

**NATIONAL ELECTRONICS HOLDINGS LIMITED**  
(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



**ANNUAL REPORT 2010**

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## CORPORATE INFORMATION

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### Executive Directors

Jimmy Lee Yuen Ching  
Chairman  
James Lee Yuen Kui  
Managing Director  
Loewe Lee Bon Chi  
Managing Director  
Edward Lee Yuen Cheor  
Ricky Wai Kwong Yuen

### Non-Executive Director

Dorathy Lee Yuen Yu

### Independent Non-Executive Directors

Dr. Samson Sun, M.B.E., J.P.  
William Chan Chak Cheung  
Chan Kwok Wai

### Auditors

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

### Solicitors

Baker & McKenzie  
JSM  
Richards Butler

### Company Secretary

Yue Man Ying

### Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited  
Hang Seng Bank Limited  
Industrial and Commercial Bank of China (Asia) Limited  
Bank of China (Hong Kong) Limited  
Chiyu Banking Corporation Limited  
DBS Bank (Hong Kong) Limited  
Standard Chartered Bank (Hong Kong) Limited  
Chong Hing Bank Limited  
Fubon Bank (Hong Kong) Limited

### Registered Office

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

### Principal Office

Suite 3201, Gloucester Tower  
The Landmark, 11 Pedder Street  
Central  
Hong Kong

### Registrars

Butterfield Fulcrum Group (Bermuda) Limited  
Rosebank Centre  
11 Bermudiana Road  
Pembroke HM 08  
Bermuda

### Branch Registrars and Transfer Office

Tricor Standard Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

On behalf of the Board (the "Board") of Directors (the "Directors") of National Electronics Holdings Limited (the "Company"), I am pleased to report the results of the Company and its subsidiaries (together, the "Group") for the year ended 31st March, 2010.

### RESULTS

The audited consolidated profit attributable to shareholders of the Group for the year ended 31st March, 2010 was HK\$121,716,313 (2009: HK\$108,831,486). The earnings per share of the Company for the year ended 31st March, 2010 was 12.5 HK cents per share (2009: 11.1 HK cents per share).

### FINAL DIVIDEND

The Board recommends the payment of a final dividend of 1.5 HK cents per share for the year ended 31st March, 2010 (2009: 1.5 HK cents).

### BUSINESS REVIEW

#### WATCHES AND WATCH COMPONENTS

During the period under review, the turnover for the Group's watch component trading division increased slightly. Although the turnover for the Group's watch manufacturing division has decreased as a result of the global economic downturn, the division still maintained a stable profit by focusing on manufacturing higher margin products.



Tidal Moon Phase watch provides tidal schedules and moon phases for fishing, sailing and other outdoor activities.

## CHAIRMAN'S STATEMENT

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### PROPERTY DEVELOPMENT AND INVESTMENT

As compared with property development sales revenue last year of approximately HK\$1.2 billion, which was mainly due to the final sales completion of approximately 90 percent of the residential condominium units of the Group's One St. Thomas project in Toronto, Canada ("One St. Thomas Project"), the Group's property development sales revenue for the current year was substantially decreased to approximately HK\$52 million which was attributed to the disposal of several remaining residential condominium units of the One St. Thomas Project. The Group also disposed of approximately HK\$59 million of other Canadian properties.

During the year under review, the Property Development and Investment business recorded a profit of around HK\$48 million as compared with a profit last year of around HK\$156 million which included substantial contribution from the One St. Thomas Project.

Le Rivage, the Group's second boutique hotel Joint Venture project with Citi Property Investors at No. 137-138 Connaught Road West, Hong Kong, commenced its operation in October, 2009 with favorable market response. Le Rivage has achieved a satisfactory occupancy rate since the second quarter of 2010.

In October, 2009, the Group acquired a property located at House 15 and Car Parking Spaces Nos. 15A and 15B on the Basement Floor, No. 1 Shouson Hill Road East, Hong Kong for investment purpose.

On 18th December, 2009, a Joint Venture with a real estate fund managed by J.P. Morgan Asset Management – Global Real Assets completed the acquisition of a site at No. 45 Tai Tam Road, Hong Kong for residential development purpose.

### PROSPECTS

#### WATCHES AND WATCH COMPONENTS

The Group continues to strengthen its research and development capabilities to launch new higher margin electronic products. To enhance the profit margin of our watch manufacturing division, the Group continued to improve the production automation process in order to control its labour cost of the factory at Gongming, Shenzhen. On the other hand, to cope with the ever-increasing labour cost in the coastal province of China, the Group will speed up its relocation plan to a new factory in Nanning, Guan Xi in the near future.



A uniquely designed and stylish sports watch that provides Chronograph and Timer functions.

PROPERTY DEVELOPMENT AND INVESTMENT

*Overseas*

The Group is marketing the remaining units of the One St. Thomas Project and an adjoining residential property to the One St. Thomas Project, located at Sultan Street, Toronto, Canada.

*Local*

The superstructure work of the Group's Joint Venture project with Citi Property Investors at Nos. 50 to 59 Connaught Road Central, Hong Kong for the development of an A-Grade office building is progressing well and it is expected that the project will be completed by the first quarter of 2011.

During the year under review, the Group has entered into a Joint Venture with J.P. Morgan Asset Management – Global Real Assets at No. 45 Tai Tam Road, Hong Kong for the development of luxurious detached houses. The project is at the planning, design and government submission stage and the Joint Venture targets to complete the project by 2013.

The superstructure work of the Group's boutique hotel project at No. 87 - 89, Jervois Street, Hong Kong is in progress and the Group expects the completion of the building by the fourth quarter of 2010.

The superstructure work of the Group's boutique hotel project at No. 21 Whitfield Road, North Point, Hong Kong commenced in the first quarter of 2010. The Group targets to complete the building by the first quarter of 2011.

The superstructure construction of the Group's boutique hotel at Nos. 99, 101 & 103 Bonham Strand and No. 127 Wing Lok Street, Hong Kong commenced in April, 2010. The Group targets to complete the building in mid 2011.

The foundation work at No. 194 - 196 Queen's Road Central, Hong Kong is in progress and the Group aims to complete this new boutique hotel by 2012.

Finally, on behalf of the Board of Directors, I would like to thank all the staff of the Group for their loyalty and dedication during the previous year.

**Lee Yuen Ching Jimmy**  
Chairman

Hong Kong, 12th July, 2010

Touch Calculator uses a touch sensitive watch force for calculator and stopwatch functions.



# TEAM SPORT MANAGER



Team Sport Manager is equipped with a high sensitivity RF receiver that allows coaches and trainers to analyze performance, improve workout plans and motivate athletes for up to 50 users.



## BUSINESS REVIEW

### WATCHES AND WATCH COMPONENTS

During the period under review, the turnover of the Group's watch manufacturing division decreased by 20% to HK\$204 million while the sales revenues generated from the watch component trading division increased slightly by 4% to HK\$801 million. Due to management's effort on increasing sales of higher margin electronic products, the profit of the Group's watch manufacturing division remained stable.

### PROPERTY DEVELOPMENT AND INVESTMENT

Segment profit of the division for the year under review included profits on sales of the several condominium units of the One St. Thomas project; disposals of properties in Toronto, Canada; and, the net increase in fair value of investment properties of the Group.

### ASSOCIATES

The Group shared a profit of HK\$43 million (2009: HK\$35.7 million) from its associates.

## FINANCIAL REVIEW

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31st March, 2010, the Group's total borrowings were approximately HK\$1,075 million, representing a decrease of approximately HK\$96 million from last year. The maturity profile spreads over a period of 30 years, with approximately HK\$606 million repayable within one year, approximately HK\$292 million within two to five years and HK\$177 million beyond five years.

At the year end date, the Group's gearing ratio was 0.56 (2009: 1.00) which is calculated based on the Group's long-term borrowings of approximately HK\$469 million and shareholders' funds of approximately HK\$836 million.

As at 31st March, 2010, the Group's total bank balances and cash was approximately HK\$135 million (2009: HK\$140 million).

Similar to the past years, the Group has maintained a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its commitments and working capital requirements.

# Cycle

## Computer USB



USB Bike computer collects cycling information, heart rate and elevation of workouts and downloads the data to a PC for analysis and storage.



### TREASURY POLICIES

As at 31st March, 2010, 76% of the Group's borrowings was in HK\$, 8% in US\$, 10% in JPY and 6% in CAD. As at 31st March, 2010, 47% of the Group's bank balances and cash was in HK\$, 22% in US\$, 1% in RMB, 9% in CAD, 19% in JPY, 1% in EUR and 1% in others.

All the Group's borrowings are variable-rate borrowings. The Group will carefully monitor its foreign exchange and interest rates exposure and utilise financial instruments such as forward contracts and interest rate swaps as necessary.

### FUTURE PLANS FOR MATERIAL INVESTMENTS

The Group currently has no other plans for material investments. Any acquisition will be funded by internal resources of the Group and bank borrowings.

### CHARGES ON ASSETS

As at 31st March, 2010, certain properties of the Group of approximately HK\$1,337 million (2009: HK\$1,480 million) were pledged to secure banking facilities for the Group.

### EMPLOYEES

As at 31st March, 2010, the Group employed approximately 1,800 employees in Hong Kong, the PRC and other overseas countries. The staff costs for the year including directors' emoluments amounted to HK\$96 million (2009: HK\$108 million). Remuneration is determined by reference to market terms as well as the qualifications and experiences of the staff concerned. Salaries are reviewed annually and discretionary bonuses may be paid depending on individual performance and the profitability of the Group.

## **DIRECTORS AND SENIOR MANAGEMENT**

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### **DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY**

#### **EXECUTIVE DIRECTORS**

Mr. Jimmy Lee Yuen Ching, aged 63, is the Chairman of the Group. He received his university education in the United States and Canada. His initial experience in the watch industry was gained in his family's watch business and he subsequently became a co-founder of the Group. He was responsible for the founding of the Group's property division eighteen years ago and has been responsible for the management of the property division since that time.

Mr. James Lee Yuen Kui, aged 56, is Managing Director of the Group. He joined the Group in 1976 and is currently responsible for administration, trading of watch components and material procurement from foreign suppliers.

Mr. Loewe Lee Bon Chi, aged 30, is Managing Director of the Group. He graduated from Harvard University and obtained a bachelor of arts degree with honours in economics. He joined the Group in July, 2005 and is responsible for overseeing the overall operations of the watch components trading division as well as the property development and investment division. He is also a director of The Federation of Hong Kong Watch Trades & Industries Limited. Prior to joining the Group, he was an investment banker at JP Morgan in New York.

Mr. Edward Lee Yuen Cheor, aged 52, joined the Group in 1981 and is currently responsible for the supervision in the properties development in Hong Kong.

Mr. Ricky Wai Kwong Yuen, M.Sc., aged 63, is the President and an executive Director of National Electronics and Watch Company Limited. Mr. Wai joined the Group in 1976 and is responsible for its LCD and LCD hybrid watch business and other electronic products.

#### **NON-EXECUTIVE DIRECTOR**

Ms. Dorothy Lee Yuen Yu, aged 50, has not previously held any positions with the Company or its subsidiaries before joining the Group in September, 2004. Ms. Lee is the sister of Mr. James Lee Yuen Kui and Mr. Edward Lee Yuen Cheor, who are also executive Directors of the Company. She is also a cousin of Mr. Jimmy Lee Yuen Ching, the Chairman of the Company and an aunt of Mr. Loewe Lee Bon Chi, an executive Director of the Company.

#### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

Dr. Samson Sun, M.B.E., J.P., aged 85, is the Chairman of the Sun International Group of companies. He was the Deputy Chairman of Gilman & Co., Limited and later of Inchape Hong Kong in each case from 1967 to 1985. Dr. Sun is the Honorary Permanent President of The Federation of Hong Kong Watch Trades & Industries Limited. He has over 54 years' experience in the manufacturing, marketing and distribution of watches and 26 years' experience in the marketing and distribution of consumer and electronic products. Dr. Sun has chaired many voluntary community services and charitable organizations and is the former Vice-Chairman of Business and Professionals Federation of Hong Kong (BPF), and a member of Basic Law Consultative Committee in 80's.

Mr. William Chan Chak Cheung, aged 62, graduated from the University of Toronto and the Schulich School of Business. He is also a member of the Canadian Institute of Chartered Accountants. Mr. Chan is an independent non-executive Director of King Fook Holdings Limited, a company listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Chan is also an independent non-executive Director of The Link Management Limited, Manager of The Link REIT which is listed on the Main Board of The Stock Exchange of Hong Kong Limited. Mr. Chan is a retired partner of PricewaterhouseCoopers ("PwC") after a career spanning 33 years in Canada, Hong Kong and Mainland China. He was partner in charge of China tax services at PwC and brings experience in solving complex business issues in many different industries.

Mr. Chan Kwok Wai, aged 51, has been an independent non-executive Director of the Company since April, 2005. Mr. Chan is a member of the Hong Kong Securities Institute and an associate member of CPA Australia. Mr. Chan is currently a director of High Progress Consultants Limited. He is also an independent non-executive Director of Junefield Department Store Group Limited, China Investments Holdings Limited, Tern Properties Company Limited, Chinese Estates Holdings Limited and Far East Consortium International Limited, the shares of all of which are listed on the Stock Exchange.

#### **SENIOR MANAGEMENT**

Mr. Andrew Lo Kwong Yiu, B.Sc. (Econ.), B.Sc. (Building Surveying), FRICS, aged 56, is an executive Director of National Properties Holdings Limited. Mr. Lo joined the Group in 1992 and is responsible for property development projects.

The directors have pleasure in presenting to shareholders their annual report and the audited consolidated financial statements for the year ended 31st March, 2010.

**Principal activities**

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and property investment.

**Results and appropriations**

The results of the Group for the year ended 31st March, 2010 are set out in the consolidated statement of comprehensive income on page 21.

The directors now recommend the payment of a dividend of 1.5 HK cents per share to the shareholders of the Company whose names appear on the register of members on Wednesday, 11th August, 2010, amounting to HK\$14,581,649.

**Investment properties and property, plant and equipment**

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

**Major properties**

Details of the major properties of the Group at 31st March, 2010 are set out on page 86.

**Subsidiaries, associates and jointly controlled entities**

Details of the Company's subsidiaries, associates and jointly controlled entities at 31st March, 2010 are set out in notes 42, 19 and 20 to the consolidated financial statements, respectively.

**Share capital**

Details of movements during the year in the share capital of the Company are set out in note 32 to the consolidated financial statements.

**Pre-emptive rights**

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

**Reserves**

Details of movements in reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on page 25 and in note 33 to the financial statements, respectively.

**Purchase, sale or redemption of shares**

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited, details of which are set out in note 32 to the consolidated financial statements.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## REPORT OF THE DIRECTORS

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### Directors

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

Mr. Jimmy Lee Yuen Ching  
Mr. James Lee Yuen Kui  
Mr. Loewe Lee Bon Chi  
Mr. Edward Lee Yuen Cheor  
Mr. Ricky Wai Kwong Yuen  
Ms. Dorathy Lee Yuen Yu\*\*  
Dr. Samson Sun, M.B.E., J.P.\*  
Mr. William Chan Chak Cheung\*  
Mr. Chan Kwok Wai\*

\* Independent non-executive directors

\*\* Non-executive director

In accordance with the Bye-laws 99 of the Company, Mr. James Lee Yuen Kui, Ms. Dorathy Lee Yuen Yu and Mr. William Chan Chak Cheung, shall retire by rotation and, being eligible, offer themselves for re-election.

Each non-executive and independent non-executive directors was appointed for a term of period up to his retirement and re-election by rotation under the Bye-laws of the Company.

### Appointment of independent non-executive directors

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

### Service contracts

Save as disclosed above, none of the directors has entered into any service agreement with any member of the Group nor are there any other service agreements proposed which will not expire or be determinable by the Company within one year without payment of compensation (other than statutory compensation).

### Directors' interests in contracts of significance

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

### Arrangements to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

**Directors' interests in shares and share options**

At 31st March, 2010, the interests of the directors, chief executives and their associates in the shares and share options of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

**(a) Ordinary shares of HK\$0.10 each**

| Name of director             | Capacity          | Personal interests | Corporate interests           | Other interests                | Total interests | Percentage of the issued share capital of the Company |
|------------------------------|-------------------|--------------------|-------------------------------|--------------------------------|-----------------|---|
| Mr. Jimmy Lee Yuen Ching     | Chairman          | —                  | —                             | 245,606,873<br><i>(note a)</i> | 245,606,873     | 25.265%   |
| Mr. Loewe Lee Bon Chi        | Managing Director | 15,000,000         | —                             | 245,606,873<br><i>(note a)</i> | 260,606,873     | 26.808%   |
| Mr. James Lee Yuen Kui       | Managing Director | 5,940              | —                             | 244,602,979<br><i>(note b)</i> | 244,608,919     | 25.162%   |
| Mr. Edward Lee Yuen Cheor    | Director          | —                  | —                             | 244,602,979<br><i>(note b)</i> | 244,602,979     | 25.162%   |
| Mr. Ricky Wai Kwong Yuen     | Director          | —                  | 37,267,767<br><i>(note d)</i> | —                              | 37,267,767      | 3.834%  |
| Dr. Samson Sun, M.B.E., J.P. | Director          | —                  | 4,988,968<br><i>(note c)</i>  | —                              | 4,988,968       | 0.513%  |

**(b) Share options**

| Name of director      | Capacity                             | Number of options held | Number of underlying shares |
|-----------------------|--------------------------------------|------------------------|-----------------------------|
| Mr. Loewe Lee Bon Chi | Managing Director (Beneficial owner) | 9,200,000              | 9,200,000                   |

Notes:

- (a) The 245,606,873 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members including Mr. Loewe Lee Bon Chi are named beneficiaries.
- (b) The 244,602,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui and Edward Lee Yuen Cheor are named beneficiaries.
- (c) The 4,988,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.
- (d) The 37,267,767 shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.

