribution to the Group. The board of directors (the "Board") may, at its discretion, invite any executive directors, non-executive director, independent non-executive director and/or full-time or part-time employee of any company in the Group from time to time whom determined by the Board as having contributed to the development and growth of the Company and/or any of its subsidiaries, to take up options at HK$1 each to subscribe for such number of shares as the Board shall determine, at a price calculated in accordance with the paragraph below.

The subscription price for shares under the Scheme will be a price determined by the Board and notified to each grantee and will be the higher of (i) the average closing prices of the shares on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the ate of the grant; or (ii) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; and (iii) the nominal value of a share.

## 22. SHARE CAPITAL (Continued)

### (b) Share option scheme (Continued)

The maximum number of shares to be issued upon exercise of all outstanding options under the Scheme and any other share option schemes of the Company will not exceed 30% (or where applicable, such higher percentage as may from time to time to be permitted under the Listing Rules or by the Stock Exchange) of the total number of the issued shares from time to time. The total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 67,200,000 shares, representing 10% of the issued share capital of the Company, as at the date of listing of shares on the Stock Exchange. The Company may seek approval of its shareholders at a general meeting to renew the 10% limit. However, the total number of shares available for issue under options which may be granted under the Scheme and any other share option schemes of the Company in these circumstances must not exceed 10% of the issued share capital of the Company at the date of approval of renewing such a limit. No option may be granted to any one person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of all options granted and to be granted to him/her in the 12-month period up to and including the date of such a grant, to exceed 1% of the issued share capital of the Company as at the date of the grant. Any further grant of options in excess of the foregoing limit must be subject to the approval of the shareholders of the Company in a general meeting.

A grant of options to a director, chief executive or substantial shareholder of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by all the independent non-executive directors (excluding any independent non-executive director who or whose associate is the proposed grantee of the options). If the Company proposes to grant options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive director or their respective associates (as defined in the Listing Rules) which will result in the number of shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) under the Scheme and any other share option schemes of the Company to any such person in the 12-month period up to and including the date of such a grant (i) representing in aggregate over 0.1% of the shares in issue as at the date of such a further proposed grant; and (ii) having an aggregate value, based on the closing price of the shares as sated in the daily quotation sheets of the Stock Exchange ate the date of such a grant, in excess of HK$5,000,000; such a further grant shall be subject to the approval of the shareholders of the Company in a general meeting. Shareholders' approval must be obtained for any change in the terms of options granted to a grantee who is a substantial shareholder or an independent non-executive director of the Company or their respective associates.

An option may be exercised in accordance with the terms of the Scheme at any time during a period commencing immediately after the date on which the option is accepted and deemed to be granted and expiring on a date to be notified by the Board to each grantee which shall not be more than 10 years from the date on which the option is accepted and deemed to be granted. According to the Scheme, there is no general requirement for a minimum holding period or performance targets before an option may be exercised.

The directors may terminate the Scheme, subject to shareholders' approval in a general meeting, at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of the Scheme. Any cancellation of options granted, but not exercised, shall be approved by the shareholders of the Company in a general meeting.

## 22. SHARE CAPITAL (Continued)

### (b) Share option scheme (Continued)

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses quality for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) expect where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

No share options have been granted under the Scheme during the year nor were outstanding at the balance sheet date.

## 23. RESERVES

### (a) The Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37 of the financial statements.

The Group's contributed surplus represented the difference between the nominal value of the shares, the share premium account and the contributed surplus of the subsidiaries acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefore.

## 23. RESERVES (Continued)

### (b) The Company

| | Share premium HK$'000 | Contributed surplus HK$'000 (Note i) | Convertible bond reserve HK$'000 (Note ii) | Capital reserve HK$'000 (Note iii) | (Accumulated losses)/ retained profit HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 April 2005 | – | 20,607 | – | – | (30,040) | (9,433) |
| Net loss for the year | – | – | – | – | (24,140) | (24,140) |
| At 31 March 2006 and 1 April 2006 | – | 20,607 | – | – | (54,180) | (33,573) |
| Net profit for the year | – | – | – | – | 64,757 | 64,757 |
| Issue of ordinary shares | 288,022 | – | – | – | – | 288,022 |
| Equity component of convertible bond | – | – | 140,728 | – | – | 140,728 |
| Deferred tax arising on issue of convertible bond | – | – | (6,495) | – | – | (6,495) |
| Equity component of promissory notes | – | – | – | 85,889 | – | 85,889 |
| Proposed final dividend *(note 14)* | – | (17,911) | – | – | – | (17,911) |
| **At 31 March 2007** | **288,022** | **2,696** | **134,233** | **85,889** | **10,577** | **521,417** |

*Notes:*

(i) The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

(ii) The convertible bond reserve of the Company represents the difference between the equity component of the convertible bond issued by the Company and the aggregate amount of the deferred tax liabilities in respect of such convertible bond.

