

1. General information

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are shown on pages 79 to 83.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The accounts are presented in thousand of units of Hong Kong dollars (HK'000), unless otherwise stated. These accounts have been approved by the Board of Directors on 19th July 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the accounts are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

(a) Basis of preparation

The accounts of the Group has been prepared in accordance with Hong Kong Financial Reporting Standards (the "HKFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in note 4.

In the year beginning 1st April 2004, the Group adopted Hong Kong Accounting Standard No. 40 "Investment Property" ("HKAS 40") and Hong Kong Accounting Standard Interpretation No. 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" ("HKAS-Int 21").

The adoption of HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values of investment properties are recorded in the profit and loss account. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the profit and loss account. Any subsequent increases were credited to the profit and loss account up to the amount previously charged.

The adoption of revised HKAS-Int 21 has resulted in a change of accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would result from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

In the year beginning on 1st April 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives of prior year have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations
HKFRS 4	Insurance Contracts
HKFRS 5	Non-current Assets held for sale and Discontinued Operations

The following is a summary of material changes in principal accounting policies or presentation of the accounts as a result of the adoption of these new HKFRSs:

(i) HKAS 1

The adoption of HKAS 1 has affected the presentation of minority interests and other disclosures.

(ii) HKAS 17

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to prepayment of lease premium. The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account. In prior years, the leasehold land was stated at cost less accumulated depreciation and accumulated impairment loss. HKAS 17 has been applied retrospectively.

(iii) HKAS 21

The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

2. Summary of significant accounting policies (Continued)**(a) Basis of preparation (Continued)***(iv) HKAS 24*

HKAS 24 has affected the identification of related parties and some other related-party disclosures.

(v) HKAS 32 & 39

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Investment securities have been re-designated as available-for-sale financial assets and are stated at fair values. Changes in their fair values are accounted for as movements in reserve. The difference between the fair value of available-for-sale financial assets as at 1st April 2005 and the amounts carried forward under the previous accounting policy of the investment securities as at 1st April 2005 was credited to the opening investment revaluation reserve as at 1st April 2005. In prior years, investment securities were stated at cost less provision for diminution in value, other than temporary in nature.

Marketable securities have been re-designated as financial assets at fair value through profit or loss. In prior years, marketable securities were also stated at fair values and the net unrealised gains or losses arising from changes in market value of marketable securities were recognised in the profit and loss account.

In addition, the Group's discounted bills with recourse, which were previously treated as contingent liabilities, have been accounted for as collateralised bank advances prospectively on or after 1st April 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

(vi) HKAS 38

In accordance with the requirements of HKAS 38, the Group has reassessed the useful lives of its intangible assets. The amortisation of trademarks has ceased prospectively on 1st April 2005 after the useful lives have been reassessed to be indefinite. Such trademarks are tested for impairment on an annual basis.

(vii) HKFRS 2

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31st March 2005, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1st April 2005, the Group expenses the cost of share options in the profit and loss account.

(viii) HKFRS 5

The Group adopted HKFRS 5 from 1st April 2005 prospectively in accordance with the standard's provisions. The adoption of HKFRS 5 has resulted in substantial changes to the presentation and disclosures of the Group's Hipofant business as discontinued operation in the accounts. A discontinued operation is a component of the Group's business, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations. An operation is classified as discontinued when it is highly probable that the carrying amount of the assets and liabilities directly associated with the operation will be recovered through a sale transaction rather than through continuing use and the assets/liabilities are available for sale in their present condition, if earlier, or the Group has disposed of the operation. The assets directly associated with discontinued operation are stated at the lower of carrying amount and fair value less costs to sell.

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

All changes in the accounting policies have been made in accordance with the respective transitional provisions. All standards adopted by the Group require retrospective application other than:

HKAS 39 – generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st April 2005.

HKFRS 3 and HKAS 38 – prospectively after 1st April 2005.

HKFRS 5 – prospectively after 1st April 2005.

The following is a summary of effect of adopting these new HKFRSs on the accounts:

Consolidated profit and loss account

For the year ended 31st March 2006

	Increase/(decrease)			Total
	HKAS 17	HKAS 32 and 39	HKAS 38	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other operating expenses	–	–	(2,298)	(2,298)
Profit attributable to equity holders of the Company	–	–	2,298	2,298
	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>	<i>HK cent</i>
Earnings per share	–	–	0.24	0.24

There is no material impact of adopting these new HKFRSs on the consolidated profit and loss account for the year ended 31st March 2005.

NOTES TO THE ACCOUNTS

2. Summary of significant accounting policies (Continued)

(a) Basis of preparation (Continued)

Consolidated balance sheet

As at 31st March 2006

	Increase/(decrease)			
	HKAS 17 HK\$'000	HKAS 32 and 39 HK\$'000	HKAS 38 HK\$'000	Total HK\$'000
Property, plant and equipment	(146,877)	–	–	(146,877)
Prepayment for lease premium	146,877	–	–	146,877
Intangible assets	–	–	2,298	2,298
Investment securities	–	(4,299)	–	(4,299)
Available-for-sale financial assets	–	10,920	–	10,920
Debtors and prepayments	–	2,885	–	2,885
Total assets	–	9,506	2,298	11,804
Current portion of borrowings	–	2,885	–	2,885
Total liabilities	–	2,885	–	2,885
Net assets	–	6,621	2,298	8,919
Retained profits	–	–	2,298	2,298
Other reserves	–	6,621	–	6,621
Shareholders' funds	–	6,621	2,298	8,919

As at 31st March 2005

	Increase/ (decrease)
	HKAS 17 HK\$'000
Property, plant and equipment	(162,830)
Prepayment for lease premium	162,830
Net assets	–

2. Summary of significant accounting policies *(Continued)*

(a) Basis of preparation *(Continued)*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st April 2006 or later periods but which the Group has not early adopted, are as follows:

HKAS 1 (Amendment)	Capital disclosures
HKAS 39 (Amendment)	Cash flow hedges accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendment)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS 7	Financial Instruments disclosures
HKFRS Interpretation 4	Determining whether an arrangement contains a lease
HKFRS Interpretation 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HKFRS Interpretation 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment

Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKFRS 3 (Amendment)	Business combinations

The Group has not early adopted of the above standards, interpretations and amendments in the accounts for the year ended 31st March 2006. The Group has already commenced an assessment of the related impact of the Group but is not yet in a position to state whether substantial changes to the Group's accounting policies and presentation of the accounts will be resulted.

2. Summary of significant accounting policies *(Continued)***(b) Consolidation**

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account (see note 2(g)).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investment in a subsidiary is stated at cost less accumulated impairment losses, if any. The results of subsidiary are accounted by the Company on the basis of dividend received and receivable.

All significant intra-group transactions and balances within the Group have been eliminated upon consolidation.

(c) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(d) Foreign currency translation*(i) Functional and presentation currency*

The accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2. Summary of significant accounting policies *(Continued)***(d) Foreign currency translation** *(Continued)**(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences that were recorded in equity are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. Summary of significant accounting policies (Continued)**(e) Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

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

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	Lesser of the unexpired lease term or 40 to 50 years
Equipment	3 to 10 years
Furniture and fixtures	3 to 15 years
Motor vehicles	4 to 5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the profit and loss account.

(f) Investment properties

Investment properties are properties held for long-term rental yields. Investment properties are carried at fair value, representing open market value determined annually by independent qualified valuers. Changes in fair values are recorded in the profit and loss account.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

(g) Intangible assets**(i) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Trademarks

Trademarks are shown at historical cost. Trademarks have indefinite useful life are tested for impairment on an annual basis (note 2(h)).