Saved as disclosed above, at 31st March, 2010, none of the director or chief executive or any of their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO.

## REPORT OF THE DIRECTORS

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### Share options

Particulars of the Company's share option scheme are set out in note 41 to the consolidated financial statements.

The following table disclosed movements in the Company's share options during the year:

| Name of director      | Date of grant | Exercise period          | Exercise price per share<br>HK\$ | Balance at<br>1.4.2009 | Granted during<br>the year | Exercised during<br>the year | Forfeited during<br>the year | Expired during<br>the year | Balance at<br>31.3.2010 |
|-----------------------|---------------|--------------------------|----------------------------------|------------------------|----------------------------|------------------------------|------------------------------|----------------------------|-------------------------|
| Mr. Loewe Lee Bon Chi | 18.3.2010     | 18.3.2010 –<br>17.3.2018 | 0.542                            | —                      | 9,200,000                  | —                            | —                            | —                          | 9,200,000               |

The closing price of the Company's share immediately before 18th March, 2010, the date of grant of the options, was HK\$0.540.

### Substantial shareholders

Other than the interests of certain directors disclosed under the heading "Directors' interests in shares, and share options" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company as at 31st March, 2010.

### Major suppliers and customers

For the year ended 31st March, 2010, the Group's five largest suppliers accounted for approximately 90.64% of the Group's purchases of which 87.39% was attributable to the largest supplier. The Group's five largest customers accounted for approximately 64.07% of the Group's turnover of which 29.68% was attributable to the largest customer.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers during the year.

### Corporate governance

The Company has complied throughout the year ended 31st March, 2010 with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Emolument policy

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

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

**Public float**

Based on the information that is publicly available to the Company and within the knowledge of the Company, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules throughout the year ended 31st March, 2010.

**Donations**

During the year, the Group made charitable donations amounting to HK\$5,000.

**Auditors**

Messrs. HLB Hodgson Impey Cheng, who was appointed as auditors of the Company by the company in 2008 upon the resignation of Messrs. Deloitte Touche Tohmatsu. There have been no other changes of auditors for the past three financial years.

The consolidated financial statements for the year were audited by Messrs. HLB Hodgson Impey Cheng who will retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

**LEE YUEN CHING JIMMY**

*Chairman*

Hong Kong, 12th July, 2010

## CORPORATE GOVERNANCE REPORT

For the year ended 31st March, 2010 (the “Year”), in the opinion of the Board, the Group applied the principles in the Code on Corporate Governance Practices (the “CG Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and complied with the code provisions in the CG Code.

### Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors who have confirmed that, during the Year, they have complied with the required standard set out in the Model Code.

### The Board

As at 31st March, 2010, the Board consisted of 9 directors including 5 executive directors, 1 non-executive director and 3 independent non-executive directors (the “INEDs”).

During the Year, the Board held 4 meetings. Attendance of each director at the Board meetings held in the Year is set out below:

| Directors                                  | Meetings Attended/Held |
|--|------------------------|
| Executive Directors:                       |                        |
| Mr. Jimmy Lee Yuen Ching (Chairman)        | 4/4                    |
| Mr. James Lee Yuen Kui (Managing Director) | 4/4                    |
| Mr. Loewe Lee Bon Chi (Managing Director)  | 4/4                    |
| Mr. Edward Lee Yuen Cheor                  | 4/4                    |
| Mr. Ricky Wai Kwong Yuen                   | 4/4                    |
| Non-Executive Director:                    |                        |
| Ms. Dorathy Lee Yuen Yu                    | 3/4                    |
| Independent Non-Executive Directors:       |                        |
| Dr. Samson Sun                             | 4/4                    |
| Mr. William Chan Chak Cheung               | 4/4                    |
| Mr. Chan Kwok Wai                          | 4/4                    |

The Board is responsible for leadership and control of the Group. The Board reviews and approves the objectives, strategies, directions and policies of the Group. The Board also reviews the Group’s performance and monitored the activities of the Group. The Board has appointed several Board committees to oversee different areas of the Company’s affairs. Details of these Board committees are given below.

The Board has delegated the responsibility of the day-to-day operations of the Group to the management of the Group.

Mr. James Lee Yuen Kui, Mr. Edward Lee Yuen Cheor and Ms. Dorathy Lee Yuen Yu are brothers and sister and they are cousins of Mr. Jimmy Lee Yuen Ching, who is the father of Mr. Loewe Lee Bon Chi.

The Company has received annual confirmations of independence from each of the INEDs and considers all INEDs are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

In accordance with the Bye-laws of the Company, at each annual general meeting (the “AGM”) one-third of the Directors shall retire from office by rotation save any Director holding office as Chairman or Managing Director. The Directors to retire in every year shall be those who have been longest in office since their last election. The retiring Directors shall be eligible for re-election.

Each non-executive and independent non-executive director was appointed for a term of period up to his retirement by rotation and re-election in accordance with the Bye-laws of the Company.

With the introduction of the CG Code and to comply with code provision A.4.2 of the CG Code, all Directors (including the Chairman and the Managing Directors of the Group) voluntarily retire at the AGM at least once every three years.

### **Chairman and Managing Directors**

The Chairman of the Board is Mr. Jimmy Lee Yuen Ching and the Managing Directors of the Group are Mr. James Lee Yuen Kui and Mr. Loewe Lee Bon Chi. The roles of the Chairman and the Managing Directors were segregated. The Chairman is primarily responsible for the management and effective performance of the Board as well as the high-level strategies determination. The Managing Directors are primarily responsible for the day-to-day management of the business of the Group.

### **Remuneration Committee**

The Board has established a remuneration committee (the “RC”) and its principal roles and functions are:

- (i) to make recommendations to the Board on the Company’s policy and structure of remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (ii) to determine the remuneration packages of the directors and senior management; and
- (iii) to review and approve performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The RC consists of 5 members. They are Dr. Samson Sun who is the Chairperson of the RC, Mr. Chan Kwok Wai, Mr. William Chan Chak Cheung, Mr. Jimmy Lee Yuen Ching and Mr. James Lee Yuen Kui.

During the Year, the RC held two meetings with full attendance. The RC reviewed the remuneration policy of the Group and the remuneration packages of the Directors and the senior management.

### **Nomination Committee**

The Board has established a nomination committee (the “NC”). The NC is responsible for developing criteria to identify, assess the qualifications of and evaluate candidates for the Board. They identify individuals suitably qualified in terms of skill, knowledge and experience to become members of the Board, taking into account of the then existing composition of the Board in terms of skill, knowledge and experience and make recommendation to the Board for approval.

The NC consists of 5 members. They are Mr. William Chan Chak Cheung who is the Chairperson of the NC, Dr. Samson Sun, Mr. Chan Kwok Wai, Mr. Jimmy Lee Yuen Ching and Mr. James Lee Yuen Kui.

During the Year, the NC held one meeting with full attendance. The NC reviewed the policy on nomination and appointment of Directors and the structure, size and composition (including skill, knowledge and experience) of the Board. The NC also assessed the independence of the INEDs.

## CORPORATE GOVERNANCE REPORT

### Audit Committee

The Board has established an audit committee (the “AC”) and its principal roles and functions are:

- (i) to make recommendation to the Board on the appointment, reappointment and removal of the Company’s auditors and to review and monitor their independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (ii) to oversee the Group’s relation with the Company’s auditors;
- (iii) to review the financial information of the Group including monitoring the integrity of the Group’s financial statements, annual reports and accounts, and interim reports and reviewing significant accounting policies; and
- (iv) to oversee the Group’s financial reporting system and internal control procedures.

The AC comprised 3 members and all of them are INEDs. Attendance of each member at the AC meetings held in the Year is set out below:

| Members                      | Meetings Attended/Held |
|------------------------------|------------------------|
| Dr. Samson Sun (Chairman)    | 4/4                    |
| Mr. William Chan Chak Cheung | 4/4                    |
| Mr. Chan Kwok Wai            | 4/4                    |

The following is a summary of the work performed by the AC during the Year:

- Reviewed the audited annual results of the Group for the year ended 31st March, 2009;
- Reviewed the interim results of the Group for the six months ended 30th September, 2009;
- Reviewed the internal audit reports covering the evaluation of internal controls of the Group; and
- Reviewed the auditors’ remuneration and their performance and confirmed their independence.

### Auditors’ Remuneration

During the Year, the remunerations payable to the Company’s external auditors for audit and non-audit services performed by HLB Hodgson Impey Cheng are set out below:

| Services rendered  | Fees payable<br>HK\$’000 |
|--------------------|--------------------------|
| Audit services     | 1,000                    |
| Non-audit services | 109                      |
| Total              | <u>1,109</u>             |

The non-audit services are relating to taxation services.

The remuneration payable to other auditors of the Group in respect of audit services for the year ended 31st March, 2010 amounted to HK\$509,900.

**Accountability and Audit**

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial year which give a true and fair view of the state of affairs of the Group. The reporting responsibilities of the Company's auditors are set out in this annual report on page 20.

The Board has conducted a review of the effectiveness of the system of internal control of the Group. The Board considered the Group has effective internal control system. Nevertheless, the Board will continue to improve the Group's internal control system through periodic review and recommendation from external auditors identified during their audit.

# INDEPENDENT AUDITORS' REPORT



Chartered Accountants  
Certified Public Accountants

## TO THE SHAREHOLDERS OF NATIONAL ELECTRONICS HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

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

We have audited the consolidated financial statements of National Electronics Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 21 to 85, which comprise the consolidated and Company’s statements of financial position as at 31st March, 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors’ responsibility for the consolidated financial statements

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

### Auditors’ responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2010 and of the Group’s profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### HLB Hodgson Impey Cheng

Chartered Accountants  
Certified Public Accountants  
Hong Kong, 12th July, 2010

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March, 2010 (in HK Dollars)

|   | Notes | 2010                 | 2009            |
|---|-------|----------------------|-----------------|
| Revenue   | 7     | <b>1,113,703,911</b> | 2,301,703,974   |
| Cost of sales   |       | <b>(982,172,996)</b> | (2,040,409,548) |
| Gross profit  |       | <b>131,530,915</b>   | 261,294,426     |
| Other income and gains  | 8     | <b>27,717,264</b>    | 5,648,616       |
| Increase in fair value of investment properties                                   | 15    | <b>57,000,846</b>    | 62,972,951      |
| Gain/(Loss) on disposal of property, plant and equipment                          |       | <b>22,389,292</b>    | (384,492)       |
| Impairment loss recognised in respect of<br>properties under development for sale | 24    | —                    | (46,628,663)    |
| Distribution costs  |       | <b>(7,247,855)</b>   | (7,793,323)     |
| Administrative expenses   |       | <b>(124,781,955)</b> | (145,716,267)   |
| Finance costs   | 9     | <b>(15,321,717)</b>  | (27,525,838)    |
| Share of results of associates  | 19    | <b>43,184,139</b>    | 35,677,947      |
| Share of results of jointly controlled entities                                   | 20    | <b>(398)</b>         | —               |
| Profit before taxation  | 10    | <b>134,470,531</b>   | 137,545,357     |
| Income tax expenses   | 12    | <b>(12,754,218)</b>  | (28,713,871)    |
| <b>Profit for the year</b>  |       | <b>121,716,313</b>   | 108,831,486     |
| Other comprehensive income  |       |                      |                 |
| Exchange differences arising on translating foreign operations                    |       | <b>9,836,182</b>     | (12,314,827)    |
| Fair value loss on available-for-sale investments                                 |       | <b>(30,000)</b>      | (6,610,000)     |
| Reserve released on disposal of available-for-sale investments                    |       | <b>(290,000)</b>     | (490,000)       |
| Other comprehensive income for the year   |       | <b>9,516,182</b>     | (19,414,827)    |
| Total comprehensive income for the year   |       | <b>131,232,495</b>   | 89,416,659      |
| <b>Earnings per share – Basic and diluted</b>                                     | 14    | <b>12.5 HK cents</b> | 11.1 HK cents   |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31st March, 2010 (in HK Dollars)

|  | Notes | 2010                 | 2009          |
|--|-------|----------------------|---------------|
| <b>Non-current assets</b>                    |       |                      |               |
| Investment properties                        | 15    | <b>881,108,320</b>   | 1,045,505,000 |
| Property, plant and equipment                | 16    | <b>131,551,423</b>   | 118,266,700   |
| Prepaid lease payments                       | 17    | <b>222,656,249</b>   | 252,233,362   |
| Interests in associates                      | 19    | <b>96,912,859</b>    | 53,728,720    |
| Interests in jointly controlled entities     | 20    | —                    | —             |
| Available-for-sale investments               | 21    | <b>15,050,000</b>    | 16,000,000    |
|  |       | <b>1,347,278,851</b> | 1,485,733,782 |
| <b>Current assets</b>                        |       |                      |               |
| Inventories                                  | 22    | <b>113,148,116</b>   | 98,946,597    |
| Prepaid lease payments                       | 17    | <b>4,171,031</b>     | 4,291,278     |
| Investment held for trading                  | 23    | <b>4,118,611</b>     | 4,071,034     |
| Inventory of unsold properties               |       | <b>230,077,423</b>   | 170,767,133   |
| Bills receivables                            | 26    | <b>8,100,000</b>     | 9,000,000     |
| Trade receivables, deposits and prepayments  | 26    | <b>66,608,260</b>    | 61,212,391    |
| Amounts due from associates                  | 19    | <b>143,489,370</b>   | 142,049,370   |
| Amounts due from jointly controlled entities | 20    | <b>107,499,602</b>   | —             |
| Tax recoverable                              |       | <b>1,335,043</b>     | 1,126,683     |
| Bank balances and cash                       | 27    | <b>134,840,700</b>   | 139,549,296   |
|  |       | <b>813,388,156</b>   | 631,013,782   |
| <b>Current liabilities</b>                   |       |                      |               |
| Trade payables and accrued expenses          | 28    | <b>80,762,351</b>    | 109,188,218   |
| Bills payables                               | 28    | <b>95,509,146</b>    | 37,733,076    |
| Tax payable                                  |       | <b>4,384,960</b>     | 16,674,191    |
| Derivative financial instruments             | 29    | <b>6,073,845</b>     | 5,695,010     |
| Obligations under finance leases             | 30    | <b>3,533,304</b>     | 3,494,980     |
| Bank loans                                   | 31    | <b>606,121,292</b>   | 444,464,657   |
|  |       | <b>796,384,898</b>   | 617,250,132   |
| <b>Net current assets</b>                    |       | <b>17,003,258</b>    | 13,763,650    |
| <b>Total assets less current liabilities</b> |       | <b>1,364,282,109</b> | 1,499,497,432 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31st March, 2010 (in HK Dollars)

|                                     | Notes | 2010                 | 2009          |
|-------------------------------------|-------|----------------------|---------------|
| <b>Capital and reserves</b>         |       |                      |               |
| Share capital                       | 32    | <b>97,212,993</b>    | 97,260,193    |
| Reserves                            |       | <b>739,117,817</b>   | 626,106,853   |
| Total equity                        |       | <b>836,330,810</b>   | 723,367,046   |
| <b>Non-current liabilities</b>      |       |                      |               |
| Provision for long service payments | 34    | <b>3,750,100</b>     | 3,571,179     |
| Derivative financial instruments    | 29    | <b>11,626,837</b>    | 11,347,375    |
| Obligations under finance leases    | 30    | <b>2,359,938</b>     | 3,492,691     |
| Bank loans                          | 31    | <b>468,720,771</b>   | 726,883,327   |
| Deferred tax liabilities            | 35    | <b>41,493,653</b>    | 30,835,814    |
|                                     |       | <b>527,951,299</b>   | 776,130,386   |
|                                     |       | <b>1,364,282,109</b> | 1,499,497,432 |

The consolidated financial statements on pages 21 to 85 were approved and authorised for issue by the Board of Directors on 12th July, 2010 and are signed on its behalf by:

**JIMMY LEE YUEN CHING**  
Director

**JAMES LEE YUEN KUI**  
Director

## STATEMENT OF FINANCIAL POSITION

For the year ended 31st March, 2010 (in HK Dollars)

|                                | Notes | 2010                 | 2009         |
|--------------------------------|-------|----------------------|--------------|
| <b>Non-current assets</b>      |       |                      |              |
| Interests in subsidiaries      | 18    | <b>387,955,526</b>   | 359,945,968  |
| Available-for-sale investments | 21    | <b>2,000,000</b>     | 2,000,000    |
|                                |       | <b>389,955,526</b>   | 361,945,968  |
| <b>Current assets</b>          |       |                      |              |
| Amount due from a subsidiary   | 25    | <b>628,893</b>       | 691,586      |
| Bank balances                  |       | <b>2,674,835</b>     | 2,352,055    |
|                                |       | <b>3,303,728</b>     | 3,043,641    |
| <b>Current liabilities</b>     |       |                      |              |
| Accrued expenses               |       | <b>3,662,440</b>     | 3,290,012    |
| Financial guarantee contracts  |       | <b>28,009,558</b>    | 41,534,371   |
| Amount due to a subsidiary     | 25    | <b>73,759,254</b>    | 53,289,920   |
|                                |       | <b>105,431,252</b>   | 98,114,303   |
| <b>Net current liabilities</b> |       | <b>(102,127,524)</b> | (95,070,662) |
| <b>Net assets</b>              |       | <b>287,828,002</b>   | 266,875,306  |
| <b>Capital and reserves</b>    |       |                      |              |
| Share capital                  | 32    | <b>97,212,993</b>    | 97,260,193   |
| Reserves                       | 33    | <b>190,615,009</b>   | 169,615,113  |
| Total equity                   |       | <b>287,828,002</b>   | 266,875,306  |

The financial statements on pages 21 to 85 were approved and authorised for issue by the Board of Directors on 12th July, 2010 and are signed on its behalf by:

