Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and acts as an investment holding company as well as engaged in watch trading. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The consolidated financial statements are presented in Hong Kong dollars which is the same as the functional currency of the Company while Hong Kong dollars and Renminbi ("RMB") are the functional currencies of the subsidiaries.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), Hong Kong Accounting Standards ("HKAS"s) and Interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005, except for HKAS 40 "Investment property" which had been early adopted by the Group for the year ended 31st March, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations

HKFRS 3 "Business combinations" is effective for business combinations for which the agreement date is on or after 1st January, 2005. The Group has not entered into any agreement between the period from 1st January, 2005 to 31st March, 2005. On 1st April, 2005, the Group has applied the transitional provisions of HKFRS 3. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st April, 2005 (of which negative goodwill of HK$3,222,000 was previously presented as a deduction from assets). A corresponding adjustment to the Group's retained profits of HK$3,222,000 has been made.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model and revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. The adoption of this Standard has had no material effect on how the result for the current or prior accounting years are prepared and presented.

Share-based payments

In the current year, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions") or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The Group has granted share options to certain participants to subscribe for shares of the Company in accordance with the Company's share options scheme. Prior to 1st April, 2005, the Group did not recognise the financial effect of the share options until the share options were exercised. The Group has applied HKFRS 2 to share options granted on or after 1st April, 2005. In relation to share options granted before 1st April, 2005, the Group has not applied HKFRS 2 to share options granted on or before 7th November, 2002 and share options that were granted after 7th November, 2002 and had vested before 1st April, 2005 in accordance with the relevant transitional provisions. The Group had no share options granted after 7th November, 2002 and had not yet vested on 1st April, 2005, and accordingly, no retrospective restatement is required.

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects of the application of HKAS 39 to the Group are summarised below:

Classification and measurement of financial assets and financial liabilities

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

Debt and equity securities previously accounted for under benchmark treatment of SSAP 24

By 31st March, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st April, 2005 onwards, the Group has classified and measured its investments in debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. The Group has applied the transitional rules in HKAS 39. At 1st April, 2005, the Group reclassified its investments in securities with a carrying amount of HK$20,504,000 to available-for-sale financial assets and HK$8,690,000 to held-to-maturity financial assets. There is no effect on the retained profits of the Group as at 1st April, 2005.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

2. APPLICATION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Financial instruments *(Continued)*

Financial assets and financial liabilities other than debt and equity securities

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

Convertible notes receivables

Convertible notes receivables held by the Group are separately disclosed into loan portion and conversion option derivative on initial recognition. On initial recognition, the fair value of the loan portion is determined using the prevailing market interest of similar non-convertible debts. The difference between the principal amount of the convertible notes receivables and the fair value of the loan portion will be treated as conversion option derivative.

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

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Gain arising from changes in fair value of conversion option derivatives	**2,374**	—
Imputed interest income from convertible notes receivables	**23**	—
Decrease in negative goodwill released to income statement	**(202)**	—
Increase in profit for the year	**2,195**	—

The cumulative effects of the application of the new HKFRSs at 31st March, 2005 and 1st April, 2005 are summarised below:

	As at 31st March, 2005 (Originally stated)	**Adjustments**	**As at 1st April, 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*
Balance sheet items			
Impact of HKFRS 3:			
Negative goodwill *(note a)*	(3,222)	3,222	—
Impact of HKAS 39:			
Investments in securities *(note b)*	29,194	(29,194)	—
Held-to-maturity financial assets *(note b)*	—	8,690	8,690
Available-for-sale financial assets *(note b)*	—	20,504	20,504
Total effects on assets and liabilities	25,972	3,222	29,194
Retained profits	617,027	3,222	620,249
Total effects on equity	617,027	3,222	620,249

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Notes:

(a) Upon application of the transitional provisions of HKFRS 3, the Group has derecognised all negative goodwill at 1st April, 2005, which was previously presented as a deduction from assets, with a corresponding increase to retained profits.

