NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st March, 2006

1. GENERAL

The Company is a limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal office of the Company are disclosed in the section of "Corporate Information" to this Annual Report.

The financial statements are presented in Hong Kong Dollars, which is the same as the functional currency of the Company.

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 23.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("INT") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1st January, 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. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also 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:

(i) Share-based payments

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

(a) all options granted to employees on or before 7th November, 2002; and

(b) all options granted to employees after 7th November, 2002 but which had vested before 1st April, 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(i) Share-based payments (continued)

No adjustments to the opening balances as at 1st April, 2004 are required as no options existed at that time which were unvested at 1st April, 2005.

Details of the share option schemes are set out in note 32.

(ii) Amortisation of positive and negative goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior years:

– positive or negative goodwill which arose prior to 1st January, 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

– positive goodwill which arose on or after 1st January, 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

– negative goodwill which arose on or after 1st January, 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from accounting period commencing from 1st January, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in profit or loss as it arises. Further details of these new policies are set out in note 4(f).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31st March, 2006 are set out in note 3.

Also in accordance with the transitional arrangements under HKFRS 3, goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1st January, 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

The change in policy relating to negative goodwill had no effect on the financial statements as there was no negative goodwill deferred as at 31st March, 2005.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(iii) Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application whereas HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for accounting 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 adoption of HKAS 32 has had no material effect on the Group's accumulated losses. The principal effects on the Group as a result of implementation of HKAS 39 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 classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Financial assets and financial liabilities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities in accordance with the requirements of HKAS 39. 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. The adoption of HKAS 39 has had no material effect on the Group's accumulated losses.

Convertible Notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into the liability and equity components on its initial recognition and to account for these components separately.

In subsequent periods, the liability component as carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Given the convertible notes of the Company contain only liability components and was previously classified as liabilities on the balance sheet, comparative figures need not be restated. The fair value of the Convertible Notes at 31st March, 2006 approximated the corresponding carrying amount in accordance with a valuation report prepared by an independent valuer.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(iv) Leasehold land and buildings (HKAS 17, Leases)

Leasehold land and buildings held for own use

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the land and buildings revaluation reserve.

With effect from accounting period commencing from 1st January, 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the cost of the interest in any buildings situated on the leasehold land could be measured separately from the cost of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

Further details of the new policy are set out in notes 4(d) and 4(p).

(v) Investment property (HKAS 40, Investment property and HKAS Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years, land (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the valuation model in SSAP 17, *Property, plant and equipment,* whereby the land was carried at fair value, with any movements in the fair value of the land being normally taken to the land and buildings revaluation reserve, net of deferred tax thereon.

Upon adoption of HKAS 40 as from accounting period commencing from 1st January, 2005, the Group has adopted a new policy for investment property. Under this new policy:

– all changes in the fair value of investment property are recognised directly in the income statement ("profit or loss") in accordance with the fair value model in HKAS 40; and

– land held for an undetermined future purpose is recognised as investment property if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease.

Further details of the new policy for investment property are set out in note 4(e).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

(v) Investment property (HKAS 40, Investment property and HKAS Interpretation 21, Income taxes – Recovery of revalued non-depreciable assets) (continued)

Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognised on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from accounting period commencing from 1st January, 2005, in accordance with HKAS Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model. Further details of the policy for deferred tax are set out in note 4(l).

(vi) Definition of related parties (HKAS 24, Related party disclosures)

As a result of the adoption of HKAS 24, *Related party disclosures*, the definition of related parties as disclosed in note 4(q) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, *Related party disclosures*, still been in effect.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES (continued)

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impacts on the financial statements of the Group.

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 & 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]

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

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

The effects of the changes in the accounting policies described in note 2 on the results is as follows:

The adoption of HKFRS 3 resulted in an increase in goodwill as at 31st March, 2006 by HK$461,000 and decrease in administrative expenses for the year ended 31st March, 2006 by the same amount.

There was no impact on the balance sheet and income statement upon the adoption of HKFRS 2.

The cumulative effects of the changes in accounting policies on 31st March, 2005 and 1st April, 2005 are summarized below:

	At 31st March, 2005 (Originally stated)	HKAS 1 and HKAS 27 Adjustment	HKAS 17 Adjustment	At 31st March, 2005 (Restated)	HKAS 39 Adjustment	HKAS 40 Adjustment	HKFRS 3 Adjustment	At 1st April, 2005 (Restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Property, plant and equipment	23,146	–	(3,302)	19,844	–	–	–	19,844
Prepaid lease payments								
– non current portion	–	–	3,272	3,272	–	–-	–	3,272
– current portion	–	–	30	30	–	–	–	30
Investment in securities								
– investment securities	984	–	–	984	(984)	–	–	–
Available-for-sale investments	–	–-	–	–	984	–	–	984
Total effects on assets	24,130	–	–	24,130	–	–	–	24,130
Accumulated losses	(331,993)	–	–	(331,993)	–	4,632	(95,411)	(422,772)
Investment property revaluation reserve	4,632	–	–	4,632	–	(4,632)	–	–
Capital reserve	156,970	–	–	156,970	–	–	95,411	252,381
Minority interests	–	531	–	531	–	–	–	531
Total effects on equity	(170,391)	531	–	(169,860)	–	–	–	(169,860)
Minority interests	531	(531)	–	–	–	–	–	–

As a result of the application of HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests amounting to HK$531,000 as at 1st April, 2005 is presented within equity.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Companies Ordinance.

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

Before qualifying as a business combination, a transaction may qualify as an investment in an associate or a jointly controlled entity and be accounted for using the equity method. If so, the fair values of the investee's identifiable net assets at the date of each earlier exchange transaction will have been determined previously in applying the equity method to the investment.

To the extent that the fair value of the investee's net assets at the date of achieving significant influence/joint control differs from the fair value at the date of achieving control, a revaluation will be required to ensure that the net assets are recorded at their fair value at the date of acquisition.

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Subsidiaries and controlled entities

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses, unless the investment is classified as held for sale.