2. Summary of significant accounting policies *(Continued)***(h) Impairment of non-financial assets**

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

Prior to 1st April 2005, the Group classified its investments in securities, other than subsidiaries, as non-trading investment securities and marketable securities.

Investment securities were stated at cost less provision for diminution in value other than temporary in nature.

Marketable securities were stated at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in market value of marketable securities were recognised in the profit and loss account. Profits or losses upon the disposals of marketable securities representing the difference between the net sales proceeds and the carrying amounts, were recognised in the profit and loss account as they arose.

From 1st April 2005 onwards, the Group classifies its investments in the following categories: loans and receivables, financial assets at fair value through profit or loss and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in debtors and prepayment in the balance sheet.

A financial asset is classified as fair value through profit or loss if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. Summary of significant accounting policies *(Continued)***(i) Financial assets** *(Continued)*

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit and loss account in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of accounts receivable is described in note 2(k).

(j) Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes the cost of direct labour, materials and appropriate proportion of production overhead expenditure, and is calculated on the weighted average basis. Net realisable value is the anticipated sales proceeds less selling expenses.

(k) Accounts receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the accounts receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2. Summary of significant accounting policies (Continued)**(m) Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

(n) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(o) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred taxation assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(p) Employee benefits*(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. Summary of significant accounting policies (Continued)**(p) Employee benefits (Continued)***(ii) Pension obligations*

The Group operates and participates in a number of defined contribution plans and a small defined benefit plan. The assets of the defined contribution plans are held separately from those of the Group in independently administered funds. The contributions are recognised as employee benefit expense when they are due and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(q) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. When the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(r) Recognition of revenue

Revenue is recognised when it is probable that economic benefits will accrue to the Group and when the revenue can be measured reliably on the following bases:

- (i) invoiced value of goods net of discounts and allowance, when the goods are delivered to the customers;
- (ii) rental income, on a straight-line basis over the lease term;
- (iii) building management fee income, when the services are rendered;
- (iv) dividend income, when the shareholder's right to receive payment is established; and
- (v) interest income, in proportion to time, taking into account the principal outstanding and the effective interest rate applicable. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

2. Summary of significant accounting policies (Continued)**(s) Leases***(i) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the profit and loss account on a straight-line basis over the period of the lease.

(ii) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(t) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(u) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

(v) Insurance contract

Insurance contract is a contract under which one party (the insurer) accepts a significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.

The Company shall assess at each reporting date whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment show that the carrying amount of its insurance liabilities is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.

3. Financial risk management**(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

(i) Foreign exchange risk

The Group operates in Hong Kong and certain overseas countries and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. Bank loans at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's bank borrowings are disclosed in note 32(a) below.

The Group has not used any interest rate swaps to hedge its exposure to cash flow interest rate risk.

(iii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. Sales to retail customers are made in cash or via major credit cards.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, management aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, accounts receivable; and financial liabilities including accounts payable, short-term borrowings, approximate their fair values due to their short maturities.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Net realisable value of stocks

Net realisable value of stocks is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to severe industry cycles. Management will reassess the estimations by the balance sheet date.

(ii) Impairment of accounts receivable

The Group's management determines the provision for impairment of accounts receivable. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(iii) Estimate of fair value of investment properties

The valuation of investment properties is made on the basis of the "Market Value" adopted by the Hong Kong Institute of Surveyors ("HKIS"). It is performed in accordance with the "HKIS Valuation Standards on Properties" published by the HKIS, 'The RICS Appraisal and Valuation Standards' published by the Royal Institute of Chartered Surveyors ("RICS") and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by external valuers. The Group's management will reassess the assumptions used by the external valuers by considering the information from a variety of sources including i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; and ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

(iv) Deferred taxation

The Group's management determines the amount of deferred tax asset to be recognised by estimating the amount of future profit available to utilise the tax losses in the relevant tax jurisdiction and entity. The estimate is based on the projected profit in respective jurisdiction and entity and the Group uses its judgement to make assumptions that are mainly based on market conditions existing on balance sheet date. It could change as a result of the uncertainties in the market conditions.

(v) Separation of prepayment of lease premium from property, plant and equipment

The adoption of HKAS 17 has resulted in reclassification of leasehold land from property, plant and equipment to prepayment of lease premium. The valuation of prepayment of lease premium is performed by an external valuer by valuing the depreciated replacement cost of the buildings and then deducting the depreciated replacement cost of the buildings from the initial consideration paid for the leasehold land and the building.

NOTES TO THE ACCOUNTS

5. Revenues

	2006 HK\$'000	2005 HK\$'000
Turnover		
Sales of goods	1,499,303	1,300,419
Gross rental income	27,937	24,366
	1,527,240	1,324,785

For the year ended 31st March 2005, dividend income from unlisted investments and interest income have been reclassified from turnover to other gains (note 6) to conform with the presentation of current year.

6 Other gains

	2006 HK\$'000	2005 HK\$'000
Building management fee income	11,611	9,440
Dividend income from unlisted investments	820	1,195
Interest income	5,540	6,872
Fair value gain on financial assets at fair value through profit or loss	50,749	–
Gain on disposal of subsidiaries (note 34(b))	15,150	–
Sundries	5,473	5,786
	89,343	23,293

7. Compensation received from arbitration

The Group was entitled to counter-claim liquidated damages and other costs or losses from the contractor for Stelux House. The arbitrator awarded in favour of the Group in March 2004 and compensation received from the contractor of HK\$30,080,000 was accordingly recognised in the consolidated profit and loss account for the year ended 31st March 2004.

In December 2004, the arbitrator awarded legal costs and interests in favour of the Group. The contractor filed an appeal but failed to overturn the arbitrator's award. After deducting other related costs, the net compensation received of HK\$38,489,000 was recognised during the year ended 31st March 2006.

8. Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

In accordance with the Group's internal financial reporting policy, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

8. Segment information (Continued)

Unallocated items represent net corporate expenses or income. Segment assets consist primarily of property, plant and equipment, investment properties, prepayment of lease premium, stocks, debtors and prepayment and exclude deferred tax assets and bank balances and cash. Segment liabilities consist mainly of creditors and accruals and exclude provision for executive bonus, taxation payable, deferred tax liabilities, loans from a director and shareholders and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, investment properties and prepayment of lease premium.

In respect of geographical segment reporting, sales are based on location of its markets and customers. Total assets and capital expenditure are based on where the assets are located. Inter-segment sales are conducted at prices and terms mutually agreed amongst those business segments.

