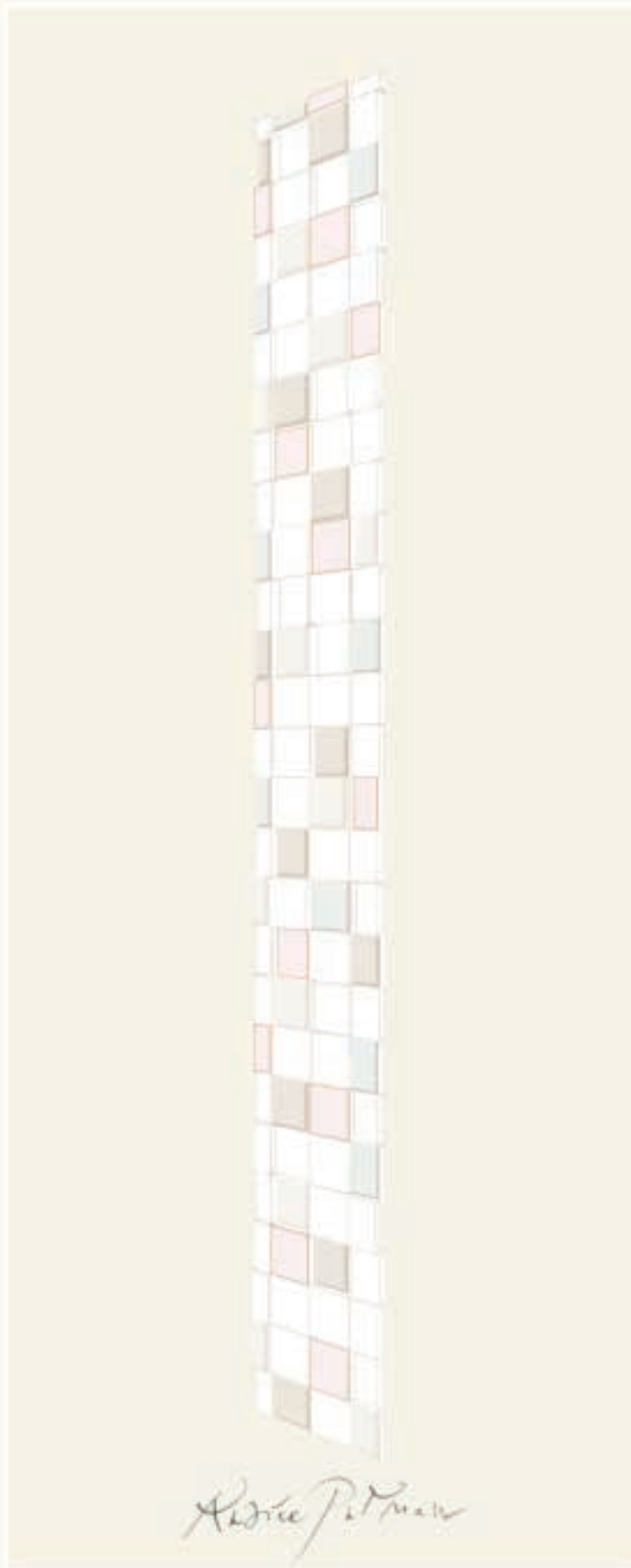


# NATIONAL ELECTRONICS HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)



ANNUAL REPORT 2006

## C O N T E N T S

---

	<i>PAGES</i>
Corporate Information	2
Chairman's Statement	3
Management Discussion and Analysis	6
Directors and Senior Management	9
Directors' Report	10
Corporate Governance Report	13
Auditors' Report	16
Consolidated Income Statement	17
Consolidated Balance Sheet	18
Consolidated Statement of Changes in Equity	20
Consolidated Cash Flow Statement	21
Notes to the Financial Statements	23
Schedule of Major Properties Held by the Group	69
Financial Summary	70

## C O R P O R A T E I N F O R M A T I O N

---

### Executive Directors

---

Jimmy Lee Yuen Ching  
Chairman  
James Lee Yuen Kui  
Managing Director  
Peter Lee Yuen Wong  
Edward Lee Yuen Cheor  
Ricky Wai Kwong Yuen  
(appointed on 26th May, 2006)  
Tommy Tam Hok Lam  
(resigned on 31st March, 2006)