(c) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognize for the year.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Associates (continued)

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Property, plant and equipment

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

The cost of items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(e) Investment property

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 4(m).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree' identifiable assets, liabilities and contingent liabilities. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 4(j)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) Intangible assets

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses (see note 4(j)). Intangible assets with indefinite useful lives that are acquired by the Group are stated in the balance sheet at cost less impairment losses (see note 4(j)).

Both the period and method of amortisation and any conclusion that the useful life of an intangible asset is indefinite are reviewed annually.

(h) Non-current assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Non-current assets or disposal groups classified as held for sale are measured at the lower of the assets' or disposal groups' previous carrying amount and fair value less costs to sell.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(j) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– pre-paid interests in leasehold land classified as being held under an operating lease;
– Intangible assets;
– investment in associates and joint ventures (except for those classified as held for sale or included in a disposal group that is classified as held for sale); and
– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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 as financial assets at fair value through profit or loss, loans 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 market place. 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 include financial assets held-for-trading. 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, loan receivables and bank deposits) 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (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 through profit or loss in subsequent periods.

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, 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.

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 the Group's other financial liabilities and equity instruments are set out below.

Other financial liabilities

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Financial instruments (continued)

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 balance sheet when, and only when, it is extinguished (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.

(l) Income tax

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Income tax (continued)

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

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

(m) Revenue recognition

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

Revenue from provision of services is recognized when services are provided.

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, including rental invoiced in advance from letting of properties under operating leases, is recognised on a straight-line basis over the period of the respective leases.

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

(n) Retirement benefits costs

Payments to defined contribution retirement benefits schemes are charged as expenses as they fall due. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

(o) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Translation of foreign currencies (continued)

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after accounting period commencing from 1st January, 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

(p) Leasing

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

(i) The Group as lessor

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.

(ii) The Group as lessee

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.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property. Information on accounting policies for land held under operating leases as investment property is provided in accounting policy note 4(e).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the Group.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In preparing these financial statements, management is required to exercise significant judgments in the selection and application of accounting principles, including making estimates and assumptions. The following is a review of the more significant accounting policies that are impacted by judgments and uncertainties and for which different amounts may be reported under a different set of conditions or using different assumptions.

(i) Estimated impairment test of goodwill

The Group conducts tests for impairment of goodwill annually in accordance with the relevant accounting standards. Determining whether the goodwill is impaired requires an estimation of the value in use on basis of data available to the Group. Where the future cash flows are less than expected, an impairment loss may arise.

(ii) Write-downs of inventories

Inventories are written down to net realizable value based on an assessment of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of judgments and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

With effect from 1st April, 2005, based on the management experience with a view to reflect the trends in the market, the impairment for the inventory obsolescence changed from 30% on book value to approximately between 10% and 36% per annum. The financial effect of the change is an increase of allowances for slow-moving inventories amounted to approximately HK$4,445,000 charged to the income statements during year ended 31st March, 2006.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity and debt investments, borrowings, trade receivables, trade payables, loan receivables and bank balances and cash. 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.

(i) 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 consolidated balance sheet. In order to minimise the credit risk, the management has implemented internal control procedures for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

(ii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims at maintaining the flexibility in funding by arranging banking facilities and other external financing. Therefore, the risk is considered minimal.

(iii) Currency risk

The Group mainly operates in the Mainland China and Hong Kong and the exposure in exchange rate risks mainly arises from fluctuations in the United States Dollars, Hong Kong Dollars and Renminbi exchange rates. In addition, some subsidiaries have foreign currency transactions, mainly in United States Dollars and Swiss Francs. Exchange rate fluctuations and market trends have always been the concern of the Group. As Hong Kong Dollars and Renminbi are both under managed floating system, after reviewing the Group's current exposure, the Group has not entered into any derivative contracts aimed at minimising exchange rate risks during the year. However, the Company will monitor foreign exchange exposure closely.

(iv) Cash flow interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate convertible notes, the details of which have been disclosed in note 30 to the financial statements. The Group will continue to review the market trend, as well as its business operation needs and its financial position in order to identify the most effective tools for interest rate risk management.

7. TURNOVER AND OTHER REVENUE

Turnover represents the gross proceeds received and receivable derived from the sales of watches, property rental and provision of programming service and is summarized as follows:

	2006	2005
	HK$'000	HK$'000
Turnover		
Sales of watches	**327,125**	249,378
Rental income		
Investment properties	**964**	3,633
Others	**–**	83
	964	3,716
Programming service	**2,144**	2,556
	330,233	255,650
Other revenue		
Interest income from other than short-term bank deposits	**301**	104
Interest income from short-term bank deposits	**2,633**	802
Customer services income and others	**9,867**	8,163
	12,801	9,069
	343,034	264,719

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

For management purposes, the Group's operating businesses are organized and managed separately into three segments: sales of watches, property-related business and programming service.

According to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Principal activities of each business segment during the year under review are as follows:

Sales of watches	–	trading and retailing of watches
Property-related business	–	holding of properties
Programming service	–	sale and design of contract software programs

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

8. SEGMENT INFORMATION (continued)

i) Business segment

Details of the segment information by business segments are as follows:

	Year ended 31st March, 2006					
	Sales of watches HK$'000	Property-related business HK$'000	Programming service HK$'000	Corporate HK$'000	Elimination HK$'000	Consolidated HK$'000
Segment revenue						
– External sales	327,125	964	2,144	–	–	330,233
– Inter-segment sales	–	–	1,553	–	(1,553)	–
	327,125	964	3,697	–	(1,553)	330,233
Segment results	18,483	(632)	(2,018)	(5,856)	–	9,977
Finance costs						(1,348)
Other expenses, net	(88)	728	(5)	(1,729)	–	(1,094)
Share of results of an associate	–	–	(100)	–	–	(100)
Profit before taxation						7,435
Income tax						(2,249)
Profit for the year						5,186
Segment assets	203,490	24,284	3,079	76,651	–	307,504
Interest in an associate	–	–	1,123	–	–	1,123
Total assets	203,490	24,284	4,202	76,651	–	308,627
Segment liabilities	57,140	4,125	1,550	75,842	–	138,657
Other segment information extracted from the income statement and balance sheet:						
Capital expenditure	3,537	757	34	136	–	4,464
Depreciation and amortization	6,125	788	124	132	–	7,169
Impairment on available-for-sale investments	–	–	–	554	–	554
Impairment loss recognized in respect of goodwill	–	–	–	1,180	–	1,180

