

DIRECTORS' REPORT

The directors have pleasure in presenting to shareholders their annual report and the audited financial statements for the year ended 31st March, 2006.

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 investment and trading of securities.

Results and Appropriations

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 17.

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 4th August, 2006, amounting to approximately HK\$16,031,039.

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 17 and 18 to the financial statements, respectively.

Major Properties

Details of the major properties of the Group at 31st March, 2006 are set out on page 69.

Subsidiaries and Associates

Details of the Company's subsidiaries and associates at 31st March, 2006 are set out in notes 48 and 21 to the financial statements, respectively.

Share Capital

Details of movements during the year in the share capital of the Company are set out in note 37 to the 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.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31st March, 2006 were as follows:

	2006 HK\$	2005 HK\$
Contributed surplus	90,854,039	90,854,039
Retained profits	18,952,651	6,810,862
	109,806,690	97,664,901

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, a 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.

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 37 to the financial statements. The directors considered that as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

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

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. Peter Lee Yuen Wong
Mr. Edward Lee Yuen Cheor
Dr. Samson Sun, M.B.E., J.P.*
Mr. William Chan Chak Cheung*
Ms. Dorathy Lee Yuen Yu**
Mr. Chan Kwok Wai*
(appointed on 20th April, 2005)
Mr. Ricky Wai Kwong Yuen
(appointed on 26th May, 2006)
Mr. Tommy Tam Hok Lam
(resigned on 31st March, 2006)

* Independent non-executive directors

** Non-executive director

In accordance with the Bye-laws 99 of the Company, Dr. Samson Sun, M.B.E., J.P. and Mr. Peter Lee Yuen Wong, shall retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-laws 102 of the Company's Bye-Laws, Mr. Ricky Wai Kwong Yuen shall retire and offer himself for re-election at the forthcoming Annual General Meeting.

The term of office for each non-executive and independent non-executive director is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

D I R E C T O R S ' R E P O R T

Service Contracts

Mr. Jimmy Lee Yuen Ching entered into a service contract with the Company on 8th January 1985. This contract is terminable by either party on giving six calendar months' written notice.

Mr. Chan Kwok Wai entered into a service contract with the Company on 20th April 2005. This contract is effective for 3 years from the date of the contract and is terminable by either party by giving at least three months' prior notice in writing.

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, Underlying Shares and Debentures

At 31st March, 2006, the interests of the directors, chief executives and their associates in the shares and debentures 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:

Name of director	Capacity	Shares of HK\$0.10 each				Total interests	Percentage of the issued share capital of the Company
		Personal interests	Corporate interests	Other interests			
Mr. Jimmy Lee Yuen Ching	Chairman	–	–	253,106,873 <i>(note a)</i>	253,106,873	23.525%	
Mr. James Lee Yuen Kui	Managing Director	5,940	–	252,102,979 <i>(note b)</i>	252,108,919	23.432%	
Mr. Peter Lee Yuen Wong	Director	–	–	252,102,979 <i>(note b)</i>	252,102,979	23.432%	
Mr. Edward Lee Yuen Cheor	Director	–	–	252,102,979 <i>(note b)</i>	252,102,979	23.432%	
Dr. Samson Sun, M.B.E., J.P.	Director	–	4,988,968 <i>(note c)</i>	–	4,988,968	0.464%	

DIRECTORS' REPORT

Notes:

- (a) The 253,106,873 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members are named beneficiaries.
- (b) The 252,102,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui, Peter Lee Yuen Wong 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.

Saved as disclosed above, at 31st March, 2006, 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 Ordinance.

Substantial Shareholders

Other than the interests of certain directors disclosed under the heading "Director's Interests in Shares, Underlying Shares and Debentures" 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, 2006.

Major Suppliers and Customers

For the year ended 31st March, 2006, the Group's five largest suppliers accounted for approximately 77.65% of the Group's purchases of which 72.21% was attributable to the largest supplier. The Group's five largest customers accounted for approximately 58.58% of the Group's turnover of which 19.35% 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, 2006 with the Code of Best Practice 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, as at the date of this report, there is sufficient public float not less than 25% of the Company's issued shares as required under the Listing Rules.

Donations

During the year, the Group made charitable donations amounting to HK\$8,000.

Auditors

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Lee Yuen Ching Jimmy

Chairman

11th July, 2006