Notes to the Financial Statements

For the Year Ended 31 March 2006

1. GENERAL

Peace Mark (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 20 to the financial statements.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which also include Hong Kong Accounting Standard ("HKASs") and Interpretations ("HK-Ints")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

The adoption of new/revised HKFRSs

In current year, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The comparatives 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 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37, HKAS-Int 15 and HK-Int 4 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37, HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. 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.

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

HKAS 17

In prior years, leasehold land and buildings held for own use were stated at cost or valuation less accumulated depreciation and accumulated impairment losses. Depreciation was calculated to write off the cost or valuation on a straight-line basis over the shorter of the lease term or the estimated useful lives of the buildings.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

With the adoption of HKAS 17, the interest in leasehold land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the interest in leasehold land at the time the lease was first entered into by the Group, or taken over from the previous leasee, or at the date of construction of those buildings, if later. Any prepaid land premiums for acquiring the land leases, or other lease payments, are amortized in the income statement on a straight-line basis over the lease term or where there is impairment, the impairment is expensed in the income statement. This new accounting policy has been adopted retrospectively and comparative amounts have been restated accordingly. The resulting effect on the financial statements of the Group is set out in notes 2(a) and (b) below.

HKASs 32 and 39

In prior years, the accounting policies for certain financial instruments were as follows:

– Equity investments, other than investments in subsidiaries, associates and a jointly controlled company, were classified as (i) investment securities, where the investments were held on a continuing basis for an identifiable long-term strategic purpose, and were stated at cost less any provisions for impairment loss; and (ii) other financial assets, and were stated at cost less any provisions for impairment loss.

– The notional amounts of derivative financial instruments, including interest rate and currency swaps, interest rate options and foreign currency options, entered into by the Group were not reflected in the balance sheet. The related interest flows were accounted for on an accrual basis and the premiums paid on purchased options were amortized over the terms of the respective options.

In accordance with HKASs 32 and 39, the following new accounting policies have been adopted for the financial instruments mentioned above:

– All investment securities, other than investments in subsidiaries, associates and a jointly controlled company, are classified as available-for-sale financial assets and carried at fair value. Changes in fair value are recognized in the fair value reserve under equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale financial assets is recognized directly in the fair value reserve. If there is no reasonable estimate on the fair value, the available-for-sale financial asset is stated at cost less impairment loss.

– All derivative financial instruments entered into by the Group are stated at fair value. Changes in fair value are recognized in the income statement as they arise.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HKASs 32 and 39 *(Continued)*

– Fair value of financial instruments is estimated as follows:

(i) The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale financial assets) is based on quoted market prices at the balance sheet date.

(ii) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) 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 the fair value of the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39. The resulting effect on the financial statements of the Group is set out in notes 2(a) and (b) below.

HKFRS 3 and HKASs 36 and 38

In prior periods,

– Goodwill arising on consolidation for acquisitions:

(i) before 1 April 2001 was taken directly to reserves at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and

(ii) on or after 1 April 2001 was amortized on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

– Intangible assets mainly comprise the trademark, which is stated at acquisition cost and is amortized on a straight-line basis over its expected future economic life of 20 years.

In accordance with the transitional arrangements under HKFRS 3 and the provisions of HKASs 36 and 38:

– The Group ceased amortization of goodwill prospectively;

– The cumulative amount of amortization as at 1 April 2005 has been offset against the cost of goodwill, with no comparative amounts restated;

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HKFRS 3 and HKASs 36 and 38 *(Continued)*

- Goodwill which had previously been taken directly to reserves will not be recognized in the income statement on disposal or impairment of the acquired business, or under any other circumstances;

- Goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount; and

- The Group has reassessed the useful lives of its intangible assets. Intangible assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events that the carrying amount may not be recoverable.

The resulting effect on the financial statements of the Group is set out in notes 2(a) and (b) below.

HKAS 21

In prior years, goodwill arising on the acquisition of foreign operation was translated at the exchange rate ruling at the transaction dates.

With the adoption of HKAS 21, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. It is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserves, together with any other differences arising from the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 April 2005.

HKFRS 2

In prior years, no amounts were recognized in the income statement for the share options granted to employees or directors of the Group and business associates to acquire shares of the Company at specified exercise prices under the share option schemes operated by the Group.

If the employees or directors of the Group chose to exercise the share options, the nominal amount of share capital and share premium were credited only to the extent of the share option’s exercise price receivable.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

HKFRS 2 *(Continued)*

With the adoption of HKFRS 2, the Group recognizes the fair value of such share options or shares as an expense in the income statement. A corresponding increase is recognized in the employee share-based compensation reserve under equity. Where the employees or directors are required to meet vesting conditions before they become entitled to the share options or shares, the Group recognizes the fair value of the share options or shares granted as an expense over the vesting period. If the employees or directors choose to exercise share options, the respective amount in the employee share-based compensation reserve is transferred to share capital and share premium, together with the exercise price. At each balance sheet date, the Group revises its estimates of the number of share options or shares that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all share options or shares granted to employees or directors on or before 7 November 2002.

a. Effect on the consolidated income statement

	Effect of adoption			
	HKAS17 HK$'000	**HKASs 32 & 39 HK$'000**	**HKFRS 2 HK$'000**	**Total HK$'000**
FOR THE YEAR ENDED 31 MARCH 2006				
INCREASE/(DECREASE) IN PROFIT				
Increase in other revenue, net		7,187		7,187
Decrease in depreciation of property, plant and equipment	209			209
Increase in amortization of land lease premium	(103)			(103)
Increase in staff costs – share option expense			(3,588)	(3,588)
TOTAL INCREASE/(DECREASE) IN PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**106**	**7,187**	**(3,588)**	**3,705**
FOR THE YEAR ENDED 31 MARCH 2005				
INCREASE/(DECREASE) IN PROFIT				
Increase in amortization of land lease premium	(103)			(103)
Decrease in depreciation of property, plant and equipment	209			209
TOTAL INCREASE IN PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**106**			**106**

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

b. Effect on the consolidated balance sheet

	Effect of adoption		
	HKAS 17 HK$'000	HKASs 32 & 39 HK$'000	Total HK$'000
AS AT 31 MARCH 2006			
INCREASE/(DECREASE) IN ASSETS			
Property, plant and equipment	(9,634)		(9,634)
Freehold land and interest in leasehold land held for own use	5,461		5,461
Available-for-sale financial assets		44,941	44,941
Investments in securities		(17,028)	(17,028)
Other financial assets		(29,225)	(29,225)
Derivative financial instruments (assets)		17,119	17,119
NET (DECREASE)/INCREASE IN ASSETS	**(4,173)**	**15,807**	**11,634**
INCREASE/(DECREASE) IN LIABILITIES AND EQUITY			
Derivative financial instruments (liabilities)		9,932	9,932
Property revaluation reserve	(5,466)		(5,466)
Fair value reserve		(1,312)	(1,312)
Retained profit	1,293	7,187	8,480
NET (DECREASE)/INCREASE IN LIABILITIES AND EQUITY	**(4,173)**	**15,807**	**11,634**
AS AT 31 MARCH 2005			
INCREASE/(DECREASE) IN ASSETS			
Property, plant and equipment	(25,638)		(25,638)
Freehold land and interest in leasehold land held for own use	21,256		21,256
NET DECREASE IN ASSETS	**(4,382)**		**(4,382)**
INCREASE/(DECREASE) IN EQUITY			
Property revaluation reserve	(5,466)		(5,466)
Retained profits	1,084		1,084
NET DECREASE IN EQUITY	**(4,382)**		**(4,382)**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have significant impact on the Group's results of operations and financial position.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease[2]
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]
HK(IFRIC)-Int 8	Scope of HKFRS 2[5]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[6]

[1] Effective for accounting period beginning on or after 1 January 2007
[2] Effective for accounting period beginning on or after 1 January 2006
[3] Effective for accounting period beginning on or after 1 December 2005
[4] Effective for accounting period beginning on or after 1 March 2006
[5] Effective for accounting period beginning on or after 1 May 2006
[6] Effective for accounting period beginning on or after 1 June 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

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 recognized directly in the income statement.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

(b) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

The consolidated income statement includes the Group's share of the post-acquisition results of associates and jointly controlled entities for the year. In the consolidated balance sheet, interest in associates are stated at the Group's share of the net assets plus the goodwill less any identified impairment loss.

