5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

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 capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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 as an expense in the period in which they are incurred.

Financial instruments
Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument consolidated. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
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.

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables
Loans and receivables (including bills receivables, trade receivables, amount due from an associate, amount due from a joint controlled entity and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

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 instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity
Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities
The Group's financial liabilities mainly include trade payables, bills payables obligations under finance leases, bank borrowings, amount due to an associate and amount due to a related party. These financial liabilities except for the obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

The Group's finance lease obligations are measured based on the present value of the estimated future cash flows discounted using the prevailing market rate.

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

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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
Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid 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.

Inventory of unsold properties
Completed properties remaining unsold at the year end are stated at the lower of cost and net realisable value.

Impairment of tangible and intangible assets
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. 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. Impairment loss is recognised as an expense immediately.

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 as income immediately.

Foreign currencies
The individual financial statements of group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Hong Kong dollars, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

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 its 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. 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 included 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 differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)
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 balance sheet date, 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 as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not 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 arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Retirement benefit costs
The contributions payable to the retirement benefits schemes are charged as an expense as they fall due.

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 each balance sheet date. Actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the assets and the defined benefit obligation over the average future working life of the active employees. The amount of amortisation is first recognised in the financial year ended 31st March, 2004. The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognized past service cost.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in note 5 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 balance sheet date, 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:

Estimated useful lives of property, plant and equipment
In applying the accounting policy on property, plant and equipment with respect to depreciation, management estimates the useful lives of various categories of property, plant and equipment according to the industrial experiences gained over the development history of the Group and also by reference to the relevant industrial norm.

Impairment loss on property, plant and equipment
The property, plant and equipment of the Group are reviewed by management for possible impairment when events or changes in operating environment indicate that the carrying amounts of such assets may not be fully recoverable. In determining the recoverable amounts of these assets, expected cash flows to be generated by the assets are discounted to their present value, which involves significant level of judgment relating to sales volume, selling prices and manufacturing and other operating cost. When a decline in an asset's recoverable amount has occurred, the carrying amount is reduced to its estimated recoverable amount.

Allowance of doubtful debts
The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other debtors where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other debtors and doubtful debts expenses in the periods in which such estimate has been changed.

Allowance of inventories
The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories.

Recognition of deferred tax assets
The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are more or less than expected, a further recognition or reversal of the deferred tax assets may arise, which would be recognised in the consolidated income statement for the period in which such a reversal takes place.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, investment held-for-trading, bills receivables, trade receivables, amount due from/to an associate, amount due from/to a jointly controlled entity, bank balances and cash, trade payables, bills payables, obligations under finance leases, bank borrowings, amount due to an associate and amount due to a jointly controlled entity. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparts' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has policies in place 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 at each balance date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, management considers that the Group's credit risk is significantly reduced.

The credit risk on the Group's bank balances and cash is limited because the majority of the counterparties are banks or corporations with high credit standing.

The Group's concentration of credit risk by geographical locations is mainly in Hong Kong and other regions in the People's Republic of China and North America, with exposure spread over a number of counterparties and customers.

Market risk

(i) Foreign exchange risk

The Group has foreign currency sales and purchases and certain borrowings of the Group are denominated in foreign currencies which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in accordance with the Group's risk management policies.

(ii) Fair value interest rate risk

The Group's fair value interest rate risk relates to fixed-rate short term bank fixed deposits. The Group will take action to hedge against any foreseeable interest rate exposure, if necessary.

(iii) Cash flow interest rate risk

The Group is exposed to cash flow interest risk through the changes in interest rates relates mainly to the Group's variable-rates bank borrowings and bank deposits and balances. The Group's treasury policy is in place to monitor and manage its exposure to fluctuation in interest rates.

(iv) Price risk

The Group's available-for-sale investments and investment held for trading are measured at fair value at each balance sheet date. Therefore, the Group is exposed to security price risk. The management will monitor the risks of the price movements and take appropriate actions when it is required.

Liquidity risk

The Group's objective is to maintain a balance between the continuity of funding and the flexibility through the use of bank loans and overdrafts. In addition, banking facilities have been put in place for contingency purposes.

8. REVENUE

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

9. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into four divisions – manufacture of watches, trading of watch movements, property development and property investment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities 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.

Segment information about these businesses is presented below.

2006

	Manufacture of watches HK$	**Trading of watch movements** HK$	**Property development** HK$	**Property investment** HK$	**Eliminations** HK$	**Consolidated** HK$
REVENUE						
External sales	439,745,203	600,890,070	424,492	4,446,205	–	1,045,505,970
Inter-segment sales	–	11,462,014	–	–	(11,462,014)	–
Total revenue	439,745,203	612,352,084	424,492	4,446,205	(11,462,014)	1,045,505,970

Inter-segment sales are charged at cost.