**JIMMY LEE YUEN CHING**  
Director

**JAMES LEE YUEN KUI**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2010 (in HK Dollars)

|   | Share<br>capital  | Share<br>premium  | Exchange<br>reserve | Investment<br>revaluation<br>reserve | Share<br>options<br>reserve | Contributed<br>surplus | Capital<br>redemption<br>reserve | Retained<br>profits | Total              |
|---|-------------------|-------------------|---------------------|--------------------------------------|-----------------------------|------------------------|----------------------------------|---------------------|--------------------|
| At 1st April, 2008                                    | 99,851,793        | 22,785,730        | (9,729,314)         | 12,037,500                           | —                           | 66,141,751             | 29,469,040                       | 448,040,134         | 668,596,634        |
| Profit for the year                                   | —                 | —                 | —                   | —                                    | —                           | —                      | —                                | 108,831,486         | 108,831,486        |
| Other comprehensive<br>income for the year            | —                 | —                 | (12,314,827)        | (7,100,000)                          | —                           | —                      | —                                | —                   | (19,414,827)       |
| Total comprehensive<br>income for the year            | —                 | —                 | (12,314,827)        | (7,100,000)                          | —                           | —                      | —                                | 108,831,486         | 89,416,659         |
| Dividend paid   | —                 | —                 | —                   | —                                    | —                           | —                      | —                                | (24,717,286)        | (24,717,286)       |
| Repurchase of own shares                              | (2,591,600)       | —                 | —                   | —                                    | —                           | —                      | 2,591,600                        | (9,928,961)         | (9,928,961)        |
| At 31st March, 2009                                   | 97,260,193        | 22,785,730        | (22,044,141)        | 4,937,500                            | —                           | 66,141,751             | 32,060,640                       | 522,225,373         | 723,367,046        |
| Profit for the year                                   | —                 | —                 | —                   | —                                    | —                           | —                      | —                                | 121,716,313         | 121,716,313        |
| Other comprehensive<br>income for the year            | —                 | —                 | 9,836,182           | (320,000)                            | —                           | —                      | —                                | —                   | 9,516,182          |
| Total comprehensive<br>income for the year            | —                 | —                 | 9,836,182           | (320,000)                            | —                           | —                      | —                                | 121,716,313         | 131,232,495        |
| Recognition of equity-settled<br>share-based payments | —                 | —                 | —                   | —                                    | 1,365,000                   | —                      | —                                | —                   | 1,365,000          |
| Dividend paid   | —                 | —                 | —                   | —                                    | —                           | —                      | —                                | (19,449,453)        | (19,449,453)       |
| Repurchase of own shares                              | (47,200)          | —                 | —                   | —                                    | —                           | —                      | 47,200                           | (184,278)           | (184,278)          |
| At 31st March, 2010                                   | <b>97,212,993</b> | <b>22,785,730</b> | <b>(12,207,959)</b> | <b>4,617,500</b>                     | <b>1,365,000</b>            | <b>66,141,751</b>      | <b>32,107,840</b>                | <b>624,307,955</b>  | <b>836,330,810</b> |

The contributed surplus represents the difference between the nominal amount of the shares issued by the Company and the shareholders' funds of the subsidiaries acquired pursuant to the Group reorganisation undertaken prior to the listing of the Company's shares.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March, 2010 (in HK Dollars)

|  | 2010                | 2009          |
|--|---------------------|---------------|
| <b>Operating activities</b>  |                     |               |
| Profit before taxation   | <b>134,470,531</b>  | 137,545,357   |
| Adjustments for:   |                     |               |
| Finance costs  | <b>15,321,717</b>   | 27,525,838    |
| Share of results of associates   | <b>(43,184,139)</b> | (35,677,947)  |
| Share of results of jointly-controlled entities                                | <b>398</b>          | —             |
| Impairment loss recognised in respect of trade receivables                     | <b>826</b>          | 1,463,257     |
| Impairment loss recognised in respect of other receivables                     | <b>645,893</b>      | 182,013       |
| Impairment loss recognised in respect of properties under development for sale | <b>—</b>            | 46,628,663    |
| (Reversals)/Write-down of inventories  | <b>(1,427,102)</b>  | 3,148,204     |
| Provision for long service payments  | <b>586,521</b>      | 396,916       |
| Amortisation of prepaid lease payments   | <b>4,061,400</b>    | 4,396,647     |
| Depreciation of property, plant and equipment                                  | <b>26,473,406</b>   | 22,463,902    |
| Bank interest income   | <b>(265,292)</b>    | (1,451,748)   |
| Dividend income from unlisted investments                                      | <b>—</b>            | (12,121)      |
| Share option expenses  | <b>1,365,000</b>    | —             |
| Increase in fair value of investment properties                                | <b>(57,000,846)</b> | (62,972,951)  |
| (Gain)/Loss on disposal of property, plant and equipment                       | <b>(22,389,292)</b> | 384,492       |
| Gain on disposal of available-for-sale investments                             | <b>(37,643)</b>     | (490,000)     |
| Loss on disposal of investment properties                                      | <b>1,690,209</b>    | —             |
| Gain on fair value changes of investment held for trading                      | <b>—</b>            | (644,693)     |
| Loss on fair value changes of derivative financial instruments                 | <b>8,108,365</b>    | 17,042,385    |
|  | <b>68,419,952</b>   | 159,928,214   |
| <b>Operating cash flows before movements in working capital</b>                |                     |               |
| (Increase)/Decrease in inventories   | <b>(12,774,417)</b> | 51,442,768    |
| Decrease/(Increase) in inventory of unsold properties                          | <b>93,858,306</b>   | (155,065,527) |
| Decrease in properties under development for sale                              | <b>—</b>            | 987,630,757   |
| Decrease in bills receivables  | <b>900,000</b>      | 3,000,000     |
| (Increase)/Decrease in trade receivables, deposits and prepayments             | <b>(6,042,588)</b>  | 38,563,111    |
| Decrease in trade payables and accrued expenses                                | <b>(28,344,926)</b> | (65,954,090)  |
| Decrease in derivative financial instruments                                   | <b>(7,450,068)</b>  | (457,012)     |
| Increase/(Decrease) in bills payables  | <b>57,776,070</b>   | (41,842,559)  |
| Decrease in deposits held in trust for property under development for sale     | <b>—</b>            | 35,638,785    |
| Utilisation of provision for long service payments                             | <b>(407,600)</b>    | (512,994)     |
| Decrease in deposit received from sale of properties under development         | <b>—</b>            | (403,735,258) |
|  | <b>165,934,729</b>  | 608,636,195   |
| Cash generated from operations   |                     |               |
| Hong Kong Profits Tax paid   | <b>(2,689,029)</b>  | (900,835)     |
| Overseas tax paid  | <b>(15,401,399)</b> | (2,919,724)   |
|  | <b>147,844,301</b>  | 604,815,636   |
| <b>Net cash generated from operating activities</b>                            |                     |               |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st March, 2010 (in HK Dollars)

|   | 2010                 | 2009                 |
|---|----------------------|----------------------|
| <b>Investing activities</b>                                   |                      |                      |
| Capital contribution to jointly-controlled entities           | (398)                | —                    |
| Additions to investment properties                            | (158,489,012)        | (67,403,564)         |
| Purchase of property, plant and equipment                     | (45,675,796)         | (38,329,453)         |
| Advance to associates   | (1,440,000)          | (1,970,000)          |
| Advance to jointly controlled entities                        | (107,499,602)        | —                    |
| Dividend received from unlisted investment                    | —                    | 12,121               |
| Proceeds from disposal of available-for-sale investments      | 667,643              | 570,000              |
| Proceeds from disposal of investment properties               | 294,309,791          | —                    |
| Proceeds from disposal of property, plant and equipment       | 26,672,725           | 7,072,444            |
| Interest received   | 265,292              | 1,451,748            |
| <b>Net cash generated from/(used in) investing activities</b> | <b>8,810,643</b>     | <b>(98,596,704)</b>  |
| <b>Financing activities</b>                                   |                      |                      |
| New bank loans raised   | 199,256,524          | 158,715,806          |
| Interest paid   | (19,569,536)         | (35,862,909)         |
| Dividend paid   | (19,449,453)         | (24,717,286)         |
| Repayment of bank loans                                       | (325,418,279)        | (541,748,858)        |
| Repayment of obligations under finance leases                 | (1,094,429)          | (4,907,483)          |
| Repurchase of own shares                                      | (184,278)            | (9,928,961)          |
| <b>Net cash used in financing activities</b>                  | <b>(166,459,451)</b> | <b>(458,449,691)</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b>   | <b>(9,804,507)</b>   | <b>47,769,241</b>    |
| <b>Cash and cash equivalents at 1st April</b>                 | <b>139,549,296</b>   | <b>91,950,237</b>    |
| <b>Effect of foreign exchange rate changes</b>                | <b>5,095,911</b>     | <b>(170,182)</b>     |
| <b>Cash and cash equivalents at 31st March</b>                | <b>134,840,700</b>   | <b>139,549,296</b>   |
| <b>Analysis of the balances of cash and cash equivalents:</b> |                      |                      |
| Bank balances and cash  | 134,840,700          | 139,549,296          |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information to the annual report.

The principal activities of the Company and its subsidiaries (the “Group”) are the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and property investment.

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

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are or have become effective.

|   |  |
|---|--|
| HKAS 1 (Revised 2007)                     | Presentation of Financial Statements   |
| HKAS 23 (Revised 2007)                    | Borrowing Costs  |
| HKAS 32 & 1 (Amendments)                  | Puttable Financial Instruments and Obligations Arising on Liquidation  |
| HKFRS 1 & HKAS27<br>(Amendments)          | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate  |
| HKFRS 2 (Amendment)                       | Vesting Conditions and Cancellations   |
| HKFRS 7 (Amendment)                       | Improving Disclosures about Financial Instruments  |
| HKFRS 8                                   | Operating Segments   |
| HK(IFRIC)-Int 9 & HKAS 39<br>(Amendments) | Embedded Derivatives   |
| HK(IFRIC)-Int 13                          | Customer Loyalty Programmes  |
| HK(IFRIC)-Int 15                          | Agreements for the Construction of Real Estate   |
| HK(IFRIC)-Int 16                          | Hedges of a Net Investment in a Foreign Operation  |
| HK(IFRIC)-Int 18                          | Transfers of Assets from Customers   |
| HKFRSs (Amendments)                       | Improvements to HKFRSs issued in 2008, except for the amendment to<br>HKFRS 5 that is effective for annual periods beginning or after 1st July, 2009 |
| HKFRSs (Amendments)                       | Improvements to HKFRSs issued in 2009 in relation to the amendment to<br>paragraph 80 of HKAS 39   |

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

### **New and revised HKFRSs affecting presentation and disclosure only**

#### **HKAS 1 (Revised 2007) Presentation of Financial Statements**

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

### HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group’s reportable segments.

### Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

|                              |  |
|------------------------------|--|
| HKFRSs (Amendments)          | Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008 <sup>1</sup>                  |
| HKFRSs (Amendments)          | Improvements to HKFRSs 2009 <sup>2</sup>   |
| HKFRSs (Amendment)           | Improvements to HKFRSs 2010 <sup>8</sup>   |
| HKAS 24 (Revised)            | Related Party Disclosures <sup>5</sup>   |
| HKAS 27 (Revised)            | Consolidated and Separate Financial Statements <sup>1</sup>                                |
| HKAS 32 (Amendment)          | Classification of Rights Issues <sup>4</sup>   |
| HKAS 39 (Amendment)          | Eligible Hedged Items <sup>1</sup>   |
| HKFRS 1 (Amendment)          | Additional Exemptions for First-time Adopters <sup>3</sup>                                 |
| HKFRS 1 (Amendment)          | Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters <sup>6</sup> |
| HKFRS 2 (Amendment)          | Group Cash-settled Share-based Payment Transactions <sup>3</sup>                           |
| HKFRS 3 (Revised)            | Business Combinations <sup>1</sup>   |
| HKFRS 8 (Amendment)          | Disclosure of information about segment assets <sup>3</sup>                                |
| HKFRS 9                      | Financial Instruments <sup>7</sup>   |
| HK(IFRIC)-Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement <sup>5</sup>                                  |
| HK(IFRIC)-Int 17             | Distributions of Non-cash Assets to Owners <sup>1</sup>                                    |
| HK(IFRIC)-Int 19             | Extinguishing Financial Liabilities with Equity Instruments <sup>6</sup>                   |

<sup>1</sup> Effective for annual periods beginning on or after 1st July, 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st July, 2009 and 1st January, 2010, as appropriate

<sup>3</sup> Effective for annual periods beginning on or after 1st January, 2010

<sup>4</sup> Effective for annual periods beginning on or after 1st February, 2010

<sup>5</sup> Effective for annual periods beginning on or after 1st January, 2011

<sup>6</sup> Effective for annual periods beginning on or after 1st July, 2010

<sup>7</sup> Effective for annual periods beginning on or after 1st January, 2013

<sup>8</sup> Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent’s ownership interest in a subsidiary.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group’s financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31st March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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

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

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

#### **Interests in subsidiaries**

Interests in subsidiaries are included in the Company's statement of financial position at cost less any identified impairment loss.

#### **Interests in associates**

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

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

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided net of discounts during the year.

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

Revenue arising from the sale of completed properties are recognised upon the completion of the sale and purchase agreement.

When a development property is sold in advance of completion, revenue is only recognised upon the completion of the sale and purchase agreement. Deposits and installments received from purchasers prior to this stage are included in liabilities.

Rental income, including rentals invoiced in advance from properties let under operating leases, is recognised on a straight line basis over the terms of the relevant leases. 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.

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

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 on initial recognition.

Management fee income is recognised when services are rendered.

#### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purpose are carried at cost, less recognised impairment loss, if any. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the terms of the relevant lease, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment determined as the difference between the net disposal proceeds and the carrying amount of the assets is recognised in profit or loss in the period in which the item is derecognised.

#### Leasing

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

##### The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

##### The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see below).

Operating lease payments are recognised as an expense 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.

##### Leasehold land and building

The land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### **Properties under development for sale**

Properties under development for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of properties under development for sale includes land cost, construction cost, borrowing costs capitalised and other direct development expenditure.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Financial instruments**

Financial assets and financial liabilities are recognised 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 or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### **Financial assets**

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

#### **Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than financial assets classified as at fair value through profit or loss, of which interest income is included in net gains and losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### *Financial assets (Cont'd)*

##### Investment held for trading

A financial asset is classified as held for trading if:

- (a) it has been acquired principally for the purpose of selling in the near future; or
- (b) it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- (c) It is a derivative that is not designated and effective as a hedging instrument.

Investment held for trading are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

##### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including bills receivables, trade receivables and deposits, amounts due from associates, amount due from jointly controlled entities and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment loss on financial assets below).

##### Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****Financial instruments (Cont'd)****Financial assets (Cont'd)**

## Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- (a) significant financial difficulty of the issuer or counterparty; or
- (b) default or delinquency in interest or principal payments; or
- (c) it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 – 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investments revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of investment can be objectively related to an event occurring after the recognition of the impairment loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Financial instruments (Cont'd)

##### *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 entity after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

##### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability classified as at fair value through profit or loss, of which the interest expense is included in net gains and losses.

##### Financial liabilities at fair value through profit or loss

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

A financial liability is classified as held for trading if:

- (a) it has been included principally for the purpose of repurchasing it in the near future; or
- (b) on initial recognition it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- (c) it is a derivative that is not designated and effective as a hedging instrument.

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

- (a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- (b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- (c) it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value arising on remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****Financial instruments (Cont'd)*****Financial liabilities and equity (Cont'd)*****Other financial liabilities**

Other financial liabilities (including trade payables, bills payables and bank loans) are subsequently measured at amortised cost using the effective interest method.

**Equity instruments**

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

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

***Derivative financial instruments***

The Group's derivative financial instrument does not qualify for hedge accounting. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair value of such derivatives are recognised directly in profit or loss.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire or, when a financial asset is transferred, the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Unsold completed properties are stated at the lower of cost and net realisable value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Impairment of tangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

#### Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

#### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows where the effect is material.

**3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)****Taxation**

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and in 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises 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 associated with 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

**Retirement benefit costs**

The contributions payable to the retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

For provision for long service payments, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations carried out at the end of each reporting period. Actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the defined benefit obligation over the average future working life of the participating employees. The amount recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Share-based payment transactions

##### *Share options granted to employees in an equity-settled share-based payment transaction*

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve). At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in note 3, management has made the following estimations that have effect on the amounts recognised in the consolidated financial statements.

The key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of giving a rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Allowance of doubtful debts

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. At 31st March, 2010, the carrying amount of trade receivables is approximately HK\$37,485,105.

#### Fair value of derivative financial instruments

The Group relies on bank valuations to determine the fair value of derivatives financial instruments which in turn are determined using various valuation techniques, including discounted cash flow models and option pricing models. Judgement is required in the calculation of such valuations. Changes in the underlying assumptions could materially impact profit or loss.

**5. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt (which includes bank loans), cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

**Debt to equity ratio**

The Group's senior management reviews the capital structure on a semi-annual basis. As part of this review, the senior management considers the cost of capital and the risks associated with each class of capital.

The debt to equity ratio at the year end was as follows:

|                      | <b>2010</b>        | 2009        |
|----------------------|--------------------|-------------|
| Debt (i)             | <b>468,720,771</b> | 726,883,327 |
| Equity (ii)          | <b>836,330,810</b> | 723,367,046 |
| Debt to equity ratio | <b>56%</b>         | 100%        |

(i) Debt comprises non-current bank loans as detailed in note 31.