### Non-Executive Director

---

Dorathy Lee Yuen Yu

### Independent Non-Executive Directors

---

Dr. Samson Sun, M.B.E., J.P.  
William Chan Chak Cheung  
Chan Kwok Wai

### Auditors

---

Deloitte Touche Tohmatsu

### Solicitors

---

Baker & McKenzie  
Johnson, Stokes & Master  
Richards Butler

### Company Secretary

---

Andy Wong Kam Kee

### Principal Bankers

---

The Hongkong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank Limited  
Bank of China (Hong Kong) Limited  
Industrial and Commercial Bank of  
China (Asia) Limited  
The Bank of East Asia, Limited  
Chiyu Banking Corporation Limited  
DBS Bank (Hong Kong) Limited  
Standard Chartered Bank  
(Hong Kong) Ltd.  
Fubon Bank (Hong Kong) Limited

### Registered Office

---

Canon's Court,  
22 Victoria Street,  
Hamilton HM12,  
Bermuda.

### Principal Office

---

Suite 3201, Gloucester Tower,  
The Landmark, 11 Pedder Street,  
Central,  
Hong Kong.

### Registrars

---

Butterfield Corporate Services Limited,  
Rosebank Centre, 14 Bermudiana Road,  
Pembroke,  
Bermuda.

### Branch Registrars and Transfer Office

---

Standard Registrars Limited,  
Level 25, Three Pacific Place,  
1 Queen's Road East,  
Hong Kong

## CHAIRMAN'S STATEMENT

---

### Results

The Board of Directors of National Electronics Holdings Limited (the "Company") is pleased to announce that the audited consolidated profit after taxation of the Company and its subsidiaries (together, the "Group") for the year ended 31st March, 2006 was HK\$60,104,762 (2005 – HK\$57,672,762). The earnings per share of the Company for the year ended 31st March, 2006 was 5.5 HK cents per share (2005 – 5.2 HK cents per share).

The Group's turnover for the year ended 31st March, 2006 amounted to HK\$1,045,505,970 (2005 – HK\$1,026,973,336).

### Final Dividends

The Board of Directors recommends a final dividend of 1.5 HK cents per share for the financial year ended 31st March, 2006 (2005 – 0.5 HK cent).

### Business Review

#### WATCHES AND WATCH COMPONENTS

During the year under review, the performance of the Group's watch manufacturing division, especially for the second half of this financial year, was below our initial expectation. The rising U.S. interest rate and high oil prices have started to adversely affect our U.S. business. The profit margin was further eroded by the increasing material cost resulting from high commodity prices. Due to the above, the Group was unable to improve the performance of its watch components trading business in the previous year.

#### PROPERTY DEVELOPMENT AND INVESTMENT

During the year under review, the construction work of the Group's residential development project in Toronto, One St. Thomas, was in progress and the building will be topped off in August this year.



*Elegant multifunction watch.*

## CHAIRMAN'S STATEMENT

---

The redevelopment work at 202 - 206 Queen's Road Central, Hong Kong to build a 26 single floor unit luxury boutique hotel is on schedule.

On 30th March 2006, the Group had disposed 80% of the interest in its subsidiary, which held the site at 137-138 Connaught Road West, Hong Kong with satisfactory profit. The site will be developed into a luxury boutique hotel. The project is expected to be completed by the end of 2008.

The Group has revalued its investment properties in accordance with HKAS 40 "Investment Property", which has increased by HK\$16,000,000 in fair value. Such amount was recognised directly in the profit for the financial year under review.



*World renowned architect Mr. Robert A.M. Stern working on our One St. Thomas Project.*

### Prospects

#### WATCHES AND WATCH COMPONENTS

For the watch manufacturing division, the Group is cautious with its U.S. business and intends to further diversify its product distribution and implement tighter internal control in order to reduce overhead and other costs.

With the introduction of a new range of "complication" watch movements from our Japanese suppliers, the Group expects its watch components trading division's performance to improve in the coming year.

#### PROPERTY DEVELOPMENT AND INVESTMENT

##### *Overseas*

The Group expects the first occupancy of its project in Canada, One St. Thomas to commence by early 2007. With the building being occupied in phases, full occupancy is expected by the end of 2007.

##### *Local*

Further to the announcement made on 6th April 2006, the Group entered into a disposal agreement with CPI Asia to sell 80% of the interest in its subsidiary, which held the project at 202 - 206 Queen's Road Central, Hong Kong. The transaction was completed on 8th May, 2006 and the result is satisfactory.

## CHAIRMAN'S STATEMENT

---

Further to the Group's announcement on 23rd May, 2006, the Group has disposed two commercial units at Lippo Centre, Queensway, Hong Kong for a consideration of HK\$39.96 million and the result is satisfactory.