(iii) The capital reserve of the Company represents the cash received in excess of the fair value of the Second Promissory Note issued by the Company.

## 24. PROMISSORY NOTES – DUE AFTER ONE YEAR

**The Group and the Company**

On 4 January 2007, the Company has issued First Promissory Note I in a principle amount of HK$61,600,000, First Promissory Note II in a principle amount of HK$183,000,000 and Second Promissory Note in a principle amount of HK$160,000,000 due on 3 January 2017. First Promissory Note I and First Promissory Note II (the "First Promissory Notes") were issued for acquiring the entire issued share capital of Youngrich Limited and bear interest at 5% per annum. Second Promissory Note was issued to a substantial shareholder of the Company to finance the acquisition of the entire issued share capital of Youngrich Limited and is interest-free.

| | First Promissory Notes | Second Promissory Note | 2007 Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Proceeds of issue | – | 160,000 | 160,000 |
| Fair value of promissory notes | 195,361 | – | 195,361 |
| Less: capital contribution | – | (85,889) | (85,889) |
| Fair value at the date of issue | 195,361 | 74,111 | 269,472 |
| Interest expenses charged | 3,821 | 1,449 | 5,270 |
| Balance at 31 March 2007 shown as non-current liabilities | **199,182** | **75,560** | **274,742** |

The carrying amounts of the promissory notes approximate their fair value.

## 25. CONVERTIBLE BOND – DUE AFTER ONE YEAR

**The Group and the Company**

On 4 January 2007, the Company issued a convertible bond due on 3 January 2017 with a principal amount of HK$134,400,000, which is interest-bearing at 5% per annum. The convertible bond was issued as part of the consideration for the acquisition of entire issued share capital of Youngrich Limited (note 28).

The convertible bond due on 3 January 2017 is convertible into fully paid ordinary shares with a par value of HK$0.1 each of the Company at an initial conversion price of HK$1, subject to adjustment.

The convertible bond contains two components, liability and equity elements. The equity element is presented in equity heading "convertible bond reserve". The effective interest rate of the liability component is 8%.

The estimate of the fair value of the option component embedded in the convertible bond is measured using Black-Scholes Option Pricing Model.

## 25. CONVERTIBLE BOND – DUE AFTER ONE YEAR

**The Group and the Company** (Continued)

The convertible bond issued during the year has been spilt as to the liability and equity components, as follows:

| | **2007** *HK$'000* |
|---|---|
| Proceeds of issue | **–** |
| Fair value of convertible bond | **236,146** |
| Equity component | **(140,728)** |
| Liability component at the date of issue | **95,418** |
| Interest expenses charged | **1,866** |
| Liability component at 31 March 2007 shown as non-current liabilities | **97,284** |

The carrying amount of the convertible bond approximates its fair value.

## 26. DEFERRED TAX LIABILITIES

**The Group and the Company**

The followings are the major deferred tax liabilities recognised by the Group and movements thereon during the year:

| | **Convertible bond** *HK$'000* |
|---|---|
| At 1 April 2005, 31 March 2006 and 1 April 2006 | – |
| Charged to equity for the year | 6,495 |
| **At 31 March 2007** | **6,495** |

At the balance sheet date, the Group has the following major unrecognised deferred tax assets due to the unpredictability of future profit streams.

| | **2007** ***HK$'000*** | 2006 *HK$'000* |
|---|---|---|
| Tax losses | **24,479** | 2,738 |

The unrecognised tax losses may be carried forward indefinitely.

## 27. ACCOUNTS PAYABLE

An aged analysis of accounts payable at the balance sheet date, based on invoiced date, is as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Current - 90 days | **–** | – |
| 91 – 180 days | **–** | – |
| 181 – 365 days | **–** | – |
| Over 365 days | **69** | 69 |
| | **69** | 69 |
| Retention monies payable | **824** | 824 |
| | **893** | 893 |

The carrying amounts of accounts payable approximate their fair value.

## 28. ACQUISITION OF A SUBSIDIARY

On 4 January 2007, the Group acquired the entire issued share capital of Youngrich Limited, an investment holding company. The consideration for the acquisition was approximately of HK$591,507,000 which represented the cash paid and the fair value of convertible bond and promissory notes as at the date of acquisition. The amount of goodwill arising as a result of the acquisition was HK$529,218,000.