(b) Upon the adoption of HKAS 39, investments in securities were reclassified as held-to-maturity financial assets and available-for-sale financial assets.

The Group has not early applied the following new Standards, INTs and amendments that have been issued but are not yet effective.

The Group has commenced considering the potential impact of these Standards, INTs and amendments. The management anticipates the application of these new Standards, INTs and amendments will have no material impact on the Group's consolidated financial statements.

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

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

Notes: (Continued)

1 Effective for annual periods beginning on or after 1st January, 2007.

2 Effective for annual periods beginning on or after 1st January, 2006.

3 Effective for annual periods beginning on or after 1st December, 2005.

4 Effective for annual periods beginning on or after 1st March, 2006.

5 Effective for annual periods beginning on or after 1st May, 2006.

6 Effective for annual periods beginning on or after 1st June, 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset 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.

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

Income from investments is recognised when the Group's rights to receive payment have been established.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties

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

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

Property, plant and equipment

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

Certain land and buildings which were previously classified as investment properties are stated at their valuation immediately prior to transfer. No further valuation will be carried out on these land and buildings.

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

The cost or valuation of leasehold land and buildings is depreciated over the period of the lease or over their estimated useful lives of 30 years or 50 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the rate of 20% per annum.

Inventories

Inventories, which are all finished goods, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

Financial assets

The Group's financial assets are classified into three categories, including financial assets at fair value through profit or loss, loan and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

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 at fair value through profit or loss on initial recognition. 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 profit or loss 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 and other receivables, convertible notes receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment 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.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

***Financial assets** (Continued)*

Available-for-sale financial assets

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and short-term deposits with an original maturity of not more than three months.

Financial liabilities and equity

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Financial liabilities

Financial liabilities including trade and other payables, long-term bank loans, short-term bank loans and bank overdrafts are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Embedded derivatives and derivatives

Derivatives embedded in non-derivative host contracts are separated from the relevant host contracts and deemed as held-for-trading when the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contracts, and the combined contracts are not measured at fair value through profit or loss. In all other circumstances, derivatives embedded are not separated and are accounted for together with the host contracts in accordance with appropriate standards. Where the Group needs to separate an embedded derivative but is unable to measure the embedded derivative, the entire combined contracts are treated as held-for-trading.

Derivatives (including embedded derivatives which are separated from non-derivative host contracts) that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

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 profit or loss.

For financial liabilities, they are removed from the Group's consolidated balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

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 expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the assets 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 immediately.

Taxation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss 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 purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the year, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (translation reserve). Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Operating leases

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

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include convertible notes receivables, available-for-sale financial assets, conversion option derivative, trade and other receivables, pledged bank deposits, bank balances, trade and other payables, bank loans and bank overdrafts. 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.

Currency risk

The Group has minimal currency exposure as the majority of all sales were denominated in the functional currency of the relevant group entities. The management conducted periodical review of exposure and requirements of various currencies, and will consider hedging significant foreign currency exposures should the need arises.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies and state-owned banks with good reputation.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(Continued)

Interest rate risk

The Group has exposed to both fair value interest rate risk and cash flows interest rate risk through the impact of the rate changes on bank balances, fixed interest rate bank borrowings and floating interest rate bank borrowings respectively.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Price risk

The Group's available-for-sale investments are measured at fair value, except for those unlisted equity investments of which fair values cannot be measured reliably, at the balance sheet date. Therefore, the Group is exposed to equity price risk.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

6. TURNOVER AND SEGMENT INFORMATION

Turnover

Turnover represents amounts received and receivable net of discount for goods sold by the Group to outside customers during the year.

Business segments

The Group's operations is regarded as a single segment, being an enterprise engaged in watch trading.

Geographical segments

The Group's operations are located in Hong Kong and Mainland China (the "PRC"), representing the basis on which the Group reports its primary segment information. In determining the Group's geographical segments, revenues are attributed to the segment based on the location of the customers, and assets are attributed to the segments based on the location of the assets. The following table provides an analysis of the Group's geographical segment information.