(ii) Equity includes all capital and reserves of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS

#### a. Categories of financial instruments

2010

##### *Financial assets*

|  | Held for trading | Loans and receivables | Available for sale financial assets | Total              |
|--|------------------|-----------------------|-------------------------------------|--------------------|
| Available-for-sale investments               | —                | —                     | 15,050,000                          | 15,050,000         |
| Investment held for trading                  | 4,118,611        | —                     | —                                   | 4,118,611          |
| Bills receivables                            | —                | 8,100,000             | —                                   | 8,100,000          |
| Trade receivables and deposits               | —                | 62,568,927            | —                                   | 62,568,927         |
| Amounts due from associates                  | —                | 143,489,370           | —                                   | 143,489,370        |
| Amounts due from jointly controlled entities | —                | 107,499,602           | —                                   | 107,499,602        |
| Bank balances                                | —                | 134,749,754           | —                                   | 134,749,754        |
|  | <b>4,118,611</b> | <b>456,407,653</b>    | <b>15,050,000</b>                   | <b>475,576,264</b> |

##### *Financial liabilities*

|                                     | Held for trading  | Financial liabilities at amortised cost | Total                |
|-------------------------------------|-------------------|---|----------------------|
| Trade payables and accrued expenses | —                 | 80,762,351                              | 80,762,351           |
| Bills payables                      | —                 | 95,509,146                              | 95,509,146           |
| Derivative financial instruments    | 17,700,682        | —                                       | 17,700,682           |
| Obligations under finance leases    | —                 | 5,893,242                               | 5,893,242            |
| Bank loans                          | —                 | 1,074,842,063                           | 1,074,842,063        |
|                                     | <b>17,700,682</b> | <b>1,257,006,802</b>                    | <b>1,274,707,484</b> |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### a. Categories of financial instruments (Cont'd)

2009

##### *Financial assets*

|                                | Held for<br>trading | Loans and<br>receivables | Available<br>for sale<br>financial<br>assets | Total       |
|--------------------------------|---------------------|--------------------------|--|-------------|
| Available-for-sale investments | —                   | —                        | 16,000,000                                   | 16,000,000  |
| Investment held for trading    | 4,071,034           | —                        | —  | 4,071,034   |
| Bills receivables              | —                   | 9,000,000                | —  | 9,000,000   |
| Trade receivables and deposits | —                   | 58,691,258               | —  | 58,691,258  |
| Amounts due from associates    | —                   | 142,049,370              | —  | 142,049,370 |
| Bank balances                  | —                   | 139,403,457              | —  | 139,403,457 |
|                                | 4,071,034           | 349,144,085              | 16,000,000                                   | 369,215,119 |

##### *Financial liabilities*

|                                     | Held for<br>trading | Financial<br>liabilities at<br>amortised<br>cost | Total         |
|-------------------------------------|---------------------|--|---------------|
| Trade payables and accrued expenses | —                   | 109,188,218                                      | 109,188,218   |
| Bills payables                      | —                   | 37,733,076                                       | 37,733,076    |
| Derivative financial instruments    | 17,042,385          | —  | 17,042,385    |
| Obligations under finance leases    | —                   | 6,987,671  | 6,987,671     |
| Bank loans                          | —                   | 1,171,347,984                                    | 1,171,347,984 |
|                                     | 17,042,385          | 1,325,256,949                                    | 1,342,299,334 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### b. Financial risk management objectives and policies

The Group's senior management monitors and manages the financial risks relating to the operations of the Group through internal analysis which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by using derivative financial instruments to mitigate these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors in relation to the use of financial derivatives and non-derivative financial instruments and the investment of excess liquidity.

#### Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and equity prices. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and interest rate risks, including:

- foreign currency forward contracts to minimise the exchange rate risk in relation to foreign currency transactions; and
- interest rate swaps to mitigate the cash flow interest rate risk.

#### (i) Foreign currency risk management

Several subsidiaries of the Group have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 18% of the Group's sales are denominated in currencies other than the functional currency of the group entity making the sale, whilst almost 18% of costs are denominated in the group entity's respective functional currencies.

The carrying amounts of the Group's foreign currencies denominated monetary assets and monetary liabilities at the reporting date are as follows:

|     | Liabilities        |             | Assets            |            |
|-----|--------------------|-------------|-------------------|------------|
|     | 2010               | 2009        | 2010              | 2009       |
| CAD | <b>79,498,000</b>  | 160,544,000 | <b>63,148,000</b> | 64,883,000 |
| JPY | <b>156,554,000</b> | 76,892,000  | <b>26,147,000</b> | 34,000     |
| USD | <b>141,333,000</b> | 100,953,000 | <b>60,234,000</b> | 61,114,000 |
| RMB | <b>10,809,000</b>  | 2,350,000   | <b>9,819,000</b>  | 12,874,000 |

**6. FINANCIAL INSTRUMENTS (Cont'd)**

**b. Financial risk management objectives and policies (Cont'd)**

**Market risk (Cont'd)**

(i) Foreign currency risk management (Cont'd)

*Sensitivity analysis*

As USD is pegged with Hong Kong dollars, the Group's currency risk in relation to the monetary assets and monetary liabilities denominated in USD is expected to be minimal. The Group is mainly exposed to the effects of fluctuation in JPY and CAD.

The following table details the Group's sensitivity to a 5% (2009: 5%) increase and decrease in the Hong Kong dollars against the relevant foreign currencies. 5% (2009: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts its translation at the period end for a 5% (2009: 5%) change in foreign currency rates. The sensitivity analysis includes external loans as well as loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower. A positive number below indicates an increase in profit where the Hong Kong dollars strengthen 5% (2009: 5%) against the relevant currencies. For a 5% (2009: 5%) weakening of the Hong Kong dollars against the relevant currencies, there would be an equal and opposite impact on the profit and the balances below would be negative.

|                | <b>Impact of JPY (i)</b> |           | <b>Impact of CAD (ii)</b> |           |
|----------------|--------------------------|-----------|---------------------------|-----------|
|                | <b>2010</b>              | 2009      | <b>2010</b>               | 2009      |
| Profit or loss | <b>7,819,000</b>         | 3,835,000 | <b>5,570,000</b>          | 3,798,000 |

(i) This is as a result of the purchase of inventories denominated in JPY.

(ii) This is mainly attributable to the exposure outstanding on loans to foreign operation within the Group denominated in CAD.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### b. Financial risk management objectives and policies (Cont'd)

##### Market risk (Cont'd)

##### (ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to fixed-rate short term bank deposits and fixed-rate debt securities, while the Group's cash flow interest rate risk relates primarily to variable-rate borrowings (see note 31 for details of these borrowings).

In relation to these variable-rate bank loans, the Group enters into interest rate swaps to minimise against its exposures to changes in interest rate of those bank loans.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR or LIBOR arising from the Group's Hong Kong dollar denominated borrowings.

##### *Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank loans at the end of the reporting period. For variable-rate bank loans, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. 50 basis points (2009: 50 basis points) increase or decrease in HIBOR or LIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2009: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year ended 31st March, 2010 would decrease/increase by approximately HK\$2,880,000 (2009: decrease/increase by HK\$3,000,000).

**6. FINANCIAL INSTRUMENTS (Cont'd)**

**b. Financial risk management objectives and policies (Cont'd)**

**Market risk (Cont'd)**

(iii) Other price risks

The Group is exposed to price risk through its available-for-sale investments and investment held for trading. The management monitors the price risk and take appropriate actions should the need arise.

*Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to price risk at the reporting date.

If prices had been 5% (2009: 5%) higher/lower, net profit for the year ended 31st March, 2010 would increase/decrease by HK\$205,931 (2009: increase/decrease by HK\$203,552). This is mainly due to the changes in fair value of investment held for trading.

If prices had been 5% (2009: 5%) higher/lower, other equity reserves would increase/decrease by HK\$752,500 (2009: increase/decrease by HK\$800,000) as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to prices has not changed significantly from prior year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### b. Financial risk management objectives and policies (Cont'd)

##### Credit risk

At 31st March, 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amounts of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and debt investments at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas.

The table below shows the balance of two major counterparties (including liquid funds) at the end of the reporting date using the Moody's credit rating symbols.

| Counterparty   | Location  | Rating | 2010<br>Carrying<br>amount | 2009<br>Carrying<br>amount |
|--|-----------|--------|----------------------------|----------------------------|
| The Hongkong and Shanghai Banking Corporation Limited  | Hong Kong | Aa2    | <b>30,832,379</b>          | 35,236,000                 |
| Industrial and Commercial Bank of China (Asia) Limited | Hong Kong | A1     | <b>25,347,463</b>          | 42,961,000                 |

##### Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring cash flows and matching the maturity profiles of financial assets and liabilities.

At 31st March, 2010, the Group has available unutilised overdrafts and short, medium and long term bank loan facilities of approximately HK\$16,000,000 (2009: HK\$17,000,000) and HK\$414,000,000 (2009: HK\$496,000,000) respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 6. FINANCIAL INSTRUMENTS (Cont'd)

### b. Financial risk management objectives and policies (Cont'd)

#### Liquidity risk management (Cont'd)

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. (The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives).

| 2010  | Less than<br>1 year | Over<br>1 year<br>to<br>2 years | Over<br>2 years<br>to<br>5 years | Over<br>5 years | Total<br>undiscounted<br>cash flows | Total<br>carrying<br>amount<br>as at<br>31/3/2010 |
|---|---------------------|---------------------------------|----------------------------------|-----------------|-------------------------------------|---|
| <b>Non-derivative financial liabilities</b> |                     |                                 |                                  |                 |                                     |   |
| Trade payables and accrued expenses         | 80,762,351          | —                               | —                                | —               | 80,762,351                          | 80,762,351  |
| Bills payables                              | 95,509,146          | —                               | —                                | —               | 95,509,146                          | 95,509,146  |
| Obligations under finance leases            | 3,838,447           | 2,092,469                       | 485,692                          | —               | 6,416,608                           | 5,893,242   |
| Bank loans                                  | 628,991,039         | 160,706,994                     | 151,279,854                      | 213,345,382     | 1,154,323,269                       | 1,074,842,063                                     |
| <b>Derivative financial liabilities</b>     |                     |                                 |                                  |                 |                                     |   |
| Foreign currency forward contracts          | 260,426             | —                               | —                                | —               | 260,426                             | 260,426   |
| Interest rate swaps                         | 5,813,419           | 6,111,854                       | 6,347,795                        | —               | 18,273,068                          | 17,440,256  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### b. Financial risk management objectives and policies (Cont'd)

##### Liquidity risk management (Cont'd)

| 2009                                 | Less than<br>1 year | Over<br>1 year<br>to<br>2 years | Over<br>2 years<br>to<br>5 years | Over<br>5 years | Total<br>undiscounted<br>cash flows | Total<br>carrying<br>amount<br>as at<br>31/3/2009 |
|--------------------------------------|---------------------|---------------------------------|----------------------------------|-----------------|-------------------------------------|---|
| Non-derivative financial liabilities |                     |                                 |                                  |                 |                                     |   |
| Trade payables and accrued expenses  | 109,188,218         | —                               | —                                | —               | 109,188,218                         | 109,188,218                                       |
| Bills payables                       | 37,733,076          | —                               | —                                | —               | 37,733,076                          | 37,733,076  |
| Obligations under finance leases     | 3,777,257           | 2,778,380                       | 1,027,661                        | —               | 7,583,298                           | 6,987,671   |
| Bank loans                           | 474,249,907         | 177,092,166                     | 291,322,676                      | 352,970,376     | 1,295,635,125                       | 1,171,347,984                                     |
| Derivative financial liabilities     |                     |                                 |                                  |                 |                                     |   |
| Foreign currency forward contracts   | 21,574              | —                               | —                                | —               | 21,574                              | 21,574  |
| Interest rate swaps                  | 5,673,436           | —                               | 11,347,375                       | —               | 17,020,811                          | 17,020,811  |

#### c. Fair value of financial instruments

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

- the fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models; and
- the fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 6. FINANCIAL INSTRUMENTS (Cont'd)

### c. Fair value of financial instruments (Cont'd)

#### Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

|   | 31/3/2010  |         |            | Total      |
|---|------------|---------|------------|------------|
|   | Level 1    | Level 2 | Level 3    |            |
| <b>Available-for-sale financial assets</b>                        |            |         |            |            |
| Club debentures, unlisted   | 15,050,000 | —       | —          | 15,050,000 |
| <b>Financial assets at fair value through profit or loss</b>      |            |         |            |            |
| Listed debt securities  | 4,118,611  | —       | —          | 4,118,611  |
| <b>Total</b>  | 19,168,611 | —       | —          | 19,168,611 |
| <b>Financial liabilities at fair value through profit or loss</b> |            |         |            |            |
| Foreign currency forward contracts                                | —          | —       | 260,426    | 260,426    |
| Interest rate swaps   | —          | —       | 17,440,256 | 17,440,256 |
| <b>Total</b>  | —          | —       | 17,700,682 | 17,700,682 |

There were no transfers between Level 1 and 2 in the current year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 6. FINANCIAL INSTRUMENTS (Cont'd)

#### c. Fair value of financial instruments (Cont'd)

##### Reconciliation of Level 3 fair value measurements of financial liabilities

|   | Foreign currency<br>forward<br>contracts | Interest<br>rate<br>swaps | Total             |
|---|--|---------------------------|-------------------|
| At 1st April, 2009                                | 21,574                                   | 17,020,811                | 17,042,385        |
| Total gain or losses recognised in profit or loss | 238,852                                  | 7,869,513                 | 8,108,365         |
| Settlements                                       | —  | (7,450,068)               | (7,450,068)       |
| <b>At 31st March, 2010</b>                        | <b>260,426</b>                           | <b>17,440,256</b>         | <b>17,700,682</b> |

Of the total gains or losses for the year included in profit or loss, HK\$8,108,365 relates to foreign currency forward contracts and interest rate swaps held at the end of the reporting period.

### 7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 1st April, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and to assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Information reported to the chief operation decision makers for the purposes of resource allocation and performance assessment focuses on the Group's business operations. The Group's operating segments under HKFRS 8 are as follows:

|                            |   |  |
|----------------------------|---|--|
| Manufacture of watches     | — | manufacture, assembly and sale of electronic watches and watch parts |
| Trading of watch movements | — | trading of watch movements and watch parts                           |
| Property development       | — | development and sale of properties                                   |
| Property investment        | — | holding of properties for investment and leasing purposes            |

Information regarding the above segments is reported below.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 7. SEGMENT INFORMATION (Cont'd)

### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment:

#### 2010

|   | Manufacture<br>of watches | Trading<br>of watch<br>movements | Property<br>development | Property<br>investment | Eliminations       | Consolidated         |
|---|---------------------------|----------------------------------|-------------------------|------------------------|--------------------|----------------------|
| <b>REVENUE</b>                                  |                           |                                  |                         |                        |                    |                      |
| External sales                                  | 203,712,125               | 798,570,694                      | 51,994,555              | 59,426,537             | —                  | 1,113,703,911        |
| Inter-segment sales                             | —                         | 2,190,703                        | —                       | —                      | (2,190,703)        | —                    |
| Total revenue                                   | <b>203,712,125</b>        | <b>800,761,397</b>               | <b>51,994,555</b>       | <b>59,426,537</b>      | <b>(2,190,703)</b> | <b>1,113,703,911</b> |
| <b>RESULT</b>                                   |                           |                                  |                         |                        |                    |                      |
| Segment result                                  | <b>10,173,023</b>         | <b>19,967,323</b>                | <b>(12,755,324)</b>     | <b>60,494,745</b>      | —                  | <b>77,879,767</b>    |
| Interest income                                 |                           |                                  |                         |                        |                    | 265,292              |
| Unallocated other income                        |                           |                                  |                         |                        |                    | 49,864,408           |
| Unallocated other expenses                      |                           |                                  |                         |                        |                    | (21,400,960)         |
| Finance costs                                   |                           |                                  |                         |                        |                    | (15,321,717)         |
| Share of results of associates                  |                           |                                  |                         |                        |                    | 43,184,139           |
| Share of results of jointly controlled entities |                           |                                  |                         |                        |                    | (398)                |
| Profit before taxation                          |                           |                                  |                         |                        |                    | <b>134,470,531</b>   |
| Income tax expenses                             |                           |                                  |                         |                        |                    | <b>(12,754,218)</b>  |
| Profit for the year                             |                           |                                  |                         |                        |                    | <b>121,716,313</b>   |

#### 2009

|                                | Manufacture<br>of watches | Trading<br>of watch<br>movements | Property<br>development | Property<br>investment | Eliminations        | Consolidated         |
|--------------------------------|---------------------------|----------------------------------|-------------------------|------------------------|---------------------|----------------------|
| <b>REVENUE</b>                 |                           |                                  |                         |                        |                     |                      |
| External sales                 | 253,781,020               | 772,552,529                      | 1,271,080,696           | 4,289,729              | —                   | 2,301,703,974        |
| Inter-segment sales            | —                         | 922,608                          | 51,099,863              | —                      | (52,022,471)        | —                    |
| Total revenue                  | <b>253,781,020</b>        | <b>773,475,137</b>               | <b>1,322,180,559</b>    | <b>4,289,729</b>       | <b>(52,022,471)</b> | <b>2,301,703,974</b> |
| <b>RESULT</b>                  |                           |                                  |                         |                        |                     |                      |
| Segment result                 | <b>10,332,232</b>         | <b>20,426,357</b>                | <b>94,210,868</b>       | <b>62,088,825</b>      | —                   | <b>187,058,282</b>   |
| Interest income                |                           |                                  |                         |                        |                     | 1,451,748            |
| Unallocated other income       |                           |                                  |                         |                        |                     | 3,798,039            |
| Unallocated other expenses     |                           |                                  |                         |                        |                     | (62,914,821)         |
| Finance costs                  |                           |                                  |                         |                        |                     | (27,525,838)         |
| Share of results of associates |                           |                                  |                         |                        |                     | 35,677,947           |
| Profit before taxation         |                           |                                  |                         |                        |                     | <b>137,545,357</b>   |
| Income tax expenses            |                           |                                  |                         |                        |                     | <b>(28,713,871)</b>  |
| Profit for the year            |                           |                                  |                         |                        |                     | <b>108,831,486</b>   |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment result represents the profit earned by each segment without allocation of central administration costs, share of results of associates and jointly controlled entities, other income and finance costs. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

