

Notes to the Financial Statements

For the Year Ended 31st March, 2002

1. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants (“HKSA”). Adoption of these Standards has led to a number of changes in the Group’s accounting policies. The revised accounting policies are set out in note 2. In addition, the new and revised Standards have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts and disclosure for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised Standards has resulted in the following changes to the Group’s accounting policies that have affected the amounts and disclosure reported for the current or prior periods.

Goodwill

In adopting SSAP 30 “Business Combinations”, the Group has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or at such time further impairment losses are identified. Negative goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

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

The adoption of this revised accounting policy does not have any material impact on the operating results of the Group for the year.

Leases

The adoption of SSAP 14 (Revised) “Leases” has not resulted in any significant changes to the accounting treatment adopted for leases, accordingly no prior period adjustment has been required. Disclosure for the Group’s leasing arrangements has been modified so as to comply with the new requirements of SSAP 14 (Revised).

Notes to the Financial Statements

For the Year Ended 31st March, 2002

1. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 “Segment Reporting”. Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

(a) Basis of consolidation

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

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

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

(b) Goodwill/negative goodwill

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Goodwill/negative goodwill (continued)

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

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

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

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

(c) Investments in subsidiaries

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, plant and equipment

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

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

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

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

Certain of the Group's machinery and equipment are carried at valuation less depreciation. Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 "Property, Plant and Equipment" issued by the HKSA from the requirement to make regular revaluations of the Group's machinery and equipment, which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of such machinery and equipment is carried out. The revaluation increase arising on the revaluation of these assets in previous years was credited to the asset revaluation reserve. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

(e) Properties for development

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

(f) Properties for sale

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment

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

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

(h) Investments in securities

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

Investments in securities, other than held-to-maturity debt securities and securities held for an identified long-term strategic purpose, are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value.

(j) Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of subsidiaries which are denominated in currencies other than Hong Kong dollars, are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Operating leases

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

(l) Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

(m) Revenue recognition

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

(i) *Sale of properties*

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

(ii) *Rental income*

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

(iii) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

3. TURNOVER AND SEGMENT INFORMATION

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

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

	Turnover		Contribution to profit before taxation	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Property development and investment				
Sale of completed properties	627	4,761	77	1,131
Property letting	1,631	1,895	1,032	1,271
Disposal of land	–	–	(2,855)	–
	2,258	6,656		
Segment results			(1,746)	2,402
Other activities			19,292	36,263
Less: Unallocated administrative and other expenses			(17,040)	(29,519)
Finance costs			–	(4)
			506	9,142

Notes:

- (i) The Group's property development and investment activities were carried out in the PRC.
- (ii) Other activities comprise mainly of treasury activities, including investments in debt securities and money market funds operating in the United States of America and European countries and placement of bank deposits in Hong Kong.
- (iii) No depreciation or amortisation and other non-cash expenses are included in segment results.
- (iv) Interest income from bank deposits amounted to HK\$34,403,000 for the year ended 31st March, 2001, which was previously included in turnover, has been reclassified as other revenue to conform with the current year's presentation.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

3. TURNOVER AND SEGMENT INFORMATION (continued)

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

	Assets		Liabilities	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
The PRC				
Property development and investment	150,253	155,329	7,181	13,100
Hong Kong and other jurisdictions				
Other activities	595,124	586,368	–	–
	745,377	741,697	7,181	13,100
Unallocated assets/liabilities	106,974	115,644	29,032	30,141
	852,351	857,341	36,213	43,241

Notes:

- (i) The assets under other activities comprise mainly of debt securities and money market funds operating in the United States of America and European countries totalling HK\$358,129,000 (2001: Nil) and HK\$234,095,000 (2001: Nil) respectively and bank deposits placed in Hong Kong totalling HK\$2,900,000 (2001: HK\$586,368,000).
- (ii) Substantially all of the property, plant and equipment of the Group acquired in the year are located in Hong Kong. These additions are not attributable to any specific activities.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

4. OTHER REVENUE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Interest income from		
– investments in money market funds	13,054	–
– debt securities	986	–
– bank deposits	5,436	34,403
Exchange gains	–	1,005
Other income	19	855
	19,495	36,263

5. LOSS ON DISPOSAL OF LAND FOR DEVELOPMENT

During the year, a portion of the land in the PRC held by the Group was resumed by the local municipal government for the development of a highway project. The disposal, after deducting the compensation receivable by the Group, has given rise to a loss of HK\$2,855,000 (2001: Nil).