The net assets acquired in the transaction and the goodwill arising are as follows:

| | Acquiree's carrying amount | Fair value adjustment | Fair value |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Interest in an associate *(note 19)* | 62,289 | – | 62,289 |
| Goodwill *(note 17)* | | | 529,218 |
| | | | 591,507 |
| Total consideration satisfied by | | | |
| Cash | | | 160,000 |
| Promissory notes | | | 195,361 |
| Convertible bond | | | 236,146 |
| | | | 591,507 |

There was no acquisition in the year ended 31 March 2006.

The goodwill is attributable to the profitability from acquisition of Youngrich Limited.

## 29. DISPOSAL OF A SUBSIDIARY

The Group disposed one of its subsidiaries, Billion Concept Limited on 11 July 2006. The net assets of Billion Concept Limited at the date of disposal were as follows:

| | **2007** **HK'000** | 2006 *HK$'000* |
|---|---|---|
| Net assets disposed of: | | |
| Property, plant and equipment *(note 15)* | **160** | – |
| Gain on disposal | **140** | – |
| Total consideration | **300** | – |
| Satisfied by: | | |
| Cash | **300** | – |
| Net cash inflow arising on disposal: | | |
| Cash consideration | **300** | – |

## 30. NON-CASH TRANSACTIONS

The consideration for the acquisition of the entire issued share capital of Youngrich Limited during the year ended 31 March 2007 comprised the First Promissory Notes and convertible bond as disclosed in notes 24 and 25 to the financial statements, respectively.

### 31. OPERATING LEASE ARRANGEMENTS

The Group leases its office properties under operating lease arrangements. Leases for the properties are negotiated for terms of three years.

At the balance sheet date, the Group had total future minimum lease payables under non-cancellable operating leases falling due as follows:

| | The Group | |
|---|---|---|
| | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,006** | – |
| In the second to fifth year inclusive | **1,097** | – |
| | **2,103** | – |

### 32. COMMITMENTS

On 27 February 2007, Team Jade Enterprises Limited, a wholly subsidiary of the Company, entered into a conditional sale and purchase agreement ("Proposed Acquisition") in relation to the acquisition of the entire issued share capital of Richsense Limited from Rich Game Capital Inc. at a total consideration of HK$756,000,000.

At 31 March 2007, the Group had a commitment in respect of the acquisition of Richsence Limited amounted to HK$765,000,000, which will be financed by the Group's internal resources and the issues of convertible bond, promissory notes and the Company's new shares. At 31 March 2007, the Group paid refundable deposit of HK$312,421,000 to Rich Game. Please refer to note 36 to the financial statements for further details.

### 33. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Guarantees given to banks in connection with: | | | | |
| Finance lease granted to certain subsidiaries disposed in previous years | **389** | 1,633 | **389** | 1,633 |

*Note:* During the year ended 31 March 2005, the Group disposed of certain of its subsidiaries (the "*Disposed Subsidiaries*"). At 31 March 2006 and 2007, the Company was still the guarantor in respect of the finance lease contracts of the Disposed Subsidiaries.

Pursuant to the agreements dated 21 March 2005 and 8 November 2004, the buyer of the Disposed Subsidiaries agreed to provide counter indemnities to the Company for its corporate guarantees provided to the Disposed Subsidiaries.

## 34. MATERIAL RELATED PARTY TRANSACTIONS

Remuneration for key personnel management, including amount paid to the Company's directors and certain of the highest paid employee, as disclosed in notes 11 and 12 to the financial statements, are as follows:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Salaries and allowance | **1,650** | 1,810 |
| Pension scheme contributions | **36** | 40 |
| | **1,686** | 1,850 |

## 35. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY

| Name of subsidiary | Place of incorporation and operations | Issued share capital/ paid-up capital | Proportion ownership interest held by the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| MFT Epping Trading Limited | British Virgin Islands/ The Republic of Congo | US$1 Ordinary | – | 100 | Trading of timber logs |
| LFP Engineering Limited* | Hong Kong | HK$200,000 Ordinary | – | 100 | Provision and installation of fire-rated timber door sets and the provision of interior decoration and renovation services |
| Giant Gold Investments Limited | British Virgin Islands | US$1 Ordinary | 100 | – | Investment holding |
| Profitown Venture Corporation | British Virgin Islands | US$200 Ordinary | 100 | – | Investment holding |
| Maxgold Far East Limited | British Virgin Islands/ Hong Kong | US$1 Ordinary | 100 | – | Investment holding |
| Triumph Bright International Ltd. | Hong Kong | HK$2 Ordinary | 100 | – | Investment holding |
| Team Jade Enterprises Limited | British Virgin Islands | US$1 Ordinary | 100 | – | Investment holding |

# Notes to Financial Statements (Continued)

31 March 2007

**35. PARTICULARS OF THE SUBSIDIARIES OF THE COMPANY** (Continued)

| Name of subsidiary | Place of incorporation and operations | Issued share capital/ paid-up capital | Proportion ownership interest held by the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Top Jade Limited | Hong Kong | HK$2 Ordinary | – | 100 | Investment holding |
| Youngrich Limited | British Virgin Islands | US$100 Ordinary | – | 100 | Investing in operations which receive the profit streams from the entertainment related business |

* Audited by another Hong Kong Certified Public Accountants.