Inter-segment sales are charged at cost.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 7. SEGMENT INFORMATION (Cont'd)

#### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

#### Segment assets

|  | 2010                 | 2009          |
|--|----------------------|---------------|
| Manufacture of watches                       | <b>130,284,453</b>   | 105,228,983   |
| Trading of watch movements                   | <b>108,386,332</b>   | 91,143,324    |
| Property development                         | <b>119,807,852</b>   | 133,542,505   |
| Property investment                          | <b>986,936,491</b>   | 1,081,658,402 |
| Total segment assets                         | <b>1,345,415,128</b> | 1,411,573,214 |
| Interests in associates                      | <b>96,912,859</b>    | 53,728,720    |
| Amounts due from associates                  | <b>143,489,370</b>   | 142,049,370   |
| Amounts due from jointly controlled entities | <b>107,499,602</b>   | —             |
| Unallocated                                  | <b>467,350,048</b>   | 509,396,260   |
| Consolidated assets                          | <b>2,160,667,007</b> | 2,116,747,564 |

#### Segment liabilities

|                            | 2010                 | 2009          |
|----------------------------|----------------------|---------------|
| Manufacture of watches     | <b>49,756,181</b>    | 51,734,574    |
| Trading of watch movements | <b>109,740,822</b>   | 51,058,576    |
| Property development       | <b>10,213,060</b>    | 37,252,574    |
| Property investment        | <b>15,953,246</b>    | 17,367,793    |
| Total segment liabilities  | <b>185,663,309</b>   | 157,413,517   |
| Unallocated                | <b>1,138,672,888</b> | 1,235,967,001 |
| Consolidated liabilities   | <b>1,324,336,197</b> | 1,393,380,518 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than interests in associates, amounts due from associates and jointly controlled entities, available-for-sale investments, bank balances and other unallocated corporate assets; and
- all liabilities are allocated to reportable segments other than bank loans, tax payable, deferred tax liabilities and other unallocated corporate liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 7. SEGMENT INFORMATION (Cont'd)

#### Other segment information

| 2010   | Manufacture<br>of watches | Trading<br>of watch<br>movements | Property<br>development | Property<br>investment | Unallocated  | Consolidated |
|--|---------------------------|----------------------------------|-------------------------|------------------------|--------------|--------------|
| Capital additions  | 23,412,133                | 13,494,410                       | 1,184,220               | 162,736,831            | 7,585,033    | 208,412,627  |
| Depreciation of property, plant<br>and equipment                                     | 6,690,354                 | 11,101,493                       | 452,865                 | 15,315                 | 8,213,379    | 26,473,406   |
| Amortisation of prepaid lease<br>payments  | 534,277                   | —                                | —                       | —                      | 3,527,123    | 4,061,400    |
| Impairment loss recognised<br>in respect of trade receivables                        | 826                       | —                                | —                       | —                      | —            | 826          |
| Impairment loss recognised in<br>respect of other receivables                        | 22,800                    | —                                | —                       | 623,093                | —            | 645,893      |
| Loss on disposal of investment<br>properties   | —                         | —                                | —                       | 1,690,209              | —            | 1,690,209    |
| Reversals of inventories   | (1,427,102)               | —                                | —                       | —                      | —            | (1,427,102)  |
| Increase in fair value of investment<br>properties                                   | —                         | —                                | —                       | 57,000,846             | —            | 57,000,846   |
| Gain on disposal of property,<br>plant and equipment                                 | (90,000)                  | (1,332,714)                      | (53,012)                | —                      | (20,913,566) | (22,389,292) |
| 2009   | Manufacture<br>of watches | Trading<br>of watch<br>movements | Property<br>development | Property<br>investment | Unallocated  | Consolidated |
| Capital additions  | 16,703,021                | 3,496,881                        | 31,000                  | 73,683,861             | 21,936,323   | 115,851,086  |
| Depreciation of property, plant<br>and equipment                                     | 6,351,088                 | 12,078,553                       | 322,924                 | 12,334                 | 3,780,732    | 22,545,631   |
| Amortisation of prepaid lease<br>payments  | 763,001                   | —                                | —                       | —                      | 3,633,646    | 4,396,647    |
| Impairment loss recognised<br>in respect of properties under<br>development for sale | —                         | —                                | 46,628,663              | —                      | —            | 46,628,663   |
| Impairment loss recognised<br>in respect of trade receivables                        | 873,257                   | 590,000                          | —                       | —                      | —            | 1,463,257    |
| Impairment loss recognised<br>in respect of other receivables                        | 182,013                   | —                                | —                       | —                      | —            | 182,013      |
| Write-down of inventories  | 2,607,564                 | —                                | —                       | —                      | 540,640      | 3,148,204    |
| Increase in fair value of investment<br>properties                                   | —                         | —                                | —                       | 62,972,951             | —            | 62,972,951   |
| Gain / (loss) on disposal of property,<br>plant and equipment                        | (168,712)                 | 113,566                          | —                       | 498,769                | (59,131)     | 384,492      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 7. SEGMENT INFORMATION (Cont'd)

#### Revenue from major products and services

The Group's revenue from its major products and services were as follows:

|                            | <b>2010</b>          | 2009          |
|----------------------------|----------------------|---------------|
| Manufacture of watches     | <b>203,712,125</b>   | 253,781,020   |
| Trading of watch movements | <b>798,570,694</b>   | 772,552,529   |
| Property development       | <b>51,994,555</b>    | 1,271,080,696 |
| Property investment        | <b>59,426,537</b>    | 4,289,729     |
|                            | <b>1,113,703,911</b> | 2,301,703,974 |

#### Geographical segments

The Group's operations are mainly located in Hong Kong and other regions in the People's Republic of China (the "PRC"), North America and Europe.

The Group's revenue from external customers by geographical location of the customers and information about its non-current assets by geographical location of assets are detailed below:

|                       | <b>Revenue from external customers</b> |               | <b>Non-current assets</b> |               |
|-----------------------|--|---------------|---------------------------|---------------|
|                       | <b>2010</b>                            | 2009          | <b>2010</b>               | 2009          |
| Hong Kong and the PRC | <b>817,071,865</b>                     | 786,854,475   | <b>1,326,053,524</b>      | 1,371,229,356 |
| North America         | <b>149,783,105</b>                     | 1,355,346,344 | <b>6,175,327</b>          | 98,504,426    |
| Europe                | <b>136,489,554</b>                     | 141,354,292   | —                         | —             |
| Others                | <b>10,359,387</b>                      | 18,148,863    | —                         | —             |
|                       | <b>1,113,703,911</b>                   | 2,301,703,974 | <b>1,332,228,851</b>      | 1,469,733,782 |

*Note:* Non-current assets excluded available-for-sale investments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 7. SEGMENT INFORMATION (Cont'd)

#### Information about major customers

During the year ended 31st March, 2010, revenues from customers contributing over 10% of the total sales of the Group are as follows:

|            | <b>2010</b> |
|------------|-------------|
| Customer A | 297,507,243 |
| Customer B | 112,704,065 |
|            | <hr/>       |
|            | 410,211,308 |

All of the revenue above is generated from trading of watch movements.

During the year ended 31st March, 2009, no single external customer contributed more than 10% of the total sales of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 8. OTHER INCOME AND GAINS

|  | 2010              | 2009      |
|--|-------------------|-----------|
| Bank interest income                               | <b>265,292</b>    | 1,451,748 |
| Dividend income from unlisted investments          | —                 | 12,121    |
| Gain on disposal of available-for-sale investments | <b>37,643</b>     | 490,000   |
| Management fee income received from associates     | <b>1,825,210</b>  | 1,661,480 |
| Net foreign exchange gain                          | <b>22,746,780</b> | —         |
| Sundry income                                      | <b>2,842,339</b>  | 2,033,267 |
|  | <b>27,717,264</b> | 5,648,616 |

### 9. FINANCE COSTS

|   | 2010               | 2009        |
|---|--------------------|-------------|
| Interest on:  |                    |             |
| Bank loans  |                    |             |
| – wholly repayable within five years                              | <b>15,980,066</b>  | 30,084,357  |
| – not wholly repayable within five years                          | <b>3,232,038</b>   | 8,834,039   |
| Obligations under finance leases                                  | <b>357,432</b>     | 411,960     |
| Total borrowing costs   | <b>19,569,536</b>  | 39,330,356  |
| Less: Amount capitalised to properties under development for sale | —                  | (5,524,221) |
| Less: Amount capitalised to investment properties                 | <b>(4,247,819)</b> | (6,280,297) |
|   | <b>15,321,717</b>  | 27,525,838  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 10. PROFIT BEFORE TAXATION

|   | <b>2010</b>         | 2009          |
|---|---------------------|---------------|
| Profit before taxation has been arrived at after charging:  |                     |               |
| Depreciation of property, plant and equipment   | <b>26,473,406</b>   | 22,545,631    |
| Less: Amount capitalised to properties under development for sale   | —                   | (81,729)      |
|   | <b>26,473,406</b>   | 22,463,902    |
| Staff costs including directors' emoluments   | <b>95,883,772</b>   | 108,291,713   |
| Less: Amount capitalised to properties under development for sale   | —                   | (6,128,800)   |
| Less: Amount capitalised to investment properties   | <b>(18,540,250)</b> | (20,854,508)  |
|   | <b>77,343,522</b>   | 81,308,405    |
| Amortisation of prepaid lease payments  | <b>4,061,400</b>    | 4,396,647     |
| Auditors' remuneration  | <b>1,509,900</b>    | 1,517,096     |
| Cost of inventories recognised as an expense  | <b>876,836,095</b>  | 1,885,506,414 |
| Impairment loss recognised in respect of other receivables<br>(included in administrative expenses on consolidated statement of comprehensive income) | <b>645,893</b>      | 182,013       |
| Impairment loss recognised in respect of trade receivables<br>(included in administrative expenses on consolidated statement of comprehensive income) | <b>826</b>          | 1,463,257     |
| Loss on disposal of investment properties   | <b>1,690,209</b>    | —             |
| Loss on fair value changes of derivative financial instruments  | <b>8,108,365</b>    | 17,042,385    |
| Minimum lease payments for operating leases in<br>respect of land and buildings   | <b>9,906,128</b>    | 6,425,054     |
| Net foreign exchange loss   | —                   | 39,667,519    |
| (Reversals)/Write-down of inventories   | <b>(1,427,102)</b>  | 3,148,204     |
| and after crediting:  |                     |               |
| Gain on fair value changes of investment held for trading   | —                   | 644,693       |
| Gross rental income from investment properties  | <b>1,648,239</b>    | 4,331,078     |
| Less: Outgoings   | <b>(787,314)</b>    | (831,425)     |
| Net rental income from investment properties  | <b>860,925</b>      | 3,499,653     |

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$1,474,784 (2009: HK\$437,733) are included in staff costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 11. DIRECTORS' AND EMPLOYEES' REMUNERATION

#### (a) Directors' remuneration

|   | Mr.<br>Jimmy Lee<br>Yuen Ching | Mr.<br>James Lee<br>Yuen Kui | Mr.<br>Edward Lee<br>Yuen Cheor | Dr. Samson<br>Sun, M.B.E.,<br>J.P. | Mr.<br>William Chan<br>Chak Cheung | Ms.<br>Dorothy Lee<br>Yuen Yu | Mr.<br>Chan<br>Kwok Wai | Mr.<br>Ricky Wai<br>Kwong Yuen | Mr.<br>Loewe Lee<br>Bon Chi | Total             |
|---|--------------------------------|------------------------------|---------------------------------|------------------------------------|------------------------------------|-------------------------------|-------------------------|--------------------------------|-----------------------------|-------------------|
| <b>2010</b>                             |                                |                              |                                 |                                    |                                    |                               |                         |                                |                             |                   |
| Fees                                    | 50,000                         | 50,000                       | 50,000                          | 300,000                            | 225,000                            | 50,000                        | 225,000                 | 50,000                         | 50,000                      | 1,050,000         |
| Other emoluments                        |                                |                              |                                 |                                    |                                    |                               |                         |                                |                             |                   |
| Salaries and other benefits             | 6,881,286                      | 4,300,000                    | 2,412,498                       | —                                  | —                                  | —                             | —                       | 3,036,000                      | 4,670,000                   | 21,299,784        |
| Retirement benefit scheme contributions | 12,000                         | 12,000                       | 12,000                          | —                                  | —                                  | —                             | —                       | 12,000                         | 12,000                      | 60,000            |
| Share-based payments                    | —                              | —                            | —                               | —                                  | —                                  | —                             | —                       | —                              | 1,365,000                   | 1,365,000         |
|   | <b>6,943,286</b>               | <b>4,362,000</b>             | <b>2,474,498</b>                | <b>300,000</b>                     | <b>225,000</b>                     | <b>50,000</b>                 | <b>225,000</b>          | <b>3,098,000</b>               | <b>6,097,000</b>            | <b>23,774,784</b> |
| <b>2009</b>                             |                                |                              |                                 |                                    |                                    |                               |                         |                                |                             |                   |
| Fees                                    | 50,000                         | 50,000                       | 50,000                          | 300,000                            | 225,000                            | 50,000                        | 225,000                 | 50,000                         | 50,000                      | 1,050,000         |
| Other emoluments                        |                                |                              |                                 |                                    |                                    |                               |                         |                                |                             |                   |
| Salaries and other benefits             | 6,906,424                      | 4,649,000                    | 2,053,955                       | —                                  | —                                  | —                             | —                       | 3,036,000                      | 4,669,000                   | 21,314,379        |
| Retirement benefit scheme contributions | 12,000                         | 12,000                       | 12,000                          | —                                  | —                                  | —                             | —                       | 12,000                         | 12,000                      | 60,000            |
|   | <b>6,968,424</b>               | <b>4,711,000</b>             | <b>2,115,955</b>                | <b>300,000</b>                     | <b>225,000</b>                     | <b>50,000</b>                 | <b>225,000</b>          | <b>3,098,000</b>               | <b>4,731,000</b>            | <b>22,424,379</b> |

*Note:*

The performance related incentive payment is determined as a percentage of the revenue of the Group for the two years ended 31st March, 2010.

Included in salaries and other benefits is an amount of HK\$1,474,784 (2009: HK\$177,213) in respect of accommodation provided to the directors of the Company.

Besides above remuneration, four (2009: four) of the Group's properties are provided to the directors as an accommodation. The rateable value of the property is amounting to HK\$3,853,535 (2009: HK\$2,667,720).

#### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, all (2009: all) are directors of the Company whose emoluments are included in the disclosures in note (a) above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 12. INCOME TAX EXPENSES

|  | <b>2010</b>       | 2009        |
|--|-------------------|-------------|
| The charge comprises:                          |                   |             |
| Hong Kong Profits Tax                          |                   |             |
| Current year                                   | <b>1,750,000</b>  | 891,883     |
| Underprovision /(Overprovision) in prior years | <b>350,959</b>    | (157,368)   |
|  | <b>2,100,959</b>  | 734,515     |
| Other jurisdictions                            |                   |             |
| Current year                                   | <b>493,030</b>    | 18,001,959  |
| Overprovision in prior years                   | <b>(497,610)</b>  | —           |
|  | <b>2,096,379</b>  | 18,736,474  |
| Deferred tax liabilities (note 35)             |                   |             |
| Current year                                   | <b>10,657,839</b> | 11,169,307  |
| Attributable to a change in tax rate           | <b>—</b>          | (1,191,910) |
|  | <b>12,754,218</b> | 28,713,871  |

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 and reduced corporate profit tax rate from 17.5% to 16.5%, which is effective from the year of assessment 2008/2009. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 12. INCOME TAX EXPENSES (Cont'd)

The taxation charge for the year can be reconciled to profit before taxation per the consolidated statement of comprehensive income as follows:

|   | 2010                | 2009        |
|---|---------------------|-------------|
| Profit before taxation  | <b>134,470,531</b>  | 137,545,357 |
| Tax at Hong Kong Profits Tax rate of 16.5%  | <b>22,187,623</b>   | 22,694,983  |
| Tax effect of share of results of associates  | <b>(7,125,384)</b>  | (5,886,862) |
| Tax effect of share of results of jointly controlled entities                                 | <b>65</b>           | —           |
| Tax effect of expenses not deductible for tax purpose   | <b>5,527,629</b>    | 6,242,733   |
| Tax effect of income not taxable for tax purpose  | <b>(10,034,992)</b> | (6,897,810) |
| Tax effect of deductible temporary differences not recognised                                 | <b>(994,718)</b>    | (6,839,893) |
| Tax effect of tax losses not recognised   | <b>3,001,691</b>    | 11,951,065  |
| Tax effect on different tax rate of operations in other jurisdictions                         | <b>1,849,269</b>    | 12,757,010  |
| Utilisation of tax losses previously not recognised   | <b>(1,698,751)</b>  | (2,808,781) |
| Overprovision in prior years  | <b>(146,651)</b>    | (157,368)   |
| Effect of tax exemption (note)  | <b>(693,539)</b>    | (659,701)   |
| Others  | <b>881,976</b>      | (489,595)   |
| Decrease in opening deferred tax liabilities resulting from a decrease in applicable tax rate | —                   | (1,191,910) |
| Taxation charge for the year  | <b>12,754,218</b>   | 28,713,871  |

Note: The assessable profits of certain subsidiaries are subject to Hong Kong Profits Tax on a 50: 50 apportionment basis.

### 13. DIVIDEND

The final dividend of 1.5 HK cents for the year ended 31st March, 2010 (2009: 1.5 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 14. EARNINGS PER SHARE

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

|   | <b>2010</b>        | 2009        |
|---|--------------------|-------------|
| <b>Earnings</b>   |                    |             |
| Earnings for the purpose of basic and diluted earnings per share<br>(Profit for the year attributable to owners of the Company) | <b>121,716,313</b> | 108,831,486 |
|   | <b>2010</b>        | 2009        |
| <b>Number of shares</b>   |                    |             |
| Weighted average number of ordinary shares for the<br>purpose of basic and diluted earnings per share                           | <b>972,312,706</b> | 984,257,840 |

The computation of diluted earnings per share does not assume the exercise of the Company's options as the exercise price of those options is higher than the average market price for shares for 2010.