In the Company's balance sheet, the investments in associates and jointly controlled entities are stated at cost less impairment losses. The results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) 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/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

(d) Investments

In prior years, the accounting policies for certain financial instruments were as follows:

– Equity investments, other than investments in subsidiaries, associates and a jointly controlled company, were classified as (i) investment securities, where the investments were held on a continuing basis for an identifiable long-term strategic purpose, and were stated at cost less any provisions for impairment loss; and (ii) other financial assets, and were stated at cost less any provisions for impairment loss.

– The notional amounts of derivative financial instruments, including interest rate and currency swaps, interest rate options and foreign currency options, entered into by the Group were not reflected in the balance sheet. The related interest flows were accounted for on an accrual basis and the premiums paid on purchased options were amortized over the terms of the respective options.

In the current year, the Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, 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.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Investments *(Continued)*

(ii) Loans and receivables

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 trade receivables, trade deposits and other receivables in the balance sheet.

(iii) Available-for-sale financial assets

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.

Purchases and sales of investments are recognized on trade-date-the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized 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. Loan and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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 in determining whether 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 recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Interest in leasehold land held for own use

Interest in leasehold land held for own use are stated at cost less accumulated amortization and accumulated impairment losses if any. Costs mainly represents the consideration paid for the rights to use the land on which various plants and buildings are situated for a period of 50 years from the date the respective right was granted. Amortization of costs is calculated on a straight-line basis over the period of the rights.

(f) Property, plant and equipment

Property, plant and equipment, other than plant and machinery under installation, are stated at historical cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item to working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, the expenditure is capitalized as additional cost of the item.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives with a residual value of approximately 10% of the original cost.

Freehold land	Nil
Buildings	2% straight line method or over the term of lease whichever is shorter
Leasehold improvements	20% reducing balance method
Other assets	20% reducing balance method

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.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the relevant item, and is recognized in the income statement.

(g) Plant and machinery under installation

Plant and machinery under installation is stated at cost less any impairment losses. Cost comprises direct and indirect costs of acquisition and installation. Installed items are transferred from plant and machinery under installation to other categories of property, plant and equipment. No provision for depreciation is made on these assets until such time as the relevant assets are installed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets (other than goodwill)

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets mainly comprise the trademark, which is stated at acquisition cost and is amortized on a straight line basis over its useful life.

The amortization period and the amortization method are reviewed annually at each financial year end.

(i) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that property, plant and equipment, interest in leasehold land, intangible assets (including goodwill), investments in subsidiaries, associates and a jointly controlled entity have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the fair value less costs to sell and value in use of an asset. The fair value less costs to sell is the amount that could be obtained from the sale of an asset in an arm's length transaction between knowledgeable and willing parties less the costs of disposal, while value in use is the present value of the future cash flows expected to be derived from an asset. Where an asset does not generate cash flows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit, is estimated to be less than its carrying amount, the carrying amount of the asset or a cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset other than goodwill is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately. An impairment loss in respect of goodwill is not reversed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(k) Taxation

(i) Taxation for the year comprises current tax and movements in deferred tax assets and liabilities. Taxation are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

(iii) *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or labilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional taxation that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(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 recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, 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 items, 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 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 income statement 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 recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, 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 are recognized in the income statement 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables 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. 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 recognized in the income statement.

(n) Trade and other payables

Trade and other payables are recognized initially at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Provisions and contingencies

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

(p) Revenue recognition

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Service income is recognized when the services are rendered.

Rental income under operating leases is recognized on a straight-line basis over the respective terms of the leases.

Interest income is recognized as it accrues using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Leases

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized 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 recognized until the time of leave.

(ii) Pension obligations

The Group operates a number of defined contribution plans in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel of the Company or its holding companies, significant shareholders and/or their close family members) or other entities and include entities which are under the control, joint control or significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group/Company or of any entity that is a related party of the Group.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segments

A segment is a distinguished component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting policy, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

(v) Borrowings

Borrowings are recognized 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 amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period 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.

(w) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Share capital

Ordinary share 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, 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.

4. FINANCIAL RISK MANAGEMENT

The Group manages its financial resources and liquidity as well as financial risk management according to a set of policies and procedures approved by the Board of directors.

The overall objectives is to act prudently to ensure that the Group has adequate cash flow and access to funding sources, both debt or equity, to fund the operations and the potential investments. Hedging arrangement of currency and interest rate risks will be entered into with consideration being given to the hedging costs and the risk level.

The risk is managed through prudent treasury policies, which include the following:

1. The Group closely monitors the cash-resources. The Group maintain a conservative cash reserve and review our position regularly to ensure that cost-efficient funding is available for operating expenses, capital expenditure needs and business expansion;

2. The Group's policy is to deposit surplus cash with creditworthy financial institutions or invest in low risk and liquid instruments; and

3. To the extent possible the financing and cash management of the subsidiaries have been management by the centralized treasury functions for the efficient allocation of capital, lower funding costs and control purposes.

The Group will continue to maintain sufficient liquidity and further diversify the funding sources and extend maturities profile, if necessary, to meet business requirements.

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Interest Rate Risk

The Group manages its interest rate exposure with a view to increasing the predictability of the interest payment and lower the overall cost of debt. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments that mitigate current and future interest rate volatility.

As part of balance sheet management, the Group have matched the maturity of the assets and liabilities to the greatest possible extent. Certain shorter-term tenor bank borrowings have been refinanced by longer term debt with flexible interest rate reset. This enabled the financial flexibility of the Group. Interest rate movement and hedging advices are provided from time to time by leading banks to the Group.

After taking into consideration of interest rate swap, the Group's fixed rate debt was at an effective interest rate of approximately 5% as a percentage of total debt was approximately 70%.

(b) Foreign Exchange Risk

The Group manages its foreign currency exposure by entering into currency hedging instruments, like currency forwards, to hedge currency exposure at an optimal level. Operating exposure of currency movement will be closely monitored. Currency derivatives (e.g. EUR, GBP and CHF) will be entered into to hedge the change of expected cash flows arising from an unexpected change in exchange rates. For RMB, the Company tends to naturally hedge its RMB denominated liabilities and expenses by the RMB denominated assets and revenue.

Currency transaction loss was HK$10 million and was expensed, while the currency translation charge of HK$5 million was reflected as reserve movement during the year.

(c) Credit Risk

The Group deals with the credit exposure according to the risk management policies. Credit extended to business associates are based on the credit analysis provided by credit agencies and trade intelligence sourced through industry participants.

All finance-related hedging transactions and deposits are made with counter-parties with high credit ratings.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

(a) Deprecation and amortization

The Group's net book value of property, plant and equipment as at 31 March 2006 was approximately HK$401,288,000. The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the reducing balance method, at 20% per annum. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

(b) Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are slowing moving as defined in the internal accounting polices. The management estimates the net realisable value for such finished goods and consumables based primarily on the latest invoice prices and current market conditions.

(c) Indefinite useful lives of intangible assets

The Group reassessed the useful lives of previously recognized intangible assets. As a result of this assessment, the acquired trademarks were classified as an indefinite lived intangible asset in accordance with HKAS 38 Intangible Assets. This conclusion is supported by the fact that the trademarks legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely. Under HKAS 38, the Group re-evaluates the useful life of the trademarks each year to determine whether events or circumstances and continues to support the view of indefinite useful lives for this asset.

(d) Impairment testing on goodwill and intangible assets with indefinite useful lives

The Group completed its annual impairment test for goodwill related to the various cash generating units ("CGUs") by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. The Group has also conducted valuations of all intangible assets and goodwill arising from acquisitions of the China distribution and retail network. The recoverable amounts of the CGUs are determined based on value-in-use calculation. Save as the impairment loss disclosed in note 19 to the financial statements, the Group determined that there was no impairment of any of its CGUs containing goodwill or intangible assets with indefinite useful lives.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(d) Impairment testing on goodwill and intangible assets with indefinite useful lives *(Continued)*

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

The recoverable amount of the CGUs are determined based on a value-in-use calculation. These calculations uses cashflow projections based on financial forecasts covering a five to ten-year periods with cashflows beyond that periods are extrapolated using an estimated growth rate of 2% – 3%. The discount rates used were ranging from 8% to 14%. The growth rate used does not exceed the average long-term growth rates for the businesses and the relevant markets in which in CGUs operate.

(e) Taxation

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

(f) Share option benefit expenses

The share option benefit expense is subject to the limitations of the Binominal model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behavior, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

The number of options to be vested at the end of vesting period involves management estimation. Should the number of options being vested at the end of vesting period be changed, there would be material changes in the amount of share option benefits recognized in the profit and loss account and share option reserve.