Primary reporting format – business segments

	For the year ended 31st March 2006					
	Continuing operations				Discontinued operation	
	Retail and trading			Sub-total	Retail and trading	
	Watch	Optical	Property		Hipo. Fant	Group Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenues						
Gross segment	1,024,947	474,356	38,876	1,538,179	90,748	1,628,927
Inter-segment	-	-	(10,939)	(10,939)	-	(10,939)
	1,024,947	474,356	27,937	1,527,240	90,748	1,617,988
Segment results	37,906	37,480	118,378	193,764	(7,229)	186,535
Unallocated income				66,803	-	66,803
Net corporate expenses				(44,560)	-	(44,560)
Operating profit/(loss)				216,007	(7,229)	208,778
Finance costs				(32,596)	(353)	(32,949)
Profit/(loss) before taxation				183,411	(7,582)	175,829
Taxation credit/(charge)				12,090	(80)	12,010
Profit/(loss) after taxation				195,501	(7,662)	187,839

8. Segment information (Continued)
Primary reporting format – business segments (Continued)

	As at 31st March 2006					Group total HK\$'000
	Continuing operations				Discontinued operation	
	Retail and Trading		Property	Sub-total	Retail and trading (note b)	
	Watch HK\$'000	Optical HK\$'000	(note a) HK\$'000	HK\$'000	Hipo. Fant HK\$'000	
Segment assets	707,993	199,596	182,075	1,089,664	2,090	1,091,754
Unallocated assets				269,101	-	269,101
Total assets				1,358,765	2,090	1,360,855
Segment liabilities	190,651	83,639	1,372	275,662	6,145	281,807
Unallocated liabilities				424,626	-	424,626
Total liabilities				700,288	6,145	706,433
Capital expenditure	32,727	39,772	-		615	
Depreciation	30,136	16,817	2,058		1,373	
Amortisation of prepayment of lease premium	3,056	2,376	3,306		-	
Fair value gains of investment properties	-	-	(58,224)		-	
Loss/(gain) on disposal of property, plant and equipment	633	152	8		(34)	
Write-down of stocks to net realisable value	15,026	2,876	-		3,856	
Reversal of stock write-down	(12,248)	-	-		(10,427)	
Impairment of debtors and bad debts written off	6,060	16	-		-	

Notes:

- (a) Stelux House, which was included in the Property segment in 2005, was disposed of on 30th March 2006. Details of this disposal was disclosed in note 34(b).
- (b) The assets and liabilities of discontinued operation represent rental deposit receivable from landlord, trading balance payable to suppliers and accrued salary and redundancy cost.

8. Segment information (Continued)
Primary reporting format – business segments (Continued)

	For the year ended 31st March 2005					Group total HK\$'000
	Continuing operations				Discontinued operation	
	Retail and trading			Sub-total HK\$'000	Retail and trading	
	Watch HK\$'000	Optical HK\$'000	Property HK\$'000		Hipo. fant HK\$'000	
Revenues						
Gross segment	914,248	386,172	35,021	1,335,441	88,719	1,424,160
Inter-segment	–	–	(10,656)	(10,656)	–	(10,656)
	914,248	386,172	24,365	1,324,785	88,719	1,413,504
Segment results	91,455	26,885	173,014	291,354	(24,493)	266,861
Unallocated income				1,257	–	1,257
Net corporate expenses				(41,981)	–	(41,981)
Operating profit/(loss)				250,630	(24,493)	226,137
Finance costs				(18,766)	(269)	(19,035)
Profit/(loss) before taxation				231,864	(24,762)	207,102
Taxation charge				(36,082)	–	(36,082)
Profit/(loss) after taxation				195,782	(24,762)	171,020

8. Segment information (Continued)
Primary reporting format – business segments (Continued)

	As at 31st March 2005					Group total <i>HK\$'000</i>
	Continuing operations				Discontinued operation	
	Retail and trading		Property <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Retail and trading	
Watch <i>HK\$'000</i>	Optical <i>HK\$'000</i>	Hipo. fant <i>HK\$'000</i>				
Segment assets	579,212	141,961	982,753	1,703,926	21,023	1,724,949
Unallocated assets				105,668	–	105,668
Total assets				1,809,594	21,023	1,830,617
Segment liabilities	162,396	67,475	26,954	256,825	5,946	262,771
Unallocated liabilities				601,905	–	601,905
Total liabilities				858,730	5,946	864,676
Capital expenditure	33,541	18,240	7		511	
Depreciation	28,247	12,373	155		3,233	
Amortisation of prepayment of lease premium	3,271	1,860	3,510		–	
Impairment of property, plant and equipment	–	–	–		1,162	
Amortisation of trademarks	2,378	–	–		–	
Fair value gains of investment properties	–	–	(154,330)		–	
Loss on disposal of property, plant and equipment	74	–	–		22	
Write-down of stocks to net realisable value	18,765	2,541	–		16,962	
Impairment of debtors and bad debts written off	539	15	–		–	

8. Segment information (Continued)
Secondary reporting format – geographical segments

Continuing operations:

	As at and for the year ended 31 March 2006			
	Revenues <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	817,271	149,840	707,246	26,456
South East and Far East Asia	551,289	62,184	530,132	37,943
Europe	91,988	(9,180)	49,791	2,210
North America	6,951	2,266	113	–
Mainland China	59,741	(11,346)	71,483	6,660
	1,527,240	193,764	1,358,765	73,269

	As at and for the year ended 31st March 2005			
	Revenues <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total Assets <i>HK\$'000</i>	Capital Expenditure <i>HK\$'000</i>
Hong Kong	693,234	214,251	1,325,558	9,995
South East and Far East Asia	409,981	55,821	346,856	34,935
Europe	168,005	14,981	72,667	2,888
North America	21,738	9,689	260	–
Mainland China	31,827	(3,388)	64,253	4,275
	1,324,785	291,354	1,809,594	52,093

Discontinued operation:

	As at and for the year ended 31 March 2006			
	Revenues <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total assets <i>HK\$'000</i>	Capital expenditure <i>HK\$'000</i>
Hong Kong	84,938	(3,529)	2,074	615
South East and Far East Asia	1,164	6	16	–
Mainland China	4,646	(3,706)	–	–
	90,748	(7,229)	2,090	615

	As at and for the year ended 31st March 2005			
	Revenues <i>HK\$'000</i>	Segment results <i>HK\$'000</i>	Total Assets <i>HK\$'000</i>	Capital Expenditure <i>HK\$'000</i>
Hong Kong	73,667	(22,208)	17,131	511
South East and Far East Asia	5,937	(1,682)	333	–
Mainland China	9,115	(603)	3,559	–
	88,719	(24,493)	21,023	511

NOTES TO THE ACCOUNTS

9. Expenses by nature

Expenses included in arriving the profit/(loss) before taxation are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Continuing operations:		
Cost of stocks sold	578,111	464,248
Amortisation of prepayment of lease premium	8,738	8,641
Depreciation of property, plant and equipment		
– Owned	49,944	43,092
– Leased	357	478
Auditors' remuneration	4,190	3,678
Operating leases		
– Buildings	230,691	172,813
– Machinery	753	697
Amortisation of trademarks	–	2,378
Outgoings in respect of investment properties	3,970	2,629
Loss on disposal of property, plant and equipment	765	74
Write-down of stocks to net realisable value		
– adidas (note a)	281	9,201
– Others	17,621	12,105
Reversal of stock write downs	(12,248)	–
Impairment of debtors and bad debts written off	7,396	554
Donations	67	2,890
Employee benefits expenses (note 10)	284,768	241,145
Net exchange gains	(5,210)	(6,053)

	2006 HK\$'000	2005 HK\$'000
Discontinued operation:		
Cost of stocks sold	53,304	36,359
Depreciation of property, plant and equipment		
– Owned	1,338	3,163
– Leased	35	70
Auditors' remuneration	186	229
Operating leases		
– Buildings	15,126	18,193
(Gain)/loss on disposal of property, plant and equipment	(34)	22
Write-down of stocks to net realisable value		
– Hipo.fant (note b)	3,856	16,962
Reversal of stock write downs	(10,427)	–
Impairment of property, plant and equipment	–	1,162
Donations	1,412	281
Employee benefits expenses (note 10)	23,636	21,254
Net exchange gains	(191)	(200)

Notes:

- (a) The licence in respect of adidas was terminated in December 2005 and the stocks were accordingly written down to their net realisable values.
- (b) The Board has resolved on 14th July 2005 to close the Hipo.fant business and the stocks have been accordingly written down to their net realisable values.