	Turnover		**Results**	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,654,842**	1,857,567	**67,034**	78,738
PRC	**367,539**	305,360	**16,594**	12,302
Inter-segment sales elimination	**—**	(121,117)	**—**	—
	2,022,381	2,041,810	**83,628**	91,040
Unallocated other income			**2,398**	202
Unallocated corporate expenses			**(1,314)**	(299)
Finance costs			**(5,343)**	(2,435)
Profit before taxation			**79,369**	88,508
Taxation			**(14,098)**	(14,514)
Profit for the year			**65,271**	73,994

Inter-segment sales are charged at the prevailing market rate.

6. TURNOVER AND SEGMENT INFORMATION *(Continued)*

BALANCE SHEET

	Segment assets		Segment liabilities	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**706,022**	699,834	**65,454**	92,400
PRC	**273,044**	182,352	**32,327**	6,682
	979,066	882,186	**97,781**	99,082
Unallocated	**77,812**	17,403	**194,505**	85,919
	1,056,878	899,589	**292,286**	185,001

OTHER INFORMATION

	Capital additions		Depreciation	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**4,006**	28,333	**3,554**	4,335
PRC	**9,578**	6,744	**6,110**	1,958
Unallocated	**495**	—	**370**	—
	14,079	35,077	**10,034**	6,293

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

7. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on		
— a finance lease	**—**	(21)
— bank borrowings wholly repayable within five years	**(4,712)**	(2,358)
— bank borrowings not wholly repayable within five years	**(631)**	(56)
	(5,343)	(2,435)

8. PROFIT BEFORE TAXATION

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' remuneration *(note 9)*	**18,481**	18,948
Other staff's retirement benefits scheme contributions, net of negligible forfeited contributions	**3,906**	2,347
Other staff costs	**44,559**	41,030
	66,946	62,325
Amortisation of premium on acquisition of held-to-maturity securities included in administrative expenses	**—**	54
Auditors' remuneration	**1,400**	1,261
Depreciation of investment properties	**400**	200
Depreciation of property, plant and equipment	**10,034**	6,093
Loss on disposal of property, plant and equipment	**1,040**	6
Operating lease rentals in respect of rented premises	**21,586**	14,411
and after crediting:		
Gain on disposal of available-for-sale financial assets	**221**	—
Gross property rental income before deduction of negligible outgoings	**960**	320
Imputed interest income from convertible notes receivables	**23**	—
Income from available-for-sale financial assets	**203**	—
Interest income	**1,443**	1,046
Release of negative goodwill to income statement	**—**	202
Unrealised gain on listed trading securities	**—**	120

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2005: 10) directors were as follows.

Name of director	Mr. Yeung Ming Biu	Mr. Yeung Him Kit, Dennis	Mr. Chan Che Kwong, William	Mr. Fung Kwong Yiu	Madam Yeung Man Yee, Shirley	Mr. Lam Hing Lun, Alain	Mr. Choi Kwok Yum	Dr. Sun Ping Hsu, Samson	Dr. Li Sau Hing, Eddy	Mr. So Kai Lau, Peter	2006 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	—	—	—	108	108	108	324
Other emoluments											
— salaries and other benefits	2,883	1,405	1,200	2,078	456	1,049	1,287	—	—	—	10,358
— retirement benefits scheme contributions	393	137	119	311	43	95	152	—	—	—	1,250
— performance-related incentive bonus	1,129	1,129	1,129	1,129	1,129	452	452	—	—	—	6,549
Total emoluments	4,405	2,671	2,448	3,518	1,628	1,596	1,891	108	108	108	18,481

