

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

31. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The bank balances carry interest at rates ranging from 1.00% to 4.25% (2005: 1.00% to 2.78%). The fair values of these assets approximate to their carrying amounts.

32. BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

Included in bills payables, trade payables and accrued expenses are payables in respect of trade of HK\$138,180,528 (2005: HK\$103,410,961) with an aged analysis as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
Within 30 days	77,012,736	53,908,637
31 to 90 days	27,460,188	31,938,405
91 to 180 days	33,562,693	17,562,477
Over 180 days	144,911	1,442
	138,180,528	103,410,961

The fair values of the Group's bills payables and trade payables at 31st March, 2006 approximate to the corresponding carrying amounts.

33. AMOUNT DUE TO A RELATED PARTY

Name of Company	Term	Balance at 31.3.2006 HK\$	Balance at 31.3.2005 HK\$
CPI Asia National 2 Limited	Unsecured, interest bearing at HIBOR + 0.9% per annum and repayable on demand	7,556,135	–

CPI Asia National 2 Limited is a major shareholder of the Group's associates including Roebuck II Investments Limited, Schofield Development Limited and Super Plus Limited.

The fair value of the amount due to a related party at 31st March, 2006 approximates to its carrying amount.

34. DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments representing foreign currency forward contracts, are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

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For the year ended 31st March, 2006

35. OBLIGATIONS UNDER FINANCE LEASES

	Minimum		Present value	
	lease payments		of minimum	
	2006	2005	2006	2005
	HK\$	HK\$	HK\$	HK\$
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Amounts payable under finance leases				
Within one year	3,277,125	2,250,213	2,882,947	2,115,047
In the second to fifth years inclusive	5,547,647	2,430,595	4,790,361	2,123,257
	8,824,772	4,680,808	7,673,308	4,238,304
Less: future finance charges	(1,151,464)	(442,504)	N/A	N/A
	7,673,308	4,238,304	7,673,308	4,238,304
	<hr/>			
Less: Amount due within one year shown under current liabilities			(2,882,947)	(2,115,047)
			4,790,361	2,123,257
Amount due after one year			4,790,361	2,123,257
			<hr/>	

It is the Group's policy to lease certain of its plant and machinery, motor vehicles and office equipment under finance leases. The leases term are for an average term of 3 years. All the leases were denominated in Hong Kong dollars. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

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

The fair values of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximates to their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

36. BANK OVERDRAFTS AND BORROWINGS

	THE GROUP	
	2006	2005
	HK\$	HK\$
Secured		
Bank loans	649,691,524	410,677,300
Unsecured		
Bank loans	113,709,331	159,293,975
	763,400,855	569,971,275
Bank overdrafts – unsecured	262,792	–
	763,663,647	569,971,275
Analysed as:		
Denominated in:		
– HK\$	325,858,664	351,237,016
– United States dollars	3,840,945	3,803,014
– Canadian dollars	127,607,684	59,871,362
– Japanese Yen	306,356,354	155,059,883
	763,663,647	569,971,275

The maturity of the above bank overdrafts and loans is as follows:

	THE GROUP	
	2006	2005
	HK\$	HK\$
On demand or within one year	217,283,017	187,324,534
More than one year, but not exceeding two years	343,315,185	163,337,205
More than two years, but not exceeding five years	65,373,117	81,726,180
More than five years	137,692,328	137,583,356
	763,663,647	569,971,275
Less: Amount due within one year shown under current liabilities	(217,283,017)	(187,324,534)
Amount due after one year	546,380,630	382,646,741

All the Group's borrowings are variable-rate borrowings which carry interest at HIBOR or LIBOR plus certain basis points and subject to cash flow interest rate risk. Interest is repricing every three months and the range of interest rates is at 1.33% to 8.5% (2005: 1.33% to 5.75%).

The fair values of the Group's bank borrowings approximate to their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

37. SHARE CAPITAL

	Number of shares		Amount	
	2006	2005	2006 HK\$	2005 HK\$
Ordinary shares of HK\$0.1 each				
Authorised:				
At 1st April and 31st March	1,500,000,000	1,500,000,000	150,000,000	150,000,000
Issued and fully paid:				
At 1st April	1,097,903,928	1,126,161,928	109,790,393	112,616,193
Cancelled on repurchase of shares	(22,000,000)	(28,258,000)	(2,200,000)	(2,825,800)
At 31st March	1,075,903,928	1,097,903,928	107,590,393	109,790,393

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited. The directors considered that, as the Company's shares were trading at a discount to the expected net asset value per share, the repurchase would be beneficial to the Company.