8. SEGMENT INFORMATION (continued)

i) Business segment (continued)

	Year ended 31st March, 2005					
	Sales of watches HK$'000	Property-related business HK$'000	Programming service HK$'000	Corporate HK$'000	Elimination HK$'000	Consolidated HK$'000
Segment revenue						
– External sales	249,378	3,716	2,556	–	–	255,650
– Inter-segment sales	–	4	1,191	–	(1,195)	–
	249,378	3,720	3,747	–	(1,195)	255,650
Segment results	4,304	231	(2,420)	(6,352)	–	(4,237)
Finance costs						(1,349)
Other income, net	(212)	11,453	(29)	(431)	–	10,781
Share of results of an associate	–	–	(167)	–	–	(167)
Profit before taxation						5,028
Income tax						(933)
Profit for the year						4,095
Segment assets	174,492	23,714	3,093	101,342	–	302,641
Interest in an associate	–	–	1,190	–	–	1,190
Total assets	174,492	23,714	4,283	101,342	–	303,831
Segment liabilities	52,636	4,496	1,141	75,898	–	134,171
Other segment information extracted from the income statement and balance sheet:						
Capital expenditure	9,908	115	127	372	–	10,522
Depreciation and amortization	4,220	933	109	109	–	5,371
Impairment on leasehold property	–	747	–	–	–	747
Amortization on goodwill	–	–	30	431	–	461

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

8. SEGMENT INFORMATION (continued)

ii) Geographical segment

Details of the segment information by geographical segments are as follows:

	Year ended 31st March,			
	2006		2005	
	Segment revenue HK$'000	**Contribution to operating profit HK$'000**	Segment revenue HK$'000	Contribution to operating loss HK$'000
The Mainland China, excluding Hong Kong	**318,729**	**20,279**	247,999	3,666
Hong Kong	**7,499**	**(10,006)**	3,169	(7,866)
Others	**4,005**	**(296)**	4,482	(37)
	330,233		255,650	
Profit/(loss) from operations		**9,977**		(4,237)

An analysis of the carrying amount of segment assets and additions to property, plant and equipment by the geographical area in which the assets are located is as follows:

	Year ended 31st March,			
	2006		2005	
	Carrying amount of segment assets HK$'000	**Additions to property, plant and equipment HK$'000**	Carrying amount of segment assets HK$'000	Additions to property, plant and equipment HK$'000
The Mainland China, excluding Hong Kong	**134,168**	**2,882**	125,413	7,051
Hong Kong	**128,538**	**1,512**	134,000	2,327
Switzerland	**41,986**	**45**	41,551	1,132
Others	**3,935**	**25**	2,867	12
	308,627	**4,464**	303,831	10,522

9. OTHER OPERATING EXPENSES, NET

	2006 HK$'000	2005 HK$'000
Impairment for bad and doubtful debts	–	1,169
Impairment on properties held for resale	–	10
Impairment for slow-moving inventories	16,934	10,280
Reversal of impairment on properties held for resale	(294)	–
Reversal of impairment for bad and doubtful debts	–	(1,086)
Reversal of trade and other payables	–	(347)
	16,640	10,026

10. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Convertible notes:		
Interest payable	376	377
Amortization of premium on redemption	972	972
Total borrowing costs	1,348	1,349

11. OTHER (EXPENSES)/INCOME, NET

	2006 HK$'000	2005 HK$'000
Impairment loss recognized in respect of goodwill	(1,180)	–
Impairment on available-for-sale investments	(554)	–
Write off of property, plant and equipment	(93)	(212)
Amortization on goodwill	–	(461)
Management fee (Note 37)	–	(6,013)
Impairment for leasehold property	–	(747)
Surplus/(deficit) arising from valuation of investment properties	728	(3,006)
Loss on disposal of property interests in Dongguan (Note 37)	–	(170)
Profit on disposal of leasehold property	–	283
Profit on liquidation of a subsidiary	5	–
Final receipt of consideration from disposal of the Lakeview Project	–	21,107
	(1,094)	10,781

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

12. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after crediting and charging the following:

	2006	2005
	HK$'000	HK$'000
Crediting:		
Gross rental income from investment properties	**964**	3,633
Rental income from others, net of outgoings of Nil (2005: Nil)	**–**	83
Interest income from other than short-term bank deposits	**301**	104
Interest income from short-term bank deposits	**2,633**	802
Reversal of impairment on properties held for resale	**294**	–
Profit on disposal of property, plant and equipment	**–**	79
Profit on disposal of leasehold property	**–**	283
Surplus arising from valuation of investment properties	**728**	–
Net exchange gain	**2,609**	406
Charging:		
Auditors' remuneration	**585**	545
Depreciation and amortization	**7,169**	5,371
Amortization on goodwill	**–**	461
Impairment loss recognized in respect of goodwill	**1,180**	–
Impairment on available-for-sale investments	**554**	–
Write off of property, plant and equipment	**93**	212
Staff costs excluding directors' fees and emoluments (Note 13)	**39,808**	34,143
Operating lease rentals in respect of rented premises	**23,942**	20,950
Loss on disposal of property interest in Dongguan (Note 37)	**–**	170
Impairment on leasehold property	**–**	747
Deficit arising from valuation of an investment property	**–**	3,006
Management fee (Note 37)	**–**	6,013
Retirement benefits scheme contributions, net of forfeited contributions of HK$ Nil (2005: HK$ Nil)	**677**	479
Cost of inventories recognized as expenses	**217,273**	167,442

13. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	Director's fees HK$'000	Basic salaries HK$'000	Allowances and other benefits HK$'000 (Note)	Employer's contribution to pension scheme HK$'000	2006 Total HK$'000
Executive Directors					
Leung Chung Ping, Owen	**210**	**126**	**–**	**7**	**343**
Sum Pui Ying, Adrian	**210**	**784**	**332**	**52**	**1,378**
Non Executive Director					
Leung Miu King, Marina	**210**	**–**	**–**	**–**	**210**
Independent Non-Executive Directors					
Sit Kien Ping, Peter	**210**	**–**	**–**	**–**	**210**
Lai Si Ming	**210**	**–**	**–**	**–**	**210**
Frank H. Miu	**210**	**–**	**–**	**–**	**210**

	Director's fees HK$'000	Basic salaries HK$'000	Allowances and other benefits HK$'000	Employer's contribution to pension scheme HK$'000	2005 Total HK$'000
Executive Directors					
Leung Chung Ping, Owen	200	628	–	7	835
Sum Pui Ying, Adrian	200	1,305	–	53	1,558
Non Executive Director					
Leung Miu King, Marina	200	–	–	–	200
Independent Non-Executive Directors					
Sit Kien Ping, Peter	200	–	–	–	200
Lai Si Ming	200	–	–	–	200
Frank H. Miu	133	–	–	–	133

Note: Included in allowances and other benefits are mainly rentals of HK$290,000 paid in respect of the director's accommodation for the year.

In addition to the above emoluments, certain directors had outstanding share options granted under the Company's 1997 Share Option Scheme as referred in note 32. Details of these benefits in kind are disclosed under the section headed "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

13. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

Directors (continued)

In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

Employees

The five highest paid individuals for the year included one (2005: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2005: four) individuals during the year are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and benefits in kind	**3,657**	3,608
Performance related incentive payments	**3,535**	1,394
Retirement benefits contributions	**90**	87
	7,282	5,089

The emoluments of the four (2005: four) individuals were within the following bands:

	Number of employee(s)	
	2006	2005
Up to HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**–**	2
HK$1,500,001 – HK$2,000,000	**1**	1
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**1**	–
	4	4

14. INCOME TAX

	The Group	
	2006 HK$'000	2005 HK$'000
Current:		
Hong Kong	**–**	–
Outside Hong Kong	**2,249**	933
	2,249	933

Hong Kong Profits Tax is calculated at a rate of 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No Hong Kong Profits Tax is provided because the assessable profits generated during the year is set off by the taxable losses carried forward.

14. INCOME TAX (continued)

Taxation for overseas subsidiary companies is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

The charge for the year can be reconciled to the profit per the income statement as follows:

	The Group	
	2006	2005
	HK$'000	HK$'000
Profit before tax	**7,435**	5,028
Tax at the applicable tax rates to profits in the countries concerned	**2,603**	947
Tax effect of expenses not deductible for tax purpose	**2,505**	4,930
Tax effect of income not taxable for tax purpose	**(4,464)**	(3,791)
Tax effect of tax losses not recognized	**3,293**	3,313
Tax effect of utilization of previously unrecognized tax losses	**(1,784)**	(4,573)
Tax effect of others	**96**	107
Taxation charge for the year	**2,249**	933

The Group has allowable tax losses arising in Hong Kong of approximately HK$306 million, which are mainly arised prior to the capital restructuring in 1997, (2005: HK$323 million) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses due to the unpredictability of future profit streams.

15. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent includes a loss of HK$3,352,000 (2005: loss of HK$5,138,000) which has been dealt with in the financial statements of the Company.

16. DIVIDEND

The Directors do not recommend payment of any dividend for the year ended 31st March, 2006 (2005: Nil).

17. EARNINGS PER SHARE

	2006	2005
Earnings for the year attributable to equity holders of the parent and earnings for the purpose of basic earnings per share	**HK$5,414,000**	HK$4,386,000
Average number of ordinary share	**333,719,516**	333,719,516

No disclosure of the diluted earning per share for the year under review and the corresponding previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options will be anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Land and building	Furniture, fixtures and fittings	Leasehold improve-ments	Machinery and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation						
At 1st April, 2004, as originally stated	22,005	2,848	9,587	5,666	224	40,330
Effect on adoption of HKAS 17	(6,777)	–	–	–	–	(6,777)
At 1st April, 2004, as restated	15,228	2,848	9,587	5,666	224	33,553
Currency realignment	–	–	–	13	–	13
Reclassification	5,567	–	–	–	–	5,567
Additions	–	274	6,799	3,141	308	10,522
Disposal	(6,045)	–	–	(93)	(224)	(6,362)
Write off	–	(2,116)	(2,381)	(305)	–	(4,802)
At 31st March, 2005	14,750	1,006	14,005	8,422	308	38,491
Currency realignment	(406)	3	337	38	–	(28)
Reclassification	7,520	–	–	–	–	7,520
Additions	–	287	2,750	1,427	–	4,464
Write off	–	(106)	(1,334)	(279)	–	(1,719)
At 31st March, 2006	21,864	1,190	15,758	9,608	308	48,728
Comprising:						
At cost	11,379	1,190	15,758	9,608	308	38,243
At valuation – 1995	670	–	–	–	–	670
At valuation – 2003	4,895	–	–	–	–	4,895
At valuation – 2005	4,440	–	–	–	–	4,440
At valuation – 2006	480	–	–	–	–	480
At 31st March, 2006	21,864	1,190	15,758	9,608	308	48,728

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Land and building HK$'000	Furniture, fixtures and fittings HK$'000	Leasehold improve-ments HK$'000	Machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Depreciation and amortization						
At 1st April, 2004 as originally stated	9,611	2,295	7,139	4,105	168	23,318
Effect on adoption of HKAS 17	(3,583)	–	–	–	–	(3,583)
At 1st April, 2004, as restated	6,028	2,295	7,139	4,105	168	19,735
Currency realignment	2	–	–	10	–	12
Provided for the year	426	191	3,070	1,482	59	5,228
Impairment loss recognized in the reserve	289	–	–	–	–	289
Impairment loss recognized in the income statement	747	–	–	–	–	747
Eliminated on disposal	(2,506)	–	–	(93)	(175)	(2,774)
Eliminated on write off	–	(2,021)	(2,281)	(288)	–	(4,590)
At 31st March, 2005	4,986	465	7,928	5,216	52	18,647
Currency realignment	(12)	3	234	79	–	304
Provided for the year	360	180	4,532	1,879	61	7,012
Eliminated on write off	–	(106)	(1,256)	(264)	–	(1,626)
At 31st March, 2006	5,334	542	11,438	6,910	113	24,337
Net book values						
At 31st March, 2006	16,530	648	4,320	2,698	195	24,391
At 31st March, 2005	9,764	541	6,077	3,206	256	19,844