### 15. INVESTMENT PROPERTIES

The Group

#### FAIR VALUE

|   |                    |
|---|--------------------|
| At 1st April, 2008                                  | 880,020,039        |
| Additions   | 73,683,861         |
| Increase in fair value recognised in profit or loss | 62,972,951         |
| Transfer from properties under development for sale | 36,359,116         |
| Exchange realignment                                | (7,530,967)        |
|   | 1,045,505,000      |
| At 31st March, 2009 and 1st April, 2009             | 1,045,505,000      |
| Additions   | 162,736,831        |
| Increase in fair value recognised in profit or loss | 57,000,846         |
| Transfer to inventory of unsold properties          | (110,490,357)      |
| Disposals   | (296,000,000)      |
| Exchange realignment                                | 22,356,000         |
|   | 881,108,320        |
| <b>At 31st March, 2010</b>                          | <b>881,108,320</b> |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 15. INVESTMENT PROPERTIES (Cont'd)

The fair value of the Group's investment properties situated in Hong Kong and the PRC (2009: Hong Kong and Canada) at the end of the reporting date have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited (2009: DTZ Debenham Tie Leung Limited and DTZ Barnicke), respectively, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited and Knight Frank Petty Limited are members of the Hong Kong Institute of Surveyors, DTZ Barnicke is a member of the Toronto Real Estate Board Commercial Division and they have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived at by reference to market evidence of recent transaction prices for similar properties in the same locations and conditions.

The carrying amount of investment properties shown above comprises:

|                         | 2010               | 2009          |
|-------------------------|--------------------|---------------|
| Land in Hong Kong:      |                    |               |
| Long-term lease         | <b>573,000,000</b> | 504,000,000   |
| Medium-term lease       | <b>289,000,000</b> | 449,000,000   |
| Land outside Hong Kong: |                    |               |
| Freehold                | —                  | 92,505,000    |
| Medium-term lease       | <b>19,108,320</b>  | —             |
|                         | <b>881,108,320</b> | 1,045,505,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 16. PROPERTY, PLANT AND EQUIPMENT

The Group

|   | Buildings in<br>Hong Kong | Freehold<br>land and<br>buildings<br>outside<br>Hong Kong | Buildings<br>outside<br>Hong Kong | Construction<br>in progress | Leasehold<br>improvements | Plant and<br>machinery | Motor<br>vehicles | Furniture,<br>fixtures<br>and office<br>equipment | Antiques<br>and<br>pictures | Tools<br>and moulds | Total              |
|---|---------------------------|---|-----------------------------------|-----------------------------|---------------------------|------------------------|-------------------|---|-----------------------------|---------------------|--------------------|
| <b>COST</b>                                   |                           |   |                                   |                             |                           |                        |                   |   |                             |                     |                    |
| At 1st April, 2008                            | 42,745,125                | 5,150,862   | 7,599,789                         | 1,009,909                   | 30,264,260                | 82,188,053             | 25,429,150        | 68,042,982  | 11,965,266                  | 59,815,442          | 334,210,838        |
| Exchange realignment                          | —                         | (22,510)  | —                                 | 20,907                      | (97,665)                  | 20,371                 | 14,893            | (949,400)   | —                           | —                   | (1,013,404)        |
| Additions                                     | —                         | —   | 8,152,521                         | —                           | 14,644,946                | 475,697                | 5,074,151         | 8,320,068   | 110,200                     | 5,389,642           | 42,167,225         |
| Disposals                                     | (178,530)                 | —   | —                                 | —                           | —                         | —                      | (3,757,280)       | (505,061)   | (68,423)                    | —                   | (4,509,294)        |
| At 31st March, 2009                           | 42,566,595                | 5,128,352   | 15,752,310                        | 1,030,816                   | 44,811,541                | 82,684,121             | 26,760,914        | 74,908,589  | 12,007,043                  | 65,205,084          | 370,855,365        |
| Exchange realignment                          | —                         | 12,182  | 10,880                            | 3,091                       | 139,865                   | 11,883                 | 2,202             | 913,653   | —                           | —                   | 1,093,756          |
| Additions                                     | —                         | —   | 11,568,606                        | —                           | 872,096                   | 1,585,045              | 4,051,220         | 15,011,540  | 3,034,517                   | 9,552,772           | 45,675,796         |
| Transfer to inventory of<br>unsold properties | —                         | —   | (2,155,385)                       | —                           | —                         | —                      | —                 | —   | —                           | —                   | (2,155,385)        |
| Disposals                                     | (7,239,251)               | —   | —                                 | —                           | (605,942)                 | —                      | (3,636,774)       | —   | (223,000)                   | —                   | (11,704,967)       |
| <b>At 31st March, 2010</b>                    | <b>35,327,344</b>         | <b>5,140,534</b>  | <b>25,176,411</b>                 | <b>1,033,907</b>            | <b>45,217,560</b>         | <b>84,281,049</b>      | <b>27,177,562</b> | <b>90,833,782</b>                                 | <b>14,818,560</b>           | <b>74,757,856</b>   | <b>403,764,565</b> |
| <b>DEPRECIATION</b>                           |                           |   |                                   |                             |                           |                        |                   |   |                             |                     |                    |
| At 1st April, 2008                            | 8,121,632                 | 1,436,368   | 2,106,998                         | —                           | 28,665,101                | 74,792,919             | 14,620,952        | 50,709,979  | 2,585,741                   | 50,621,827          | 233,661,517        |
| Exchange realignment                          | —                         | (19,306)  | —                                 | —                           | (58,526)                  | 9,081                  | 8,011             | (405,582)   | —                           | —                   | (466,322)          |
| Provided for the year                         | 414,036                   | 144,525   | 91,365                            | —                           | 2,037,424                 | 3,674,199              | 4,608,469         | 4,872,292   | 956,003                     | 5,747,318           | 22,545,631         |
| Eliminated on disposals                       | (161,853)                 | —   | —                                 | —                           | —                         | —                      | (2,468,826)       | (505,061)   | (16,421)                    | —                   | (3,152,161)        |
| At 31st March, 2009                           | 8,373,815                 | 1,561,587   | 2,198,363                         | —                           | 30,643,999                | 78,476,199             | 16,768,606        | 54,671,628  | 3,525,323                   | 56,369,145          | 252,588,665        |
| Exchange realignment                          | —                         | 3,710   | 110                               | —                           | 115,981                   | 1,769                  | 1,561             | 449,474   | —                           | —                   | 572,605            |
| Provided for the year                         | 756,935                   | 131,800   | 179,030                           | —                           | 3,662,414                 | 2,088,562              | 4,708,952         | 6,939,842   | 1,028,557                   | 6,977,314           | 26,473,406         |
| Eliminated on disposals                       | (3,522,414)               | —   | —                                 | —                           | (336,620)                 | —                      | (3,529,786)       | —   | (32,714)                    | —                   | (7,421,534)        |
| <b>At 31st March, 2010</b>                    | <b>5,608,336</b>          | <b>1,697,097</b>  | <b>2,377,503</b>                  | <b>—</b>                    | <b>34,085,774</b>         | <b>80,566,530</b>      | <b>17,949,333</b> | <b>62,060,944</b>                                 | <b>4,521,166</b>            | <b>63,346,459</b>   | <b>272,213,142</b> |
| <b>CARRYING VALUES</b>                        |                           |   |                                   |                             |                           |                        |                   |   |                             |                     |                    |
| <b>At 31st March, 2010</b>                    | <b>29,719,008</b>         | <b>3,443,437</b>  | <b>22,798,908</b>                 | <b>1,033,907</b>            | <b>11,131,786</b>         | <b>3,714,519</b>       | <b>9,228,229</b>  | <b>28,772,838</b>                                 | <b>10,297,394</b>           | <b>11,411,397</b>   | <b>131,551,423</b> |
| At 31st March, 2009                           | 34,192,780                | 3,566,765   | 13,553,947                        | 1,030,816                   | 14,167,542                | 4,207,922              | 9,992,308         | 20,236,961  | 8,481,720                   | 8,835,939           | 118,266,700        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account of their estimated residual values at the following rates per annum:

| Category of assets                       | Estimated useful lives  |
|--|---|
| Freehold land                            | Indefinite  |
| Buildings                                | Over the shorter of the terms of leases, or 50 years                |
| Leasehold improvements                   | 14 <sup>1</sup> / <sub>3</sub> % - 33 <sup>1</sup> / <sub>3</sub> % |
| Plant and machinery                      | 25%   |
| Motor vehicles                           | 25%   |
| Furniture, fixtures and office equipment | 14 <sup>1</sup> / <sub>3</sub> % - 25%                              |
| Antiques and pictures                    | 10%   |
| Tools and moulds                         | 15% - 33 <sup>1</sup> / <sub>3</sub> %                              |

The carrying values of property, plant and equipment held under finance leases are as follows:

|  | 2010             | 2009             |
|--|------------------|------------------|
| Plant and machinery                      | 170,833          | 754,288          |
| Motor vehicles                           | 7,078,060        | 7,154,059        |
| Furniture, fixtures and office equipment | 31,390           | —                |
|  | <b>7,280,283</b> | <b>7,908,347</b> |

### 17. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise:

|   | 2010               | 2009               |
|---|--------------------|--------------------|
| Leasehold land in PRC held under:       |                    |                    |
| Medium-term lease                       | 14,635,768         | 30,206,264         |
| Leasehold land in Hong Kong held under: |                    |                    |
| Long-term lease                         | 209,542,030        | 223,597,767        |
| Medium-term lease                       | 2,649,482          | 2,720,609          |
|   | <b>226,827,280</b> | <b>256,524,640</b> |
| Analysed for reporting purposes as:     |                    |                    |
| Non-current assets                      | 222,656,249        | 252,233,362        |
| Current assets                          | 4,171,031          | 4,291,278          |
|   | <b>226,827,280</b> | <b>256,524,640</b> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 18. INTERESTS IN SUBSIDIARIES

The Company

|                   | <b>2010</b>        | 2009        |
|-------------------|--------------------|-------------|
| Unlisted, at cost | <b>387,955,526</b> | 359,945,968 |

Particulars of the Company's principal subsidiaries at 31st March, 2010 are shown in note 42.

## 19. INTERESTS IN ASSOCIATES

The Group

|   | <b>2010</b>        | 2009        |
|---|--------------------|-------------|
| Cost of investment in unlisted associates | <b>3,013,700</b>   | 3,013,700   |
| Share of post-acquisition reserves        | <b>93,899,159</b>  | 50,715,020  |
|   | <b>96,912,859</b>  | 53,728,720  |
|   | <b>2010</b>        | 2009        |
| Amounts due from associates               | <b>143,489,370</b> | 142,049,370 |

The amounts due from associates are unsecured, interest-free and repayable on demand.

Particulars of the associates at 31st March, 2010 are as follows:

| Name of associate              | Form of business structure | Place of incorporation/ operation | Proportion of nominal value of issued share capital held by the Group | Principal activity |
|--------------------------------|----------------------------|-----------------------------------|---|--------------------|
| Eden Bay Corporation           | Incorporated               | British Virgin Islands            | 20%   | Investment holding |
| Roebuck Investments Limited    | Incorporated               | British Virgin Islands            | 20%   | Investment holding |
| Roebuck II Investments Limited | Incorporated               | British Virgin Islands            | 20%   | Investment holding |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 19. INTERESTS IN ASSOCIATES (Cont'd)

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

|   | 2010                   | 2009            |
|---|------------------------|-----------------|
| Total assets  | <b>2,823,852,046</b>   | 2,403,284,681   |
| Total liabilities                                   | <b>(2,385,293,307)</b> | (2,180,646,641) |
| Net assets  | <b>438,558,739</b>     | 222,638,040     |
| Group's share of net assets of associates           | <b>96,912,859</b>      | 53,728,720      |
| Revenue   | <b>17,675,109</b>      | 17,351,586      |
| Profit for the year                                 | <b>215,920,700</b>     | 178,251,328     |
| Group's share of results of associates for the year | <b>43,184,139</b>      | 35,677,947      |

### 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group

|  | 2010               | 2009 |
|--|--------------------|------|
| Cost of unlisted investments                 | <b>398</b>         | —    |
| Share of post-acquisition reserves           | <b>(398)</b>       | —    |
|  | —                  | —    |
|  | <b>2010</b>        | 2009 |
| Amounts due from jointly controlled entities | <b>107,499,602</b> | —    |

The amounts due from jointly controlled entities are unsecured, interest-free and repayable on demand.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 20. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Particulars of the jointly controlled entities at 31st March, 2010 are as follows:

| Name of entity                     | Form of business structure | Place of incorporation/<br>operation | Proportion of nominal value of issued share capital held by the Group | Principal activity |
|------------------------------------|----------------------------|--------------------------------------|---|--------------------|
| Tania Investments Holdings Limited | Incorporated               | British Virgin Islands               | 50%   | Investment holding |
| Harvest Sun Holdings Limited       | Incorporated               | British Virgin Islands               | 50%   | Investment holding |

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the equity method is set out below:

|                                       | 2010               | 2009 |
|---------------------------------------|--------------------|------|
| Current assets                        | <b>16,977,024</b>  | —    |
| Non-current assets                    | <b>489,482,193</b> | —    |
| Current liabilities                   | <b>218,773,706</b> | —    |
| Non-current liabilities               | <b>288,000,000</b> | —    |
| Income recognised in profit or loss   | —                  | —    |
| Expenses recognised in profit or loss | <b>315,285</b>     | —    |
| Other comprehensive income            | —                  | —    |

The Group has discontinued recognising its share of losses of certain jointly controlled entities. The amounts of unrecognised share of those jointly controlled entities, both for the year and cumulatively, are as follows:

|  | 2010           | 2009 |
|--|----------------|------|
| Unrecognised share of losses of jointly controlled entities for the year | <b>157,245</b> | —    |
| Accumulative unrecognised share of losses of jointly controlled entities | <b>157,245</b> | —    |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 21. AVAILABLE-FOR-SALE INVESTMENTS

The Group

|                                     | 2010               | 2009        |
|-------------------------------------|--------------------|-------------|
| Club debentures, unlisted           | <b>15,050,000</b>  | 16,000,000  |
| Unlisted equity securities, at cost | <b>1,000,000</b>   | 1,000,000   |
| Less: Impairment loss recognised    | <b>(1,000,000)</b> | (1,000,000) |
|                                     | —                  | —           |
| Total                               | <b>15,050,000</b>  | 16,000,000  |
| Analysed for reporting purposes as: |                    |             |
| Current assets                      | —                  | —           |
| Non-current assets                  | <b>15,050,000</b>  | 16,000,000  |
|                                     | <b>15,050,000</b>  | 16,000,000  |

The Company

|                           | 2010             | 2009      |
|---------------------------|------------------|-----------|
| Club debentures, unlisted | <b>2,000,000</b> | 2,000,000 |

At the end of the reporting period, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of those investments have been determined by reference to market prices in secondary markets.

The unlisted equity securities issued by private entities are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

### 22. INVENTORIES

The Group

|                               | 2010               | 2009       |
|-------------------------------|--------------------|------------|
| Raw materials and consumables | <b>36,380,570</b>  | 22,641,409 |
| Work in progress              | <b>4,122,708</b>   | 11,938,172 |
| Finished goods                | <b>72,644,838</b>  | 64,367,016 |
|                               | <b>113,148,116</b> | 98,946,597 |

### 23. INVESTMENT HELD FOR TRADING

The amount represents investment in the debt securities listed in Austria with fixed interest rate of 5% and maturity date on 19th May, 2014. The fair value of the held for trading investment is determined based on quoted market bid price available on the relevant stock exchange.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 24. PROPERTIES UNDER DEVELOPMENT FOR SALE

The directors reviewed the carrying amounts of the properties under development for sale and recognised an impairment loss of HK\$46,628,663 for the year ended 31st March, 2009 with reference to the market situation and a valuation report.

### 25. AMOUNT DUE FROM/TO A SUBSIDIARY

The amount due is unsecured, interest-free and has no fixed terms of repayment.

### 26. BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

Bills receivables with full recourse of HK\$8,100,000 (2009: HK\$9,000,000) are aged within 30 days.

The Group has a policy of allowing an average credit period of 30-60 days to its trade customers.

Included in trade receivables, deposits and prepayments are trade receivables net of allowance for doubtful debts of HK\$37,485,105 (2009: HK\$35,144,489) with an aged analysis as follows:

The Group

|                | <b>2010</b>       | 2009       |
|----------------|-------------------|------------|
| Within 30 days | <b>28,650,067</b> | 29,991,792 |
| 31 to 90 days  | <b>3,318,925</b>  | 3,485,585  |
| 91 to 180 days | <b>2,847,348</b>  | 1,661,753  |
| Over 180 days  | <b>2,668,765</b>  | 5,359      |
|                | <b>37,485,105</b> | 35,144,489 |

At 31st March, 2010, trade receivables included an amount of approximately HK\$8,000,000 (2009: HK\$11,000,000) receivable from a major customer.

Included in the Group's trade receivable balance are debtors with a carrying amount of HK\$7,600,395 (2009: HK\$2,600,826) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 175 days (2009: 120 days).

#### Ageing of trade receivables which are past due but not impaired

The Group

|                | <b>2010</b>      | 2009      |
|----------------|------------------|-----------|
| 31 to 90 days  | <b>2,084,282</b> | 1,000,562 |
| 91 to 180 days | <b>2,847,348</b> | 1,594,905 |
| Over 180 days  | <b>2,668,765</b> | 5,359     |
|                | <b>7,600,395</b> | 2,600,826 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 26. BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS (Cont'd)

#### Movement in the allowance for doubtful debts

| The Group                                   | 2010      | 2009      |
|---|-----------|-----------|
| Balance at beginning of the year            | 3,651,258 | 2,194,951 |
| Impairment losses recognised on receivables | 826       | 1,463,257 |
| Amounts recovered during the year           | —         | (6,950)   |
| Exchange realignment                        | 32        | —         |
| Balance at end of the year                  | 3,652,116 | 3,651,258 |

Included in the allowance for doubtful debts are individually impaired trade receivables with a balance of HK\$3,652,116 (2009: HK\$3,651,258) which were past due and not recoverable. The impairment recognised represents the carrying amount of these trade receivables. The Group does not hold any collateral over these balances.