10. Employee benefits expenses

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Continuing operations:		
Salaries and allowances	270,337	223,444
Pension contributions less forfeiture utilised	7,449	12,009
Unutilised annual leave	437	425
Social security costs	4,210	2,974
Other allowances	2,335	2,293
	284,768	241,145
Discontinued operation:		
Salaries and allowances	22,466	20,331
Pension contributions less forfeiture utilised	845	854
Unutilised annual leave	325	–
Other allowances	–	69
	23,636	21,254

(a) Pensions – defined contribution plans

The Group operated under Occupation Retirement Scheme Ordinance up to 30th November 2000 for employees in Hong Kong. With effect from 1st December 2000, a mandatory provident fund (“MPF”) scheme is set up which is available to eligible employees of the Group, including executive directors. Contributions to the MPF scheme by the Group and employees are calculated at rates specified in the rules of the MPF scheme. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

Forfeited contributions totaling HK\$3,171,000 for the year ended 31st March 2006 (2005: HK\$680,000) arising from employees leaving the scheme, were utilised to offset contributions during the year. The MPF scheme cost charged to the consolidated profit and loss account represents contributions payable by the Company to the fund.

The Group also operates a number of defined contribution schemes, covering all the main territories (other than Hong Kong) in which it operates, the assets of which are held in trustee administered funds. Contributions to these schemes are calculated at rates ranging from 5%-13% of basic salaries.

The Group also contributes to employee retirement schemes established by municipal governments in respect of subsidiaries incorporated in Mainland China. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the profit and loss account in the year to which the contributions relate.

10. Employee benefits expenses (Continued)
(b) Emoluments of directors and senior management

The remuneration of each director of the Company is set out below:

Name	Fees <i>HK\$'000</i>	Basic	Contributions	Discretionary	Total <i>HK\$'000</i>
		salaries, allowances, and benefits in kind <i>HK\$'000</i>	to pensions plans <i>HK\$'000</i>	Bonus (<i>note</i>) <i>HK\$'000</i>	
For the year ended 31st March 2005					
Wong Chong Po	100	1,395	–	920	2,415
Joseph C. C. Wong	80	2,703	67	2,762	5,612
Chu Kai Wah, Anthony	80	1,366	74	920	2,440
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,375	75	920	2,450
Wong Yuk Woon	80	1,617	51	920	2,668
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney	80	–	–	–	80
Wu Chun Sang	100	–	–	–	100
	760	8,456	267	6,442	15,925

For the year ended 31st March 2006

Wong Chong Po	100	1,395	–	1,859	3,354
Joseph C. C. Wong	80	2,850	64	5,576	8,570
Chu Kai Wah, Anthony	80	1,682	70	1,859	3,691
Sakorn Kanjanapas	80	–	–	–	80
Lee Shu Chung, Stan	80	1,682	71	1,859	3,692
Wong Yuk Woon	80	1,960	49	1,859	3,948
Kwong Yiu Chung	80	–	–	–	80
Chu Chun Keung, Sydney	27	–	–	–	27
Wu Chun Sang	100	–	–	–	100
Wu Chi Man, Lawrence	33	–	–	–	33
	740	9,569	254	13,012	23,575

During the year, none of the directors has waived their emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation of loss of office.

Note: Discretionary bonus represents the amount paid during the year.

10. Employee benefits expenses (Continued)
(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31st March 2006 and 2005 included five directors, whose emoluments are reflected in the analysis presented above. Accordingly, there was no employee for the year ended 31st March 2006 and 2005 whose emoluments were among the five highest in the Group.

11. Finance costs

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	29,432	16,702
Interest on other loans wholly repayable within five years	3,112	2,029
Interest on finance leases	52	35
	32,596	18,766

12. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year ended 31st March 2006 (2005: 17.5%) less relief for available tax losses. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the territories in which the Group operates.

The amount of taxation credited/(charged) to the consolidated profit and loss account represents:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Continuing operations:		
Current taxation		
– Hong Kong profits tax	(8,819)	(56)
– Overseas profits tax	(9,164)	(10,777)
– Under provisions in respect of prior years	(3,945)	(1,654)
	(21,928)	(12,487)
Deferred taxation (<i>note 33</i>)	34,018	(23,595)
Taxation credit/(charge)	12,090	(36,082)
Discontinued operation:		
Current taxation		
– Overseas profits tax	(45)	–
Deferred taxation (<i>note 33</i>)	(35)	–
	(80)	–

NOTES TO THE ACCOUNTS

12. Taxation (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group operates, is as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation from continuing operations	183,411	231,864
Theoretical tax at weighted average rate of 18.48% (2005: 17.85%)	(33,893)	(41,378)
Income not subject to taxation	5,790	4,792
Expenses not deductible for taxation purpose	(8,608)	(8,890)
Recognition of temporary difference previously not recognised	(4,330)	(582)
Utilisation of previously unrecognised tax losses	8,398	23,152
Tax losses not recognised	(7,106)	(8,058)
Withholding tax	(2,108)	(4,469)
Release of deferred tax liability upon disposal of Stelux House	56,432	–
Under provision of profits tax in prior years	(3,945)	(1,654)
Others	1,460	1,005
Taxation credit/(charge)	12,090	(36,082)

13. Profit attributable to equity holders of the Company

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$639,158,000 (2005: Loss HK\$3,560,000) for the year ended 31st March 2006.

14. Dividends

	2006 HK\$'000	2005 HK\$'000
Interim, paid, of HK\$0.01 (2005: HK\$0.01) per ordinary share	9,513	9,513
Final, proposed, of HK\$0.028 (2005: HK\$0.025) per ordinary share	26,638	23,784
Special, paid, of HK\$0.50 per ordinary share (note)	475,670	–
	511,821	33,297

Note: The special dividend of HK\$0.50 per ordinary share is declared pursuant to disposal of Stelux House, as disclosed in note 34(b), which is one of the prerequisite conditions for the completion of the disposal.

NOTES TO THE ACCOUNTS

15. Discontinued operation

The Board has resolved on 14th July 2005 to close the Hipo.fant business. Such closure has been completed in March 2006 and an analysis of the result of the discontinued operation is as follows:

	<i>Note</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Revenues		90,748	88,719
Cost of sales		(53,304)	(36,359)
Gross profit		37,444	52,360
Other gains		101	477
Selling expenses		(41,603)	(45,709)
General and administrative expenses		(11,715)	(12,141)
Other operating income/(expenses)		8,544	(19,480)
Operating loss		(7,229)	(24,493)
Finance costs		(353)	(269)
Loss before taxation	9	(7,582)	(24,762)
Taxation charge		(80)	–
Loss for the year		(7,662)	(24,762)
Operating cash flows		13,701	1,878
Investing cash flows		382	(510)
Financing cash flows		(3,652)	(3,674)
Total cash flows		10,431	(2,306)

16. Earnings per share
Basic

Basic earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares in issue during the year.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Weighted average number of ordinary shares in issue (thousands)	951,340	947,356
Group's profit from continuing operations attributable to equity holders	195,101	195,782
Basic earnings per share from continuing operation (HK cents per share)	20.51	20.67
Loss from discontinued operation attributable to equity holders	(7,662)	(24,762)
Basic loss per share from discontinued operation (HK cents per share)	(0.80)	(2.61)

Diluted

The diluted earnings/(loss) per share is calculated by dividing the Group's profit/(loss) attributable to equity holders by the weighted average number of ordinary shares which is adjusted for the weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised.

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Weighted average number of ordinary shares in issue (thousands)	951,340	947,356
– Adjustment for share options (thousands)	–	2,175
Weighted average number of ordinary shares for diluted earnings per share (thousands)	951,340	949,531
Group's profit from continuing operation attributable to equity holders	195,101	195,782
Diluted earnings per share from continuing operations (HK cents per share)	20.51	20.62
Loss from discontinued operation attributable to equity holders	(7,662)	(24,762)
Diluted loss per share from discontinued operation (HK cents per share)	(0.80)	(2.61)

17. Property, plant and equipment
Group

	Buildings <i>HK\$'000</i>	Equipment and others <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st March 2005			
Opening net book account	85,224	69,987	155,211
Additions	–	46,955	46,955
Impairment (<i>note c</i>)	–	(1,162)	(1,162)
Disposals	–	(357)	(357)
Depreciation	(2,297)	(44,506)	(46,803)
Exchange differences	407	419	826
Closing net book amount	83,334	71,336	154,670
At 31st March 2005			
Cost	120,772	350,151	470,923
Accumulated depreciation	(37,438)	(278,815)	(316,253)
Net book amount	83,334	71,336	154,670
Year ended 31st March 2006			
Opening net book account	83,334	71,336	154,670
Additions	–	63,303	63,303
Acquisition of subsidiaries (<i>note 38</i>)	–	3,107	3,107
Disposal of subsidiaries (<i>note 34(b)</i>)	(33,320)	(3,026)	(36,346)
Disposals	–	(2,050)	(2,050)
Depreciation	(1,366)	(50,308)	(51,674)
Exchange differences	(813)	183	(630)
Closing net book amount	47,835	82,545	130,380
At 31st March 2006			
Cost	80,604	350,592	431,196
Accumulated depreciation	(32,769)	(268,047)	(300,816)
Net book amount	47,835	82,545	130,380

Notes:

- (a) Certain property, plant and equipment of the Group have been pledged for bank borrowings. The carrying value of these property, plant and equipment as at 31st March 2006 were approximately HK\$14,356,000 (2005: HK\$56,391,000).
- (b) At 31st March 2006, the net book value of property, plant and equipment held under finance leases amounted to HK\$1,284,000 (2005: HK\$886,000).
- (c) Impairment loss was included in other operating expenses in the consolidated profit and loss account.

18. Investment properties

Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
At 1st April 2005 and 2004	712,350	558,020
Acquisition of subsidiaries	9,960	–
Disposal of subsidiaries (<i>note 34(b)</i>)	(746,200)	–
Disposals	(450)	–
Exchange differences	456	–
Fair value gains	58,224	154,330
	<hr/>	<hr/>
At 31st March	34,340	712,350

The investment properties were revalued by independent professionally qualified valuers, CS Surveys Limited, Jones Lang La Salle Limited and Knight Frank Private Limited at 31st March 2006. Valuations were based on open market value of these properties.

The Group's interests in investment properties are analysed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
In Hong Kong, held on:		
– Leases between 10 to 50 years	20,900	712,350
Outside Hong Kong:		
– Freehold	13,440	–
	<hr/>	<hr/>
	34,340	712,350

Investment properties amounting to HK\$33,440,000 (2005: HK\$711,100,000) were pledged to secure banking facilities to the Group.

19. Prepayment of lease premium

The Group's interests in prepayment of lease premium at their net book amounts are analysed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
In Hong Kong, held on:		
– Leases between 10 to 50 years	79,622	100,773
Outside Hong Kong, held on:		
– Leases over 50 years	2,690	2,914
– Leases between 10 to 50 years	52,664	44,150
– Leases under 10 years	11,901	14,993
	146,877	162,830

The movements of net book value of prepayment of lease premium are analysed as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
At 1st April 2005 and 2004	162,830	166,428
Additions	10,581	5,649
Disposal of subsidiaries (<i>note 34(b)</i>)	(17,849)	–
Disposals	(296)	(863)
Amortisation (<i>note b</i>)	(8,738)	(8,641)
Exchange differences	349	257
At 31st March	146,877	162,830

Notes:

- (a) Certain prepayment of lease premium of the Group have been pledged for bank borrowings. The carrying amount of these prepayment of lease premiums at 31st March 2006 were HK\$101,244,000 (2005: HK\$109,458,000).
- (b) Amortisation of prepayment of lease premium is included in the consolidated profit and loss account as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Selling expenses	5,034	5,130
General and administrative expenses	3	1
Other operating expenses	3,701	3,510
	8,738	8,641

NOTES TO THE ACCOUNTS
20. Subsidiaries and amounts due from/to subsidiaries

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unlisted investments, at cost less provision	–	495,150
Amounts due from subsidiaries	583,674	116,155
Amounts due to subsidiaries	–	(161,761)

The amounts due from/to subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of principal subsidiaries are shown on note 39.

21. Intangible assets
Group

	Goodwill <i>HK\$'000</i>	Trademarks <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31st March 2005			
Opening net book account	–	19,160	19,160
Exchange differences	–	270	270
Amortisation (<i>note 9</i>)	–	(2,378)	(2,378)
Closing net book amount	–	17,052	17,052
At 31st March 2005			
Cost	–	46,434	46,434
Accumulated amortisation	–	(29,382)	(29,382)
Net book amount	–	17,052	17,052
Year ended 31st March 2006			
Opening net book account	–	17,052	17,052
Acquisition of subsidiaries (<i>note 38</i>)	4,231	–	4,231
Exchange differences	1,084	(331)	753
Closing net book amount	5,315	16,721	22,036
At 31st March 2006			
Cost	5,315	43,762	49,077
Accumulated amortisation	–	(27,041)	(27,041)
Net book amount	5,315	16,721	22,036

NOTES TO THE ACCOUNTS

22. Investment securities

Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Unlisted overseas shares, at cost	–	4,299

Investment securities as at 31st March 2005 represents the unlisted overseas shares and is denominated in Switzerland Francs.

23. Available-for-sale financial assets

Group

	<i>HK\$'000</i>
At 31st March 2005 and 1st April 2005, as previously reported	4,299
Opening adjustment transfer to equity on the adoption of HKAS 39 (<i>note 30</i>)	7,201
At 1st April 2005, as restated	11,500
Revaluation deficit transfer to equity (<i>note 30</i>)	(580)
At 31st March 2006	10,920

There were no disposals or impairment provisions on available-for-sale financial assets in the year ended 31st March 2006.

Available-for-sale financial assets as at 31st March 2006 represents the unlisted overseas shares and is denominated in Switzerland Francs.

24. Stocks

Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Raw materials	28,032	60,866
Work-in-progress	3,181	1,437
Finished goods	425,614	326,546
	456,827	388,849

25. Debtors and prepayments

Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade debtors (<i>note a</i>)		
Below 60 days	86,340	15,360
Over 60 days	15,098	28,916
	101,438	44,276
Deposits, prepayments and other debtors (<i>note b</i>)	202,488	248,554
	303,926	292,830

Notes:

- (a) The Group allows an average credit period of 60 days to its trade debtors.
- (b) Included in the balances are amounts due from related companies of HK\$84,162,000 (2005: HK\$143,340,000) of which a balance owed by Bangkok Land Public Company Limited, in which the estate of Mr. Wong Chue Meng is a substantial shareholder, is made up as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Property development consultancy fee receivable	68,279	117,919
Interest receivable	33,610	32,264
	101,889	150,183
Impairment	(22,094)	(24,198)
	79,795	125,985

Of the gross amount receivable, HK\$94,603,000 (2005: HK\$142,906,000) carries interest at 3% per annum and is repayable on demand.

All other balances due from related companies are unsecured, interest free and have no fixed terms of repayment.

Impairment of debtors is included in other operating expenses in the consolidated profit and loss account.