(g) Fair value of derivative financial instruments

The fair value of derivative financial instruments is based on market prices quoted from financial institutions for equivalent instruments at the balance sheet date. The amount is estimated by using a discount cash flow model with incorporate market data, discount rates and other assumptions. Should these assumptions be changed, there would be material changes to the carrying amount of the derivative financial instruments.

6. SEGMENT INFORMATION

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacturing, trading, distributing, retailing and related service income of timepiece products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold.

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

6. SEGMENT INFORMATION *(Continued)*

	2006			
	Turnover HK$'000	Segment results HK$'000	Segment assets HK$'000	Capital expenditure HK$'000
The Americas	884,780	126,824	351,979	167
Asia	400,126	41,036	8,985	–
Europe	322,027	33,143	63,358	1,526
China (including Hong Kong)	634,838	126,068	2,793,912	75,883
	2,241,771	327,071	3,218,234	77,576
Other revenue		57,162		
Unallocated expenses		(70,802)		
Finance costs		(60,346)		
Share of profit of associates		2,974		
Share of loss of a jointly controlled entity		(2,134)		
Profit before taxation		253,925		
Unallocated assets			53,453	
Total assets			3,271,687	

6. SEGMENT INFORMATION *(Continued)*

	2005			
	Turnover HK$'000	Segment results HK$'000 (restated)	Segment assets HK$'000 (restated)	Capital expenditure HK$'000 (restated)
The Americas	855,550	107,492	241,254	1,730
Asia	438,525	46,282	5,223	–
Europe	301,678	32,141	43,979	3,507
China (including Hong Kong)	342,194	63,336	2,050,816	116,749
	1,937,947	249,251	2,341,272	121,986
Other revenue		8,590		
Unallocated expenses		(76,757)		
Finance costs		(27,439)		
Share of loss of an associate		(357)		
Share of loss of a jointly controlled entity		(929)		
Profit before taxation		152,359		
Unallocated assets			53,629	
Total assets			2,394,901	

7. TURNOVER AND OTHER REVENUE

(a) Turnover

The principal activities of the Group are manufacturing, trading, distributing, retailing and related service of timepiece products.

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, to outside customers during the year.

(b) Other revenue

	2006	2005
	HK$'000	HK$'000
Interest income	**42,039**	8,590
Sale of scrapped materials	**1,690**	670
Exchange gain	**–**	693
Rental income	**2,432**	485
Unrealized gain on other financial assets at fair value through profit or loss	**556**	–
Realized gain on other financial assets at fair value through profit or loss	**3,464**	–
Fair value adjustment on derivative financial instruments	**7,187**	–
Net realized gains on other investments	**–**	296
Realized gains on financial instruments	**–**	5,892
Technical service income	**1,121**	1,840
Gain on disposal of subsidiaries	**15,123**	–
Sundry income	**6,832**	4,398
	80,444	22,864

8. PROFIT FROM OPERATIONS

	2006 **HK$'000**	2005 HK$'000 (restated)
Profit from operations is arrived at after charging:		
Auditors' remuneration	**2,354**	2,290
Depreciation of property, plant and equipment		
– Owned assets	**68,991**	62,103
– Assets under financing leases	**1,811**	2,278
Amortization of land lease premium	**103**	103
Amortization of intangible assets	**–**	3,093
Amortization of goodwill	**–**	7,422
Amortization of goodwill in an associate	**–**	1,652
Impairment loss on goodwill	**7,133**	12,575
Loss on write-down of inventories to net realizable value	**8,552**	31,943
Loss on disposal of property, plant and equipment	**1,203**	56
Staff costs, including directors' emoluments		
– Wages, salaries and benefits in kind	**136,611**	108,996
– Pension costs: defined contribution plans, net of forfeited contributions	**3,223**	1,400
– Share option expense	**3,588**	–
Minimum lease payments in respect of properties under operating leases	**27,853**	9,530
Provision for impairment loss on trade receivables	**553**	18,853
Exchange loss	**10,959**	–

9. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest on:		
Term loans, syndicated loans and bank overdrafts wholly repayable within five years	**60,040**	27,002
Obligations under finance leases	**306**	437
	60,346	27,439

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the Directors' and the six highest paid employees' emoluments are as follows:

(a) Directors' emoluments

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and Section 161 of the Hong Kong Companies Ordinance is as follows:

For the year ended 31 March 2006

Name of Director	**Fees** HK$'000	**Salary** HK$'000	**Other benefits *(Note a)*** HK$'000	**Employer's contribution to pension scheme** HK$'000	**Share-based payments *(Note b)*** HK$'000	**Total** HK$'000
Mr. Chau Cham Wong, Patrick	–	780	–	36	–	816
Mr. Leung Yung	–	780	–	36	–	816
Mr. Tsang Kwong Chiu, Kevin	–	1,040	–	48	239	1,327
Mr. Man Kwok Keung	–	390	260	18	80	748
Mr. Cheng Kwan Ling	–	390	–	18	80	488
Ms. Susan So	50	–	–	–	40	90
Mr. Kwok Ping Ki, Albert	50	–	–	–	40	90
Mr. Tang Yat Kan	50	–	–	–	40	90
Mr. Wong Yee Sui, Andrew	50	–	–	–	40	90
Mr. Mak Siu Wing, Clifford	50	–	–	–	40	90
	250	3,380	260	156	599	4,645

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

For the year ended 31 March 2005

Name of Director	Fees HK$'000	Salary HK$'000	Employer's contribution to pension scheme HK$'000	Total HK$'000
Mr. Chau Cham Wong, Patrick	–	900	36	936
Mr. Leung Yung	–	780	36	816
Mr. Tsang Kwong Chiu, Kevin	–	1,040	48	1,088
Mr. Man Kwok Keung	–	390	18	408
Mr. Cheng Kwan Ling	–	390	18	408
Ms. Susan So	50	–	–	50
Mr. Kwok Ping Ki, Albert	50	–	–	50
Mr. Tang Yat Kan	50	–	–	50
Mr. Wong Yee Sui, Andrew	50	–	–	50
Mr. Mak Siu Wing, Clifford	–	–	–	–
	200	3,500	156	3,856

Notes:

(a) Other benefits include leave pay, share option, insurance premium and club membership.

(b) Share-based payments represent the estimated value of share options granted to the Directors under the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based compensation as set out in note 3r(iii).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: nil).

The details of these benefit in kind, including the principal terms and number of options granted are disclosed in note 37.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Six highest paid individuals

During the year ended 31 March 2006, the six highest paid individuals included three Directors (2005: two), details of whose emoluments are set out in note 10(a) to the financial statements above. The emoluments of the remaining individuals for the year are as follows:

	2006 **HK$'000**	2005 HK$'000
Salaries and other benefits	**3,353**	3,758
Pension scheme contributions	**–**	48
	3,353	3,806

The emoluments of the three (2005: three) individuals with the highest emoluments are within the following bands:

	2006 **Number of** **individuals**	2005 Number of individuals
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**3**	3
	3	3

During the year, no remuneration was paid by the Group to any of the three (2005: three) highest paid, non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. TAXATION

(a) Taxation in the consolidated income statement represents:

	2006	2005
	HK$'000	HK$'000
Current profits tax		
Hong Kong	**36,940**	16,229
The People's Republic of China (the "PRC")	**556**	238
Overseas	**997**	1,101
Deferred taxation		
Origination and reversal of temporary differences	**(569)**	5,590
	37,924	23,158

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the year. Taxation on other overseas profits for the year has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

The PRC profits tax has been provided at the rate of 15% to 33% on the assessable profits of the PRC subsidiaries. Some of the subsidiaries operating in the PRC has unused tax losses of HK$4,990,000 (2005: HK$25,979,000) available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profit streams. These unrecognized tax losses will expire before 2011.

11. TAXATION *(Continued)*

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2006 **HK$'000**	2005 HK$'000
Profit before taxation	**253,925**	152,359
Notional tax charge on profit before taxation, calculated at the applicable tax rate of 17.5% (2005: 17.5%)	**44,437**	26,663
Tax effect of income not taxable for tax purpose	**(5,244)**	(9,371)
Tax effect of expenses not deductible for tax purpose	**18,936**	18,502
Utilization of tax losses previously not recognized	**(61)**	(10)
Recognition of previously unrecognized tax losses	**(742)**	(1,656)
Tax effect of unused tax losses not recognized	**1,800**	184
Effect of different tax rates in other jurisdictions	**511**	92
Effect on profits tax of concessionary rates for certain subsidiaries	**(23,775)**	(12,517)
Others	**2,062**	1,271
Actual tax expense	**37,924**	23,158

12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The Group's profit attributable to equity holders of the Company includes a profit of HK$35,891,000 (2005: HK$50,436,000) which has been dealt with in the financial statements of the Company.