6. PROFIT FROM OPERATIONS

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	350	350
Depreciation and amortisation	4,104	3,891
Staff costs	6,663	5,777
Operating lease rentals in respect of land and buildings	600	708
Allowance for doubtful debts	–	552
Loss on disposal/write-offs of property, plant and equipment	52	1,155
Rental income less outgoings	(1,032)	(1,271)

Notes to the Financial Statements

For the Year Ended 31st March, 2002

7. FINANCE COSTS

The finance costs for the year ended 31st March, 2001 represent interest on finance leases and hire purchase contracts

8. OTHER NON-OPERATING CHARGES

The other non-operating charges for the year ended 31st March, 2001 represent provisions for warranties and undertakings given by the Group in connection with the disposal of its subsidiaries in prior years.

9. TAXATION

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

The taxation credit of the prior year represents overprovision of overseas taxation.

Details of the potential deferred taxation not provided for are set out in note 26.

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a profit of HK\$5,967,000 (2001: loss of HK\$1,550,000) dealt with in the financial statements of the Company.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

11. EARNINGS PER SHARE

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit attributable to shareholders for the purposes of basic and diluted earnings per share	506	9,959
	Number of shares	
	'000	'000
Number of ordinary shares for the purpose of basic earnings per share	1,664,643	1,664,643
Effect of dilutive potential ordinary shares – share options	12,413	N/A
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,677,056	N/A

Diluted earnings per share for the year ended 31st March, 2001 is not presented as there were no dilutive potential ordinary shares in issue during that year.

12. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

(a) Directors

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Directors' fees	200	200
Basic salaries, allowances and benefits-in-kind	6,583	5,006
Contributions to provident fund scheme	88	34
Total emoluments	6,871	5,240

Notes to the Financial Statements

For the Year Ended 31st March, 2002

12. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES (continued)

(a) Directors (continued)

The directors' fees of HK\$200,000 (2001: HK\$200,000) disclosed above were payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	2002	2001
	Number of directors	Number of directors
<i>HK\$</i>		
Nil – 1,000,000	2	4
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	–
	5	6

(b) Senior employees

Of the five individuals with the highest emoluments in the Group, three (2001: three) are directors of the Company, whose emoluments have been included above. The emoluments of the remaining two (2001: two) individuals, whose emoluments are individually below HK\$1,000,000, are as follows:

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, allowances and benefits-in-kind	559	553
Contributions to provident fund scheme	28	25
	587	578

Notes to the Financial Statements

For the Year Ended 31st March, 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Machinery, moulds and equipment <i>HK\$'000</i>	Furniture, fixtures and leasehold improve- ments <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP					
COST OR VALUATION					
At 1st April, 2001	86,685	32,928	21,896	5,293	146,802
Additions	–	24	147	680	851
Disposals/write-offs	–	–	(13,492)	(809)	(14,301)
At 31st March, 2002	86,685	32,952	8,551	5,164	133,352
Comprising:					
At cost	86,685	14,243	8,551	5,164	114,643
At 1987 professional valuation	–	18,709	–	–	18,709
	86,685	32,952	8,551	5,164	133,352
DEPRECIATION					
At 1st April, 2001	3,456	31,434	15,469	1,946	52,305
Provided for the year	1,380	1,267	687	770	4,104
Eliminated on disposals/write-offs	–	–	(13,492)	(637)	(14,129)
At 31st March, 2002	4,836	32,701	2,664	2,079	42,280
NET BOOK VALUES					
At 31st March, 2002	81,849	251	5,887	3,085	91,072
At 31st March, 2001	83,229	1,494	6,427	3,347	94,497

Notes to the Financial Statements

For the Year Ended 31st March, 2002

13. PROPERTY, PLANT AND EQUIPMENT (continued)

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Land and buildings in Hong Kong on:		
Long lease	76,374	77,433
Medium-term leases	5,475	5,796
	81,849	83,229

The Group's machinery and equipment which were revalued in 1987 would have no carrying value had these assets been carried in the financial statements at cost less depreciation (2001: Nil).

14. PROPERTIES FOR DEVELOPMENT

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Land use rights in the PRC on long lease:		
At cost	32,341	37,345
Less: Impairment loss recognised	(11,763)	(13,118)
	20,578	24,227

During the year, a portion of the land was resumed by the local municipal government as disclosed in note 5.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	261,810	261,810
Amounts due from subsidiaries less allowances	408,844	403,035
	670,654	664,845

The following list contains only the particulars of the subsidiaries at 31st March, 2002 which principally affect the results, assets or liabilities of the Group as the directors are of the opinion that a full list of all the subsidiaries would be of excessive length. All the following subsidiaries are wholly owned subsidiaries and, unless otherwise specified, are incorporated and operating in their place of incorporation/establishment. None of the subsidiaries had any loan capital outstanding at 31st March, 2002 or at any time during the year.