	Manufacture of watches HK$	**Trading of watch movements** HK$	**Property development** HK$	**Property investment** HK$	**Eliminations** HK$	**Consolidated** HK$
RESULT						
Segment result	22,689,415	991,303	31,789,401	20,196,720	–	75,666,839
Interest income						643,523
Unallocated other income						6,915,750
Unallocated corporate expenses						(6,304,674)
Finance costs						(14,986,831)
Share of results of associates			(3,200)	(4,979)		(8,179)
Share of results of jointly controlled entities			(1,410)			(1,410)
Profit before taxation						61,925,018
Income tax expenses						(1,820,256)
Profit for the year						60,104,762

9. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

BALANCE SHEET

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Eliminations HK$	Consolidated HK$
ASSETS						
Segment assets	234,327,016	126,378,321	723,339,159	280,592,767	–	1,364,637,263
Interest in an associate						31,564
Amount due from an associate						1,144,399
Unallocated corporate assets						200,847,749
Consolidated total assets						1,566,660,975
LIABILITIES						
Segment liabilities	83,959,174	80,741,193	182,114,942	4,035,614	–	350,850,923
Amount due to an associate						16,987
Amount due to a related party						7,556,135
Unallocated corporate liabilities						782,498,631
Consolidated total liabilities						1,140,922,676

OTHER INFORMATION

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Unallocated HK$	Consolidated HK$
Capital additions	13,415,495	4,934,698	231,757,423	5,037	–	250,112,653
Depreciation of property, plant and equipment	7,893,463	3,982,498	406,081	1,667,693	16,027	13,965,762
Amortisation of prepaid lease payments	313,225	–	–	311,401	–	624,626
Increase in fair value in investment properties	–	–	–	16,000,000	–	16,000,000
(Gain) loss on disposal of property, plant and equipment	(29,630)	(144,032)	–	3,451	–	(170,211)

9. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

2005

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Eliminations HK$	Consolidated HK$
REVENUE						
External sales	377,177,561	644,274,107	–	5,521,668	–	1,026,973,336
Inter-segment sales	–	6,071,983	–	–	(6,071,983)	–
Total revenue	377,177,561	650,346,090	–	5,521,668	(6,071,983)	1,026,973,336

Inter-segment sales are charged at cost.

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Eliminations HK$	Consolidated HK$
RESULT						
Segment result	36,786,467	7,750,277	(7,649,275)	31,317,968	–	68,205,437
Interest income						584,819
Unallocated other income						1,132,264
Unallocated corporate expenses						(4,460,645)
Finance costs						(6,075,492)
Share of result of an associate				1,316,539		1,316,539
Share of results of jointly controlled entities			(70,994)			(70,994)
Profit before taxation						60,631,928
Income tax expenses						(2,959,166)
Profit for the year						57,672,762

9. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

BALANCE SHEET

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Eliminations HK$	Consolidated HK$
ASSETS						
Segment assets	187,833,182	114,582,601	499,995,368	256,955,134	–	1,059,366,285
Interest in an associate						1,316,543
Amount due from a jointly controlled entity						50
Interests in jointly controlled entities						440,024
Unallocated corporate assets						117,859,986
Consolidated total assets						1,178,982,888
LIABILITIES						
Segment liabilities	59,658,502	70,437,086	84,376,876	3,376,836	–	217,849,300
Amount due to an associate						1,576,898
Unallocated corporate liabilities						587,036,606
Consolidated total liabilities						806,462,804

OTHER INFORMATION

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Unallocated HK$	Consolidated HK$
Capital additions	21,323,062	8,744,942	144,988,401	38,601,190	–	213,657,595
Depreciation of property, plant and equipment	11,697,790	3,168,177	446,083	1,390,078	–	16,702,128
Amortisation of development cost	–	133,709	–	–	–	133,709
Amortisation of prepaid lease payments	313,225	–	–	311,401	–	624,626
Revaluation increase in investment properties	–	–	–	27,411,840	–	27,411,840
Loss (gain) on disposal of property, plant and equipment	261,196	42,325	(1,500)	–	–	302,021

9. SEGMENT INFORMATION (CONTINUED)

Geographical segments
The Group's operations are located in Hong Kong, North America and Europe.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market	
	2006	2005
	HK$	HK$
Hong Kong and other regions in the People's Republic of China (the ''PRC'')	**607,810,043**	664,291,747
North America	**264,956,291**	186,508,087
Europe	**168,123,957**	173,244,075
Others	**4,615,679**	2,929,427
	1,045,505,970	1,026,973,336

The following is an analysis of the carrying amount of segment assets, additions to investment properties, property, plant and equipment, properties under development for sale and prepaid lease payments, analysed by the geographical area in which the assets are located:

2006

	Carrying amount of total assets	**Additions to property, plant and equipment**	**Additions to properties under development for sale**
	HK$	HK$	HK$
Hong Kong and the PRC	879,233,383	18,370,161	39,152,894
North America	682,240,430	41,608	192,547,990
Europe	5,024,296	–	–
Others	162,866	–	–
Total segment assets	1,566,660,975	18,411,769	231,700,884