13. DIVIDENDS

	2006 **HK$'000**	2005 HK$'000
Interim dividend paid of HK 3.0 cents per share (2005: HK2.2 cents)	**26,992**	18,574
Final dividend proposed of HK 4.3 cents per share (2005: HK2.8 cents)	**42,580**	24,532
	69,572	43,106

A final dividend in respect of 2006 of HK4.3 cents per share amounting to approximately HK$42,580,000 was proposed by the Boards of Directors after the balance sheet date. The proposed dividend has not been accounted for as a liability until it is approved at the forthcoming Annual General Meeting.

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

	2006	2005 (restated)
Profit attributable to equity holders of the Company (in HK$'000)	**200,619**	123,917
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	**906,636**	831,722
Potential dilutive shares		
– share options (in '000)	**3,960**	18
– warrants (in '000)	**–**	23,421
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	**910,596**	855,161
Basic earnings per share (HK cents)	**22.13**	14.90
Diluted earnings per share (HK cents)	**22.03**	14.49

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15. RELATED PARTY TRANSACTIONS

Significant related party transactions which were carried out in the normal course of the Group's business and were conducted on normal commercial terms are as follows:

	Note	2006 HK$'000	2005 HK$'000
Sale of finished goods to associates	(a)	**44,232**	12,134
Purchase of finished goods from an associate	(b)	**1,697**	–
Rental for use of leasehold properties provided from and charged from an associate	(c)	**3,151**	–
Rental for use of plant and machinery provided to and charged to a jointly controlled entity	(c)	**1,846**	1,000
Electroplating services provided by and respective fee charged by a jointly controlled entity	(d)	**9,841**	10,836
Key management compensation	(e)	**2,030**	1,471

Notes:

(a) Sale of finished goods to associates were conducted in the normal course of business at prices and terms as determined by the transaction parties.

(b) Purchase of finished goods from an associate was conducted in the normal course of business at prices and terms as determined by the transaction parties.

(c) The amount of the rental received from/charged to a jointly controlled entity and an associate was agreed between the transaction parties on arm's length basis.

(d) Fee for electroplating services provided by a jointly controlled entity was charged at prices and terms as agreed between the transaction parties.

(e) Details of key mangement compensation of the Group are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other short-term employee benefits	**1,669**	1,408
Post-employment benefits	**74**	63
Share-based payment	**287**	–
	2,030	1,471

16. FREEHOLD LAND AND INTEREST IN LEASEHOLD LAND HELD FOR OWN USE

The Group's freehold land and interest in leasehold land held for own use represent prepaid operating lease premium payments and their net book value are analyzed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**4,241**	4,344
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	**–**	15,692
Freehold land outside Hong Kong	**1,220**	1,220
	5,461	21,256

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For the Year Ended 31 March 2006

17. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Plant and machinery under installation HK$'000	**Buildings for own use** HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Other assets** HK$'000	**Total** HK$'000
COST						
At 1 April 2005, as restated	–	176,888	123,139	304,836	81,322	686,185
Additions	2,486	–	52,893	12,692	9,505	77,576
Acquisition of subsidiaries	–	–	153	149	215	517
Disposals	–	–	(1,267)	(191)	(932)	(2,390)
Disposal of subsidiaries	(2,420)	(55,577)	(27,601)	(4,887)	(10,238)	(100,723)
Exchange realignment	–	95	2,045	5,265	602	8,007
AS AT 31 MARCH 2006	**66**	**121,406**	**149,362**	**317,864**	**80,474**	**669,172**
ACCUMULATED DEPRECIATION						
At 1 April 2005, as restated	–	17,616	47,680	131,885	31,475	228,656
Provided for the year	–	3,347	20,062	35,985	11,408	70,802
Eliminated on disposal	–	–	(200)	(30)	(254)	(484)
Disposal of subsidiaries	–	(8,347)	(14,819)	(4,050)	(8,403)	(35,619)
Exchange realignment	–	(163)	976	3,507	209	4,529
AS AT 31 MARCH 2006	**–**	**12,453**	**53,699**	**167,297**	**34,435**	**267,884**
CARRYING AMOUNT AS AT 31 MARCH 2006	**66**	**108,953**	**95,663**	**150,567**	**46,039**	**401,288**
As at 31 March 2005	–	159,272	75,459	172,951	49,847	457,529

17. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Group					
	Plant and machinery under installation HK$'000	Buildings for own use HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Other assets HK$'000	Total HK$'000
COST						
At 1 April 2004, as restated	41,863	174,976	73,981	183,008	50,002	523,830
Additions	1,560	1,885	27,296	81,527	9,718	121,986
Acquisition of subsidiaries	596	–	12,826	5,913	22,329	41,664
Disposals	–	(407)	(34)	–	(1,616)	(2,057)
Exchange realignment	–	434	26	71	231	762
Reclassification	(44,019)	–	9,044	34,317	658	–
As at 31 March 2005	–	176,888	123,139	304,836	81,322	686,185
ACCUMULATED DEPRECIATION						
At 1 April 2004, as restated	–	14,138	33,890	95,115	22,866	166,009
Provided for the year	–	3,842	13,787	36,751	10,001	64,381
Eliminated on disposal	–	(407)	(4)	–	(1,444)	(1,855)
Exchange realignment	–	43	7	19	52	121
As at 31 March 2005	–	17,616	47,680	131,885	31,475	228,656
CARRYING AMOUNT						
As at 31 March 2005	–	159,272	75,459	172,951	49,847	457,529
As at 31 March 2004	41,863	160,838	40,091	87,893	27,136	357,821

As at 31 March 2006, the carrying amount of the Group's property, plant and equipment held under finance leases was approximately HK$7,242,000 (2005: HK$11,111,000).

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For the Year Ended 31 March 2006

18. INTANGIBLE ASSETS

	Group
	Trademarks
	HK$'000
COST	
As at 1 April 2004	61,668
Exchange realignment	192
As at 31 March 2005	61,860
Exchange realignment	(190)
AS AT 31 MARCH 2006	**61,670**
ACCUMULATED AMORTIZATION	
As at 1 April 2004	5,136
Provided for the year	3,093
Exchange realignment	2
As at 31 March 2005	8,231
Exchange realignment	(14)
AS AT 31 MARCH 2006	**8,217**
CARRYING AMOUNT	
AS AT 31 MARCH 2006	**53,453**
As at 31 March 2005	53,629

The amortization charge for the year 2005 was included in "administrative and general expenses" in the consolidated income statement.

19. GOODWILL

	Group	
	2006	2005
	HK$'000	HK$'000
COST		
At the beginning of the year	**171,193**	63,253
Elimination of accumulated amortization upon the application of HKFRS 3 *(Note 2)*	**(10,623)**	–
At the beginning of the year, as restated	**160,570**	63,253
Additions	**11,693**	107,940
Disposals	**(9,865)**	–
At the end of the year	**162,398**	171,193
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES		
At the beginning of the year	**23,198**	3,201
Elimination of accumulated amortization upon the application of HKFRS 3 *(Note 2)*	**(10,623)**	–
At the beginning of the year, as restated	**12,575**	3,201
Amortization for the year	**–**	7,422
Impairment loss *(Note a)*	**7,133**	12,575
At the end of the year	**19,708**	23,198
CARRYING AMOUNT		
At the end of the year	**142,690**	147,995

Note:

(a) Impairment testing on goodwill on consolidation and intangible assets with indefinite useful lives.

The Group completed its annual impairment test for goodwill related to the various cash generating units ("CGUs") by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. The Group has also conducted valuations of all intangible assets and goodwill arising from acquisitions of the China distribution and retail network. The recoverable amounts of the CGUs are determined based on value-in-use calculation. Save as the impairment loss provided during the year, the Group determined that there was no impairment of any of its CGUs containing goodwill or intangible assets with indefinite useful lives.

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarized below:

The recoverable amount of the CGUs are determined based on a value-in-use calculation. These calculations uses cashflow projections based on financial forecasts covering a five to ten-year periods with cashflows beyond that periods are extrapolated using an estimated growth rate of 2%-3%. The discount rates used were ranging from 8% to 14%. The growth rate used does not exceed the average long-term growth rates for the businesses and the relevant markets in which the CGUs operate.

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 March 2006

20. INTEREST IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**51,398**	51,398
Amounts due from subsidiaries	**1,749,588**	1,168,402
	1,800,986	1,219,800

Included in amounts due from subsidiaries is an amount of HK$1,547,559,000 (2005: HK$932,368,000) advances to a subsidiary which are unsecured, interest-bearing at annual rates around 2.5% (2005: nil) and are not expected to be realised within one year from the balance sheet date. The remaining balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

As at 31 March 2006, the underlying value of interests in subsidiaries is, in the opinion of the Board of Directors, not less than the carrying amount in the books of the Company.

