

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company as well as engaged in watch trading. The principal activities of its principal subsidiaries are set out in note 32 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 30.

An interim dividend of 2.5 Hong Kong cents per share was declared and paid to the shareholders during the year. A final dividend of 4 Hong Kong cents per share being proposed by the directors is subject to approval by the shareholders in the forthcoming annual general meeting.

RESERVES

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

Distributable reserves of the Company at 31st March, 2006, calculated under the Companies Act 1981 of Bermuda, amounted to HK\$188,407,000 (2004: HK\$196,672,000).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$14.1 million on the acquisition of furniture, fixtures and equipment. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Yeung Ming Biu (*Chairman*)
Yeung Him Kit, Dennis (*Managing Director*)
Chan Che Kwong, William (*Senior Director*)
Fung Kwong Yiu
Yeung Man Yee, Shirley
Lam Hing Lun, Alain
Choi Kwok Yum

Independent non-executive directors:

Sun Ping Hsu, Samson, Dr.
Li Sau Hung, Eddy, Dr.
So Kai Lau, Peter

In accordance with Clause 87 of the Company's Bye-laws, Mr. Yeung Ming Biu, Mr. Yeung Him Kit, Dennis, Mr. Chan Che Kwong, William and Ms. Yeung Man Yee, Shirley retire and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31st March, 2006, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (“SFO”), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) were as follows:

Name of director	Number of ordinary shares held				Total number of shares	Percentage of issued share capital of the Company
	Personal interest	Family interest	Corporate interest	Other interest		
Yeung Ming Biu	10,787,260	6,000,000	96,800,000	—	113,587,260	41.3%
			<i>Note (a)</i>			
Yeung Him Kit, Dennis	—	—	—	5,614,400	5,614,400	2.0%
				<i>Note (b)</i>		
Chan Che Kwong, William	622,515	—	—	9,709,436	10,331,951	3.8%
				<i>Note (c)</i>		
Fung Kwong Yiu	1,803,152	—	—	1,161,600	2,964,752	1.1%
				<i>Note (d)</i>		
Yeung Man Yee, Shirley	—	167,547	—	3,194,400	3,361,947	1.2%
				<i>Note (e)</i>		
Sun Ping Hsu, Samson, Dr.	—	—	2,000,000	—	2,000,000	0.7%
			<i>Note (f)</i>			

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(Continued)

Notes:

- (a) Mr. Yeung Ming Biu and his wife, Madam Au Po Kee, are the beneficial owners of 45% and 22.5% respectively of the issued share capital of Realtower Holdings Limited. Realtower Holdings Limited is the beneficial owner of 55% of the issued share capital of Furama Investments Limited, which is the beneficial owner of 80% of the issued share capital of Datsun Holdings Limited. Datsun Holdings Limited is the beneficial owner of 96,800,000 shares in the Company.
- (b) Mr. Yeung Him Kit, Dennis is the beneficial owner of 10% and 7% of the issued share capital of Realtower Holdings Limited and Real Champ Limited respectively. Real Champ Limited is the beneficial owner of 20% of the issued share capital of Datsun Holdings Limited.
- (c) Mr. Chan Che Kwong, William is the beneficial owner of 10% of the issued share capital of Furama Investments Limited and 10% of the issued share capital of Y.H. Chan Limited which is the beneficial owner of 25% of the issued share capital of Furama Investments Limited. Y.H. Chan Limited also directly holds 294,365 shares in the Company.
- (d) Mr. Fung Kwong Yiu is the beneficial owner of 6% of the issued share capital of Real Champ Limited.
- (e) Madam Yeung Man Yee, Shirley is the beneficial owner of 7.5% of the issued share capital of Realtower Holdings Limited.
- (f) Dr. Sun Ping Hsu, Samson and his family members are beneficial owners of the entire issued share capital of Sun International Limited, which is the beneficial owner of 2,000,000 shares in the Company.

Save as disclosed above, the paragraph "Share option scheme and directors' rights to acquire shares or debentures", and other than certain nominee shares in subsidiaries held by a director in trust for the Company, none of the directors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

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SHARE OPTION SCHEME AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 3rd November, 2003, the Company approved and adopted a Share Option Scheme.

The options of the Share Option Scheme may be granted to any director of the Company, employee, consultant, customer, supplier or advisor of the Company or a company in which the Company holds an interest or a subsidiary of such company (the "Eligible Persons"), the trustee of the Eligible Persons or a company beneficially owned by the Eligible Persons. The purpose of the Share Option Scheme is to attract and retain quality personnel and Eligible Persons to provide incentive to them to contribute to the business and operation of the Company. The total number of shares available for issue under the Share Option Scheme is 27,525,320 shares, representing 10% of the issued share capital of the Company as at the date of this report. No Eligible Persons shall be granted an option in any 12-month period for such number of shares (issued and to be issued) which in aggregate would exceed 1% of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The exercisable period is determined by the directors, which shall not be more than 10 years from the date of grant. There is no general applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be open for acceptance in writing or by telex received by the secretary of the Company for a period of 21 days from the Eligible Persons without paying any consideration upon the acceptance of the offer. The exercise price per share payable on the exercise of an option equal to the highest of:

- (a) the average closing price per share as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme;
- (b) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the nominal value of the share.

The Share Option Scheme is valid for a period of ten years commencing on the adoption date on 3rd November, 2003.

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SHARE OPTION SCHEME AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

A summary of the share options outstanding under the Company's share option scheme are as follows:

Name of director	Date of grant	Exercisable period	Number of share options and number of underlying shares	
			Exercise price per share <i>HK\$</i>	At 1.4.2005 and at 31.3.2006
Yeung Ming Biu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Yeung Him Kit, Dennis	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Chan Che Kwong, William	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Fung Kwong Yiu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Yeung Man Yee, Shirley	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Lam Hing Lun, Alain	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Choi Kwok Yum	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
				<u>18,900,000</u>

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2006, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

(1) Long position in shares of the Company

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Datsun Holdings Limited	96,800,000	35.2%
Furama Investments Limited	96,800,000	35.2%
Realtower Holdings Limited	96,800,000	35.2%

Realtower Holdings Limited holds 55% of the issued share capital of Furama Investments Limited which holds 80% of the issued share capital of Datsun Holdings Limited. Accordingly, both Realtower Holdings Limited and Furama Investments Limited are deemed under the SFO to be interested in the 96,800,000 shares in the Company which are held by Datsun Holdings Limited.

Messrs. Yeung Ming Bui, Yeung Him Kit, Dennis, Chan Che Kwong, William and Fung Kwong Yiu, Madam Yeung Man Yee, Shirley and Madam Au Po Kee (wife of Mr. Yeung Ming Bui) are deemed by the SFO to be interested in the shares of the Company beneficially owned by Datsun Holdings Limited in the manner described under the above paragraph headed "Directors' interests and short positions in securities".

(2) Short positions

Save as disclosed above, at 31st March, 2006, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 96% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 82% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued capital, had any interest in the share capital of any of the five largest suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$29,000.

CORPORATE GOVERNANCE

Principal corporate governance practice as adopted by the Group are set out in the Statement of Corporate Governance on pages 9 to 19.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 27 to the financial statements.

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AUDIT COMMITTEE AND REMUNERATION COMMITTEE

Details of the Group's audit committee and remuneration committee are set out in the Statement of Corporate Governance on pages 14 to 16.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this annual report, the percentage of the Company's share which are in the hands of the public exceeds 25% of the Company's total number of issued shares throughout the year ended 31st March, 2006.

AUDITORS

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

On behalf of the Board

Yeung Ming Bui

Chairman

Hong Kong, 19th July, 2006