Notes to the Financial Statements

For the year ended 31 March 2006

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited. Its parent and ultimate holding company is World Possession Assets Limited (incorporated in the British Virgin Islands). The Company's registered office is located at Clarendon House, Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Room 2810-11, 28/F., Shun Tak Centre, West Tower, 200 Connaught Road Central, Hong Kong. The Company is engaged in investment holding. The principal activities of the subsidiaries are set out in note 21.

During the year, the Group expanded its operations to include retail sales of watches, entertainment businesses and hotel operations via the acquisition of interests in several subsidiaries. Details of the acquisitions are set out in note 35.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (''HKASs'') and Interpretations (hereinafter collectively referred to as the ''HKFRSs'') issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA''). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

3. ADOPTION OF NEW OR REVISED HKFRSs

In the current year, the Group has applied, for the first time, a number of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005.

The applicable HKFRSs are set out below and the 2005 financial statements have been restated in accordance with the relevant requirements, where applicable.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 32	Financial instruments: disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: recognition and measurement
HKAS 40	Investment property
HKFRS 2	Share-based payments
HKFRS 3	Business combinations
HKAS-INT 15	Operating leases – incentives
HKAS-INT 21	Income taxes – recovery of revalued non-depreciable assets

The adoption of HKAS 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 33, 36, 37 and HKAS-INT 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation in the income statement, balance sheet, and statement of changes in equity.
- HKAS 8, 16 and 21 affect certain disclosures of the financial statements.
- HKAS 2, 7, 10, 12, 14, 18, 19, 23, 27, 33, 36, 37 and HKAS INT-15 do not have any impact as the Group's accounting policies already comply with the standards.
- HKAS 24 affects the identification of related parties and the disclosure of related party transactions.

The effect of adopting the other HKFRSs are summarised as follows:

HKAS 17 Leases (''HKAS 17'')

In prior years, the Group's leasehold land and buildings for own use were included in property, plant and equipment and stated at their revalued amounts less any subsequent accumulated depreciation.

Under HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair values at inception. A lease of land is an operating lease and a lease of a building is a finance lease unless the two elements cannot be allocated reliably, in which case the entire lease is classified as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, the leasehold interests in land should be reclassified to interests in leasehold for own use under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. If the allocation between the land and building elements cannot be made reliably, the leasehold interest in land continues to be accounted for as property, plant and equipment and stated at its revalued amount.

As the allocation between the land and building elements cannot be made reliably by the Group, the entire lease is classified as a finance lease and continues to be accounted for as property, plant and equipment and stated at its revalued amount.

HKAS 40 ''Investment property'' (''HKAS 40'')

In prior years, investment properties other than those with unexpired lease term of 20 years or less were stated at open market value. Changes in the value of investment properties were dealt with as movements in the investment property revaluation reserves. A deficit arising on revaluation on a portfolio basis were set off against previous revaluation surpluses and thereafter charged to the income statement. Investment properties with unexpired lease terms of 20 years or less are stated at carrying value less accumulated depreciation and impairment provision, if any.

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

HKAS 40 ''Investment property'' (''HKAS 40'') (continued)

In the current year, the Group has, for the first time, applied HKAS 40. The Group has elected to use the fair value model to account for its investment properties, which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement in the year in which they arise.

This new accounting policy has been applied retrospectively. Accumulated losses as at 1 April 2005 and 1 April 2004 decreased by HK$ 47,530,053 and HK$38,530,053 respectively, representing the transfer of accumulated attributable revaluation surpluses previously recorded in the investment property revaluation reserve.

HKAS-INT 21 ''Income taxes – recovery of revalued non-depreciable assets'' (''INT-21'')

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor interpretation (SSAP Interpretation 20). In the current year, the Group has applied INT- 21 ''Income taxes – recovery of revalued non-depreciable assets'' which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in INT-21, this change in accounting policy has been applied retrospectively. Accumulated losses as at 1 April 2005 and 1 April 2004 have been increased by HK$ 8,317,759 and HK$6,742,759 respectively.

HKFRS 2 ''Share-based payments'' (''HKFRS 2'')

In the current year, the Group has applied HKFRS 2, which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares (''equity-settled transactions''), or in exchange for other assets equivalent in value to a given number of shares or rights over shares (''cash-settled transactions''). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. As the Group did not have any outstanding share option on 1 April 2004 and did not grant any share options in the year ended 31 March 2005, the adoption had no impact to the Group's results in prior years.

HKFRS 3 ''Business combinations'' (''HKFRS 3'')

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

In accordance with the relevant transitional provisions under HKFRS 3 and HKAS 36 ''Impairment of assets'', the Group has applied a new policy in respect of positive goodwill prospectively from 1 April 2005. Comparative figures for 2005 have not been restated. The cumulative amount of amortisation as at 1 April 2005 has been offset against the cost of goodwill. Positive goodwill is no longer amortised but is tested for impairment annually including the year of initial recognition, as well as when there are indications of impairment, at the cash generating unit level by applying a fair-value-based test in accordance with HKAS 36.

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

HKAS 32 ''Financial instruments: disclosure and presentation'' (''HKAS 32'')
HKAS 39 ''Financial instruments: recognition and measurement'' (''HKAS 39'')

In the current year, the Group has applied HKAS 32 and HKAS 39. HKAS 32 requires retrospective application. HKAS 39, which is effective for accounting periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39. The investment in convertible note is reclassified as ''held-to-maturity investments''.