The Group intends to continue its strategy of expanding its land bank at desirable locations with good value. In light of that, the Group has made the following acquisitions:

- On 11th April, 2006, the Group had entered into a sale and purchase agreement to purchase a 24-storey composite building with retail shop on ground floor and residential units on upper floors at No. 21 Whitfield Road, Causeway Bay, Hong Kong for a consideration of HK\$78 million.
- On 10th June, 2006, the Group had entered into a sale and purchase agreement to purchase a 14-storey commercial building at 194 - 196 Queen's Road Central, Hong Kong with retail shops on the ground floor and office units on the upper floors at a consideration of HK\$56.5 million.

The Board announced that in March 2006, Mr. Tam Hok Lam, Tommy has resigned as an executive director of the Company. The Board would like to express its appreciation for Mr. Tam's contribution to the Company during his term of employment in the Company.

The Board of Directors also welcomes Mr. Wai Kwong Yuen, Ricky who was appointed as executive director of the Company in May 2006.



*Fashionable sports watch.*

Finally, on behalf of the Board of Directors, I would like to thank all the staff of the Group for their loyalty and dedication during the previous year.

By Order of the Board

**Lee Yuen Ching Jimmy**  
*Chairman*

Hong Kong, 11th July, 2006

For the year ended 31st March, 2006, the Group's profit from operations increased by 17% as per following segmental analysis:

	2006 HK\$	2005 HK\$
Segment result		
Manufacture of watches	22,689,415	36,786,467
Trading of watch movements	991,303	7,750,277
Property development	31,789,401	(7,649,275)
Property investment	20,196,720	31,317,968
Consolidated segment result	75,666,839	68,205,437
Interest income	643,523	584,819
Unallocated other income	6,915,750	1,132,264
Unallocated corporate expenses	(6,304,674)	(4,460,645)
Profit from operations	76,921,438	65,461,875

For manufacture of watches, the division had made provision for obsolete stocks of HK\$6,255,594 and provision for doubtful debts of HK\$2,214,382 at the second half of this financial year which adversely affected the division's second half year's performance.

For trading of watch movements, the Group adopted the new HKFRS relating to derivative financial instruments which resulted in loss on fair value changes of derivative financial instruments of HK\$1,320,498 and loss on derecognition of derivative financial instruments of HK\$645,446 for the division at the year end date.

For property development, the division improved in performance mainly due to the disposal of 80% of the interest in its subsidiary which held the Connaught Road project resulted in a gain on disposal of HK\$37,912,580.

For property investment, the decrease in segmental profit was mainly due to the increase in fair value in investment properties decreased from HK\$27,411,840 in 2005 to \$16,000,000 in 2006.

### *Capital structure*

As at 31st March 2006, the shareholder's funds of the Group totaled approximately HK\$426 million and total bank borrowings was approximately HK\$763 million and the maturity profile of the Group's bank borrowings falling due within one year was 28% and more than one year was 72%.

### *Liquidity and financial resources*

As at 31st March 2006, total bank balance was approximately HK\$119 million (2005: HK\$29 million).

The Group maintains a reasonable level of cash resources and stand-by credit facilities to provide adequate liquid funds to finance its business activities.

### *Gearing Ratio*

As at 31st March 2006, the Group's gearing ratio was 1.28 which is calculated based on the Group's long-term borrowings of approximately HK\$546 million and shareholders' funds of approximately HK\$426 million.

Within this long-term bank borrowings of HK\$546 million, approximately HK\$276 million was the land and construction loan advanced for the Group's One St. Thomas project in Toronto, Canada which was fully secured by executed pre-sale purchase and sale agreement. Partial deposit of HK\$131 million for the apartment units of One St. Thomas project has been received. Thus, the Group's gearing ratio based on the long-term bank borrowings of HK\$270 million (excluding HK\$276 million advanced for the Canadian project) is 0.63.

The Group's gearing ratio at 31st March 2005 was 1.03 which is calculated based on the Group's long-term borrowings of approximately HK\$383 million and shareholders' funds of approximately HK\$373 million.

Within this long-term bank borrowings of HK\$383 million, approximately HK\$122 million was the land and construction loan advanced for the Group's One St. Thomas project in Toronto, Canada which was also fully secured by executed pre-sale purchase and sale agreement. Partial deposit of HK\$65 million for the apartment units of One St. Thomas project has been received. Thus, the Group's gearing ratio based on the long-term bank borrowings of HK\$261 million (excluding HK\$122 million advanced for the Canadian project) is 0.70.

As compared with the balance as at 31st March, 2005, the Group's gearings decreased from 0.70 in 2005 to 0.63 in 2006 after adjusting for the effect of the loans advanced for the Group's One St. Thomas project in Toronto, Canada.