Details of the Company's principal subsidiaries as at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Aerostar Timewear International Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Bensonic International Limited	British Virgin Islands	US$100 Ordinary	–	51	The Americas	Timepiece distribution, trading and marketing
重慶美達實業有限公司 (Transliteration: Chongqing Meida Enterprise Co., Limited)	The People's Republic of China	RMB10,000,000	–	51	The People's Republic of China	Timepiece retail
Cornell Worldwide International Holdings Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding

20. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Eastern Group (Asia) Limited	Hong Kong	HK$2,000,000 Ordinary	–	100	Hong Kong	Timepiece distribution, trading and marketing
Easy Winner Development Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepiece retail
Ever Precision Corporation	British Virgin Islands	US$1 Ordinary	–	100	The People's Republic of China	Trademark holding
Epoch World Company Limited[4]	Taiwan	NTD19,000,000	–	63	Taiwan	Timepiece distribution, trading and marketing
Fiorucci Timewear (Far East) Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	License holding
廣州金匠時計有限公司[2] (Transliteration: Guangzhou Goldsmith Timepiece Co., Limited)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail
廣州意瑪迅貿易有限公司[2] (Transliteration: Guangzhou Imarsion Trading Co., Limited)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail

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For the Year Ended 31 March 2006

20. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
廣州表匠鐘表維修有限公司[2] (Transliteration: Guangzhou Watchsmith Timepiece Servicing Co., Limited)	The People's Republic of China	RMB100,000	–	100	The People's Republic of China	Provision of after sales service and timepiece components trading
Inter Mark Worldwide Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece distribution and marketing
Mega Chains (China) Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece trading and marketing
Milus International S.A.[4]	Switzerland	CHF760,000	–	100	Switzerland	Timepiece manufacturing and trading
Montana Timepieces International Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece trading and marketing
Omni Watch & Clock Co., LLC.[4]	State of New York, United States	US$8,698,090	–	51	United States	Timepiece distribution, trading and marketing
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	British Virgin Islands	Investment holding
Peace Mark Limited	Hong Kong	HK$110,000 Ordinary HK$10,000 Non-voting deferred[3]	–	100	Hong Kong	Timepiece trading, marketing and manufacturing

20. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
PM License Management Limited	British Virgin Islands	US$100 Ordinary	–	100	British Virgin Islands	License holding
Pure Riches Industries Limited	Hong Kong	HK$2,760,000 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
深圳市大元錶業有限公司[1] (Transliteration: Shenzhen Dayuan Watches Co., Limited)	The People's Republic of China	RMB15,000,000	–	60	The People's Republic of China	Timepiece distribution and retail
Sinotop Investment Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	Investment holding
Sky Type Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Asset holding
上海金時精密機械有限公司[1] (Transliteration: Shanghai Golden Time Precision Instrument Co., Limited)	The People's Republic of China	RMB30,000,000	–	51	The People's Republic of China	Manufacturing of mechanical movement
Timetech Industrial Limited	Hong Kong	HK$100 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Property holding

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20. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
T&T Timepieces Co., Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepieces distribution, trading and marketing
Solomon Watch & Jewellery Co., Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepieces distribution, trading and marketing
Eastco Business Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
Timezone Trademark Management Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
Solomon Trademark Management Limited	British Virgin Islands	US$10 Ordinary	–	100	Hong Kong	Trademark holding
上海世琪貿易有限公司[1] (Transliteration: Shanghai Shiqi Trading Co., Limited)	The People's Republic of China	RMB500,000	–	51	The People's Republic of China	Timepiece distribution and retail
寧波宜和鐘錶珠寶有限公司[1] (Transliteration: Ningbo Yihe Watch and Jewellery Company Limited)	The People's Republic of China	RMB3,000,000	–	51	The People's Republic of China	Timepiece retail
深圳現代世界鐘錶精品有限公司[1] (Transliteration: Shenzhen Modern Watch Showpiece Co. Ltd.)	The People's Republic of China	RMB1,000,000	–	51	The People's Republic of China	Timepiece retail
Madison N.Y. Limited	Hong Kong	HK$10,000	–	51	Germany	Timepiece distribution, trading and marketing

20. INTEREST IN SUBSIDIARIES *(Continued)*

Notes:

1. *Represents a Sino-foreign equity joint venture.*

2. *Represents a wholly foreign owned enterprises.*

3. *The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.*

4. *Companies not audited by Chu and Chu, Certified Public Accountants. The financial statements of the subsidiaries not audited by Chu and Chu, Certified Public Accountants reflect total net assets and total turnover constituting approximately 0.93% and 10.2% respectively of the related consolidated totals.*

The above table listed the subsidiaries of the Company which, in the opinion of the Board of Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board of Directors, result in excessive length.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.

21. INTEREST IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets	**35,687**	6,244
Unamortized goodwill	**28,440**	23,508
	64,127	29,752
Amount due from an associate	**70,406**	35,623
	134,533	65,375

Certain amount due from an associate is unsecured, interest bearing at HIBOR plus 1.5% with no fixed terms of repayment. In the opinion of the directors, the amount is not expected to be realized within twelve months from the balance sheet date and is therefore included in non-current assets.

21. INTEREST IN ASSOCIATES *(Continued)*

Details of the Group's associate as at 31 March 2006 are as follows:

Name of associate	Place of incorporation/registration	Issued and fully paid capital/registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities
Niceworld Group Corporation	British Virgin Islands	US$12 Ordinary	50	Timepiece distribution in Latin America*
Capricon Company Limited	British Virgin Islands	US$2 Ordinary	50	Investment holding**

* *Niceworld holds three subsidiaries which have their respective places of incorporation in Mexico, Panama and Peru. These three subsidiaries have their distribution networks covering the whole of Latin America.*

** *Capricon Company Limited holds a wholly owned subsidiary, 金百利實業(深圳)有限公司 which is a properties holding company incorporated in The People's Republic of China.*

Summary of financial information of associates:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit (Loss) for the year HK$'000
2006					
100 percent	**365,866**	**(287,243)**	**78,623**	**69,045**	**7,145**
Group's effective interest	**167,034**	**(132,500)**	**34,534**	**29,423**	**2,974**
2005					
100 percent	77,197	(50,216)	26,981	16,258	(1,274)
Group's effect interest	24,189	(14,976)	9,213	5,533	(357)

22. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2006	2005
	HK$'000	HK$'000
Share of net assets of a jointly controlled entity	**7,535**	9,668
Amount due from a jointly controlled entity	**6,241**	5,972
	13,776	15,640

Details of the Group's jointly controlled entity as at 31 March 2006 are as follows:

Name of jointly controlled entity	Place of incorporation and operation	Issued and fully paid capital/registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities
Pearl Link Limited	British Virgin Islands	US$300 Ordinary	49	Investment holding*

* *Pearl Link Limited directly holds 100% equity interest in the capital of Gar Shun Enterprises Development Ltd., an electroplating and ionized plating production company in the PRC.*

There are no contingent liabilities relating to the Group's investment in the jointly controlled entity, and no contingent liabilities of the entity itself.

Summary of financial information on the jointly controlled entity:

	Non-current assets HK$'000	Current assets HK$'000	Non-current liabilities HK$'000	Current liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit (Loss) for the year HK$'000
2006							
100 percent	**1,757**	**40,891**	**(5,740)**	**(33,618)**	**3,290**	**41,076**	**(4,355)**
Group's effective interest	**861**	**20,037**	**(2,813)**	**(16,473)**	**1,612**	**20,127**	**(2,134)**
2005							
100 percent	1,814	40,451	(2,526)	(30,150)	9,589	36,645	(1,896)
Group's effective interest	889	19,821	(1,238)	(14,773)	4,699	17,956	(929)

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 **HK$'000**
Available-for-sale financial assets as at 31 March 2006 comprise:	
Unlisted investments:	
– China and Hong Kong	**1,428**
– Japan *(Note a)*	**15,600**
Other unlisted investments *(Note b)*	**27,913**
	44,941

Notes:

(a) In 2004, the Group invested HK$15,600,000 in 20% of the capital of a watch company incorporated in Japan, for long-term purpose. This company advises and assists Japanese brands in identifying and co-ordinating with PRC manufacturers, distribution partners and acquisition targets. It also assists the Group to serve its Japanese customers. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair value at balance sheet date cannot be measured reliably.