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

Month of repurchase	Number of shares of HK\$0.1 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
April 2005	1,862,000	0.246	0.240	453,135
May 2005	4,940,000	0.244	0.238	1,187,580
June 2005	2,916,000	0.246	0.243	716,614
July 2005	2,600,000	0.244	0.240	635,319
August 2005	2,642,000	0.243	0.236	639,043
September 2005	2,022,000	0.239	0.234	482,248
October 2005	1,302,000	0.233	0.221	299,012
November 2005	932,000	0.229	0.224	211,803
December 2005	1,300,000	0.228	0.225	296,415
January 2006	1,484,000	0.233	0.230	343,978
	22,000,000			5,265,147

38. PROVISION FOR LONG SERVICE PAYMENTS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

38. PROVISION FOR LONG SERVICE PAYMENTS (CONTINUED)

The amount recognised in the balance sheet is as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
At beginning of the year	4,132,056	4,046,678
Additional provision in the year	542,426	520,532
Utilisation of provision	(312,498)	(435,154)
At closing of the year	4,361,984	4,132,056

The most recent actuarial valuation of the present value of the obligations under long service payments was carried out at 31st March, 2006 by Mr. Aaron Wong of Watson Wyatt Hong Kong Limited, who is a Fellow of the Society of Actuaries. The present value of the obligations under long service payments and the related current service cost were measured using the Projected Unit Credit Method.

The principal actuarial assumptions as at the balance sheet dates used are as follows:

	2006	2005
Discount rate	4.75%	5.0%
Expected rate of salary increase	Nil for the next year commencing from 1st April, 2006 and 1.5% thereafter	Nil for the next four years from 1st April, 2007 and 1.5% thereafter

Amounts recognised in the consolidated income statement for the year in respect of the obligations under long service payments are as follows:

	2006 HK\$	2005 HK\$
Current service cost	10,305	5,270
Interest cost	362,826	341,110
Net actuarial losses recognised in current year	169,295	174,152
Net amount charged to consolidated income statement as staff costs	542,426	520,532

The amounts included in the balance sheets arising from the Group's obligations under long service payments are as follows:

	THE GROUP	
	2006 HK\$	2005 HK\$
Present value of the obligations under long service payments	7,317,000	7,412,760
Unrecognised actuarial losses	(2,955,016)	(3,280,704)
Obligations under long service payments included in the balance sheet	4,361,984	4,132,056

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

39. DEFERRED TAXATION

	Accelerated tax depreciation	Tax losses	Total
	HK\$	HK\$	HK\$
At 1st April, 2004	1,744,889	(707,601)	1,037,288
Charge (credit) to income statement for the year	646,343	(646,343)	–
At 1st April, 2005	2,391,232	(1,353,944)	1,037,288
Charge (credit) to income statement for the year	1,899,685	(1,543,883)	355,802
At 31st March, 2006	4,290,917	(2,897,827)	1,393,090

At the balance sheet date, the Company has unused tax losses of HK\$364,188,000 (2005: HK\$350,141,000) available for offset against future profits. A deferred tax asset of approximately HK\$2,898,000 (2005: HK\$1,353,000) has been recognised in respect of approximately HK\$16,559,000 (2005: HK\$7,737,000) of such losses.

No deferred tax asset has been recognised in respect of the remaining HK\$347,629,000 (2005: HK\$342,404,000) of such losses due to the unpredictability of future profit streams. The losses may be carried forward indefinitely.

At the balance sheet date, the Group has deductible temporary differences of HK\$986,000 (2005: HK\$5,386,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that sufficient taxable profit will be available against which the deductible temporary differences can be utilised.

40. DISPOSAL OF SUBSIDIARIES

On 30th March, 2006, the Group had disposed of an 80% equity interest in its subsidiaries including Roebuck II Investments Limited, Schofield Development Limited and Super Plus Limited for a consideration of HK\$282,478. The net assets of these companies at the date of disposal and at 31st March, 2005 were as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

40. DISPOSAL OF SUBSIDIARIES (CONTINUED)

	30.3.2006	31.3.2005
	HK\$	HK\$
NET (LIABILITIES) ASSETS DISPOSED OF:		
Properties under development for sale	61,679,020	52,302,527
Deposits and prepayments	27,500,000	–
Bank balances and cash	8,166	59,840
Amount due from immediate holding company	780	28
Trade payables and accrued expenses	–	(636,072)
Amount due to a fellow subsidiary	(69,748,323)	(64,348,840)
Bank borrowings	(57,069,745)	(25,000,000)
	(37,630,102)	(37,622,517)
Gain on disposal of subsidiaries	37,912,580	
Total consideration	282,478	
Satisfied by:		
Cash consideration	8,208,498	
Cost incurred in connection with the disposal	(400,000)	
Interests in associates	(7,526,020)	
	282,478	
Cash inflow arising on disposal:		
Cash consideration received (net of cost incurred in connection with the disposal)	7,808,498	
Cash and cash equivalents disposed of	(8,166)	
	7,800,332	

The subsidiaries disposed of during the year incurred a loss of HK\$8,356 (2005: HK\$16,395) to the Group's results during the period from 1st April, 2005 to 30th March, 2006.