### *Cashflow from Operating/Investing Activities*

During the financial year, the Group generated net cash inflow from operating activities of approximately HK\$34.2 million (2005: HK\$52.7 million) and the net cash used in investing activities to approximately HK\$155.3 million (2005: HK\$183.7 million)

### *Future plan for material investments*

As mentioned in the Chairman's Statement, the total future capital expenditure to be incurred for the acquisitions of two properties will be HK\$134.5 million. Such purchase consideration will be funded by bank borrowings of HK\$96.2 million and the remaining portion of funding of HK\$38.3 million will be provided by the Group's internal resources at the future dates of completion.

### *Pledge of assets*

Certain properties of the Group having a carrying value of approximately HK\$991 million as at 31st March 2006 were pledged to secure banking facilities of the Group.

### *Treasury policy*

The Group adopts a prudent treasury policy. The acquisition of investment properties and properties for development are financed partly by internal resources and partly by secured bank loans. Repayments of bank loans are scheduled to match asset lives and development project completion dates.

All borrowings are denominated in Hong Kong dollars, Japanese Yen, United States dollars or Canadian dollars and bear interest at floating rates. Foreign currency exposure is monitored closely by the management and hedged by forward foreign currency contracts and foreign currency borrowings to the extent desirable. The Group also uses derivative financial instruments to manage foreign exchange exposures for hedging purpose only.

### *Employees and remuneration policies*

The Group employs approximately 4,849 employees in Hong Kong, in other parts of the People's Republic of China ("PRC") and overseas. Remuneration is determined by reference to market terms and the qualifications and experience of the staff concerned. Salaries are reviewed annually with discretionary bonuses being paid depending on individual performance.





*Heart Rate Monitor (HRM) Bike System monitors heart rate, speed, cadence, average speed, maximum speed, distance, etc. Three wireless sensor transmitters ( 2 mounted on the bike and one around the biker's chest) interact with the wrist watch, which acts as a receiver to display information.*



### DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

#### Executive Directors

Mr. Jimmy Lee Yuen Ching, aged 59, is the Chairman of the Group. He received his university education in the United States and Canada. His initial experience in the watch industry was gained in his family's watch business and he subsequently became a co-founder of the Group. He was responsible for the founding of the Group's property division fourteen years ago and has been responsible for the management of the property division since that time.

Mr. James Lee Yuen Kui, aged 52, is the Managing Director of the Group. He joined the Group in 1976 and is currently responsible for administration, trading of watch components and material procurement from foreign suppliers.

Mr. Peter Lee Yuen Wong, aged 50, received his university education in Canada. He joined the Group in 1982 and is currently responsible for the Group's overseas operations including property development and investment.

Mr. Edward Lee Yuen Cheor, aged 48, joined the Group in 1981 and is currently responsible for the supervision in the properties development in Hong Kong.

Mr. Ricky Wai Kwong Yuen, M.Sc., aged 59, is the President and an executive director of National Electronics and Watch Company Limited. Mr. Wai joined the Group in 1976 and is responsible for its LCD and LCD hybrid watch business and other electronic products.

#### Non-Executive Director

Ms. Dorathy Lee Yuen Yu, aged 46, has not previously held any positions with the Company or its subsidiaries. Ms. Lee is the sister of Mr. Lee Yuen Kui, James, Mr. Lee Yuen Wong, Peter and Mr. Lee Yuen Cheor, Edward, who are also executive Directors of the Company. She is also a cousin of Mr. Lee Yuen Ching, Jimmy, the Chairman of the Company.

#### Independent Non-Executive Directors

Dr. Samson Sun, M.B.E., J.P., aged 81, is the Chairman of the Sun International Group of companies. He was the Deputy Chairman of Gilman & Co., Limited and later of Inchape Hong Kong in each case from 1967 to 1985. Dr. Sun is the Honorary Permanent President of The Federation of Hong Kong Watch Trades & Industries Limited. He has over 51 years' experience in the manufacturing, marketing and distribution of watches and 23 years' experience in the marketing and distribution of

consumer and electronic products. Dr. Sun has chaired many voluntary community services and charitable organizations and is the former Vice-Chairman of Business and Professionals Federation of Hong Kong (BPF).