Financial assets and financial liabilities other than debt and equity securities

From 1 April 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. Financial assets under HKAS 39 are classified as 'financial assets at fair value through profit or loss', 'available-for-sale financial assets', 'loans and receivables' or 'held-to-maturity financial assets'.

''Financial assets at fair value through profit or loss'' that are not part of a hedging relationship and ''available-for-sale financial assets'' are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. ''Loans and receivables'' and ''held-to-maturity financial assets'' are measured at amortised cost using the effective interest method after initial recognition.

Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss'' or ''financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)''. ''Other financial liabilities'' are carried at amortised cost using the effective interest method after initial recognition.

Derecognition

Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests.

3. ADOPTION OF NEW OR REVISED HKFRSs *(continued)*

Summary of the effect of the changes in accounting policies

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

	Year ended	
	31 March 2006	**31 March 2005**
	HK$	*HK$*
Adoption of HKAS 40:		
– increase in fair value of investment properties	4,500,000	9,000,000
Adoption of HKAS-INT 21		
– increase in taxation	(787,500)	(1,575,000)
Adoption of HKFRS 2		
– increase in net operating expenses (expenses in relation to share options granted to the directors)	(3,934,394)	–
Adoption of HKFRS 3		
– decrease in net operating expenses (discontinuation of amortisation of goodwill)	1,003,778	–
Increase in net profit for the year	781,884	7,425,000

	Year ended	
	31 March 2006	**31 March 2005**
	HK$	*HK$*
Attributable to:		
Equity holders of the Company	781,884	7,425,000
Minority interests	–	–
	781,884	7,425,000

The cumulative effects of the application of the new HKFRSs on the balance sheet as at 31 March 2005 and 1 April 2004 are summarised below:

	31 March 2005	**1 April 2004**
	HK$	*HK$*
Adoption of HKAS 40:		
– decrease in accumulated losses	47,530,053	38,530,053
– decrease in investment property revaluation reserve	(47,530,053)	(38,530,053)
Adoption of INT 21		
– increase in accumulated losses	(8,317,759)	(6,742,759)
– increase in deferred tax liabilities	8,317,759	6,742,759

4. PRINCIPAL ACCOUNTING POLICIES

The financial statements are prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values. The principal accounting policies adopted are set out below:

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 31 March each year.

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries as if they formed a single entity. Inter-company transactions and balances between group companies are therefore eliminated in full.

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

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

The Company's interests in subsidiaries are stated at cost less impairment loss, if any. All significant inter-company transactions and balances among group companies are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(b) Associate

Where the Group has the power to participate in (but not control) the financial and operating policy decisions of another entity, it is classified as an associate. Associates are initially recognised in the consolidated balance sheet at cost. The Group's share of post-acquisition profits and losses is recognised in the consolidated income statement, except that losses in excess of the Group's investment in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate.

Equity accounting is discontinued when the carrying amount of the investment in the associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is credited in full to the income statement.

(d) Investment properties

Investment properties are properties held for long-term rental yields or for capital appreciation and not occupied by the Group. Investment properties are carried at fair value, representing open-market value determined annually by independent qualified valuers. Changes in fair value are recognised in the income statement.

(e) Property, plant and equipment

Leasehold land and buildings, other than hotel property, are stated at valuation less accumulated depreciation as the fair value of the land cannot be measured separately from the fair value of a building situated thereon at the inception of the lease and is accounted for as being held under a finance lease. Fair value is determined annually by independent qualified valuers. The valuations are on the basis of open market value. Increases in valuation are credited to the other properties revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter charged to the income statement. Any subsequent increases are credited to the income statement up to the amount previously charged and thereafter to other properties revaluation reserve.

The building component of the owner-occupied leasehold hotel property and other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment are depreciated at rates sufficient to write off their cost net of expected residual value over their estimated useful lives on a straight-line basis. The useful lives and residual value are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Hotel property	
– Building	Over the term of the land lease
– Leasehold improvements and furniture and fixtures	10% – 50%
Leasehold land	Over the term of the lease
Buildings	2.5%
Leasehold improvements	20% – 50%
Wardrobe	100%
Furniture, fixtures and equipment	20% – 33%
Motor vehicles	20%

4. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment *(continued)*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the year in which they are incurred.

An asset is written down immediately to its recoverable amount if its carrying amount is higher than the asset's estimated recoverable amount.

Upon disposal of leasehold land and buildings, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the other properties revaluation reserve to retained earnings.

The gain or loss on disposal of an asset other than leasehold land and buildings is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(f) Interests in leasehold land held for own use under operating leases

Interests in leasehold land held for own use under operating leases represent up-front payments to acquire long-term interests in lessee-occupied properties. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis to the income statement.

(g) Land premium

Land premium represents the fair value of land acquired less the fair value of land at inception of lease and is amortised over the period of the lease on a straight-line basis to the income statement.

(h) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value.

Cost, which comprises the purchase prices of inventories and direct expenses, is calculated using the first-in first-out method.

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

(i) Financial instruments

(i) Financial assets

The Group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The accounting policy for each category is as follows: