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 Group are 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.

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

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

In the current year, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (''HKFRSs''), Hong Kong Accounting Standards (''HKASs'') and Interpretations (''INTs'') (hereinafter collectively referred to as ''new HKFRSs'') issued by the Hong Kong Institute of Certified Public Accountants (''HKICPA'') that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting years are prepared and presented:

Business combinations
In current year, the Group has applied HKFRS 3 ''Business Combinations'' which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill
In previous years, goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and goodwill arising on acquisitions after 1st April, 2001 was capitalised and amortised over its estimated useful life. In accordance with the relevant transitional provisions in HKFRS 3, amortisation of goodwill discontinued from 1st April, 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1st April, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. This change in accounting policy has had no effect on results of both current and prior period.

In the current year, the Group has also applied HKAS 21 The Effects of Changes in Foreign Exchange Rates which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rates at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st April, 2005 is treated as a non-monetary foreign currency item of the Group. Therefore, no prior period adjustment has been made.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as ''negative goodwill'')
In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (''discount on acquisition'') is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st April, 2001 was held in reserves, and negative goodwill arising on acquisitions after 1st April, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1st April, 2005 of HK$2,256,230 which was previously recorded in negative goodwill reserve with a corresponding increase of HK$2,256,230 to the Group's retained profits.

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

Financial instruments

In the current year, the Group has applied HKAS 32 ''Financial Instruments: Disclosure and Presentation'' and HKAS 39 ''Financial Instruments: Recognition and Measurement''. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

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

By 31st March, 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (''SSAP 24'') ''Accounting for investment in securities'' issued by the HKICPA. Under SSAP 24, investments in debt or equity securities are classified as ''trading securities'', ''non-trading securities'' or ''held-to-maturity investments'' as appropriate. Both ''trading securities'' and ''non-trading securities'' are measured at fair value. Unrealised gains or losses of ''trading securities'' are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of ''non-trading securities'' are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period. From 1st April, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as ''financial assets at fair value through profit or loss'', ''available-for-sale financial assets'', ''loans and receivables'', or ''held-to-maturity financial assets''. The classification depends on the purpose for which the assets are acquired ''Financial assets at fair value through profit or loss'' and ''available-for-sale financial assets'' are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured are measured at cost less impairment after initial recognition. ''Loans and receivables'' and ''held-to-maturity financial assets'' are measured at amortised cost using the effective interest method after initial recognition.

On 1st April, 2005, the Group reclassified its non-trading securities of HK$4,089,560 to available-for-sale investments and are carried at fair value. The cumulative unrealised losses previously recognised in reserves of HK$1,000,000 have been transferred to the Group's retained profits on 1st April, 2005.

On 1st April, 2005, the Group reclassified its trading securities of HK$3,929,263 which are listed debt securities to investment held-for-trading and are carried at fair value, with changes in fair values recognised in profit or loss. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods.

By 31st March, 2005, the Group measured its investments in club debentures at cost less impairment loss (if any). From 1st April, 2005 onwards, the Group has designated and measured its investments in club debentures as ''available-for-sale investments'' in accordance with HKAS 39, which are carried at fair value with changes in fair values recognised in equity directly. On 1st April, 2005, club debentures with an aggregate carrying amount of HK$8,025,895 were reclassified to ''available-for-sale investments'' and remeasured at fair value at 1st April, 2005 under the transitional provisions of HKAS 39. As a result, the carrying amounts of ''available-for-sale investments'' and investment revaluation reserve as at 1st April, 2005 have been increased by HK$2,947,500.

Financial assets and financial liabilities other than debt and equity securities

From 1st April, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of

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

Financial assets and financial liabilities other than debt and equity securities (continued)
HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as financial assets at fair value through profit or loss'', ''available-for-sales financial assets'', ''loans and receivables'' or ''held-to-maturity financial assets''. Financial liabilities are generally classified as ''financial liabilities at fair value through profit or loss'' or ''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. The application of HKAS 39 has had no material effect on financial assets and financial liabilities other than debt and equity securities.

Derivatives
By 31st March, 2005, the Group's derivative financial instruments, representing foreign currency forward contracts, were used to manage the Group's exposure to exchange rate fluctuation. The unrealised gains or losses on these derivatives were included in net profit or loss for the period.

From 1st April, 2006 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held for trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39, resulting in recognition of financial liabilities in respect of the foreign currency forward contracts, that are deemed as held for trading, as at 1st April, 2005. As a result, the carrying amounts of trade payables and accrued expenses and derivative financial instruments as at 1st April, 2005 have been decreased by HK$3,387,250 and increased by HK$2,741,804 respectively with a net increase of HK$645,446 to the Group's retained profits.

Derecognition
HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. 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. The Group has had early applied the revised accounting policy for transfers of financial assets from 1st April, 2004 onwards. As at 31st March, 2006, the Group's bills receivables discounted with full recourse and factored trade receivables with full recourse have not been derecognised. The related borrowing of HK$9,000,000, had been recognised on the consolidated balance sheet. This change has had no material effect on the results for the current year.