Name of director	Mr. Yeung Ming Biu	Mr. Yeung Him Kit, Dennis	Mr. Chan Che Kwong, William	Mr. Fung Kwong Yiu	Madam Yeung Man Yee, Shirley	Mr. Lam Hing Lun, Alain	Mr. Choi Kwok Yum	Dr. Sun Ping Hsu, Samson	Dr. Li Sau Hing, Eddy	Mr. So Kai Lau, Peter	2005 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	—	—	—	—	—	—	—	108	108	—	216
Other emoluments											
— salaries and other benefits	2,834	1,342	1,284	2,236	394	1,024	1,090	—	—	—	10,204
— retirement benefits scheme contributions	392	137	119	310	42	95	149	—	—	—	1,244
— performance-related incentive bonus	1,194	1,194	1,194	1,194	1,194	553	761	—	—	—	7,284
Total emoluments	4,420	2,673	2,597	3,740	1,630	1,672	2,000	108	108	—	18,948

All the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments were disclosed above.

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during both years.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

10. TAXATION

	2006 *HK$'000*	2005 *HK$'000*
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	**(11,373)**	(12,798)
Overprovision in prior years	**—**	142
	(11,373)	(12,656)
PRC income tax	**(2,725)**	(1,858)
	(14,098)	(14,514)

The PRC income tax is calculated at the rates prevailing pursuant to the relevant laws and regulations.

The charge for the year is reconciled to the profit before taxation as follows:

	2006		2005	
	HK$'000	%	*HK$'000*	%
Profit before taxation	**79,369**		88,508	
Tax at the applicable income tax rate	**(13,890)**	**(17.5)**	(15,489)	(17.5)
Tax effect of expenses not deductible for tax purposes	**(112)**	**(0.2)**	(27)	—
Tax effect of income not taxable for tax purposes	**381**	**0.5**	216	0.2
Utilisation of tax losses not previously recognised	**40**	**0.1**	794	0.9
Effect of different tax rates for subsidiaries operating in the PRC	**(236)**	**(0.3)**	(259)	(0.3)
Others	**(281)**	**(0.4)**	109	0.1
Overprovision in prior years	**—**	**—**	142	0.2
Tax charge and effective tax rate for the year	**(14,098)**	**(17.8)**	(14,514)	(16.4)

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

11. DIVIDENDS

The final dividend proposed for the year ended 31st March, 2006 is calculated on the basis of 275,253,200 shares in issue as at the date of this report.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year is based on profit for the year of HK$65,271,000 (2005: HK$73,994,000) and number of shares of 275,253,200 (2005: 275,253,200).

No diluted earnings per share was presented because the exercise price of the Company's options was higher than the average market price of the Company's shares during the year.

	Impact on basic earnings per share	
	2006	2005
	HK cents	*HK cents*
Impact of changes in accounting policies:		
Figures before adjustments	**22.91**	26.88
Adjustments arising from changes in accounting policies	**0.80**	—
As reported	**23.71**	26.88

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

13. INVESTMENT PROPERTIES

	HK$'000
COST	
At 1st April, 2004	—
Additions	25,457
At 31st March, 2005 and 31st March, 2006	25,457
DEPRECIATION	
At 1st April, 2004	—
Provided for the year	200
At 31st March, 2005	200
Provided for the year	400
At 31st March, 2006	600
CARRYING VALUE	
At 31st March, 2006	24,857
At 31st March, 2005	25,257

The investment properties which are rented out under operating leases are situated in Hong Kong and are held under long leases. They have been pledged to a bank to secure the credit facilities granted to the Group. The fair value of the Group's investment properties at 31st March, 2006 was HK$27,400,000, representing the valuation carried out by RHL Appraisal Ltd., an independent firm of professional valuers, on an open market value basis. The valuation which conforms to International Valuation Standards, was determined by reference to market evidence of transaction prices for similar properties.