Name of company	Place of incorporation/ establishment	Paid up issued share capital/ registered capital	Principal activities
Direct subsidiary:			
Termbray Electronics (B.V.I.) Limited (i)	British Virgin Islands	100 ordinary shares of US\$1 each	Investment holding
Indirect subsidiary:			
Bow Yuen Industries Limited (ii)	Hong Kong	28,000 ordinary shares of HK\$1 each	Investment holding
Cong Hua White Swan Bow Yuen Real Estate Development Company Limited (iii)	PRC	Registered capital of US\$12,000,000	Property development
Ever Success Properties Limited (ii)	Hong Kong	100 ordinary shares of HK\$1 each	Investment holding
Termbray (China) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Investment holding

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15. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of incorporation/ establishment	Paid up issued share capital/ registered capital	Principal activities
Termbray (Fujian) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Property holding
Termbray (Guangzhou) Land Development Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	Property holding
Termbray Electronics Company Limited	Hong Kong	2 ordinary shares of HK\$100 each and 10,000 non-voting deferred shares of HK\$100 each	Investment holding and treasury activities
Zhongshan Ever Success Properties Limited (iv)	PRC	Registered capital of RMB1,500,000	Property development

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

16. INSTALMENTS RECEIVABLE

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Instalments receivable from property purchasers	1,145	2,683
Less: Amounts due within one year included in trade and other receivables	(411)	(1,701)
	734	982

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For the Year Ended 31st March, 2002

17. INVENTORIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Raw materials	191	191

The raw materials are stated at net realisable value.

18. TRADE AND OTHER RECEIVABLES

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

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
0 – 90 days	2,101	3,176
Over 90 days	275	766
	2,376	3,942

19. INVESTMENTS IN SECURITIES

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted debt securities	62,074	–

20. INVESTMENTS IN MONEY MARKET FUNDS

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

21. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

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

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Trade and other payables, aged over 90 days	4,448	8,047
Accrued charges	6,381	10,616
	10,829	18,663

22. PROVISIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Provisions for warranty and undertakings		
At beginning of the year	16,000	6,631
Additional provision made in the year	–	9,369
Utilised during the year	(2,273)	–
At end of the year	13,727	16,000

The provisions represent management's best estimate of the costs and expenses required to discharge the Group's obligations and liabilities under the warranties and undertakings given in connection with the disposal of subsidiaries in prior years. The timing of payment for such costs and expenses is dependent upon finalisation of certain matters requiring the approval of the PRC local authorities, therefore it is not practicable to estimate with certainty the timing of payment at this stage.

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For the Year Ended 31st March, 2002

23. SHARE CAPITAL

	2002 & 2001	
	Number of shares '000	Nominal value HK\$'000
THE GROUP AND THE COMPANY		
Ordinary shares of HK\$0.08 each		
Authorised	2,800,000	224,000
Issued and fully paid	1,664,643	133,171

(a) Ordinary shares

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

(b) Share options

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

Under the new share option scheme, the Company granted options to the directors during the year, at an aggregate consideration of HK\$2, to subscribe for 60,000,000 ordinary shares in the Company at the subscription price of HK\$0.261 per share exercisable during the period from 1st October, 2001 to 30th September, 2006. These options remained outstanding at 31st March, 2002.

Other than disclosed above, no options to subscribe for shares in the Company were granted, exercised, lapsed or cancelled during the year.

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For the Year Ended 31st March, 2002

24. RESERVES

	Share premium HK\$'000	Exchange equalisation reserve HK\$'000	Negative goodwill HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP						
At 1st April, 2000	132,550	(795)	6,601	–	531,913	670,269
Arising from translation of financial statements of subsidiaries	–	285	–	–	–	285
Net profit for the year	–	–	–	–	9,959	9,959
At 31st March, 2001	132,550	(510)	6,601	–	541,872	680,513
Arising from translation of financial statements of subsidiaries	–	54	–	–	–	54
Net profit for the year	–	–	–	–	506	506
Unclaimed dividends written back	–	–	–	–	1,478	1,478
At 31st March, 2002	132,550	(456)	6,601	–	543,856	682,551
THE COMPANY						
At 1st April, 2000	132,550	–	–	191,810	127,579	451,939
Net loss for the year	–	–	–	–	(1,550)	(1,550)
At 31st March, 2001	132,550	–	–	191,810	126,029	450,389
Net profit for the year	–	–	–	–	5,967	5,967
Unclaimed dividends written back	–	–	–	–	1,478	1,478
At 31st March, 2002	132,550	–	–	191,810	133,474	457,834

Notes:

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

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

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

24. RESERVES (continued)

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

	THE COMPANY	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Contributed surplus	191,810	191,810
Retained profits	133,474	126,029
	325,284	317,839

25. AMOUNTS DUE TO SUBSIDIARIES

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

26. DEFERRED TAXATION

At the balance sheet date, the major components of unprovided deferred tax liabilities (assets) are as follows:

	THE GROUP	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	445	1,492
Unutilised tax losses	(14,319)	(14,112)
	(13,874)	(12,620)