#### Ageing of impaired trade receivables

| The Group      | 2010      | 2009      |
|----------------|-----------|-----------|
| 91 to 180 days | —         | 590,000   |
| Over 180 days  | 3,652,116 | 3,061,258 |
|                | 3,652,116 | 3,651,258 |

### 27. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest rates ranging from 0.001% to 0.35% (2009: 0.01% to 5.00%) per annum.

### 28. BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are trade payables of HK\$123,308,380 (2009: HK\$59,539,237) with an aged analysis as follows:

| The Group      | 2010        | 2009       |
|----------------|-------------|------------|
| Within 30 days | 89,950,677  | 35,280,928 |
| 31 to 90 days  | 32,054,137  | 18,505,497 |
| 91 to 180 days | 968,422     | 1,397,844  |
| Over 180 days  | 335,144     | 4,354,968  |
|                | 123,308,380 | 59,539,237 |

The average credit period on purchases is 3 months. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 29. DERIVATIVE FINANCIAL INSTRUMENTS

The Group

|   | Current          |           | Non-current       |            |
|---|------------------|-----------|-------------------|------------|
|   | 2010             | 2009      | 2010              | 2009       |
| <i>Derivative financial liabilities</i> |                  |           |                   |            |
| Foreign currency forward contracts      | 260,426          | 21,574    | —                 | —          |
| Interest rate swaps                     | 5,813,419        | 5,673,436 | 11,626,837        | 11,347,375 |
|   | <b>6,073,845</b> | 5,695,010 | <b>11,626,837</b> | 11,347,375 |

At 31st March, 2010, the Group uses interest rate swaps to minimise its exposure to changes of interest rate of its floating rate borrowings by swapping a proportion of the floating rate borrowings from floating rates to fixed rates. The Group does not currently designate any hedging relationship on the interest rate swaps for the purpose of hedge accounting, therefore, the interest rate swaps are deemed as financial liabilities held for trading. Major terms of the interest rate swaps are set out below:

| Notional amount | Maturity         | Swaps  |
|-----------------|------------------|--|
| HK\$50,000,000  | 14th April, 2013 | From 3 months HIBOR to 3.47%                   |
| HK\$30,000,000  | 16th April, 2013 | From 3 months HIBOR to 3.10%                   |
| HK\$30,000,000  | 20th April, 2013 | From 3 months HIBOR to 3.68%                   |
| HK\$50,000,000  | 29th April, 2013 | From 3 months HIBOR to 3.62%                   |
| HK\$50,000,000  | 06th May, 2013   | From 3 months HIBOR to 3.92%                   |
| HK\$75,000,000  | 05th June, 2013  | From 3 months HIBOR to specific rate of 4.00%* |

\* If floating rate is less than specific rate, fixed at 2.95%; or  
If floating rate is greater than or equal to specific rate, fixed at floating rate – 0.30%

The interest rate swaps are measured at fair value at the end of the reporting period. Its fair values are determined based on market prices quoted by banks at the end of the reporting period.

The Group has entered into a variety of foreign currency forward contracts to manage its exchange rate exposures. The instruments purchased are primarily purchasing Japanese Yen and selling Hong Kong dollar. The Group does not currently designate any hedging relationship on the foreign currency forward contracts for the purpose of hedge accounting, therefore, the foreign currency forward contracts are deemed as financial liabilities held for trading. Major terms of the foreign currency forward contracts are set out below:

### 2010

| Notional amount   | Maturity         | Exchange rate        |
|-------------------|------------------|----------------------|
| Buy JPY66,885,000 | 19th April, 2010 | JPY 1 = HKD 0.084530 |
| Buy JPY47,783,500 | 28th April, 2010 | JPY 1 = HKD 0.084500 |
| Buy JPY34,160,950 | 10th May, 2010   | JPY 1 = HKD 0.083933 |

### 2009

| Notional amount  | Maturity         | Exchange rate     |
|------------------|------------------|-------------------|
| Buy USD1,000,000 | 09th June, 2009  | USD 1 = HKD 7.712 |
| Buy USD500,000   | 25th March, 2010 | USD 1 = HKD 7.739 |

The foreign currency forward contracts are measured at fair value at the end of the reporting period. Its fair values are determined based on market prices quoted by banks at the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 30. OBLIGATIONS UNDER FINANCE LEASES

The Group

|   | Minimum<br>lease payments |           | Present value<br>of minimum<br>lease payments |             |
|---|---------------------------|-----------|---|-------------|
|   | 2010                      | 2009      | 2010  | 2009        |
| Amounts payable under finance leases                                |                           |           |   |             |
| Within one year   | 3,838,447                 | 3,777,257 | 3,533,304                                     | 3,494,980   |
| In the second to fifth years inclusive                              | 2,578,161                 | 3,806,041 | 2,359,938                                     | 3,492,691   |
|   | <b>6,416,608</b>          | 7,583,298 | <b>5,893,242</b>                              | 6,987,671   |
| Less: Future finance charges  | <b>(523,366)</b>          | (595,627) | —   | —           |
| Present value of lease obligations                                  | <b>5,893,242</b>          | 6,987,671 | <b>5,893,242</b>                              | 6,987,671   |
| Less: Amount due within one year<br>shown under current liabilities |                           |           | <b>(3,533,304)</b>                            | (3,494,980) |
| Amount due after one year   |                           |           | <b>2,359,938</b>                              | 3,492,691   |

It is the Group's policy to lease certain of its plant and machinery, motor vehicles under finance leases. The leases term are ranging from 3 to 5 years (2009: 3 to 4 years). Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.20% to 5.00% (2009: 2.25% to 2.35%) per annum. All the leases were denominated in Hong Kong dollars. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessors' charge over the leased assets.

### 31. BANK LOANS

The Group

|                      | 2010                 | 2009          |
|----------------------|----------------------|---------------|
| Secured bank loans   | 728,302,751          | 922,407,551   |
| Unsecured bank loans | 346,539,312          | 248,940,433   |
|                      | <b>1,074,842,063</b> | 1,171,347,984 |

Bank loans denominated in currencies other than the functional currency of the relevant group companies analysed as:

|                       | 2010        | 2009       |
|-----------------------|-------------|------------|
| United States dollars | 82,097,386  | 75,202,041 |
| Japanese Yen          | 104,133,142 | 60,611,182 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 31. BANK LOANS (Cont'd)

The maturity of the above bank loans is as follows:

|  | <b>2010</b>          | 2009          |
|--|----------------------|---------------|
| On demand or within one year                                     | <b>606,121,292</b>   | 444,464,657   |
| More than one year, but not exceeding two years                  | <b>152,859,841</b>   | 163,079,580   |
| More than two years, but not exceeding five years                | <b>138,544,659</b>   | 267,041,935   |
| More than five years   | <b>177,316,271</b>   | 296,761,812   |
|  | <b>1,074,842,063</b> | 1,171,347,984 |
| Less: Amount due within one year shown under current liabilities | <b>(606,121,292)</b> | (444,464,657) |
| Amount due after one year  | <b>468,720,771</b>   | 726,883,327   |

All the Group's borrowings are variable-rate borrowings which carry interest at HIBOR or LIBOR plus certain basis points and subject to cash flow interest rate risk. Interest is repricing every three months and the range of interest rates is at 1.22% to 3.77% (2009: 1.45% to 6.40%) per annum.

### 32. SHARE CAPITAL

|                                   | Number of ordinary shares |               | Nominal value      |             |
|-----------------------------------|---------------------------|---------------|--------------------|-------------|
|                                   | 2010                      | 2009          | 2010               | 2009        |
| Ordinary shares of HK\$0.1 each   |                           |               |                    |             |
| Authorised:                       |                           |               |                    |             |
| At 1st April and 31st March       | <b>1,500,000,000</b>      | 1,500,000,000 | <b>150,000,000</b> | 150,000,000 |
| Issued and fully paid:            |                           |               |                    |             |
| At 1st April                      | <b>972,601,928</b>        | 998,517,928   | <b>97,260,193</b>  | 99,851,793  |
| Cancelled on repurchase of shares | <b>(472,000)</b>          | (25,916,000)  | <b>(47,200)</b>    | (2,591,600) |
| At 31st March                     | <b>972,129,928</b>        | 972,601,928   | <b>97,212,993</b>  | 97,260,193  |

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 32. SHARE CAPITAL (Cont'd)

These repurchased shares were cancelled upon repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares with a corresponding increase in the capital redemption reserve. The premium paid on repurchase was charged to retained profits.

| Month of repurchase | Number of ordinary shares of HK\$0.1 each | Price per share |        | Aggregate consideration paid |
|---------------------|---|-----------------|--------|------------------------------|
|                     |   | Highest         | Lowest |                              |
| May, 2009           | 16,000                                    | 0.320           | 0.300  | 5,226                        |
| August, 2009        | 456,000                                   | 0.395           | 0.385  | 179,052                      |
|                     | <u>472,000</u>                            |                 |        | <u>184,278</u>               |

### 33. RESERVES

The Company

|                            | Share premium     | Contributed surplus | Capital redemption reserve | Retained profits  | Total              |
|----------------------------|-------------------|---------------------|----------------------------|-------------------|--------------------|
| At 1st April, 2008         | 22,785,730        | 90,854,039          | 29,469,040                 | 9,716,231         | 152,825,040        |
| Profit for the year        | —                 | —                   | —                          | 48,844,720        | 48,844,720         |
| Dividend paid              | —                 | —                   | —                          | (24,717,286)      | (24,717,286)       |
| Repurchase of own shares   | —                 | —                   | 2,591,600                  | (9,928,961)       | (7,337,361)        |
| At 31st March, 2009        | 22,785,730        | 90,854,039          | 32,060,640                 | 23,914,704        | 169,615,113        |
| Profit for the year        | —                 | —                   | —                          | 40,586,427        | 40,586,427         |
| Dividend paid              | —                 | —                   | —                          | (19,449,453)      | (19,449,453)       |
| Repurchase of own shares   | —                 | —                   | 47,200                     | (184,278)         | (137,078)          |
| <b>At 31st March, 2010</b> | <b>22,785,730</b> | <b>90,854,039</b>   | <b>32,107,840</b>          | <b>44,867,400</b> | <b>190,615,009</b> |

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

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

At 31st March, 2010, the Company has distributable reserves by considering the aggregate balance of reserve available for distribution of HK\$135,721,439 (2009: HK\$114,768,743), including contributed surplus of HK\$90,854,039 (2009: HK\$90,854,039) and retained profits of HK\$44,867,400 (2009: HK\$23,914,704).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 34. PROVISION FOR LONG SERVICE PAYMENTS

Under the Hong Kong Employment Ordinance, the Group is obliged to make lump sum payments on cessation of employment in certain circumstances to certain employees who have completed at least five years of service with the Group. The amount payable is dependent on the employee's final salary and years of service, and is reduced by entitlements accrued under the Group's retirement plan that are attributable to contributions made by the Group. The Group does not set aside any assets to fund any remaining obligations.

The amount recognised in the consolidated statement of financial position is as follows:

|                                   | <b>2010</b>      | 2009      |
|-----------------------------------|------------------|-----------|
| At beginning of the year          | <b>3,571,179</b> | 3,687,257 |
| Additional provision for the year | <b>586,521</b>   | 396,916   |
| Utilisation of provision          | <b>(407,600)</b> | (512,994) |
|                                   | <hr/>            | <hr/>     |
| At closing of the year            | <b>3,750,100</b> | 3,571,179 |

The most recent actuarial valuation of the present value of the obligations under long service payments was carried out at 31st March, 2010 by Mr. Aaron Wong of Towers Watson Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the obligations under long service payments and the related current service cost were measured using the projected unit credit method.

The principal actuarial assumptions as at the end of the reporting period used are as follows:

|                                  | <b>2010</b> | 2009 |
|----------------------------------|-------------|------|
| Discount rate                    | <b>2%</b>   | 1.8% |
| Expected rate of salary increase | <b>3%</b>   | 3%   |

Amounts recognised in profit or loss for the year in respect of the obligations under long service payments are as follows:

|   | <b>2010</b>    | 2009    |
|---|----------------|---------|
| Current service cost                                | <b>9,419</b>   | 8,455   |
| Interest cost                                       | <b>166,856</b> | 151,889 |
| Net actuarial losses recognised in current year     | <b>410,246</b> | 236,572 |
|   | <hr/>          | <hr/>   |
| Net amount charged to profit or loss as staff costs | <b>586,521</b> | 396,916 |

The amounts included in the consolidated statement of financial position arising from the Group's obligations under long service payments are as follows:

|  | <b>2010</b>        | 2009        |
|--|--------------------|-------------|
| Present value of the obligations under long service payments   | <b>7,168,573</b>   | 9,981,355   |
| Unrecognised actuarial losses  | <b>(3,418,473)</b> | (6,410,176) |
|  | <hr/>              | <hr/>       |
| Obligations under long service payments included in the consolidated statement of financial position | <b>3,750,100</b>   | 3,571,179   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 34. PROVISION FOR LONG SERVICE PAYMENTS (Cont'd)

Movements in the present value of the defined benefit obligations in the current year were as follows:

|  | <b>2010</b>        | 2009      |
|--|--------------------|-----------|
| At 1st April   | <b>9,981,355</b>   | 7,703,307 |
| Current service cost                                   | <b>9,419</b>       | 8,455     |
| Interest cost  | <b>166,856</b>     | 151,889   |
| Actuarial (gains)/losses                               | <b>(2,581,457)</b> | 2,630,698 |
| Benefits paid  | <b>(345,989)</b>   | (512,994) |
| Reduction of obligation due to transferred out members | <b>(61,611)</b>    | —         |
|  | <b>7,168,573</b>   | 9,981,355 |
| At 31st March  | <b>7,168,573</b>   | 9,981,355 |

The Group expects to make a contribution of HK\$952,552 (2009: HK\$970,137) to the defined benefit plans during the next financial year.

### 35. DEFERRED TAX LIABILITIES

The Group

|                                   | <b>Accelerated<br/>tax<br/>depreciation</b> | <b>Revaluation<br/>of investment<br/>properties</b> | <b>Tax<br/>losses</b> | <b>Total</b>      |
|-----------------------------------|---|---|-----------------------|-------------------|
| At 1st April, 2008                | 3,886,153                                   | 24,203,242  | (7,230,978)           | 20,858,417        |
| Charge to profit or loss          | 752,961                                     | 9,579,780   | 836,566               | 11,169,307        |
| Effect of change in tax rate      | (222,065)                                   | (1,383,042)   | 413,197               | (1,191,910)       |
| At 1st April, 2009                | 4,417,049                                   | 32,399,980  | (5,981,215)           | 30,835,814        |
| Charge/(credit) to profit or loss | (1,056,000)                                 | 8,652,464   | 3,061,375             | 10,657,839        |
| <b>At 31st March, 2010</b>        | <b>3,361,049</b>                            | <b>41,052,444</b>                                   | <b>(2,919,840)</b>    | <b>41,493,653</b> |

At the end of the reporting period, the Group has unused tax losses of approximately HK\$444,180,000 (2009: HK\$456,940,000) available for offset against future profits. A deferred tax asset of approximately HK\$2,920,000 (2009: HK\$5,981,000) has been recognised in respect of approximately HK\$17,696,000 (2009: HK\$36,248,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining HK\$426,484,000 (2009: HK\$420,692,000) of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$11,929,000 (2009: HK\$1,050,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of the PRC subsidiaries for which deferred tax liabilities have not been recognised was approximately HK\$9,355,000 (2009: HK\$1,290,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reserve in the foreseeable future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 36. CONTINGENT LIABILITIES AND COMMITMENTS

The Group

|                                  | <b>2010</b>        | 2009       |
|----------------------------------|--------------------|------------|
| <hr/>                            |                    |            |
| Contingent liabilities:          |                    |            |
| Other guarantees                 | <b>559,000</b>     | 247,000    |
| <hr/>                            |                    |            |
| Capital commitments:             |                    |            |
| Contracted for but not provided: |                    |            |
| Construction of properties       | <b>108,291,250</b> | 38,060,805 |
| <hr/>                            |                    |            |

### 37. OPERATING LEASE ARRANGEMENTS

**The Group as lessee:**

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                       | <b>2010</b>       | 2009       |
|---------------------------------------|-------------------|------------|
| <hr/>                                 |                   |            |
| Within one year                       | <b>13,608,226</b> | 11,704,152 |
| In the second to fifth year inclusive | <b>30,932,828</b> | 38,846,708 |
| Over five years                       | <b>6,704,572</b>  | 9,753,710  |
| <hr/>                                 |                   |            |
|                                       | <b>51,245,626</b> | 60,304,570 |
| <hr/>                                 |                   |            |

Operating lease payments represent rental payable by the Group for certain of its office premises, staff quarters and factories. Leases for office premises and staff quarters are negotiated for terms of ranging from 2 to 6 years with fixed rentals.