There was no allocation between the land portion and building portion for the above investment properties as it cannot be made reliably. The above investment properties are depreciated on a straight line basis at approximate 1.59% per annum.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION				
At 1st April, 2004	70,096	44,413	2,653	117,162
Additions	24	8,955	641	9,620
Disposals	—	—	(296)	(296)
At 31st March, 2005	70,120	53,368	2,998	126,486
Exchange adjustments	19	129	8	156
Additions	—	14,079	—	14,079
Disposals	—	(1,499)	—	(1,499)
At 31st March, 2006	70,139	66,077	3,006	139,222
Comprising:				
At cost	68,039	66,077	3,006	137,122
At valuation — 1996	2,100	—	—	2,100
	70,139	66,077	3,006	139,222
DEPRECIATION AND AMORTISATION				
At 1st April, 2004	6,946	28,089	1,631	36,666
Provided for the year	661	5,150	282	6,093
Eliminated on disposals	—	—	(175)	(175)
At 31st March, 2005	7,607	33,239	1,738	42,584
Exchange adjustments	2	45	2	49
Provided for the year	664	9,155	215	10,034
Eliminated on disposals	—	(459)	—	(459)
At 31st March, 2006	8,273	41,980	1,955	52,208
NET BOOK VALUES				
At 31st March, 2006	61,866	24,097	1,051	87,014
At 31st March, 2005	62,513	20,129	1,260	83,902

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

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

Owner-occupied leasehold land is included in property, plant and equipment because the allocation between the land portion and building portion cannot be made reliably.

	2006	2005
	HK$'000	*HK$'000*
The net book value of property interests comprises:		
Properties held under		
— long leases in Hong Kong	**60,986**	61,619
— medium-term lease in the PRC	**881**	894
	61,867	62,513

The land and buildings stated at valuation were valued at 31st March, 1996 by an independent firm of professional property valuers on an open market value basis before being transferred from investment properties. No further valuation will be carried out on these land and buildings.

15. NEGATIVE GOODWILL

	HK$'000
GROSS AMOUNT	
At 1st April, 2004 and 31st March, 2005	4,028
RELEASED TO INCOME	
At 1st April, 2004	604
Released in the year	202
At 31st March, 2005	806
CARRYING VALUE	
At 31st March, 2005	3,222
Derecognised and adjusted to retained profits upon the application of HKFRS 3	(3,222)
At 1st April, 2005 and 31st March, 2006	—

As explained in note 3, all negative goodwill arising on acquisition prior to 1st April, 2005 was derecognised as a result of the application of HKFRS 3.

16. CONVERTIBLE NOTES RECEIVABLES

	2006	2005
	HK$'000	*HK$'000*
Unlisted convertible notes		
— loan portion	**1,637**	—
— conversion option derivative, at fair value	**2,760**	—
	4,397	—

At 31st March, 2006, the Group held convertible notes with a principal amount of HK$2,000,000 which was issued by a company with its shares listed on the Growth Enterprise Market of the Stock Exchange. The convertible notes are carrying at coupon rate of 4% per annum and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of that company at a conversion price of HK$0.268 per share in the defined period. The convertible note receivables carried an effective interest rate at 7% per annum.

The convertible notes can only be redeemed by the issuer at its face value on the maturity date of the convertible notes in January 2009 to the extent of the amount not previously converted.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006
	HK$'000
Listed investments	
— equity securities listed in Hong Kong *(note a)*	**221**
Unlisted investments	
— managed fund portfolio *(note b)*	**8,085**
— equity securities *(note c)*	**53,230**
	61,536

In the current year, the Group disposed of certain listed and unlisted equity securities with carrying amount of HK$663,000 and HK$11,690,000 respectively. The listed securities were disposed at carrying value and no gain or loss was recognised. The unlisted equity securities were disposed with a gain of HK$221,000 which had been recognised in the income statement for the year.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(Continued)*

Notes:

a. As at the balance sheet date, all the equity securities listed in Hong Kong are stated at fair values, which have been determined by reference to bid prices quoted in active markets i.e. market value.

b. The managed fund portfolio is managed by professional investment managers and this portfolio mainly comprises investment properties. The fund was stated at fair value quoted by the relevant bank.

c. The above unlisted equity securities were issued by private entities. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

18. INVESTMENTS IN SECURITIES

Investments in securities as at 31st March, 2005 are set out below. Upon the application of HKAS 39 on 1st April, 2005, investments in securities were reclassified to appropriate categories under HKAS 39 *(see note 3 for details)*.