Other property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	2% or over the remaining terms of the leases, if shorter
Buildings	2 – 4%
Furniture, fixtures and fittings	15 – 20%
Leasehold improvement	5 – 50%
Machinery and equipment	20 – 50%
Motor vehicles	20%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

18. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

The Group's properties outside Hong Kong with carrying value of HK$94,000 (2005: HK$97,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and accumulated impairment losses, the carrying value at 31st March, 2006 would have been approximately HK$7,279,000 (2005: HK$7,243,000).

The carrying amount of land amounting to HK$772,000 held by the Group as at 31st March, 2006 represented land held freehold outside Hong Kong.

During the year under review, certain premises stated as Properties held for Resale, in the Group's current assets has been reclassified as Leasehold Properties in the non-current assets. The aggregate amount of the reclassification is approximately HK$3,080,000. The reclassification was a result of the usage of certain properties by the Group's own operation.

19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

	The Group	
	2006	2005
	HK$'000	HK$'000
Long-term leases in Hong Kong	**5,269**	2,793
Long-term land use rights in the PRC	**3,680**	509
	8,949	3,302
Analysed for reporting purpose as:		
Current portion	**110**	30
Non-current portion	**8,839**	3,272
	8,949	3,302

20. INVESTMENT PROPERTIES

	The Group	
	2006	2005
	HK$'000	HK$'000
Valuation		
At 1st April	**20,146**	31,490
Currency realignment	**(941)**	–
Reclassification	**(6,800)**	7,609
Disposal	**–**	(18,113)
Increase in fair value during the year	**728**	–
Surplus on revaluation	**–**	2,166
Revaluation deficit recognized in the income statement	**–**	(3,006)
At 31st March	**13,133**	20,146

The carrying amount of investment properties held by the Group at 31st March, 2006 and 2005 comprises:

	The Group	
	2006	2005
	HK$'000	HK$'000
In Hong Kong under long term leases	**1,335**	7,700
Outside Hong Kong:		
Medium term leases	**730**	740
Freehold	**11,068**	11,706
	13,133	20,146

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited and Pierre Berset s.a., firms of independent professional valuers, at 31st March, 2006 on an open market basis.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

21. GOODWILL

	The Group HK$'000
Cost	
At 1st April, 2004 and 1st April, 2005	36,415
Elimination of accumulated amortization upon the Application of HKFRS 3	(4,728)
At 31st March, 2006	31,687
Amortization	
At 1st April, 2004	4,267
Provide for the year	461
At 31st March, 2005 and 1st April, 2005	4,728
Elimination of accumulated amortization upon the Application of HKFRS 3	(4,728)
At 31st March, 2006	–
Impairment	
At 1st April, 2004 and 1st April, 2005	28,426
Impairment loss recognized for the year	1,180
At 31st March, 2006	29,606
Net book values	
At 31st March, 2006	2,081
At 31st March, 2005	3,261

Prior to 1st April, 2005, goodwill is amortized over its estimated useful life of 20 years.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generated unit (the "CGU") is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the year. The estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

21. GOODWILL (continued)

The Group prepares cash flows forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows for the following five years. The projected growth rate used in the budgets does not exceed the average long-term growth rate for the relevant markets. Given the different market risk faced by each different geographical CGU, the rate used to discount the individual forecast cash flow of different CGU is 14.8% and 23.6% respectively.

An impairment loss of approximately HK$1,180,000 has been recognised in the income statement in accordance with a valuation report prepared by a professional valuer as at 31st March, 2006.

22. INTANGIBLE ASSETS

	Computer Software HK$'000
The Group	
Cost	
At 1st April, 2005 and 31st March, 2006	281
Amortisation	
At 1st April, 2005 and 31st March, 2006	281
Net book values	
At 31st March, 2006	–
At 31st March, 2005	–

The amortization period for computer software is one year.

23. INTEREST IN SUBSIDIARIES

	The Company	
	2006 **HK$'000**	2005 HK$'000
Unlisted shares, at cost	**320,837**	320,837
Impairment loss recognized	**(320,837)**	(320,837)
	–	–

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

23. INTEREST IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31st March, 2006 are as follows:

Name of subsidiary	Place of Incorporation or establishment or registration/ operation	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK$10,000	100%	–	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK$10,000	–	100%	Investment holding & watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewellery watches
Time City (Hong Kong) Limited	Hong Kong	HK$3,000,000	–	100%	Watch trading
Juvenia (Hong Kong) Company Limited	Hong Kong	HK$5,000,000	–	100%	Brand development & watch trading
Accord Watch & Jewellery (International) Limited	Hong Kong	HK$3,500,100	–	100%	Brand development & watch trading
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100%	–	Property holding and investment
上海冠亞鐘表有限公司*	The PRC	RMB600,000	–	100%	Watch retailing and trading
Ming Biao Cheng Corporation	British Virgin Islands	US$1	–	100%	Watch retailing and trading
KB Quest Holdings Limited	British Virgin Islands	US$150,000	–	54%	Investment holding
KBQuest Hong Kong Limited	Hong Kong	HK$3,510,000	–	49%	Sale and design of contract software programs

The above list includes the subsidiaries of the Company, which in the opinion of the Directors, materially affected the results of the year or net assets of the Group. To give details of all the other subsidiaries would, in the opinion of the Directors, result in providing particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

* Registered under the laws of the PRC as a limited liability company.

24. AMOUNTS DUE FROM/(TO) SUBSIDIARIES

At 31st March, 2006, the amounts due from subsidiaries were unsecured and repayable on demand. Except for an amount of approximately HK$17,503,000 (2005: HK$16,686,000) which interest at prevailing prime rate less 2%, the balances were non-interest bearing.