Mr. William Chan Chak Cheung, aged 58, graduated from the University of Toronto with a Bachelor of Arts degree. He is also a member of the Canadian Institute of Chartered Accountants. Mr. Chan is the Chairman of Chine Connect Company Limited, a consulting company. Mr. Chan is an independent non-executive director of King Fook Holdings Limited, a company listed on Main Board of the Stock Exchange of Hong Kong Limited. Mr. Chan is a retired partner of PricewaterhouseCoopers ("PwC") after a career spanning 34 years in Canada, Hong Kong and Mainland China. He was a partner in charge of China tax services at PwC and brings experience in solving complex business issues in many different industries.

Mr. Chan Kwok Wai, aged 47, has been an independent non-executive director of the Company since April 2005. Mr. Chan is a member of the Hong Kong Securities Institute and an associate member of CPA Australia. Mr. Chan is currently a director of High Progress Consultants Limited. He is also an independent non-executive director of Junefield Department Store Group Limited, China Investments Holdings Limited, Tern Properties Company Limited, Chinese Estates Holdings Limited and Far East Consortium International Limited, the shares of all of which are listed on the Stock Exchange.

#### Senior Management

Mr. Andy Wong Kam Kee, aged 41, is Group Financial Controller, the qualified accountant and company secretary of the Company. He joined the Group in 2000. Mr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Mr. Wong holds a Master of Science Degree in Financial Management from the University of London and is also an associate member of The Institute of Chartered Secretaries and Administrators.

Mr. Andrew Lo Kwong Yiu, B.Sc. (Econ.), B.Sc. (Building Survey), FRICS, aged 52, is an executive director of National Properties Holdings Limited. Mr. Lo joined the Group in 1992 and is responsible for property development projects.

Mr. Yuen Wai Keung, B.Sc. (Mech.), aged 50. Mr. Yuen joined the Group in 1983 and is the General Manager of National Electronics and Watch Company Limited.

## DIRECTORS' REPORT

The directors have pleasure in presenting to shareholders their annual report and the audited financial statements for the year ended 31st March, 2006.

### Principal Activities

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and trading of securities.

### Results and Appropriations

The results of the Group for the year ended 31st March, 2006 are set out in the consolidated income statement on page 17.

The directors now recommend the payment of a dividend of 1.5 HK cents per share to the shareholders of the Company whose names appear on the register of members on 4th August, 2006, amounting to approximately HK\$16,031,039.

### Investment Properties and Property, Plant and Equipment

Details of movements during the year in the investment properties and property, plant and equipment of the Group are set out in notes 17 and 18 to the financial statements, respectively.

### Major Properties

Details of the major properties of the Group at 31st March, 2006 are set out on page 69.

### Subsidiaries and Associates

Details of the Company's subsidiaries and associates at 31st March, 2006 are set out in notes 48 and 21 to the financial statements, respectively.

### Share Capital

Details of movements during the year in the share capital of the Company are set out in note 37 to the financial statements.

### Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31st March, 2006 were as follows:

	2006 HK\$	2005 HK\$
Contributed surplus	90,854,039	90,854,039
Retained profits	18,952,651	6,810,862
	<b>109,806,690</b>	97,664,901

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of a company is available for distribution. However, a 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 realisable value of its assets would thereby be less than aggregate of its liabilities and its issued share capital and share premium accounts.

### Purchase, Sale or Redemption of Shares

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited, details of which are set out in note 37 to the financial statements. The directors considered that as the Company's shares were trading at a discount to the net asset value per share, the repurchases would increase the net asset value per share of the Company.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### Directors

The directors of the Company during the year and up to the date of this report were:

Mr. Jimmy Lee Yuen Ching  
Mr. James Lee Yuen Kui  
Mr. Peter Lee Yuen Wong  
Mr. Edward Lee Yuen Cheor  
Dr. Samson Sun, M.B.E., J.P.\*  
Mr. William Chan Chak Cheung\*  
Ms. Dorathy Lee Yuen Yu\*\*  
Mr. Chan Kwok Wai\*  
(appointed on 20th April, 2005)  
Mr. Ricky Wai Kwong Yuen  
(appointed on 26th May, 2006)  
Mr. Tommy Tam Hok Lam  
(resigned on 31st March, 2006)

\* Independent non-executive directors

\*\* Non-executive director

In accordance with the Bye-laws 99 of the Company, Dr. Samson Sun, M.B.E., J.P. and Mr. Peter Lee Yuen Wong, shall retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Bye-laws 102 of the Company's Bye-Laws, Mr. Ricky Wai Kwong Yuen shall retire and offer himself for re-election at the forthcoming Annual General Meeting.

The term of office for each non-executive and independent non-executive director is the period up to his retirement by rotation in accordance with the Bye-laws of the Company.