	2005 *HK$'000*
Quoted held-to-maturity debt securities	8,906
Less: Amortisation of premium on acquisition	(216)
	8,690
Investment securities	
— overseas unlisted shares	11,744
Trading securities	
— Hong Kong listed shares	978
— quoted overseas investment funds	7,782
Shown under non-current assets	29,194
Market value of listed/quoted investments at 31st March, 2005	17,930

19. TRADE AND OTHER RECEIVABLES

	2006 *HK$'000*	2005 *HK$'000*
Trade receivables	**57,606**	44,813
Other receivables	**39,319**	22,274
	96,925	67,087

The Group maintains a general credit policy of not more than 30 days for its established and major customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2006 *HK$'000*	2005 *HK$'000*
Age		
0 to 30 days	**53,094**	43,819
31 to 60 days	**4,399**	727
61 to 90 days	**96**	—
Over 90 days	**17**	267
	57,606	44,813

The directors consider the carrying amount of trade and other receivables approximates its fair value.

20. PLEDGE OF BANK DEPOSITS

At 31st March, 2005, the Group pledged a fixed deposit of HK$3,150,000 which carried interest at 0.72% to a bank in respect of the credit facilities granted by this bank to the Company.

21. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at effective interest rate of 1.2% per annum. The directors consider the carrying amount of the Group's bank balances at 31st March, 2006 approximates its fair value.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

22. TRADE AND OTHER PAYABLES

	2006	2005
	HK$'000	*HK$'000*
Trade payables	**80,674**	74,419
Other payables	**17,044**	19,108
	97,718	93,527

The following is an aged analysis of trade payables at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Age		
0 to 60 days	**71,225**	72,984
61 to 90 days	**4,921**	911
Over 90 days	**4,528**	524
	80,674	74,419

The directors consider the carrying amount of trade and other payables approximates its fair value.

23. SECURED LONG-TERM BANK LOANS

	2006	2005
	HK$'000	*HK$'000*
The bank loans are repayable as follows:		
Within one year	**980**	980
Between one to two years	**980**	980
Between two to five years	**2,940**	2,940
After five years	**8,493**	9,473
	13,393	14,373
Less: Amount due within one year shown under current liabilities	**980**	980
Amount due after one year	**12,413**	13,393

23. SECURED LONG-TERM BANK LOANS *(Continued)*

At the balance sheet date, the Group has pledged its investment properties to a bank to secure the bank loans granted to the Group.

All the bank loans are denominated in Hong Kong dollars and carry interest at Hong Kong Inter-Bank Offered Rate ("HIBOR") plus 0.6% per annum.

The directors of the Group consider the fair value of the Group's bank loans approximates to their carrying amounts.

24. SHORT-TERM BANK LOANS

	2006	2005
	HK$'000	*HK$'000*
Short-term bank loans		
— secured	**—**	2,830
— unsecured	**173,251**	66,038
	173,251	68,868

As at 31st March, 2005, the short-term bank loans were secured by pledged bank deposits *(see note 20)*.

Bank loans of HK$125,385,000 (2005: HK$11,841,000) are denominated in Hong Kong dollars and carry interest at a range from HIBOR plus 0.6% to 0.8% per annum (2005: HIBOR plus 0.6%).

Other bank loans are denominated in RMB and carry interest at a range from 5.24% to 5.57% per annum (2005: 5.24%).