The amounts due to subsidiaries are unsecured, non-interest bearing and repayable on demand.

The fair value of the amounts due from/(to) subsidiaries as at 31st March, 2006 approximated to the corresponding carrying amount.

25. INTEREST IN AN ASSOCIATE

	The Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**1,123**	1,190

Particular of the Group's associate as at 31st March, 2006 is as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of equity interest attributable to the Group	Principal activity
Shanghai Forward KBQuest Inc.	The PRC	US$1,000,000	21%	Sale and design of computing software and related consultancy services

Summary financial information on associate:

	Assets	Liabilities	Equity	Revenue	Loss
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006					
100 per cent	**2,314**	**(21)**	**2,293**	**–**	**(203)**
Group effective interest	**1,133**	**(10)**	**1,123**	**–**	**(100)**
2005					
100 per cent	2,429	(1)	2,428	–	(341)
Group effective interest	1,190	–	1,190	–	(167)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

26. AVAILABLE-FOR-SALE INVESTMENTS

The Group

	The Group 2006 HK$'000	2005 HK$'000
Investments in		
– unlisted equity securities in Hong Kong	**3,785**	–
– club debentures	**984**	–
Impairment loss recognized in prior years	**(3,785)**	–
Impairment loss for the year	**(554)**	–
	430	–

The above investments in unlisted equity securities are measured at cost less impairment at each balance sheet. The aforesaid impairment losses are recognized before 1st April, 2005.

The club debentures are measured at fair value. Fair value of the investment has been determined by reference to the bid price quoted in the market.

27. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES

The Group

	Notes	The Group 2006 HK$'000	2005 HK$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	**–**	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	**–**	1,500
Club debentures		**–**	984
		–	4,769
Impairment loss recognized		**–**	(2,285)
Provision for diminution in value		**–**	(1,500)
		–	984

27. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES (continued)

Notes:

(i) At 31st March, 2006, the Group held a 19% interest in Golden Crown, a company that was incorporated in Hong Kong and is engaged in the manufacturing of watchbands. The investment in Golden Crown is accounted for as investment securities as the Group does not have significant influence over this company. The Board, having taken into account the accounting treatment under SSAP 31 "Impairment of Assets", recognized impairment loss of approximately HK$2,285,000 in the year of 2003.

(ii) At 31st March, 2006, the Group held a 15% interest in AC Watch, a company that was incorporated in Hong Kong. The Group does not have any influence and/or control over this company, which is still under the process of being winding up. Full provision for diminution in value amounting to HK$1,500,000 was provided in the year of 1999.

Up to 31st March, 2005, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Accounting Practice No. 24. Upon the adoption of new HKASs, they were reclassified to note 26 to the financial statements.

28. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK$23,065,000 (2005: HK$16,287,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	2006	2005
	HK$'000	HK$'000
Trade receivables		
Up to 90 days	**21,247**	14,918
91 to 180 days	**1**	71
Over 180 days	**1,817**	1,298
	23,065	16,287
Other receivables, deposits and prepayments	**11,918**	11,773
	34,983	28,060

The Company did not have any trade receivables at 31st March, 2006 and 2005.

The fair value of the Group's trade and other receivables, deposits and prepayments at 31st March, 2006 approximated to the corresponding carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

29. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Included in trade and other payables and accrued charges are trade payables of HK$16,389,000 (2005: HK$15,218,000), the aged analysis of which at the balance sheet date is as follows:

	2006 HK$'000	2005 HK$'000
Trade payables		
Up to 90 days	**15,651**	14,617
91 to 180 days	**3**	66
Over 180 days	**735**	535
	16,389	15,218
Other payables and accrued charges	**47,183**	45,007
	63,572	60,225

The Company did not have any trade payables at 31st March, 2006 and 2005.

The fair value of the Group's trade and other payables and accrued charges at 31st March, 2006 approximated to the corresponding carrying amount.

30. CONVERTIBLE NOTES

	The Group and the Company	
	2006 HK$'000	2005 HK$'000
Swiss Francs 11,800,000 $^7/_8$% Convertible Notes (the "Notes") due 2010, at par	**61,912**	61,912
Premium on redemption	**8,909**	7,937
Accrued interest	**1,217**	1,383
Interest paid during the year	**(542)**	(542)
	71,496	70,690

Pursuant to the original note agreement, holders of the Notes had the right at any time on or before 8th February, 2000 to convert all or some of the Notes into shares of the Company at the conversion price of HK$8.6 per share, subject to adjustment. Interest on the Notes was waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001. The rate at which interest is charged on the Notes is 0.875% per annum for a period of nine years with effect from 23rd February, 2001. Interest is accrued over the revised duration of the Notes so as to produce a constant periodic rate of charge for each accounting period.

30. CONVERTIBLE NOTES (continued)

There is also an option granted to the holders of the Notes to cause the Company to redeem in US$ at a fixed exchange rate of SFr.1.00 = US$0.67933 any Note on 23rd February, 2008 at a redemption price of 117.375% of its principal amount together with interest accrued up to the date of redemption.

The Company has the right, having given not less than 30 days and not more than 60 days' notice to the financial adviser in respect of the Notes, to redeem all, but not some only, of the Notes at par, together with interest accrued up to the date of redemption if the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited, converted into US$ at the prevailing exchange rate, is at least 130% of the conversion price for 30 consecutive dealing days.

The fair value of the Convertible Notes at 31st March, 2006 approximated to the corresponding carrying amount in accordance with a valuation report prepared by an independent valuer.

31. SHARE CAPITAL

	Number of shares	**Value**
	'000	HK$'000
Ordinary shares of HK$1 each		
Authorized:		
At 1st April, 2005 and 31st March, 2006	400,000	400,000
Issued and fully paid:		
At 1st April, 2005 and 31st March, 2006	333,719	333,719

32. SHARE OPTION SCHEMES

The Company's 1997 Share Option Scheme was adopted pursuant to a resolution passed on 15th September, 1997 and expired on 15th September, 2000. The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2002 Share Option Scheme"), as approved by the shareholders of the Company at the special general meeting held on 20th September, 2002. The details of the 2002 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 30th July, 2002.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding share options are set out below):

1997 Share Option Scheme

The 1997 Share Option Scheme was designed to providing incentives to any executive directors or full time employees of the Company or any of its subsidiaries (the "Eligible Employees").