The subsidiaries disposed of during the year used HK\$28,132,072 (2005: HK\$454,234) in the Group's operating activities and used HK\$9,376,493 (2005: HK\$52,302,527) in the Group's investing activities and generated HK\$32,069,745 (2005: HK\$25,000,000) from the Group's financing activities during the period from 1st April, 2005 to 30th March, 2006.

41. ACQUISITION OF SUBSIDIARIES

On 30th September, 2005, the Group acquired the remaining 50% of the issued share capital of New Height Developments Limited which holds the entire issue share capital of Eternity Management Limited, Parklane Limited and Phoenix Limited for consideration of HK\$15,024,614. This acquisition has been accounted for using the purchase method. The discount on acquisition as a result of such acquisition amounting to HK\$681,524 is released to the income statement for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

41. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The net assets acquired in the transaction, and the discount on acquisition arising, are as follows:

	Acquiree's carrying amount before combination and fair value HK\$
<hr/>	
Net assets acquired:	
Bank and cash balances	15,902,424
Tax recoverable	17,116
Creditors and accruals	(213,402)
	<hr/>
	15,706,138
Discounts on acquisition released to the income statement	(681,524)
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Total consideration	15,024,614
	<hr/>
Satisfied by:	
Cash	14,586,000
Interests in jointly controlled entities	438,614
	<hr/>
	15,024,614
	<hr/>
Net cash inflow arising on acquisition:	
Cash consideration paid	(14,586,000)
Cash and cash equivalents acquired	15,902,424
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	1,316,424
	<hr/>

If the acquisition had been completed on 1st April, 2005, total group revenue for the period would have been HK\$1,046 million; profit for the period would have been approximately HK\$60 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group for that actually would have been achieved had the acquisition been completed on 1st April, 2005, or is it intended to be a projection of future results.

42. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$7,156,958 (2005: HK\$2,810,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

43. CONTINGENT LIABILITIES AND COMMITMENTS

	THE GROUP	
	2006	2005
	HK\$	HK\$
Contingent liabilities:		
Other guarantees	247,000	187,000
Capital commitments:		
Contracted for but not provided:		
Acquisition of property, plant and equipment	111,530	292,188
Property development costs	20,442,799	4,134,459
	20,554,329	4,426,647

44. OPERATING LEASE ARRANGEMENTS

The Group as lessee:

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2006	2005
	HK\$	HK\$
Within one year	3,276,833	4,029,518
In the second to fifth year inclusive	8,301,057	10,383,156
Over five years	6,346,153	6,833,270
	17,924,043	21,245,944

Operating lease payments represent rental payable by the Group for certain of its office premises, staff quarters and factories. Leases for office premises and staff quarters are negotiated for terms of 2 to 6 years with fixed rentals. Leases for land are negotiated for terms of 50 years with fixed rentals.

The Group as lessor:

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

	THE GROUP	
	2006	2005
	HK\$	HK\$
Within one year	3,681,677	4,042,088
In the second to fifth year inclusive	4,840,000	1,531,880
	8,521,677	5,573,968

The properties are expected to generate rental yields of 2% on an ongoing basis. Leases are negotiated for terms ranging from 2 to 3 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

45. RETIREMENT BENEFIT SCHEME

Commencing from 1st December, 2000, the Group's employees are required to join the MPF Scheme. Under the MPF Scheme, both the Group and the employees contribute 5% of the employee's monthly remunerations or HK\$1,000 per month whichever is the smaller to the scheme. The Group's total contribution to the scheme for the year ended 31st March, 2006 is HK\$1,525,126 (2005: HK\$1,395,649). There is no forfeiture of employer's contribution from leaving scheme members under the MPF Scheme.

46. PLEDGE OF ASSETS

At 31st March, 2006, the Group has pledged the following assets and assigned rental income from letting of properties in favour of banks to secure the banking facilities:

	2006 HK\$	2005 HK\$
Investment property	166,000,000	150,000,000
Freehold land and buildings	20,737,281	21,567,913
Properties under development for sale	635,083,626	450,962,653
Inventory of unsold properties	126,282,153	119,418,851
Prepaid lease payments	43,036,497	43,661,123

47. POST BALANCE SHEET EVENTS

- (a) On 6th April, 2006, National Hotel Holdings Limited ("NHHL"), a wholly owned subsidiary of the Company, entered into a disposal agreement with CPI Asia, Limited ("CPI"). Pursuant to which NHHL conditionally agreed to sell and CPI agreed to purchase the sale shares representing 80% of the issued share capital in Roebuck Investments Limited ("Roebuck") for a consideration of HK\$31,963,714 (subject to adjustments) (the "Transaction").