## DIRECTORS' REPORT

### Service Contracts

Mr. Jimmy Lee Yuen Ching entered into a service contract with the Company on 8th January 1985. This contract is terminable by either party on giving six calendar months' written notice.

Mr. Chan Kwok Wai entered into a service contract with the Company on 20th April 2005. This contract is effective for 3 years from the date of the contract and is terminable by either party by giving at least three months' prior notice in writing.

Save as disclosed above, none of the directors has entered into any service agreement with any member of the Group nor are there any other service agreements proposed which will not expire or be determinable by the Company within one year without payment of compensation (other than statutory compensation).

### Directors' Interests in Contracts of Significance

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### Arrangements to Purchase Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### Directors' Interests in Shares, Underlying Shares and Debentures

At 31st March, 2006, the interests of the directors, chief executives and their associates in the shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

Shares of HK\$0.10 each						
Name of director	Capacity	Personal interests	Corporate interests	Other interests	Total interests	Percentage of the issued share capital of the Company
Mr. Jimmy Lee Yuen Ching	Chairman	—	—	253,106,873 (note a)	253,106,873	23.525%
Mr. James Lee Yuen Kui	Managing Director	5,940	—	252,102,979 (note b)	252,108,919	23.432%
Mr. Peter Lee Yuen Wong	Director	—	—	252,102,979 (note b)	252,102,979	23.432%
Mr. Edward Lee Yuen Cheor	Director	—	—	252,102,979 (note b)	252,102,979	23.432%
Dr. Samson Sun, M.B.E., J.P.	Director	—	4,988,968 (note c)	—	4,988,968	0.464%



## DIRECTORS' REPORT

---

### Notes:

- (a) The 253,106,873 shares are part of the property of a discretionary trust of which Mr. Jimmy Lee Yuen Ching and his family members are named beneficiaries.
- (b) The 252,102,979 shares are part of the property of a discretionary trust of which each of Messrs. James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor are named beneficiaries.
- (c) The 4,988,968 shares are held by a company controlled by Dr. Samson Sun, M.B.E., J.P.

Saved as disclosed above, at 31st March, 2006, none of the director or chief executive or any of their associates had any interests, or short positions in any shares, underlying shares or debentures of the Company or its associated corporations as defined in the SFO Ordinance.

### Substantial Shareholders

Other than the interests of certain directors disclosed under the heading "Director's Interests in Shares, Underlying Shares and Debentures" above, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO discloses no other person as having a notifiable interest or short position in the issued share capital of the Company as at 31st March, 2006.

### Major Suppliers and Customers

For the year ended 31st March, 2006, the Group's five largest suppliers accounted for approximately 77.65% of the Group's purchases of which 72.21% was attributable to the largest supplier. The Group's five largest customers accounted for approximately 58.58% of the Group's turnover of which 19.35% was attributable to the largest customer.

None of the directors, their associates or any shareholders (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers during the year.

### Corporate Governance

The Company has complied throughout the year ended 31st March, 2006 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

### Emolument Policy

The emolument policy of the employees of the Group is set-up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

### Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Company, as at the date of this report, there is sufficient public float not less than 25% of the Company's issued shares as required under the Listing Rules.

### Donations

During the year, the Group made charitable donations amounting to HK\$8,000.

### Auditors

A resolution will be submitted to the Annual General Meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Lee Yuen Ching Jimmy**

*Chairman*

11th July, 2006

For the year ended 31st March, 2006 (the “Year”), in the opinion of the Board, the Company has complied with the code provisions as set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange.

## Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries to all Directors who have confirmed that, during the Year, they have complied with the required standard set out in the Model Code.

## The Board

As at 31st March 2006, the Board consists of 8 directors including 4 executive directors, 1 non-executive director and 3 independent non-executive directors (“INEDs”). Names and biographical details of the Directors are set out under the section headed “Directors and Senior Management of the Company” on page 9.

During the Year, the Board held 4 meetings. Attendance of each director at the Board meetings held in the year ended 31st March 2006 is set out below:

Directors	Meetings Attended/Held
<i>Executive Directors:</i>	
Mr. Jimmy Lee Yuen Ching (Chairman)	4/4
Mr. James Lee Yuen Kui (Managing Director)	4/4
Mr. Peter Lee Yuen Wong	1/4
Mr. Edward Lee Yuen Cheor	3/4
<i>Non-Executive Director:</i>	
Ms. Dorathy Lee Yuen Yu	1/4
<i>Independent Non-Executive Directors:</i>	
Dr. Samson Sun	4/4
Mr. William Chan Chak Cheung	4/4
Mr. Chan Kwok Wai	4/4

The Board is responsible for leadership and control of the Group. The Board reviews and approves the objective, strategies, direction and policies of the Group, the annual budget and the management structure of the Company. The Board also reviews the Group’s performance and monitored the activities of the Group.