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

32. SHARE OPTION SCHEMES (continued)

1997 Share Option Scheme (continued)

According to the Scheme, the maximum number of shares issued cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Option to executive directors may be exercised at any time during a period commencing from the date the option is accepted and ten years from 15th September, 1997. Option to full time employees may be exercised at any time during a period commencing 2 years after the date of the option is accepted and ten years from 15th September, 1997.

The exercise price is determined by the Directors of the Company, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the offer of the options.

Details of the options, which have been granted under the 1997 Share Option Scheme are listed below in accordance with Rule 17.07 of the Listing Rules:

		Number of options held at 01/04/2005 and 31/3/2006	Exercise price	Grant date	Exercise period
1.	**Directors**				
	Leung Chung Ping, Owen	3,000,000	HK$1.00	24/09/1997	24/09/1997 – 14/09/2007
	Sum Pui Ying, Adrian	3,000,000	HK$1.00	24/09/1997	24/09/1997 – 14/09/2007
2.	**Continuous Contract Employees**	1,200,000	HK$1.00	24/09/1997	24/09/1999 – 14/09/2007
		7,200,000			

Except 200,000 options were lapsed and cancelled during the year 2005, no option was granted or exercised during the two years ended 31st March, 2006.

In the opinion of the Board, any valuation of the options granted based on any option pricing model is not appropriate and meaningful to the shareholders, taking into account of number of variables which are crucial for the calculation of the option value which have not been determined.

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

32. SHARE OPTION SCHEMES (continued)

2002 Share Option Scheme

The purpose of the 2002 Share Option Scheme is to encourage qualifying grantees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Qualifying grantees of the 2002 Share Option Scheme means (i) any employee including officer and director or any business-related consultant, agent, representative or adviser of the Company or any subsidiary or any affiliate; or (ii) any supplier, agent or consultant who provide goods or services to the Company or any subsidiary or any affiliate; or (iii) any customer of the Company or any subsidiary or any affiliate; or (iv) any business ally or joint venture partner of the Company or any subsidiary or any affiliate.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent of the shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not be exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the Shares in issue from time to time. As at the date of the annual report, a total of 33,371,951 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme and the 1997 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2002 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent of the total number of shares in issue.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2002 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However the 2002 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal value of HK$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Director, and shall not exceed a period of ten years after the date of grant.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

32. SHARE OPTION SCHEMES (continued)

2002 Share Option Scheme (continued)

The subscription price in respect of any particular option under the 2002 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options.

The 2002 Share Option Scheme will expire on 19th September, 2012.

As at the balance sheet date, no share option has been granted under the 2002 Share Option Scheme since its adoption.

33. RESERVES

The Company

	Share premium	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
Balance at 1st April, 2004	84	(101,517)	(101,433)
Loss for the year	–	(5,138)	(5,138)
Balance at 31st March, 2005	84	(106,655)	(106,571)
Balance at 1st April, 2005	84	(106,655)	(106,571)
Loss for the year	–	(3,352)	(3,352)
Balance at 31st March, 2006	84	(110,007)	(109,923)

The application of the share premium is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended). The capital reserve, currency translation reserve, investment property revaluation reserve and other property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and capital reserve arising on acquisitions, foreign currency translation and revaluation of investment properties and leasehold properties.

The Company did not have any reserves available for distribution at 31st March, 2006 and 2005.

34. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM/(USE IN) OPERATING ACTIVITIES

	2006 HK$'000	2005 HK$'000
Profit before taxation	**7,435**	5,028
Non-cash items		
– Other operating expenses, net	**16,640**	10,026
– Other expenses, net	**1,094**	3,965
– Amortization of premium on redemption of convertible notes	**972**	972
Other income from final receipt of consideration from disposal of the Lakeview Project	**–**	(21,107)
Interest income from other than short-term bank deposits	**(301)**	(104)
Interest income from short-term bank deposits	**(2,633)**	(802)
Interest expenses	**376**	377
Depreciation and amortization	**7,169**	5,371
Amortisation on goodwill	**–**	461
Share of results of an associate	**100**	167
Profit on disposal of property, plant and equipment	**–**	(79)
Loss on disposal of leasehold property and investment property	**–**	2,595
Operating profit before working capital changes	**30,852**	6,870
Increase in inventories	**(23,817)**	(30,786)
Decrease/(increase) in trade and other receivables, deposits and prepayments	**72**	(2,199)
(Decrease)/increase in trade and other payables and accrued charges	**(6,419)**	5,027
Decrease in rental received in advance	**(353)**	(83)
Cash generated from/(used in) operations	**335**	(21,171)
Interest received from other than short-term bank deposits	**301**	104
Interest received from short-term bank deposits	**2,439**	748
Overseas taxation paid	**(1,577)**	(673)
Net cash generated from/(used in) operating activities	**1,498**	(20,992)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
Year ended 31st March, 2006

35. NET CASH FLOW FROM LIQUIDATION OF A SUBSIDIARY

	2006 **HK$'000**	2005 HK$'000
Net liabilities disposed of:		
Trade and other payables and accrued charges	**(5)**	–
	(5)	–
Profit on liquidation of a subsidiary	**5**	–
	–	–
Satisfied by:		
Cash consideration received	**–**	–

36. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK$'000	**Convertible notes** HK$'000	**Minority interests** HK$'000
At 1st April, 2004	333,803	69,883	822
Premium on redemption and interest accrued	–	1,349	–
Repayment of interest	–	(542)	–
Share of loss for the year	–	–	(291)
At 31st March, 2005	333,803	70,690	531
At 1st April, 2005	333,803	70,690	531
Premium on redemption and interest accrued	–	1,348	–
Repayment of interest	–	(542)	–
Share of loss for the year	–	–	(228)
Exchange adjustment	–	–	18
At 31st March, 2006	333,803	71,496	321

37. DISPOSAL OF PROPERTY INTERESTS IN THE PRC

On 13th January, 2005, a wholly owned subsidiary of the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser") to dispose (the "Disposal") of its entire interests (i.e. all the rights and obligations) derived from an agreement dated 8th June, 1992 (the "Old Agreement") entered into with Dongguan Houjie Town Economic Development Head Company (the "Chinese Partner") in relation to the grant of the land use right of industrial buildings in Dongguan, the PRC (the "Properties") for a term of 50 years. The total cash consideration for the disposal is RMB19.9 million (or approximately HK$18.8 million) and was paid by the Purchaser upon signing of the Agreement.