Upon completion of the disposal, NHHL, CPI, Roebuck and National Properties Holdings Limited (as guarantor) will enter into the Shareholders' Deed to regulate the relationship between the parties and provide for the management and the conduct of the business of Roebuck.

The completion of the Transaction will result in the Group's equity interest in NHHL reducing from 100% to 20%.

- (b) On 11th April, 2006, Panteria International Limited ("Panteria"), a wholly owned subsidiary of the Company entered into the agreement with Man Ka Limited ("Man Ka") for the sale and purchase of all those pieces or parcels of ground registered in the Land Registry as the Remaining Portion of Inland Lot No. 3309 and the Remaining Portion of Inland Lot No. 3310 together with the messuages erections and buildings erected thereon known as "Elegant Court" at No. 21 Whitfield Road, North Point, Hong Kong (the "Property A"). The consideration for the acquisition of the Property A to be paid by Panteria is HK\$78,000,000.
- (c) On 10th June, 2006, New Height Developments Limited ("New Height"), a wholly owned subsidiary of the Company entered into the agreement with Worldround Developments Limited ("Worldround") for the sale and purchase of all those pieces or parcels of ground registered in the Land Registry as Inland Lot No. 4857 & Inland Lot No. 4858 together with all the messuages erections and buildings thereon known as King Hung Commercial Building, Nos. 194-196 Queen's Road Central, Hong Kong (the "Property B"). The consideration for the acquisition of the Property B to be paid by New Height is HK\$56,500,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Particulars of the principal subsidiaries at 31st March, 2006 are as follows:

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Direct subsidiary</i>			
National Electronics (Consolidated) Limited	Hong Kong	4,000 ordinary shares of HK\$0.25 each	Investment holding and trading of electronic products
National Properties Holdings Limited	Hong Kong	100 ordinary shares of HK\$1 each	Investment holding and property management
<i>Indirect subsidiary</i>			
Brady Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Charteray International Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Cherish Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment and trading
Chirac Limited	Hong Kong	10 ordinary shares of HK\$10 each	Investment holding
Cinic Limited	Hong Kong	2 ordinary shares of HK\$1 each	Property investment
Duprey Limited	Hong Kong	10 ordinary shares of HK\$10 each	Trading of electronic products
Eastbond (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$1 each	Manufacture and sale of plastic products
Eastern Mount Limited	Hong Kong	2 ordinary shares of HK\$1 each	Investment holding and subcontracting of electronic products in the PRC
Majorell Limited	Hong Kong	100 ordinary shares of HK\$10 each	Property investment and investment holding
Miyota Trading Limited	Hong Kong	100 ordinary shares of HK\$1 each	Trading of electronic products

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For the year ended 31st March, 2006

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Indirect subsidiary (continued)</i>			
National Electronics and Watch Company Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note)	Manufacture and sale of liquid crystal display and quartz analogue watches
National Time Limited	Hong Kong	100 ordinary shares of HK\$10 each and 55,000 non-voting deferred shares of HK\$10 each (note)	Trading of electronic watches
National Telecommunication System Limited	Hong Kong	100 ordinary shares of HK\$10 each and 200,000 non-voting deferred shares of HK\$10 each (note)	Provision of inspection service
Phoenix Investment S.a.r.l.	Luxembourg	500 ordinary shares	Investment holding
Rever Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Samford Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment and trading
St. Thomas Developments Incorporated	Ontario, Canada	100 common shares of C\$1 each	Property development
Sun Shine Limited	Hong Kong	2 ordinary shares of HK\$1 each	Investment holding
Super Fortune Group Limited	British Virgin Islands/ Hong Kong	1 ordinary share of US\$1 each	Investment holding
National Hotel Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1 each	Investment holding
Roebuck Investments Limited	British Virgin Islands	100 ordinary shares of US\$1 each	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Indirect subsidiary (continued)</i>			
Unionville Development Limited Partnership	Ontario, Canada	Contributed capital of C\$12,473,022	Property development
1061383 Ontario Limited	Ontario, Canada	100 common shares for C\$1 each	Property holding
中霸鐘表電子(深圳)有限公司*	PRC	Contributed capital of HK\$12,000,000	Trading of electronic products

* A wholly foreign owned enterprise.

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

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

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