The Board has delegated the responsibility of the day-to-day operations of the Group to the management of the Group.

Each non-executive and independent non-executive director, except Mr. Chan Kwok Wai who was appointed for a term of three years commencing from 20th April 2005, were appointed for a term of period up to his retirement and re-election by rotation under the bye-laws of the Company.

## Chairman and Managing Director

The Chairman of the Board is Mr. Jimmy Lee Yuen Ching and the Managing Director of the Group is Mr. James Lee Yuen Kui. The roles of the Chairman and the Managing Director were segregated. The Chairman is primarily responsible for the management and effective performance of the Board. The Managing Director is primarily responsible for the day-to-day management of the business of the Group.

## Remuneration Committee

The Board has established a remuneration committee and its principle roles and functions are:

- (i) to make recommendations to the Board on the Company’s policy and structure of remuneration of the Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;
- (ii) to determine the specific remuneration packages of executive directors and senior management; and
- (iii) to review and approve performance based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

The Remuneration Committee consists of 5 members. They are Dr. Samson Sun who is the Chairperson of the Remuneration Committee, Mr. Chan Kwok Wai, Mr. William Chan Chak Cheung, Mr. Jimmy Lee Yuen Ching and Mr. James Lee Yuen Kui.

The emoluments of each of the Directors are set out in this annual report on page 44.

## Nomination Committee

The Board has established a nomination committee. The Committee is responsible for developing criteria to identify, assess the qualifications of and evaluate candidates for the Board. They identify individuals suitably qualified in terms of skill, knowledge and experience to become members of the Board, taking into account of the then existing composition of the Board in terms of skill, knowledge and experience and make recommendation to the Board for approval.

The Nomination Committee consists of 5 members. They are Mr. William Chan Chak Cheung who is the Chairperson of the Nomination Committee, Dr. Samson Sun, Mr. Chan Kwok Wai, Mr. Jimmy Lee Yuen Ching and Mr. James Lee Yuen Kui.

Subsequent to the Year End Date, one experienced and high calibre individual Mr. Ricky Wai Kwong Yuen has been nominated and appointed as an executive director of the Board in accordance with the process and criteria mentioned above.

## Audit Committee

The Board has established an audit committee and its principal roles and functions are:

- (i) to make recommendation to the Board on the appointment, reappointment and removal of external auditors and to review and monitor their independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- (ii) to oversee the Group's relation with the external auditors;
- (iii) to review the financial information of the Group including monitoring the integrity of the Group's financial statements, annual reports and accounts, and interim report and reviewing significant accounting policies; and
- (iv) to oversee the Group's financial reporting system and internal control procedures.

The Audit Committee comprised 3 members and all of them are INEDs. Attendance of each member at the Audit Committee meetings held in the Year is set out below:

Members	Meetings Attended/Held
Dr. Samson Sun (Chairman)	4/4
Mr. William Chan Chak Cheung	4/4
Mr. Chan Kwok Wai (appointed on 20th April 2005)	4/4

The following is a summary of the work performed by the Audit Committee during the Year:

- Reviewed the audited accounts for the year ended 31st March, 2005;
- Reviewed the interim report for the six months ended 30th September, 2005; and
- Reviewed the internal audit reports covering the evaluation of internal controls.

## Auditors' Remuneration

During the Year, the remuneration payable to the Group's external auditors, Messrs. Deloitte Touche Tohmatsu, is set out below:

Services rendered	Fee payable HK\$'000
Audit services	1,500
Non-audit services	143
Total	1,643

## Accountability and Audit

The Directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting balanced and clear interim and annual financial statements, other price-sensitive announcements and other financial statements disclosures. The reporting responsibilities of the external auditors are set out in this annual report on page 16.

The Board is responsible for the system of internal control of the Group and reviews the effectiveness of the system of internal control through the Audit Committee. The management responsible for Internal Audit independently reviewed the major operating and financial control of the Group on an on-going basis and covered all major operations of the Group on a rotational basis and reported twice each year to the Audit committee on significant findings on internal controls.