(b) The amount of HK$27,913,000 represents investments in three investment and insurance combined policies issued by an international insurance group. A minimum annual return of 4% is guaranteed by the insurance group. Fair value of the investments have been determined by reference to the year ended review by the insurance group.

24. INVESTMENTS IN SECURITIES

	Group **2005** HK$'000
Unlisted investments, at cost	16,768

In 2004, the Group invested HK$15,600,000 in 20% of the capital of a watch company incorporated in Japan, for long-term purpose. Upon the application of HKAS 39 on 1 April 2005, investment securities were reclassified to appropriate categories under HKAS 39.

25. OTHER FINANCIAL ASSETS

The amount of HK$29,225,000 represents investments in three investment and insurance combined policies issued by an international insurance group. A minimum annual return of 4% is guaranteed by the insurance group. Upon the application of HKAS 39 on 1 April 2005, other financial assets were reclassified to appropriate categories under HKAS 39.

26. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**109,361**	52,105
Work in progress	**177,636**	64,493
Finished goods	**367,420**	396,702
	654,417	513,300

The carrying amount of inventories that are carried at net realizable value, with the original cost of HK$16,079,000 (2005: HK$36,341,000) is HK$nil (2005: HK$nil).

The cost of inventories recognized as expense and included in cost of sales amount to HK$1,333,661,000 (2005: HK$1,231,930,000).

27. TRADE RECEIVABLES

	Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables	**318,849**	276,038

An aging analysis of trade receivables is as follows:

	2006	2005
	HK$'000	HK$'000
Not yet due	**168,203**	214,307
Overdue within 90 days	**141,189**	38,444
Overdue between 91 to 180 days	**9,457**	21,021
Overdue over 180 days	**–**	2,266
	318,849	276,038

Credit policy:

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 120 days of issuance. Each customer has a pre-set maximum credit limit.

The carrying value of trade receivables approximated its fair value.

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For the Year Ended 31 March 2006

28. TRADE DEPOSITS AND OTHER RECEIVALBLES

	Group	
	2006	2005
	HK$'000	HK$'000
Trade and other deposits, prepayments and other receivables	**160,123**	119,402
Deposit payment for investment in a joint venture *(Note a)*	**75,660**	–
Receivable for disposal of subsidiaries	**45,000**	–
	280,783	119,402

Note:

(a) On 31 March 2006, the Group entered into a subscription agreement and shareholders' agreement, pursuant to which the Group, Tourneau Investment LLC ("Tourneau Investment") and Beat Time Group Limited ("Beat Time") will establish Peace Mark Tourneau (Holdings) Limited ("Peace Mark Tourneau") as a joint venture to engage in the supply, wholesale, retail and distribution of luxury-brand timepieces for the high-end market in Mainland China, Hong Kong, Macau and Taiwan. Upon its establishment, Peace Mark Tourneau will be owned by the Group, Tourneau Investment and Beat Time in the proportion of 65%, 25% and 10%, respectively. The Group has placed HK$75,660,000 as deposit for such investment.

29. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March 2006, the details of derivative financial instruments are as follows:

	Group	
	Assets	**Liabilities**
	HK$'000	HK$'000
Foreign currency forward contracts	**11,518**	357
Interest rate swap contracts	**5,601**	9,575
	17,119	9,932

	Company	
	Assets	**Liabilities**
	HK$'000	HK$'000
Interest rate swap contracts	**1,630**	–

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

The notional principal amounts of the outstanding interest rate swap contract at 31 March 2006 were HK$874 million. The fixed interest rates vary from 4% to 6% and main floating rates are LIBOR.

At 31 March 2005, the fair value of interest rate swap and forward exchange contracts are HK$763,000 and HK$767,000 respectively.

30. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 HK$'000
Listed Securities:	
– Equity securities – Hong Kong	**9,364**

Other financial assets at fair value through profit or loss are held for trading with changes in fair values recorded in other revenue in the consolidated income statement.

31. TRADE AND OTHER PAYABLES

An aging analysis of trade payables is as follows:

	2006 HK$'000	2005 HK$'000
Trade payables:		
Not yet due	**56,722**	59,295
Overdue within 90 days	**39,053**	43,030
Overdue between 91 to 180 days	**8,355**	9,680
Overdue over 180 days	**9,506**	6,903
	113,636	118,908
Accruals and other payables	**271,421**	101,186
	385,057	220,094

The carrying value of trade payables, accruals and other payables approximated to their fair value.

32. INTEREST-BEARING BORROWINGS

	Group	
	2006	2005
	HK$'000	HK$'000
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**547,240**	671,570
– More than one year, but not exceeding two years	**291,478**	217,940
– More than two years, but not exceeding five years	**318,436**	51,200
	1,157,154	940,710
Representing:		
Current portion	**547,240**	671,570
Non-current portion	**609,914**	269,140
	1,157,154	940,710
Analyzed as:		
– Secured	**–**	16,800
– Unsecured	**1,157,154**	923,910
	1,157,154	940,710

The carrying value of interest-bearing borrowings approximated to their fair value.

32. INTEREST-BEARING BORROWINGS *(Continued)*

	The Company	
	2006	2005
	HK$'000	HK$'000
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**166,050**	182,600
– More than one year, but not exceeding two years	**268,000**	184,050
– More than two years, but not exceeding five years	**302,000**	38,000
	736,050	404,650
Representing:		
Current portion	**166,050**	182,600
Non-current portion	**570,000**	222,050
	736,050	404,650
Analyzed as:		
– Secured	**–**	–
– Unsecured	**736,050**	404,650
	736,050	404,650

The carrying value of interest-bearing borrowings approximated to their fair value.

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33. OBLIGATIONS UNDER FINANCE LEASES

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**1,240**	3,187
More than one year, but not exceeding two years	**141**	1,151
More than two years, but not exceeding five years	**66**	611
	1,447	4,949
Less: Finance charges	**(46)**	(380)
	1,401	4,569
Representing:		
Current portion	**1,195**	2,918
Non-current portion	**206**	1,651
	1,401	4,569

All leases were on a fixed repayment basis and no arrangements were entered into for contingency rental payment. The carrying amount of the Group's obligations under finance leases approximated their fair value.

34. DEFERRED TAXATION

The followings are the components of deferred tax assets (liabilities) recognized in the consolidated balance sheet and the movements thereon during the year and prior reporting periods:

	Group				
	Accelerated tax depreciation	**Tax losses**	**Unrealized profits on inventories**	**Revaluation of properties**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 March 2004	(9,419)	11,224	1,002	46	2,853
Credited (Charged) to consolidated income statement for the year	(5,895)	654	(349)	–	(5,590)
As at 31 March 2005	(15,314)	11,878	653	46	(2,737)
Credited (Charged) to consolidated income statement for the year	3,922	(3,508)	201	(46)	569
AS AT 31 MARCH 2006	**(11,392)**	**8,370**	**854**	**–**	**(2,168)**

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable rates prevailing in the countries/places in which the subsidiaries of the Group operates.

34. DEFERRED TAXATION *(Continued)*

The analysis of the deferred tax balances is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Deferred tax assets	**9,224**	12,577
Deferred tax liabilities	**(11,392)**	(15,314)
	(2,168)	(2,737)

Deferred tax assets are recognized for tax losses carry forwards to the extent that realization of the related tax benefits through the future taxable profit is probable. As at 31 March 2006, the Group has unrecognized tax losses of approximately HK$32,545,000 (2005: HK$25,979,000) to carry forward indefinitely against future taxable income.

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

35. SHARE CAPITAL

	Note	**Number of shares**	**Amount** HK$'000
Ordinary shares of HK$0.1 each			
Authorized:			
AS AT 31 MARCH 2004, 31 MARCH 2005 AND 31 MARCH 2006		**6,000,000,000**	**600,000**
Issued and fully paid:			
As at 31 March 2004		690,753,531	69,075
Issue of new shares for subscription	(a)	126,500,000	12,650
Issue of new shares pursuant to the exercise of warrants	(b)	43,295,402	4,330
Issue of new shares as 2004 final scrip dividend, in lieu of cash	(e)	8,333,326	833
Shares repurchased and cancelled	(d)	(800,000)	(80)
As at 31 March 2005		868,082,259	86,808
Issue of new shares for subscription	(c)	90,000,000	9,000
Issue of new shares pursuant to the exercise of warrants	(b)	37,623,521	3,763
Shares repurchased and cancelled	(d)	(5,970,000)	(597)
AS AT 31 MARCH 2006		**989,735,780**	**98,974**

Notes:

(a) On 6 April 2004, A-ONE Investments Limited and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 126,500,000 new shares in total at HK$1.63 per share.