Owner-occupied leasehold interest in land
In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 ''Leases''. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

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

Investment properties

In the current year, the Group has, for the first time, applied HKAS 40 ''Investment Property''. 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 profit or loss for the year in which they arise. In previous years, investment properties under SSAP 13 ''Accounting for Investment Properties'' were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. This change in accounting policy has had no material effect on the financial statements for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

Deferred taxes related to investment properties

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-INT 20). In the current year, the Group has applied HK(SIC) Interpretation 21 ''Income Taxes – Recovery of Revalued Non-Depreciable Assets'' which removes the presumption that the carrying amount of investment properties is 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. This change has had no material effect on the results of both the current and prior year.

Potential impact arising on the new or revised accounting standard not yet effective

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new HKFRSs will have no material impact on the financial statements of the Group except for HKAS 19 (Amendment) Actuarial gains and losses, group plans and disclosures and HKAS 39 and HKFRS 4 (Amendments) Financial guarantee contracts for which the directors are still in the process of assessing the impact.

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

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 2006.

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

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

	2006 HK$	2005 HK$
Increase in loss on derecognition of derivative financial instruments	**(645,446)**	–
Decrease in depreciation charge on property, plant and equipment	**412,032**	412,032
Increase in amortisation arising from prepaid lease payments	**(624,626)**	(624,626)
Increase in loss on fair value changes of derivative financial instruments	**(1,320,498)**	–
Decrease in profit for the year	**(2,178,538)**	(212,594)

Analysis of decrease in profit for the year by line items presented according to their functions is as follows:

	2006 HK$	2005 HK$
Decrease in cost of sales	**90,855**	90,855
Increase in administrative expenses	**(2,269,393)**	(303,449)
Decrease in profit for the year	**(2,178,538)**	(212,594)

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

	As at 31st March, 2005 (originally stated) HK$	**Retrospective adjustments Effect of HKAS 17** HK$	**As at 31st March, 2005 (restated)** HK$	**Prospective adjustments Effect of HKFRS 3** HK$	**Effect of HKAS 39** HK$	**As at 1st April, 2005 (restated)** HK$
Balance sheet items						
Property, plant and equipment	100,814,071	(45,551,477)	55,262,594	–	–	55,262,594
Prepaid lease payments						
– Non-current	–	43,036,497	43,036,497	–	–	43,036,497
– Current	–	624,626	624,626	–	–	624,626
Available-for-sale investments						
– Non-current	–	–	–	–	10,973,395	10,973,395
– Current	–	–	–	–	4,089,560	4,089,560
Other non-current assets	18,261,881	–	18,261,881	–	(8,025,895)	10,235,986
Investments in securities	8,018,823	–	8,018,823	–	(8,018,823)	–
Investment held-for-trading	–	–	–	–	3,929,263	3,929,263
Trade payables and accrued expenses	(94,205,582)	–	(94,205,582)	–	3,387,250	(90,818,332)
Derivative financial instruments	–	–	–	–	(2,741,804)	(2,741,804)
Total effects on assets and liabilities		(1,890,354)		–	3,592,946	
Negative goodwill arising on acquisition of subsidiaries	2,256,230	–	2,256,230	(2,256,230)	–	–
Investment revaluation reserve	(1,000,000)	–	(1,000,000)	–	3,947,500	2,947,500
Retained profits	157,135,340	(1,890,354)	155,244,986	2,256,230	(354,554)	157,146,662
Total effects on equity		(1,890,354)		–	3,592,946	

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

The financial effects of the application of the new HKFRSs to the Group's equity on 1st April, 2004 are summarised below:

	As originally stated	**Retrospective adjustments Effect of HKAS 17**	**As restated**
	HK$	HK$	HK$
Retained profits	111,808,846	(1,677,760)	110,131,086
Total effects on equity		(1,677,760)	

4. **CHANGES OF ACCOUNTING ESTIMATES**

In previous years, antiques and pictures were stated at cost less any identified impairment loss as the management considered that they have indefinite life, with effect from 1st April, 2005, antiques and pictures are transferred to property, plant and equipment and are depreciated over 10 years after taking into account of their estimated residual values of 20% of the costs. The change in depreciation rates has resulted in an increase in the depreciation charge for the year by HK$831,130. The change in accounting estimates will have an effect on the depreciation charges of the future period, however, it is impracticable to estimate with certainty the amount of that effect.

5. **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 HKFRSs 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 and by the Hong Kong Companies Ordinance.

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

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

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

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

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities, and contingent liabilities over cost (''discount on acquisitions'')
A discount on acquisition arising on an acquisition of subsidiaries for which an agreement date is on or after 1st April, 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates
The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, 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, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Joint venture
Joint venture arrangements which 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 balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity 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 interests 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, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

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

Rental income 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.

Revenue from trading of securities is recognised on a trade date basis when the relevant sale and purchase contract is entered into.

Dividend income from investments is recognised when the shareholders' right to receive payment has 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Management fee income is recognised when services are rendered.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment properties
On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gain or losses arsing 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 or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset is included in the income statement in the year in which the item is derecognised.

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

Construction in progress is stated at cost less accumulated impairment losses. Depreciation of these assets, on the same basis as other property, plant and equipment, commences when the assets are ready for their intended use.

Depreciation is provided 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 the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Prepaid lease payments
The prepaid lease payments represent upfront payment for land use right and leasehold land are initially recognised at cost and released to income statement over the lease term on a straight-line basis.

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

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 balance sheet 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 (see below).

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