**The Group as lessor:**

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

|                                       | <b>2010</b>   | 2009      |
|---------------------------------------|---------------|-----------|
| <hr/>                                 |               |           |
| Within one year                       | <b>12,284</b> | 2,571,000 |
| In the second to fifth year inclusive | —             | 1,090,000 |
| <hr/>                                 |               |           |
|                                       | <b>12,284</b> | 3,661,000 |
| <hr/>                                 |               |           |

Leases are negotiated for terms ranging from 1 to 3 years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 38. RETIREMENT BENEFIT SCHEME

Commencing from 1st December, 2000, the Group's employees are required to join the Mandatory Provident Fund Scheme (the "MPF Scheme"). Under the MPF Scheme, both the Group and the employees contribute 5% of the employee's monthly remunerations or HK\$1,000 per month whichever is the smaller to the scheme. The Group's total contribution to the scheme for the year ended 31st March, 2010 is HK\$924,808 (2009: HK\$941,881). There is no forfeiture of employer's contribution from leaving scheme members under the MPF Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit plan operated by the government of the PRC. The subsidiaries are required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

### 39. PLEDGE OF ASSETS

At 31st March, 2010, the Group has pledged the following assets and assigned rental income from letting of properties in favour of banks to secure the banking facilities:

|   | 2010               | 2009          |
|---|--------------------|---------------|
| Investment properties                         | <b>862,000,000</b> | 1,045,505,000 |
| Buildings in Hong Kong                        | <b>29,719,008</b>  | 34,192,780    |
| Freehold land and buildings outside Hong Kong | <b>3,443,437</b>   | 3,566,765     |
| Inventory of unsold properties                | <b>230,077,423</b> | 170,767,133   |
| Prepaid lease payments                        | <b>212,191,512</b> | 226,318,376   |

### 40. SIGNIFICANT RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group and the Company had entered into the following significant related party transactions:

- (1) Transactions with associates

|   | 2010             | 2009      |
|---|------------------|-----------|
| <b>Nature of transaction</b>                |                  |           |
| Management fee income received by the Group | <b>1,825,210</b> | 1,661,480 |

- (2) The Group's balances with related parties are set out in notes 19 and 20.
- (3) Key management compensation is disclosed in note 11.
- (4) The Company provided corporate guarantees of banking facilities to its subsidiaries to the extent of approximately HK\$1,366,000,000 at 31st March, 2010 (2009: HK\$1,397,000,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

## 41. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 20th August, 2008 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 19th August, 2018. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31st March, 2010, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 9,200,000 (2009: nil), representing 0.95% (2009: nil) of the shares of the Company in issue at that date. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Consideration at HK\$1 is payable on the grant of an option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

The following table discloses movements of the Company's share options held by employees and directors during the year.

|                                    | Outstanding<br>at 1/4/09 | Granted<br>during<br>the year | Exercised<br>during<br>the year | Forfeited<br>during<br>the year | Expired<br>during<br>the year | <b>Outstanding<br/>at 31/3/10</b> |
|------------------------------------|--------------------------|-------------------------------|---------------------------------|---------------------------------|-------------------------------|-----------------------------------|
| Director of the Company            | —                        | 9,200,000                     | —                               | —                               | —                             | <b>9,200,000</b>                  |
| Exercisable at the end of the year |                          |                               |                                 |                                 |                               | <b>9,200,000</b>                  |
| Weighted average exercise price    | —                        | HK\$0.542                     | —                               | —                               | —                             | <b>HK\$0.542</b>                  |

During the year ended 31st March, 2010, options were granted on 18th March, 2010. The estimated fair value of the options granted on that date is HK\$1,365,000.

This fair value was calculated using The Black-Scholes pricing model. The inputs into the model were as follows:

|                         |           |
|-------------------------|-----------|
| Share price             | HK\$0.540 |
| Exercise price          | HK\$0.542 |
| Expected volatility     | 37.53%    |
| Expected life           | 8 years   |
| Risk-free interest rate | 2.405%    |
| Expected dividend yield | 3.7%      |

Expected volatility was determined by using the historical volatility of the Company's share price over the previous eight years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK\$1,365,000 for the year ended 31st March, 2010 (2009: nil) in relation to share options granted by the Company.

The Black-Scholes option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries at 31st March, 2010 are as follows:

| Name of subsidiary                          | Place/country of incorporation or registration/ operations | Issued share capital                   | Percentage of nominal value of issued share capital held directly /indirectly by the Company | Principal activities                                  |
|---|--|--|--|---|
| <i>Direct subsidiary</i>                    |  |  |  |   |
| National Electronics (Consolidated) Limited | Hong Kong  | 4,000 ordinary shares of HK\$0.25 each | 100%   | Investment holding and trading of electronic products |
| National Properties Holdings Limited        | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Investment holding and property management            |
| <i>Indirect subsidiary</i>                  |  |  |  |   |
| Ambrose Limited                             | Hong Kong  | 1 ordinary share of HK\$1 each         | 100%   | Property investment                                   |
| Ambrose Investments Limited                 | British Virgin Islands                                     | 100 ordinary shares of US\$1 each      | 100%   | Investment holding                                    |
| Asiatic Limited                             | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment and development                   |
| Baccarat Investments Limited                | British Virgin Islands/<br>Hong Kong                       | 1 ordinary share of US\$1 each         | 100%   | Investment holding                                    |
| Banyan Villas Holdings Limited              | British Virgin Islands/<br>Hong Kong                       | 2 ordinary shares of US\$1 each        | 100%   | Investment holding                                    |
| Batilone Limited                            | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment and development                   |
| Brady Limited                               | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment                                   |
| Champion Limited                            | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment                                   |
| Charteray International Limited             | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment                                   |
| Cherish Limited                             | Hong Kong  | 100 ordinary shares of HK\$1 each      | 100%   | Property investment                                   |
| Chirac Limited                              | Hong Kong  | 10 ordinary shares of HK\$10 each      | 100%   | Investment holding and development                    |
| Cinic Limited                               | Hong Kong  | 2 ordinary shares of HK\$1 each        | 100%   | Property investment and development                   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

| Name of subsidiary                             | Place/country of incorporation or registration/ operations | Issued share capital  | Percentage of nominal value of issued share capital held directly /indirectly by the Company | Principal activities   |
|--|--|---|--|--|
| <i>Indirect subsidiary – continued</i>         |  |   |  |  |
| Clare Limited                                  | Hong Kong  | 1 ordinary share of HK\$1 each  | 100%   | Property investment  |
| Clare Holding Limited                          | British Virgin Islands                                     | 100 ordinary shares of US\$1 each   | 100%   | Investment holding   |
| Duprey Limited                                 | Hong Kong  | 10 ordinary shares of HK\$10 each   | 100%   | Trading of electronic products   |
| Eastbond (Hong Kong) Limited                   | Hong Kong  | 10 ordinary shares of HK\$1 each  | 100%   | Manufacture and sale of plastic products                                   |
| Eastern Mount Limited                          | Hong Kong  | 2 ordinary shares of HK\$1 each   | 100%   | Investment holding and subcontracting of electronic products in the PRC    |
| Joyful Asia Group Limited                      | British Virgin Islands/<br>Hong Kong                       | 100 ordinary shares of US\$1 each   | 100%   | Property investment and development  |
| Lens Limited                                   | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Property investment and development  |
| Majorell Limited                               | Hong Kong  | 100 ordinary shares of HK\$10 each  | 100%   | Property investment and investment holding                                 |
| Miyota Trading Limited                         | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Trading of electronic products   |
| National Commercial Developments Limited       | Hong Kong  | 10,000 ordinary shares of HK\$1 each  | 100%   | Investment holding   |
| National Commercial Developments Limited       | British Virgin Islands                                     | 100 ordinary shares of US\$1 each   | 100%   | Investment holding   |
| National Electronics and Watch Company Limited | Hong Kong  | 100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note) | 100%   | Manufacture and sale of liquid crystal display and quartz analogue watches |
| National Hotel Holdings Limited                | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Investment holding   |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

| Name of subsidiary                        | Place/country of incorporation or registration/ operations | Issued share capital  | Percentage of nominal value of issued share capital held directly /indirectly by the Company | Principal activities                |
|---|--|---|--|-------------------------------------|
| <i>Indirect subsidiary – continued</i>    |  |   |  |                                     |
| National Hotel Holdings Limited           | British Virgin Islands                                     | 100 ordinary shares of US\$1 each   | 100%   | Investment holding                  |
| National Hotel Management Limited         | Hong Kong  | 2 ordinary shares of HK\$1 each   | 100%   | Property management                 |
| National Properties Holdings Limited      | British Virgin Islands                                     | 1 ordinary share of US\$1 each  | 100%   | Investment holding                  |
| National Residential Developments Limited | Hong Kong  | 10,000 ordinary shares of HK\$1 each  | 100%   | Investment holding                  |
| National Residential Developments Limited | British Virgin Islands                                     | 100 ordinary shares of US\$1 each   | 100%   | Investment holding                  |
| National Telecommunication System Limited | Hong Kong  | 100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note) | 100%   | Provision of inspection service     |
| National Time Limited                     | Hong Kong  | 100 ordinary shares of HK\$10 each and 55,000 non-voting deferred shares of HK\$10 each (note)  | 100%   | Trading of electronic watches       |
| Panteria International Limited            | British Virgin Islands/<br>Hong Kong                       | 100 ordinary shares of US\$1 each   | 100%   | Property investment and development |
| Phoenix Investment S.a.r.l.               | Luxembourg   | 500 ordinary shares of EUR 25 each  | 100%   | Investment holding                  |
| Rever Limited                             | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Property investment                 |
| Rexel imited                              | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Property investment                 |
| Samford Limited                           | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Property investment                 |
| Sinoway Enterprises Limited               | Hong Kong  | 100 ordinary shares of HK\$1 each   | 100%   | Property investment                 |
| Smart Rise Investments Limited            | British Virgin Islands                                     | 100 ordinary shares of US\$1 each   | 100%   | Investment holding                  |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March, 2010 (in HK Dollars)

### 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Cont'd)

| Name of subsidiary                         | Place/country of incorporation or registration/ operations | Issued share capital                  | Percentage of nominal value of issued share capital held directly /indirectly by the Company | Principal activities           |
|--|--|---------------------------------------|--|--------------------------------|
| <i>Indirect subsidiary – continued</i>     |  |                                       |  |                                |
| St. Thomas Developments Incorporated       | Ontario, Canada  | 10,000 common shares                  | 100%   | Property development           |
| Susanne Limited                            | British Virgin Islands                                     | 100 ordinary shares of US\$1 each     | 100%   | Investment holding             |
| Sun Linkage Limited                        | British Virgin Islands                                     | 1,000 ordinary shares of US\$1 each   | 100%   | Investment holding             |
| Sun Shine Limited                          | Hong Kong  | 2 ordinary shares of HK\$1 each       | 100%   | Investment holding             |
| Tania Limited                              | Hong Kong  | 1 ordinary share of HK\$1 each        | 100%   | Property management            |
| Tania Investments Limited                  | British Virgin Islands                                     | 100 ordinary shares of US\$1 each     | 100%   | Investment holding             |
| Terence Limited                            | Hong Kong  | 1 ordinary share of HK\$1 each        | 100%   | Property investment            |
| Terence Limited                            | British Virgin Islands                                     | 100 ordinary shares of US\$1 each     | 100%   | Investment holding             |
| Unionville Development Limited Partnership | Ontario, Canada  | Contributed capital of CAD3,285,468   | 100%   | Property development           |
| 1061383 Ontario Limited                    | Ontario, Canada  | 100 common shares of CAD1 each        | 100%   | Property holding               |
| 中霸鐘錶電子發展（深圳）有限公司*                          | People's Republic China                                    | Contributed capital of HK\$14,000,000 | 100%   | Trading of electronic products |

\* A wholly owned foreign enterprise.

*Note:* The deferred shares, which are not held by the Group, carry practically no rights to dividends nor to receive notice of nor to attend or vote at any general meeting of the relevant companies nor to participate in any distribution on winding up.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. All these subsidiaries are wholly-owned and private limited companies.

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

## SCHEDULE OF MAJOR PROPERTIES HELD BY THE GROUP

Details of the major properties held by the Group at 31st March, 2010 are as follows:

### Investment properties

| Location  | Lease term  | Group's interest | Type        |
|---|-------------|------------------|-------------|
| Nos. 194 - 196 Queen's Road Central,<br>Sheung Wan, Hong Kong   | Long term   | 100%             | Commercial  |
| No. 21 Whitfield Road,<br>North Point, Hong Kong  | Medium term | 100%             | Commercial  |
| Nos. 87 - 89 Jervois Street,<br>Sheung Wan, Hong Kong   | Long term   | 100%             | Commercial  |
| Nos. 101 - 103 Bonham Strand<br>and No. 127 Wing Lok Street,<br>Sheung Wan, Hong Kong   | Long term   | 100%             | Commercial  |
| No. 99 Bonham Strand,<br>Sheung Wan, Hong Kong  | Long term   | 100%             | Commercial  |
| A parcel of land located at Yinkai Industrial Park,<br>Economic and Technological Development Zone,<br>Nanning City, Guangxi Zhuangzu Autonomous<br>Region, the PRC | Medium term | 100%             | Industrial  |
| House 15 and Car Parking Space Nos. 15A<br>and 15B on Basement Floor, No. 1 Shouson<br>Hill Road East, Hong Kong  | Medium term | 100%             | Residential |

## FINANCIAL SUMMARY

### Results:

|   | Year ended 31st March, |                  |                  |                  |                  |
|---|------------------------|------------------|------------------|------------------|------------------|
|   | 2010<br>HK\$'000       | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Revenue   | <b>1,113,704</b>       | 2,301,704        | 1,256,703        | 1,066,224        | 1,045,506        |
| Cost of sales   | <b>(982,173)</b>       | (2,040,410)      | (1,062,108)      | (949,730)        | (950,112)        |
| Gross profit  | <b>131,531</b>         | 261,294          | 194,595          | 116,494          | 95,394           |
| Other income and gains  | <b>27,717</b>          | 5,649            | 10,280           | 9,898            | 2,964            |
| Increase in fair value of investment properties                                   | <b>57,001</b>          | 62,973           | 111,796          | 35,508           | 16,000           |
| Gain on disposal of investment properties   | —                      | —                | 55,103           | —                | —                |
| Gain/ (loss) on disposal of property,<br>plant and equipment                      | <b>22,389</b>          | (385)            | 1,049            | 267              | 170              |
| Impairment loss recognised in respect of<br>properties under development for sale | —                      | (46,629)         | —                | —                | —                |
| Distribution costs  | <b>(7,248)</b>         | (7,793)          | (7,946)          | (8,049)          | (8,446)          |
| Administrative expenses   | <b>(124,781)</b>       | (145,716)        | (108,113)        | (92,820)         | (67,073)         |
| Other expenses  | —                      | —                | —                | (20,583)         | —                |
| Finance costs   | <b>(15,322)</b>        | (27,526)         | (31,769)         | (22,880)         | (14,987)         |
| Gain on disposal of subsidiaries  | —                      | —                | —                | 89,298           | 37,913           |
| Loss on dissolution of an associates  | —                      | —                | —                | (5)              | —                |
| Share of results of associates  | <b>43,184</b>          | 35,678           | 1,610            | 13,428           | (8)              |
| Share of results of jointly controlled entities                                   | <b>(1)</b>             | —                | —                | —                | (2)              |
| Profit before taxation  | <b>134,470</b>         | 137,545          | 226,605          | 120,556          | 61,925           |
| Income tax expenses   | <b>(12,754)</b>        | (28,714)         | (14,956)         | (7,289)          | (1,820)          |
| Profit for the year   | <b>121,716</b>         | 108,831          | 211,649          | 113,267          | 60,105           |
| Earnings per share<br>– Basic and diluted   | <b>12.5 HK cents</b>   | 11.1 HK cents    | 20.9 HK cents    | 10.7 HK cents    | 5.5 HK cents     |

### Assets and liabilities:

|                   | At 31st March,   |                  |                  |                  |                  |
|-------------------|------------------|------------------|------------------|------------------|------------------|
|                   | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
| Total assets      | <b>2,160,667</b> | 2,116,748        | 3,117,612        | 1,925,826        | 1,566,661        |
| Total liabilities | <b>1,324,336</b> | 1,393,381        | 2,449,015        | 1,420,210        | 1,140,923        |
| Total net assets  | <b>836,331</b>   | 723,367          | 668,597          | 505,616          | 425,738          |



The superstructure work on the Group's new luxurious boutique hotel at No. 87-89 Jervois Street is in progress and is expected to be completed by the end of 2010.  
本集團於蘇杭街 87-89 號興建之豪華時尚酒店，現已進行樓宇上蓋之建築工程，並預期於二零一零年年底完成。



The Group acquired the site at No. 45 Tai Tam Road with unobstructed panoramic sea view in a Joint Venture with a real estate fund managed by J.P. Morgan Asset Management - Global Real Assets.  
本集團與 J.P. Morgan 成功收購大潭道 45 號全海景觀住宅物業。



A prestigious detached house development scheme at No. 45 Tai Tam Road is being prepared and demolition of the existing building is expected to commence in the third quarter of 2010.  
大潭道 45 號之豪華獨立屋發展計劃現正在籌備中，原有住宅之拆卸工程預期於二零一零年第三季開始。



The superstructure work on the Group's luxurious boutique hotel at No. 21 Whitfield Road is in progress and the target completion date is in the first quarter of 2011.  
本集團於威非路道 21 號興建之豪華時尚酒店，現正進行樓宇上蓋之建築工程，預期於二零一一年第一季完成。



The foundation works for the Group's new luxurious boutique hotel at No. 127 Wing Lok Street and Nos. 99, 101 & 103 Bonham Strand have completed. The superstructure works commenced in April 2010 and the development is anticipated to be completed in mid 2011.  
永樂街 127 號及文咸東街 99, 101 及 103 號之豪華時尚酒店地基工程已經完成，而樓宇上蓋之建築工程已於二零一零年四月開始，預期於二零一一年中完成。



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15 CONNORS ROAD



Superstructure work for the Group's Joint Venture A-Grade office project with Citi Property Investors continues at No. 50-59 Connaught Road Central. The building is expected to be completed in the first quarter of 2011.

本集團與 Citi Property Investors 位於干諾道中 50-59 號之甲級寫字樓合營項目，現正進行樓宇上蓋建築工程，並預期於二零一一年第一季完成。