**36. SUBSEQUENT EVENTS**

(a) Team Jade Enterprises Limited ("Team Jade"), a wholly subsidiary of the Company entered into a conditional sale and purchase agreement to acquire from Rich Game Capital Inc. ("Rich Game"), the entire issued share capital of Richsense Limited for a total consideration of HK$765,000,000. The conditional sale and purchase agreement was completed on 11 June 2007. The consideration for the acquisition was satisfied by Team Jade paying a refundable deposit of HK$419,421,000 to Rich Game; the issue of a convertible bond in a principal amount of HK$118,800,000 by the Company to Rich Game; the issue of the promissory notes in an aggregate principal amount of HK$200,000,000 by the Company to Rich Game; the allotment and issue of 17,560,000 new shares at an issue price of HK$1.525 per share by the Company to Rich Game, credited as fully paid for the balance of the consideration in sum of HK$26,779,000. Please refer to the Company's circular dated 22 May 2007 for details.

(b) On 8 June 2007, the Board also announced that the Company proposed to its name from "Teem Foundation Group Ltd." to "Dore Holdings Limited". The change of name is subject to (i) the passing of a special resolution by the Company's shareholders at a special general meeting of the Company to be convened to approve the change of name; and (ii) the approval by the Registrar of Companies in Bermuda.

**37. AUTHORISATION FOR ISSUE OF FINANCIAL STATEMENTS**

The financial statements were approved and authorised for issue by the board of directors on 22 June 2007.

# Investment Property

Particulars of investment property at 31 March 2007 are as follows:

| Address | Existing use | Category of lease | Percentage by the Group |
|---|---|---|---|
| Section A and B of Lot No. 391 in Demarcation District No. 131, Tuen Mun District, New Territories, Hong Kong | Commercial | Long-term lease | 100% |

# Summary Financial Information

31 March 2007

The summary of the combined published results of the Group for the year ended 31 March 2003, and of the assets and liabilities of the Group as at those dates has been extracted from the Company's prospectus dated 29 July 2003. The results of the Group for the year ended 31 March 2004 and the assets and liabilities of the Group at that date have been extracted from the Company's annual report dated 22 July 2004. The results of the Group for the year ended 31 March 2005 and the assets and liabilities of the Group at that date have been extracted from the Company's annual report dated 20 July 2006. The results of the Group for each of the two years ended 31 March 2006 and 2007 and the assets and liabilities of the Group at these dates are those set out on pages 34 and 35 of the financial statements, respectively. The summary of the consolidated/combined results, assets and liabilities of the Group includes the results, assets and liabilities of the Company and its subsidiaries as if the current structure of the Group had been in existence throughout the five years ended 31 March 2007.

| | Year ended 31 March | | | | |
|---|---|---|---|---|---|
| | **2007** | 2006 | 2005 | 2004 | 2003 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Turnover | **6,353** | 10,645 | 67,090 | 23,175 | 55,630 |
| Loss from operating activities | **(12,358)** | (15,279) | (11,188) | (13,942) | (2,375) |
| Share of results of an associate | **40,566** | – | – | 311 | – |
| Amortisation of goodwill | **–** | – | – | (610) | – |
| | **40,566** | – | – | (299) | – |
| Finance costs | **(7,136)** | (28) | (235) | (359) | (113) |
| Profit/(loss) before tax | **21,072** | (15,307) | (11,423) | (14,600) | (2,488) |
| Taxation | **16** | – | (180) | – | (480) |
| Net profit/(loss) from ordinary activities attributable to shareholders | **21,088** | (15,307) | (11,603) | (14,600) | (2,968) |
| Dividends | **17,911** | – | – | – | 13,440 |
| **Assets and liabilities** | At 31 March | | | | |
| Total assets | **976,796** | 47,322 | 66,022 | 91,414 | 98,417 |
| Total liabilities | **(381,850)** | (2,208) | (5,601) | (19,390) | (11,793) |
| Total equity | **594,946** | 45,114 | 60,421 | 72,024 | 86,624 |