(b) As at 31 March 2006, 37,623,521 (2005: 43,295,402) shares were issued pursuant to the exercise of warrant holders' right to purchase the shares at HK$0.65. The gross proceeds were approximately HK$24,455,000 (2005: HK$28,142,000). The share capital increase in relation to the exercises of warrants was HK$3,762,352 (2005: HK$4,329,540). These shares rank pari passu with existing shares of the Company.

35. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(c) On 3 February 2006, A-ONE Investments Limited and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 90,000,000 new shares in total at HK$3.25 per share

(d) The Company repurchased its own shares on the Stock Exchange as follows:

Year 2006

Month of repurchase	Number of shares	Price per share	Aggregate consideration paid
		HK$	HK$'000
October 2005	4,050,000	1.77-1.90	7,576
November 2005	1,920,000	1.77-1.88	3,523
	5,970,000		11,099

Year 2005

Month of repurchase	Number of shares	Price per share	Aggregate consideration paid
		HK$	HK$'000
August 2004	800,000	1.24-1.27	1,010

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premiums on repurchase were charged against share premium.

35. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(e)

Year	Number of shares issued as final dividend	Scrip price	Credited to share capital account	Credited to share premium account	Total
		HK$	HK$'000	HK$'000	HK$'000
2006	–	–	–	–	–
2005	8,333,326	1.35	833	9,833	10,666

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36. RESERVES

	Group											
	Share premium HK$'000	**Merger deficit** HK$'000	**Capital reserve** HK$'000	**Contributed surplus** HK$'000	**Leasehold property revaluation reserve** HK$'000	**Other reserve** HK$'000	**Fair value reserve** HK$'000	**Share option reserve** HK$'000	**Exchange fluctuation reserve** HK$'000	**Retained profits** HK$'000	**Proposed final dividend** HK$'000	**Total** HK$'000
At 1 April 2004, as previously reported	113,374	(11,988)	12,372	349,431	5,466	(26)	–	–	868	222,913	16,414	708,824
Effect of adopting HKAS 17	–	–	–	–	(5,466)	–	–	–	–	978	–	(4,488)
At 1 April 2004, as restated	113,374	(11,988)	12,372	349,431	–	(26)	–	–	868	223,891	16,414	704,336
Issue of new share for subscription	193,409	–	–	–	–	–	–	–	–	–	–	193,409
Shares repurchased and cancelled	(930)	–	–	–	–	–	–	–	–	–	–	(930)
Exercise of warrants	23,812	–	–	–	–	–	–	–	–	–	–	23,812
2004 final cash and scrip dividend	9,833	–	–	–	–	–	–	–	–	(110)	(16,414)	(6,691)
2005 interim cash dividend	–	–	–	–	–	–	–	–	–	(18,574)	–	(18,574)
Exchange realignment	–	–	–	–	–	–	–	–	1,341	–	–	1,341
Net profit for the year	–	–	–	–	–	–	–	–	–	123,917	–	123,917
Proposed 2005 final cash dividend	–	–	–	–	–	–	–	–	–	(24,532)	24,532	–
As at 31 March 2005	339,498	(11,988)	12,372	349,431	–	(26)	–	–	2,209	304,592	24,532	1,020,620
As at 1 April 2005, as per above	339,498	(11,988)	12,372	349,431	–	(26)	–	–	2,209	304,592	24,532	1,020,620
Effect of adopting HKAS 32 & 39	–	–	–	–	–	–	(1,166)	–	–	1,529	–	363
At 1 April 2005, as restated	339,498	(11,988)	12,372	349,431	–	(26)	(1,166)	–	2,209	306,121	24,532	1,020,983
Issue of new share for subscription	276,919	–	–	–	–	–	–	–	–	–	–	276,919
Shares repurchased and cancelled	(10,502)	–	–	–	–	–	–	–	–	–	–	(10,502)
Exercise of warrants	20,693	–	–	–	–	–	–	–	–	–	–	20,693
Disposal of subsidiaries	–	1	–	7,309	–	–	–	–	–	–	–	7,310
Fair value adjustment of available for sale investment	–	–	–	–	–	–	(146)	–	–	–	–	(146)
Share based payment	–	–	–	–	–	–	–	3,588	–	–	–	3,588
2005 final cash dividend	–	–	–	–	–	–	–	–	–	(828)	(24,532)	(25,360)
2006 interim cash dividend	–	–	–	–	–	–	–	–	–	(26,992)	–	(26,992)
Exchange realignment	–	–	–	–	–	–	–	–	(4,761)	–	–	(4,761)
Net profit for the year	–	–	–	–	–	–	–	–	–	200,619	–	200,619
Proposed 2006 final cash dividend	–	–	–	–	–	–	–	–	–	(42,580)	42,580	–
AS AT 31 MARCH 2006	**626,608**	**(11,987)**	**12,372**	**356,740**	**–**	**(26)**	**(1,312)**	**3,588**	**(2,552)**	**436,340**	**42,580**	**1,462,351**

36. RESERVES *(Continued)*

	The Company					
	Share premium HK$'000	**Contributed surplus** HK$'000	**Retained profits** HK$'000	**Share option reserve** HK$'000	**Proposed final dividend** HK$'000	**Total** HK$'000
As at 1 April 2004	113,374	388,830	31,593	–	16,414	550,211
Issue of new shares for subscription	193,409	–	–	–	–	193,409
Shares repurchase and cancelled	(930)	–	–	–	–	(930)
Exercise of warrants	23,812	–	–	–	–	23,812
2004 final cash and scrip dividend	9,833	–	(110)	–	(16,414)	(6,691)
2005 interim cash dividend	–	–	(18,574)	–	–	(18,574)
Profit for the year	–	–	50,436	–	–	50,436
Proposed 2005 final dividend	–	–	(24,532)	–	24,532	–
As at 31 March 2005	339,498	388,830	38,813	–	24,532	791,673
Issue of new shares for subscription	276,919	–	–	–	–	276,919
Shares repurchase and cancelled	(10,502)	–	–	–	–	(10,502)
Exercise of warrants	20,693	–	–	–	–	20,693
Share based payment	–	–	–	3,588	–	3,588
2005 final cash dividend	–	–	(828)	–	(24,532)	(25,360)
2006 interim cash dividend	–	–	(26,992)	–	–	(26,992)
Profit for the year	–	–	35,891	–	–	35,891
Proposed 2006 final dividend	–	–	(42,580)	–	42,580	–
AS AT 31 MARCH 2006	**626,608**	**388,830**	**4,304**	**3,588**	**42,580**	**1,065,910**

The capital reserve represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess of the purchase consideration over the fair value of the Group's share of separate net assets of the subsidiaries acquired.

The merger deficit of the Group represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

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36. RESERVES *(Continued)*

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

The fair value reserve represents the amount of unrealized holding loss from the available for sale investment.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	2006 HK$'000	2005 HK$'000
Contributed surplus	**388,830**	388,830
Retained profits	**4,304**	38,813
Proposed final dividend	**42,580**	24,532
	435,714	452,175

37. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, suppliers or customers, and authorized agents of the Group. The Scheme became effective on 24 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme.

37. SHARE OPTION SCHEME *(Continued)*

Under the Scheme, the Board of Directors of the Company (the “Directors”) may at their discretion grant options to (i) any director (including executive directors, non-executive directors and independent non-executive directors) and employees of the Group; or (ii) any advisors, consultants, suppliers, customers of the Group as may be determined by the Directors from time to time to subscribe for the shares of the Company (the “Shares”).

Options granted must be taken up within 28 days of the date of grant. The maximum number of Shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company at any point in time. The maximum number of Shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the Shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment except the payment of HK$1 as consideration for grant of option each time. The exercise price is equal to the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the grant; and (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the grant.