The Properties comprises three blocks of industrial buildings and four blocks of dormitory buildings and two buildings accommodating a staff canteen and a power generator with a total gross floor area of approximately 48,900 square meters within an industrial complex located at No. 5, Industrial Zone, Houjie Town, Dongguan, the PRC. Pursuant to the Old Agreement, the subsidiary had to pay monthly management fee to the Chinese Partner for the grant of the land use right of the Properties.

Details of the disposal of Property Interests are set out in the press announcement and the Company's Circular dated 19th January, 2005 and 7th February, 2005 respectively.

As set out in the interim report for the period ended 30th September, 2004, the Chinese Partner requested the Group to reactive its OEM manufacturing activities in the joint venture in Dongguan, which had been dormant subsequent to the business restructuring in 1997. Such request was considered by the Group inconsistent with the Group's corporate strategy since 1997. The Chinese Partner later issued a written notice dated 15th September, 2004 demanding for management fee for prior years amounting to RMB6,374,200 (approximately HK$6 million) (the "Claim"). The Group did not admit the validity of the Claim, however would consider any appropriate settlement proposals if deemed to be in the best interest to the Group. The Disposal served an opportunity for the Group to settle the Claim because pursuant to the Agreement, the Purchaser would assume the responsibility of settling the Claim.

The assumption of responsibility for settling the Claim by the Purchaser gave rise to approximately HK$6 million of gain on disposal of the Properties, which thereby reduced the overall loss on disposal of property interests in Dongguan to approximately HK$170,000.

Moreover, the Board is of the view that the Disposal represents an opportunity to the Group to realise its non-core investments and proceeds thereof could strengthen the working capital position for the operations of the core business of the Group.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

38. CONTINGENT LIABILITIES

At 31st March, 2006, the Company had contingent liabilities as follows:

(1) The Company has given corporate guarantees of HK$11,000,000 (2005 HK$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March, 2006, bank guarantees given in lieu of utility deposit amounting to approximately HK$404,000 (2005: HK$404,000).

Except the aforesaid banking guarantees utilized during the year under review, the unutilized general banking facilities are acted as standby nature for potential business development of the Group's subsidiaries.

(2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders and other appropriate declarations or further ancillary reliefs. As the Company is only a nominal defendant to a derivative action (the "Action"), the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Pursuant to the Court Order made on 4th January, 2002, the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action. Further to the subsequent Court Orders made on 3rd and 4th September, 2003, the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. On 31st March, 2006, the 1st and 2nd defendants consent to the Court upon Galmare's request to bring in Miss Leung Miu King, Marina, who is the sister of the 1st defendant and the non-executive director of the Company, to be the 4th defendant of the case so as to assist the defence. Given such development has no any effect on the role of the Company as nominal defendant and its duty to indemnify the plaintiff's legal costs incurred in this Action, the Board does not anticipate any significant adverse financial effect to the Company up to the date of this report.

The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.

Save as disclosed herein, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

39. RELATED PARTY TRANSACTIONS AND BALANCE

The following is a summary of the significant transactions and balance with a related party during the year and as at year end.

(1) Summary of income item

	2006 HK$'000	2005 HK$'000
Consultancy services rendered to a substantial shareholder of the Company	**263**	70

(2) The above amounts are included in the balance sheet of the Group and the Company as follows:

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Trade and other payables and accrued charges (Note)	**150**	83	**–**	–

Note: As at 31st March, 2006, the entire annual fee for the current maintenance services period has been received in accordance with the prevailing industry's practices.

The above transactions have been entered into on terms agreed by the parties concerned.

(3) Key management personnel remuneration

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 13 and the five highest paid employees as disclosed in note 13 is amounted to approximately HK$8,660,000 (2005: HK$6,647,000) as short term benefits.

40. PLEDGE OF ASSETS

As at 31st March, 2006, certain of the Group's investment properties, leasehold properties and prepaid lease payments with carrying value of HK$1,335,000 (2005: HK$7,700,000), HK$8,451,000 (2005: HK$ 4,239,000) and HK$5,007,000 (2005: HK$2,792,000) respectively were pledged to secure the general banking facilities to the extent of HK$ 11,000,000.

As at 31st March, 2006 and 2005, the Company had not pledged any assets.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2006

41. OPERATING LEASE ARRANGEMENTS

As lessor

Property rental income earned during the year was HK$964,000 (2005: HK$3,633,000). As at 31st March, 2006, the properties held have committed tenants, whose tenancy agreements includes paying security deposits, expire or are terminable ranging from 0.6 year to 2.2 years.

At 31st March, 2006, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	HK$'000
Within one year	**701**	197
In the second to fifth year inclusive	**579**	–
	1,280	197

As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 year to 7.5 years. Certain rentals for the use of retail outlets are determined by reference to the revenue of the relevant outlets for the year and the rentals for certain retail outlets will be escalated by a fixed percentage per annum.

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

	2006	2005
	HK$'000	HK$'000
Within one year	**8,822**	10,157
In the second to fifth year inclusive	**6,475**	13,948
	15,297	24,105

The Company had no operating lease arrangements at 31st March, 2006 and 2005.

42. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to the consolidated income statement represents contributions payable to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

Employees who are employed in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The amount of unvested benefits utilized by the Group to reduce contributions is nil during the year. The amount of unvested benefits available for future reduction of employer's contribution as at 31st March, 2006 is approximately HK$67,000 (2005: HK$116,000).

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.