NOTES TO THE ACCOUNTS

25. Debtors and prepayments (Continued)

An analysis of debtors and prepayments by currency is as follows:

	2006 HK\$'000	2005 HK\$'000
Hong Kong dollars	185,594	224,790
Renminbi	55,256	7,116
Singapore dollars	15,754	13,204
Malaysian ringgit	21,634	7,646
Thai bahts	8,433	8,714
US dollars	10,999	20,258
Others	6,256	11,102
	303,926	292,830

26. Marketable securities

Group

	2006 HK\$'000	2005 HK\$'000
Overseas listed shares, at market value	–	83

An analysis of marketable securities by currency is as follows:

	2006 HK\$'000	2005 HK\$'000
Swiss francs	–	65
Malaysian ringgit	–	18
	–	83

27. Financial assets at fair value through profit or loss

Group

	2006 HK\$'000	2005 HK\$'000
Listed shares in Hong Kong, at market value	90,851	–

NOTES TO THE ACCOUNTS

28. Bank balances and cash

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Unrestricted balances	142,858	64,779	45	10
	142,858	64,779	45	10

An analysis of bank balances and cash by currency is as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollars	18,211	15,405	45	10
Renminbi	14,897	13,864	–	–
Singapore dollars	16,836	7,752	–	–
Malaysian ringgit	23,058	4,875	–	–
Thai bahts	56,362	6,674	–	–
Pound sterling	10,499	12,954	–	–
Others	2,995	3,255	–	–
	142,858	64,779	45	10

29. Share capital

	Number of shares of HK\$0.1 each	HK\$'000
Authorised:		
At 31st March 2005 and 2006	1,600,000,000	160,000
Issued and fully paid:		
At 1st April 2004	943,340,023	94,334
Issue of shares	8,000,000	800
At 31st March 2005 and 2006	951,340,023	95,134

29. Share capital (Continued)

On 25th June 1997, a share option scheme for the executive directors and employees of the Company and its subsidiaries (the "Scheme") was approved and adopted by the shareholders pursuant to which the directors were authorised to grant options to executive directors and employees of the Company or its subsidiaries to subscribe for shares of the Company for a period of ten years. The maximum number of shares in respect of which options may be granted under the Scheme may not exceed 5% of the total shares in issue. Movements in the number of share options outstanding during the year are as follows:

	2006	2005
At the beginning of the year	–	8,000,000
Exercised	–	(8,000,000)
Lapsed	–	–
At end of year	–	–

Options exercised by certain directors on 24th September 2004, 27th September 2004 and 30th September 2004 resulted in 5,000,000, 2,000,000 and 1,000,000 shares respectively being issued at HK\$0.248 each, yielding the following proceeds, before transaction costs of HK\$6,000.

	2006 HK\$'000	2005 HK\$'000
Ordinary share capital – at par	–	800
Share premium	–	1,184
Proceeds	–	1,984

Notes:

(a) Market value of shares issued at exercise date of:

	2006 HK\$'000	2005 HK\$'000
– 24th September 2004	–	2,700
– 27th September 2004	–	1,140
– 30th September 2004	–	570

(b) No share options were outstanding at 31st March 2005 and 2006.

29. Share capital *(Continued)***New option scheme**

On 9th March 2005, a new share option scheme, replacing the previous scheme which was approved by the shareholders on 25th June 1997, for the employees, officers and directors of the Company and its subsidiaries (the "Share Option Scheme") was approved and adopted by the shareholders pursuant to which the Board was authorised to grant options to the employees, officers and directors of the Company or its subsidiaries to subscribe for shares of the Company for a fixed period. The option period refers to a period which the Board may in its absolute discretion determine and specify, save that (a) for ease of administration, in the absence of a separate Board resolution at the time of grant specifying otherwise, such period should be seven years from the commencement date of the share option and (b) in any event such period shall expire not later than 10 years from the commencement date of the share option.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 95,134,002 shares. The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the shares in issue from time to time. No options may be granted under any schemes of the Company if this will result in the limit being exceeded. An offer of the grant of options must be accepted within 28 days from the commencement date of the relevant option period. The consideration payable on acceptance of the offer for the grant of an option is HK\$1. The subscription price is determined by the Board at the time of grant of the relevant option and shall not be less than whichever is the higher of the closing price of the shares as stated in the daily quotation sheets of the Stock Exchange of Hong Kong Limited ("Stock Exchange") on the commencement date of the share option, which must be a business day; the average closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately proceeding the commencement date of the share option; and the nominal value of a share.

No option has been granted during the year.

NOTES TO THE ACCOUNTS

30. Reserves

Group

	Share premium <i>HK\$'000</i>	Contribution surplus <i>HK\$'000</i>	(Accumulated loss)/ retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2004	793	2,848,462	(2,121,120)	728,135
Transfer (<i>note</i>)	–	(2,848,462)	2,848,462	–
Issue of shares	1,184	–	–	1,184
Exchange difference	–	–	(3,646)	(3,646)
Profit for the year	–	–	171,020	171,020
Dividends paid	–	–	(28,380)	(28,380)
At 31st March 2005	1,977	–	866,336	868,313
Representing:				
2005 final proposed dividend				23,784
Reserves				844,529
				<u>868,313</u>
At 1st April 2005				
As previously reported	1,977	–	866,336	868,313
Opening adjustment on adoption of HKAS 39	–	7,201	–	7,201
As restated	1,977	7,201	866,336	875,514
Exchange difference	–	–	(895)	(895)
Change in fair value of available-for-sale financial assets	–	(580)	–	(580)
Profit for the year	–	–	187,439	187,439
Dividends paid	–	–	(508,967)	(508,967)
At 31st March 2006	1,977	6,621	543,913	552,511
Representing:				
2006 final proposed dividend				26,638
Reserves				525,873
				<u>552,511</u>

NOTES TO THE ACCOUNTS

30. Reserves (Continued)

Company

	Share Premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	(Accumulated loss)/ retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2004	793	4,085,186	(3,702,477)	383,502
Transfer (note)	–	(4,085,186)	4,085,186	–
Issue of shares	1,184	–	–	1,184
Loss for the year	–	–	(3,560)	(3,560)
Dividends paid	–	–	(28,380)	(28,380)
At 31st March 2005	1,977	–	350,769	352,746
Representing:				
2005 final proposed dividend				23,784
Reserves				328,962
				352,746
At 1st April 2005	1,977	–	350,769	352,746
Profit for the year	–	–	639,158	639,158
Dividends paid	–	–	(508,967)	(508,967)
At 31st March 2006	1,977	–	480,960	482,937

Representing:

2006 final proposed dividend	26,638
Reserves	456,299
	482,937

At 31st March 2006, the distributable reserves of the Company available for distribution as dividends to shareholders amounted to HK\$482,937,000 (2005: HK\$352,746,000).

Note:

A special general meeting of the shareholders was held on 6th September 2004. The shareholders resolved to eliminate and apply the credit balance of the contributed surplus account of the Company by way of a transfer of the balance to the profit and loss appropriation account of the Company. Immediately after the elimination and application, there will no longer be any balance in the contributed surplus account and as a result, a credit balance will be recorded in the profit and loss appropriation account of the Company. This will streamline the accounts of the Company and will enable the Company to achieve a capital structure that would permit and facilitate the payment of dividends, as and when the directors consider it appropriate.

31. Creditors and accruals
Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Trade creditors		
Below 60 days	110,359	62,306
Over 60 days	34,606	69,622
	144,965	131,928
Other creditors and accruals (<i>note</i>)	166,155	152,508
	311,120	284,436

Note:

Included in other creditors and accruals are amounts due to related companies of HK\$9,762,000 (2005: HK\$7,049,000) respectively, which are unsecured, interest free and have no fixed terms of repayment.