37. SHARE OPTION SCHEME *(Continued)*

The terms and conditions of the unexpired and unexercised share options at balance sheet date are as follows:–

	Date of grant	Vesting Period *(Note a)*	Number of share options: As at 1 April 2005	Granted during the year	Lapsed on expiry of exercise period during the year	At as 31 March 2006	Exercise price *(Note b)* HK$	Price of Company's shares *(Note c)*: At grant date of options HK$	At exercise date of options HK$
Director									
Mr. Tsang Kwong Chiu, Kevin	19/12/2005	19/6/2006 – 19/6/2010	–	3,000,000	–	3,000,000	2.175	2.175	–
Mr. Man Kwok Keung	19/12/2005	19/6/2006 – 19/6/2010	–	1,000,000	–	1,000,000	2.175	2.175	–
Mr. Cheng Kwan Ling	19/12/2005	19/6/2006 – 19/6/2010	–	1,000,000	–	1,000,000	2.175	2.175	–
Ms. Susan So	19/12/2005	19/6/2006 – 19/6/2010	–	500,000	–	500,000	2.175	2.175	–
Mr. Kwok Ping Ki, Albert	19/12/2005	19/6/2006 – 19/6/2010	–	500,000	–	500,000	2.175	2.175	–
Mr. Tang Yat Kan	19/12/2005	19/6/2006 – 19/6/2010	–	500,000	–	500,000	2.175	2.175	–
Mr. Wong Yee Sui, Andrew	19/12/2005	19/6/2006 – 19/6/2010	–	500,000	–	500,000	2.175	2.175	–
Mr. Mak Siu Wing, Clifford	19/12/2005	19/6/2006 – 19/6/2010	–	500,000	–	500,000	2.175	2.175	–
Employees in aggregate	19/12/2005	19/6/2006 – 19/6/2010	–	18,750,000	–	18,750,000	2.175	2.175	–
	23/08/2002	23/02/2003 – 23/02/2006	20,000	–	(20,000)	–	0.200	0.202	–
Others	19/12/2005	19/6/2006 – 19/6/2010	–	18,750,000	–	18,750,000	2.175	2.175	–
			20,000	45,000,000	(20,000)	45,000,000			

37. SHARE OPTION SCHEME *(Continued)*

Notes:

(a) The options are exercisable progressively and the maximum percentage of the options which may be exercised is determined in stages as follows:

	Percentage of options granted
On or after 19 June 2006	25%
On or after 19 June 2007	another 25%
On or after 19 June 2008	another 25%
On or after 19 June 2009	another 25%

(b) The exercise prices of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

(c) The prices of the Company's shares disclosed as at the dates of the grant of the share options are the Stock Exchange closing prices on the trading days immediately prior to the dates of the grant of the options. The prices of the Company's shares disclosed as at the dates of the exercise of the share options are the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

As at 31 March 2006, the Company had 45,000,000 share options outstanding under the Scheme, with exercise period from 19 June 2006 to 19 June 2010 (both dates inclusive) and exercise price of HK$2.175. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 45,000,000 additional shares of HK$0.10 each and proceeds of approximately HK$97,875,000.

37. SHARE OPTION SCHEME *(Continued)*

These fair values were calculated using Binominal model. The valuation of fair values determination as at 19 December 2005 was carried out by Sallmanns (Far East) Limited. The inputs used in the model were as follows:

	2006
Closing share price at date of grant	HK$2.175
Exercise price	HK$2.175
Expected volatility (note a)	43.45%
Risk-free interest rate (note b)	4.16%
Expected annual dividend yield (note c)	3.42%
Expected life	4.5 years

Notes:

(a) Expected volatility was determined by using historical volatility of the price return of the ordinary shares of the Company.

(b) The risk-free interest rate was based on the yield of Exchange Fund Note.

(c) The expected dividend yield was assumed to be 3.42% per annum.

The estimated fair value of HK$3,588,000 with respect to share options granted to directors, employees and other eligible persons on 19 December 2005, were charged to the income statement during the year.

38. SHARE INCENTIVE SCHEME

On 31 March 2006, the Company adopted a share incentive scheme (the "Scheme") which will enable selected eligible persons to purchase shares of the Company (the "Shares") at a 5% discount to the market price. The selected eligible persons have the option of paying for their Shares in one lump sum, or by monthly installments. Where eligible persons choose the latter option, they will pay an additional finance charge to cover the Company's finance costs.

Eligible persons will not be able to dispose Shares purchased under the Scheme immediately following their purchase. Those selected eligible persons who opt to pay for their Shares in one lump sum will be able to dispose their Shares after one year, while those who opt to pay for their Shares in installments will be able to dispose their Shares over a period of time commencing after one year and ending when they make their final installments payment.

The Group has obtained a loan in the amount up to HK$150 million from a bank for the purpose of financing the operation of the Scheme. Shares to be purchased pursuant to the Scheme will be purchased on behalf of the eligible persons by the custodian. The custodian will hold the Shares on behalf of the eligible persons until they are permitted under the rules of the Scheme to dispose of their Shares.

The aggregate number of Shares to be offered under the Scheme and a share incentive scheme adopted by the Company on 13 December 2004 shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK$150 million.

NOTES TO THE FINANCIAL STATEMENTS

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39. ACQUISITION OF SUBSIDIARIES

	2006 HK$'000	2005 HK$'000
Net assets of the subsidiaries acquired comprise of:		
Furniture, fixtures and office equipment	**356**	28,482
Leasehold improvements	**–**	12,826
Plant and machinery	**161**	356
Deferred tax	**23**	–
Investments in securities	**–**	668
Inventories	**5,754**	31,217
Trade and other receivables	**4,996**	18,437
Bank balances and cash	**972**	8,987
Trade and other payables	**(6,722)**	(25,648)
Tax payable	**(429)**	(1,840)
Lease obligation	**–**	(100)
Bank loan	**–**	(10,394)
Minority interest	**(2,505)**	(15,355)
	2,606	47,636
Goodwill arising on consolidation	**11,693**	107,112
Total purchase price paid, satisfied in cash	**14,299**	154,748
Less: cash of the subsidiaries acquired	**(972)**	(8,987)
Net outflow of cash and cash equivalents in connection with the purchase of the subsidiaries	**13,327**	145,761

40. DISPOSAL OF SUBSIDIARIES

Net assets of the subsidiaries partially disposed comprise of:

	2006 HK$'000
Interest in leasehold land, property, plant and equipment	80,797
Goodwill	9,865
Trade receivables, deposits and other receivables	131,979
Bank balances and cash	20,678
Loans and other payables	(187,586)
Contributed surplus and merger reserve	7,310
Gain on disposal	15,123
	78,166
Satisfied by:	
Cash consideration receivable	45,000
Reclassification of interest in associates	33,166
	78,166

Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2006 HK$'000
Bank and cash balance disposed of	(20,678)

41. MAJOR NON-CASH TRANSACTION

During 2005, the Group entered into finance lease arrangement in respect of assets with a total capital value at the inception of the leases of HK$1,488,000. The Group did not enter into any finance lease arrangement during the year.

During the year, the proceeds from the disposal of subsidiaries to an independent third party of HK$45,000,000 has not yet be settled as at year end. According to the contract, the proceeds will be settled on or before 30 September 2006.

42. RETIREMENT BENEFIT SCHEME

(i) Plan for Hong Kong employees

Defined contribution plan

The Group contributes to a defined contribution retirement scheme which is available to all employees. Employees are required to contribute each month an amount equal to 5% of the basic monthly salary and contributions are made by the employer at 5% of the employee's basic monthly salary. The assets of the scheme are held separately from those of the Group in an independently administered fund. The Group's contributions to this scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

A mandatory provident fund scheme (the "MPF") was established under the MPF Ordinance in December 2000. Since the Company has obtained exemption for its existing retirement schemes, all staff were offered the choice of switching to the MPF scheme or staying in existing schemes. Where staff elected to join MPF, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$20,000 per month). Staff may elect to contribute more than the minimum as a voluntary contribution. The Group's contributions to this mandatory provident fund scheme are expensed as incurred.

(ii) Plan for PRC employees

The Group also contributes to employees pension schemes established by municipal government in respect of certain companies in Mainland China. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group. Contributions to these schemes are charged to the income statement as incurred.

43. CONTINGENT LIABILITIES

As at 31 March 2006, the Group had no material contingent liabilities.

The Company has given corporate guarantees to banks in respect of general banking facilities and derivative facilities granted to subsidiaries amounting to approximately HK$1.85 billion (2005: HK$1.65 billion) and in respect of the general banking facilities utilized and granted to associates amounting to approximately HK$217,000,000 (2005: HK$nil).

As at 31 March 2006, there was no material capital commitment.

44. OPERATING LEASE ARRANGEMENTS

As at 31 March 2006, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings were payable as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
– Within one year	**49,985**	5,126
– After one year but within five years	**58,484**	8,679
– After five years	**8,201**	–
	116,670	13,805

45. POST BALANCE SHEET EVENT

On 5 June 2006, the Group entered into a facility agreement with Sumitomo Mitsui Banking Corporation as co-ordinating arranger and lender and other international banks and financial institutions as lenders in relation to a term-loan in an aggregate amount of HK$600,000,000. The term-loan has a tenor of 36 months and may be extended for two further periods of 24 months.