The deferred tax asset has not been recognised in the financial statements as it is not certain that the tax losses will be utilised in the foreseeable future.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

26. DEFERRED TAXATION (continued)

The amount of the unprovided deferred tax (credit) charge for the year is as follows:

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	(1,047)	1,410
Tax losses arising	(207)	(4,486)
	(1,254)	(3,076)

27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Profit before taxation	506	9,142
Depreciation of property, plant and equipment	4,104	3,891
Unrealised holding loss on investments in securities	203	–
Loss on disposal of land for development	2,855	–
Loss on disposals/write-offs of property, plant and equipment	52	1,155
Allowance for doubtful debts	–	552
Interest element of finance lease and hire purchase contract rental payments	–	4
Interest income	(19,476)	(34,403)
Decrease in properties for sale	550	3,630
Decrease in trade and other receivables, deposits and prepayments	(563)	7,695
Decrease in instalments receivable	1,538	3,304
Decrease in trade and other payables and accrued charges and deposits received	(5,850)	(2,777)
(Decrease) increase in provisions	(2,273)	9,369
Increase (decrease) in amount due to a related company	2,573	(13,374)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(15,781)	(11,812)

Notes to the Financial Statements

For the Year Ended 31st March, 2002

28. PROJECT COMMITMENTS

At the balance sheet date, the Group had contracted project commitments in respect of property development expenditure and purchase of land use rights in the PRC amounting to an aggregate of HK\$65,347,000 (2001: HK\$65,347,000) not provided for in the financial statements.

29. OPERATING LEASE COMMITMENTS

The Group as lessor

At the balance sheet date, the Group's properties held for sale with an aggregate carrying value of HK\$43,938,000 (2001: HK\$7,600,000) were let out under operating leases. All of the properties leased out have committed tenants for the next one to nine years without termination options.

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,590	248
In the second to fifth years inclusive	5,558	78
Over five years	6,423	–
	13,571	326

The Group as lessee

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

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Within one year	450	450

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

Notes to the Financial Statements

For the Year Ended 31st March, 2002

30. PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

Details of assets pledged to secure the Group's credit facilities granted to the Group and contingent liabilities outstanding at the balance sheet date are as follows:

- (a) The Group's bank deposits of approximately HK\$465,000 (2001: HK\$465,000) were pledged to secure the credit facilities granted to the Group.
- (b) Guarantees were issued to banks by a subsidiary in respect of mortgage loans granted to property purchasers amounted to approximately HK\$8,652,000 (2001: HK\$9,956,000) and, in this connection, the Group's bank deposits of HK\$5,701,000 (2001: HK\$2,204,000) were pledged to the banks as security.
- (c) In prior years, certain former subsidiaries of the Company purchased production materials for its printed circuit board manufacture activities amounted to approximately HK\$12,000,000 from an outside supplier. The production materials acquired were subsequently found to be defective and settlement of the purchases was therefore withheld by the former subsidiaries. A legal action for settlement of the purchases together with interest was taken by the supplier against these former subsidiaries. On the other hand, the said former subsidiaries instituted a legal action against the supplier claiming damages arising from the materials delivered by the supplier. In 1999, the said former subsidiaries were disposed of to outside parties. In connection with the disposal, the Group has undertaken to indemnify the purchasers the losses, if any, arising from the legal action taken by the supplier against the former subsidiaries. While the outcome of these proceedings cannot be estimated with certainty at this stage, based on legal advice obtained, the directors are of the opinion that the outcome of these cases would not have a material adverse impact on the financial position of the Group.
- (d) In connection with the disposal in 1999 of the subsidiaries engaged in the business of manufacture and sale of printed circuit boards, the Group has given warranties and undertakings to the purchaser as specified in the agreement for the disposal of these subsidiaries. During the year ended 31st March, 2001, the Group received notification from the purchaser raising claims against the Group arising from the warranties and undertakings. It is the intention of management to contest the claims vigorously. No legal proceedings have yet been instituted against the Group for these claims. Based upon legal advice obtained, management is of the opinion that such claims, if materialised, would not result in any material liabilities to the Group in excess of the amounts already provided for in the financial statements.

Notes to the Financial Statements

For the Year Ended 31st March, 2002

31. RELATED PARTY TRANSACTIONS

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

- (a) Panda Investment made advances to the Group which are unsecured and interest free with no fixed repayment terms. The balance of such advances outstanding at 31st March, 2002 was approximately HK\$8,078,000 (2001: HK\$5,505,000).
- (b) Pursuant to the tenancy agreements entered into between Panda Investment and a wholly-owned subsidiary of the Company, Termbray Electronics Company Limited (“Termbray Electronics”), Termbray Electronics leased certain office premises and warehouses from Panda Investment during the year at the agreed rental of HK\$600,000 (2001: HK\$600,000) per annum.

32. ULTIMATE HOLDING COMPANY

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