An analysis of creditors and accruals by currency is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong dollars	174,313	178,800
Renminbi	46,439	30,324
Singapore dollars	13,970	9,867
Malaysian ringgit	9,145	9,640
Thai bahts	29,580	28,071
US dollars	22,130	5,982
Pound sterling	5,104	14,025
Others	10,439	7,727
	311,120	284,436

32. Borrowings
Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bank loans and overdrafts (<i>note a</i>)	321,674	495,440
Loans from related companies (<i>note b</i>)	42,278	11,580
Obligations under finance leases (<i>note c</i>)	1,188	817
Loans from a director (<i>note d</i>)	–	8,648
	365,140	516,485
Amount repayable within one year included in current liabilities	(329,164)	(236,766)
	35,976	279,719

NOTES TO THE ACCOUNTS
32. Borrowings (Continued)
Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
(a) Bank loans and overdrafts		
Secured	309,376	431,845
Unsecured	12,298	63,595
	321,674	495,440

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
--	--------------------------------	-------------------------

The long term bank loans are repayable as follows:

Not exceeding one year	8,927	11,617
More than one year, but not exceeding two years	7,219	14,242
More than two years, but not exceeding five years	15,074	207,728
More than five years	12,996	57,200
	44,216	290,787

An analysis of the carrying amounts of the Group's bank loans and overdrafts by type and currency is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong dollars	290,509	480,859
Renminbi	2,880	2,820
Singapore dollars	9,600	–
Thai baths	7,099	667
Swiss Franc	11,586	11,094
	321,674	495,440

The weighted average effective interest rate per annum for bank loans and overdrafts was 7.29% (2005: 3.40%).

The carrying amounts and fair values of total bank loans and overdrafts are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Carrying values	321,674	495,440
Fair values	321,474	494,893

The fair values are based on discounted flows using rates based on the borrowings rates at 7.34% as at 31st March 2006 (2005: 3.45%), with reference to the types and currencies of borrowings.

NOTES TO THE ACCOUNTS**32. Borrowings (Continued)**

(b) Loans from related companies:

The loans from related companies are repayable as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Not exceeding one year	42,278	11,580

An analysis of the carrying amounts of the Group's loans from related companies by type and currency is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong dollars	27,000	11,580
Singapore dollars	15,278	–
	42,278	11,580

The weighted average effective interest rates per annum for loan from related companies was 5.18% (2005: 3.25%).

The carrying amounts and fair values of loans from related companies are as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Carrying amounts	42,278	11,580
Fair values	42,258	11,579

The fair values are based on discounted cash flows using rates based on the borrowings rates at 5.23% as at 31st March 2006 (2005: 3.50%), with reference to the types and currencies of borrowings.

Loans from related companies as at 31st March 2006 are unsecured, bear interest at prime rate less 2% and are obligated to be fully repaid on 31st March 2007.

Loan from a related company as at 31st March 2005 was unsecured, bore interest at prime rate less 2% and was fully repaid on 29th April 2005.

32. Borrowings (Continued)

(c) The obligations under finance leases are payable as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Not exceeding one year	555	311
More than one year, but not exceeding two years	352	300
More than two years, but not exceeding five years	419	342
	1,326	953
Future finance charges on finance leases	(138)	(136)
Present value of finance lease liabilities	1,188	817
The present value of finance lease liabilities is as follows:		
Not exceeding one year	503	268
More than one year, but not exceeding two years	304	253
More than two years, but not exceeding five years	381	296
	1,188	817

An analysis of the carrying amounts of the obligation under finance leases by type and currency is as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Hong Kong dollars	81	146
Singapore dollars	554	504
Malaysian rigit	553	167
	1,188	817

(d) The loans from a director comprised the following:

- (i) The Hong Kong Dollar loan of HK\$1,101,000 at 31st March 2005 was unsecured, interest-bearing at 1.5% per annum, and repayable at one month notice given by the director.
- (ii) The Thai Baht loan of HK\$7,547,000 at 31st March 2005 was unsecured, interest-bearing at 6.75% per annum, repayable in May 2005 and was renewed for another six months to mature in November 2005.

33. Deferred taxation
Group

Deferred taxation is calculated in full on temporary differences under the liability method using rates of taxation prevailing in the territories in which the Group operates.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Deferred tax assets	21,840	32,875
Deferred tax liabilities	(3,486)	(47,985)
	18,354	(15,110)

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

	Deferred tax assets/(liabilities)				Total <i>HK\$'000</i>
	Tax losses <i>HK\$'000</i>	Revaluation of investment properties <i>HK\$'000</i>	Accelerated accounting/(tax) depreciation allowances <i>HK\$'000</i>	Other temporary differences <i>HK\$'000</i>	
At 31st March 2004 and 1st April 2004	16,870	5,711	(23,711)	9,402	8,272
Transfer to profit and loss account					
– continuing operations	(2,735)	(26,014)	773	4,381	(23,595)
Exchange difference	10	–	130	73	213
At 31st March 2005 and 1st April 2005	14,145	(20,303)	(22,808)	13,856	(15,110)
Transfer to profit and loss account	(11,276)	(9,555)	(1,054)	(564)	(22,449)
Release of deferred tax liability upon disposal of Stelux House	–	29,858	26,574	–	56,432
Exchange difference	–	–	(24)	(120)	(144)
Acquisition of subsidiaries	–	(1,628)	380	873	(375)
At 31st March 2006	2,869	(1,628)	3,068	14,045	18,354

Deferred tax assets are recognised for tax loss to the extent that realisation of the related tax benefit through the future taxable profits is probable. As at 31st March 2006, the Group had unrecognised tax losses of HK\$351,506,454 (2005: HK\$323,253,000) to carry forward against future taxable income. Tax losses have no expiry date except HK\$1,883,827, HK\$5,597,789 and HK\$14,663,861 will be expired on 31st March 2009, 2010 and 2011 respectively.

34. Note to the consolidated cash flow statement
(a) Reconciliation of profit before taxation to net cash generated from operating activities

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Profit/(loss) before taxation		
– Continuing operations	183,411	231,864
– Discontinued operation	(7,582)	(24,762)
Depreciation	51,674	46,803
Loss on disposal of property, plant and equipment	731	96
Fair value gains of investment properties	(58,224)	(154,330)
Gain on disposal of subsidiaries	(15,150)	–
Fair value gain of financial assets at fair value through profit or loss	(50,749)	–
Impairment of property, plant and equipment	–	1,162
Amortisation of prepayment of lease premium	8,738	8,641
Amortisation of trademarks	–	2,378
Interest income	(5,540)	(6,872)
Interest expenses	32,949	19,035
Dividend income	(820)	(1,195)
Net exchange gains	(5,401)	(6,253)
Effect of foreign exchange rate changes	4,337	1,279
Operating profit before working capital changes	138,374	117,846
Increase in stocks	(4,235)	(39,464)
(Increase)/decrease in debtors and prepayments	(8,903)	28,635
(Decrease)/increase in creditors and accruals	(32,896)	10,203
Decrease in balances with related companies	77,021	24,181
Decrease in restricted bank balance	–	2,024
Increase in financial assets at fair value through profit or loss	(40,001)	–
Cash generated from operations	129,360	143,425

(b) Disposal of subsidiaries

On 20th December 2005, an agreement was entered into between the Group and Yee Hing Company Limited (“Yee Hing”) pursuant to which the Group has agreed to dispose of Stelux House (the “Property”) to Yee Hing for a cash consideration of HK\$820,000,000 through the disposal of the entire issued share capital of Stelux Holdings International (BVI) Limited (“Stelux International (BVI)”), a subsidiary of the Company, following a group reorganisation (“the Disposal”).