The directors of the Group consider the fair value of the Group's short-term bank loans approximates their carrying amounts.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

25. DEFERRED TAXATION

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation
	HK$'000
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	141

At the balance sheet date, the Group has unutilised tax losses of HK$11,541,000 (2005: HK$8,771,000) available to set off against future assessable profits. No deferred tax asset has been recognised in respect of these unutilised tax losses due to the unpredictability of future profit stream. These tax losses of the Group may be carried forward indefinitely except for HK$4,286,000 (2005: HK$1,762,000) which may only be carried forward for a maximum of five years.

26. SHARE CAPITAL

	Number of ordinary shares	**Amount**
	2006 & 2005	**2006 & 2005**
		HK$'000
Ordinary shares of HK$0.10 each		
— authorised	500,000,000	50,000
— issued and fully paid	275,253,200	27,525

27. SHARE OPTIONS

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 Group 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 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.

On 16th January, 2004, 18,900,000 share options were granted to certain directors of the Company under the Company's Share Option Scheme at an exercise price of HK$1.702. These share options were exercisable for the period from 16th January, 2004 to 15th January, 2014. No options were exercised after the grant date. The number of share options outstanding under the Share Option Scheme at 31st March, 2005 and 31st March, 2006 were 18,900,000.

The Group had no share options granted after 7th November, 2002 and had not yet vested on 1st April, 2005, and accordingly, no retrospective restatement is required.

Notes to the Consolidated Financial Statements

For the year ended 31st March, 2006

28. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group was committed to make the following future minimum leases payments in respect of rented premises under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**20,086**	13,142
In the second to fifth year inclusive	**25,857**	10,898
After five years	**897**	58
	46,840	24,098

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties let:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**675**	960
In the second to fifth year inclusive	**—**	560
	675	1,520

29. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	*HK$'000*
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**2,155**	873

30. RETIREMENT BENEFITS SCHEMES

The Group principally operates defined contribution retirement schemes for all qualifying employees, including directors. The assets of the schemes are held separately from those of the Group in funds under the control of independent trustees.

The retirement scheme cost represents contributions payable to the funds by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group operates a Mandatory Provident Fund Scheme (the "MPF" Scheme) for all qualifying employees in Hong Kong. All qualifying employees are required to participate in the MPF Scheme. Mandatory benefits are being provided under the MPF Scheme.

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

31. RELATED PARTY TRANSACTIONS

The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 9.

Notes to the Consolidated Financial Statements

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32. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies and are wholly-owned by the Company, at 31st March, 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
Cathay Watch Company Limited	Hong Kong	HK$1,000	Watch trading
Fenmount International Limited	British Virgin Islands/PRC	US$1	Watch trading
Golden Advance Developments Limited	Hong Kong	HK$1	Property holding
La Suisse Watch Company, Limited	Hong Kong	HK$1,000	Watch trading
Oriental Watch Company Limited	Hong Kong	HK$1,000	Watch trading
Oriental Watch (China) Company Limited *	Hong Kong	HK$1,000	Watch trading and investment holding
Unex Development Limited *	Hong Kong	HK$2	Property holding
上海東舫表行國際貿易有限公司 (Shanghai Oriental Watch International Trading Co., Ltd.) *	PRC	US$200,000	Watch trading for a term of 50 years commencing 3rd January, 2001
上海嶠師貿易有限公司 (Qiaoshi Trading Company Limited)	PRC	RMB500,000	Watch trading for a term of 10 years commencing 19th August, 2004

32. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid share capital/ registered capital	Principal activities
上海時分秒貿易有限公司 (Shanghai Key Machine Trading Company Limited) *	PRC	US$200,000	Watch trading for a term of 50 years commencing 17th October, 2003
東方表行 (中國) 貿易有限公司 (Oriental Watch (China) Trading Limited) *	PRC	US$14,500,000/ US$29,000,000	Watch trading for a term of 30 years commencing 14th June, 2005

* *Indirectly held by the Company.*

Shanghai Oriental Watch International Trading Co., Ltd., Qiaoshi Trading Company Limited, Shanghai Key Machine Trading Company Limited and Oriental Watch (China) Trading Limited are wholly foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.