NOTES TO THE ACCOUNTS

34. Note to the consolidated cash flow statement (Continued)

(b) Disposal of subsidiaries (Continued)

Analysis of the effect of Stelux International (BVI) and its subsidiary disposed:

	<i>HK\$'000</i>
Property, plant and equipment	36,346
Investment properties	746,200
Prepayment of lease premium	17,849
Debtors and prepayments	1,952
Creditors and accruals	(9,693)
<hr/>	
Net assets	792,654
Gain on disposal of subsidiaries	15,150
<hr/>	
Net assets disposed of (excluding cash and cash equivalents)	807,804
<hr/>	
Sale consideration	820,000
Less: Adjustment on consideration for assets and liabilities relating to the Property	(4,706)
Cash and cash equivalents disposed	(9)
Direct expenses related to the Disposal	(7,481)
<hr/>	
Cash inflow on Disposal	807,804
<hr/>	

35. Contingent liabilities

Group

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Bills discounted	–	6,796
<hr/>		

Company

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Guarantees to secure banking facilities for subsidiaries	554,379	676,993
Other guarantees for subsidiaries	2,445	2,409
<hr/>		

36. Commitments

(a) Capital commitments for property, plant and equipment:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Contracted but not provided for	842	1,825
Authorised but not contracted for	–	420
	842	2,245

(b) Commitments under operating leases (where the Group is the lessee)

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Buildings		
Not later than one year	241,854	181,449
Later than one year but not later than five years	219,500	171,624
	461,354	353,073
Machinery		
Not later than one year	168	–
	461,522	353,073

(c) Operating lease arrangements (where the Group is the lessor)

The Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Buildings		
Not later than one year	1,308	19,494
Later than one year but not later than five years	1,194	12,854
	2,502	32,348

37. Related party transactions

The Group is controlled by the estate of Mr. Wong Chue Meng. It is interested in approximately 60% of the issued share capital of the Company. The remaining 40% of the shares are widely held. The ultimate holding company of the Group is Yee Hing Company Limited (incorporated in Hong Kong). The estate of Mr. Wong Chue Meng has controlling interest in Yee Hing Company Limited (“Yee Hing”) and Mengiwa Private Limited (“Mengiwa”).

The following is a summary of the significant related party transactions carried out in the normal course of the Group’s business:

- (i) Sales of goods and services/advances to related companies

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Rental income received and receivable from related companies ¹	2,600	1,691
Interest income from a related company ²	3,448	4,215

¹ On 14th August 2001, Stelux Holdings Limited, a former wholly owned subsidiary company of the Company, entered into lease agreements with Yee Hing Company Limited and International Optical Manufacturing Company Limited, a 60% owned subsidiary company of Yee Hing Company Limited for the lease of office premises at Stelux House for a period of up to three years expired on 14th August 2004 at a monthly rental of HK\$55,900 and HK\$95,040 respectively.

The leases were renewed on 9th August 2004 for lease terms expiring on 31st March 2007 at a monthly rental of HK\$49,450 and HK\$85,536 respectively.

² Interest income is charged at 3% per annum on the balance owed by Bangkok Land Public Company Limited, in which the estate of Mr. Wong Chue Meng is a substantial shareholder and is repayable on demand (note 25(b)).

³ The Group entered into tenancy agreements with Stelux Holdings Limited (“SHL”), which was the landlord of Stelux House and a wholly-owned subsidiary company of Yee Hing, to lease certain units and carparking spaces in Stelux House for the period from 30th March 2006 to 31st March 2008 at an aggregated monthly rental of HK\$373,000.

In addition, Stelux Properties Agency Limited (“SPAL”), a wholly-owned subsidiary of the Group entered into agreement (“Services Agreement”) with Stelux Holdings Limited (“SHL”) a wholly-owned subsidiary company of Yee Hing for the provision of the following services (“Services”):

- (a) Contract administration with respect to contracts entered into between SHL and third parties from time to time;
- (b) property agency liaison and tenancy management;
- (c) management of the property manager of Stelux House; and
- (d) other miscellaneous administrative services.

Duration of the Services Agreement is from 30th March 2006 to 31st March 2008. The fee was agreed at HK\$170,000 per calendar month in the first year during the duration of the Service Agreement.

NOTES TO THE ACCOUNTS
37. Related party transactions (Continued)

- (ii) Purchases of goods and services/advances from related companies

	2006 HK\$'000	2005 HK\$'000
Purchase of goods:		
– Related companies	5,009	3,748
– Subsidiaries (note a)	24,131	41,568
Interest expense to a related company	2,134	566
Interest expense to a shareholder	145	–
Interest expense to directors	720	62
Rental expense to related companies (note b)	1,317	–
	33,456	45,944

Note:

(a) Thong Sia Company (Singapore) Private Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd were acquired by the Group on 30 September 2005 and have become subsidiaries of the Group since then.

(b) On 20th July 2005, Thong Sia Watch Company Limited, as tenant has entered into a tenancy agreement with Thong Sia Investment Company Limited ("TSICL"), a company controlled by certain substantial shareholders, for the lease of office premises and service centre for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK\$119,080. This transaction ceased in November 2005.

On 3rd August 2005, Thong Sia Company (Singapore) Pte Limited, as tenant has entered into a tenancy agreement with Mengiwa for the lease of office premises and showroom in Singapore for a period of 3 years from 1st July 2005 up to and including 30th June 2008 at a monthly rental of HK\$168,000.

- (iii) Year-end balances arising from rental income, interest income and purchases of goods

	2006 HK\$'000	2005 HK\$'000
Rent receivable from related companies	476	145
Interest receivable from a related company (note 37(a)(i) ²)	33,610	32,264
Trading balances receivable from a related company	3,973	663
Trading balances payable to related companies	2,030	2,704

- (iv) Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term employee benefits	25,079	22,228
Other long-term benefits	254	378
	25,333	22,606

38. Acquisition of subsidiaries

On 30th September 2005, the Group acquired 100.0%, 96.0% and 94.4% equity interests respectively in Thong Sia Company (Singapore) Pte Limited, Thong Sia Watch Company Limited and Thong Sia Sdn Bhd (collectively "Thong Sia"). Thong Sia is principally engaged in the wholesaling of Seiko watches, clocks and optical products in Singapore, Hong Kong and Malaysia.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
– Cash paid	55,268
– Direct cost relating to the acquisition	4,000
Fair value of net assets acquired - shown as below	(55,037)
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Goodwill	4,231
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The goodwill is attributable to the future profitability of the acquired business and the synergies expected to arise after the Group's acquisition of Thong Sia.

The assets and liabilities arising from the acquisition are as follows:

	Fair value <i>HK\$'000</i>
Property, plant and equipment	3,107
Investment properties	9,960
Deferred tax assets	941
Stocks	63,743
Debtors and prepayments	59,724
Cash and cash equivalents	30,165
Deferred tax liabilities	(1,557)
Loans from related companies	(41,609)
Short term loans, unsecured	(13,216)
Taxation payable	(1,447)
Creditors and accruals	(50,901)
<hr/>	
Net assets	58,910
Minority interests	(3,873)
<hr/>	
Net assets acquired	55,037
<hr/>	
Purchase consideration settled in cash	(59,268)
Cash and cash equivalents acquired	30,165
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Cash outflow on acquisition	(29,103)
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The fair value of identifiable assets acquired and liabilities assumed in the business combination approximate their carrying amounts.

39. Ultimate holding company

In the opinion of the directors, the ultimate holding company is Yee Hing Company Limited, incorporated in Hong Kong.