*Global position system (GPS) watch receives satellite signals to map the position of your present location as well as destination. The watch can also calculate the remaining distance and time to the destination with altitude and compass functions.*





**TO THE SHAREHOLDERS OF NATIONAL ELECTRONICS HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of National Electronics Holdings Limited (the “Company”) and its subsidiaries (the “Group”) on pages 17 to 68 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company’s directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31st March, 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong 11th July, 2006

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2006

	NOTES	2006 HK\$	2005 HK\$ (restated)
Revenue	8 & 9	1,045,505,970	1,026,973,336
Cost of sales		(950,112,380)	(919,973,629)
Gross profit		95,393,590	106,999,707
Other income	10	3,134,439	2,843,990
Increase in fair value/revaluation increase in investment properties		16,000,000	27,411,840
Distribution costs		(8,446,224)	(8,562,511)
Administrative expenses		(67,072,947)	(63,231,151)
Finance costs	11	(14,986,831)	(6,075,492)
Gain on disposal of subsidiaries	40	37,912,580	–
Share of results of associates		(8,179)	1,316,539
Share of results of jointly controlled entities		(1,410)	(70,994)
Profit before taxation	12	61,925,018	60,631,928
Income tax expenses	14	(1,820,256)	(2,959,166)
Profit for the year		60,104,762	57,672,762
Dividend:	15		
2005 final dividend paid of 0.5 HK cent (2004: 0.5 HK cent) per ordinary share		5,427,937	5,523,631
Earnings per share – Basic	16	5.5 HK cents	5.2 HK cents

# CONSOLIDATED BALANCE SHEET

At 31st March, 2006

	NOTES	2006 HK\$	2005 HK\$ (restated)
<b>Non-current assets</b>			
Investment properties	17	166,000,000	150,000,000
Property, plant and equipment	18	68,951,429	55,262,594
Prepaid lease payments	19	42,411,871	43,036,497
Deposits held in trust for sale of property under development		69,658,709	33,978,471
Development costs	20	–	–
Interests in associates	21	31,564	1,316,543
Interests in jointly controlled entities	22	–	440,024
Available-for-sale investments	23	13,615,000	–
Other non-current assets	24	–	18,261,881
		<b>360,668,573</b>	<b>302,296,010</b>
<b>Current assets</b>			
Inventories	25	185,317,344	158,691,465
Prepaid lease payments	19	624,626	624,626
Investment held-for-trading	26	3,827,671	–
Investments in securities	27	–	8,018,823
Inventory of unsold properties	28	126,282,153	119,418,851
Properties under development for sale	29	635,083,626	450,962,653
Bills receivables	30	10,422,991	6,000,000
Trade receivables, deposits and prepayments	30	123,364,878	103,990,425
Amount due from an associate	21	1,144,399	–
Amount due from a jointly controlled entity	22	–	50
Tax recoverable		767,333	39,249
Bank balances and cash	31	119,157,381	28,940,736
		<b>1,205,992,402</b>	<b>876,686,878</b>
<b>Current liabilities</b>			
Trade payables and accrued expenses	32	147,900,811	94,205,582
Bills payables	32	75,904,757	63,788,574
Amount due to an associate	21	16,987	1,576,898
Amount due to a related party	33	7,556,135	–
Taxation payable		470	2,073,593
Derivative financial instruments	34	1,320,498	–
Obligations under finance leases	35	2,882,947	2,115,047
Bank overdrafts	36	262,792	–
Bank borrowings	36	217,020,225	187,324,534
		<b>452,865,622</b>	<b>351,084,228</b>
<b>Net current assets</b>		<b>753,126,780</b>	<b>525,602,650</b>
<b>Total assets less current liabilities</b>		<b>1,113,795,353</b>	<b>827,898,660</b>

# CONSOLIDATED BALANCE SHEET

At 31st March 2006

	NOTES	2006 HK\$	2005 HK\$ (restated)
Capital and reserves			
Share capital	37	107,590,393	109,790,393
Reserves		318,147,906	262,729,691
		<b>425,738,299</b>	372,520,084
Non-current liabilities			
Provision for long service payments	38	4,361,984	4,132,056
Obligations under finance leases	35	4,790,361	2,123,257
Bank borrowings	36	546,380,630	382,646,741
Deposits received from sale of properties under development		131,130,989	65,439,234
Deferred taxation	39	1,393,090	1,037,288
		<b>688,057,054</b>	455,378,576
		<b>1,113,795,353</b>	827,898,660

The financial statements on pages 17 to 68 were approved and authorised for issue by the board of directors on 11th July, 2006 and are signed on its behalf by:

**Jimmy Lee Yuen Ching**  
*Director*

**James Lee Yuen Kui**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March, 2006

	Share capital HK\$	Share premium HK\$	Exchange reserve HK\$	Negative goodwill arising on acquisition of subsidiaries HK\$	Investment revaluation reserve HK\$	Contributed surplus HK\$	Capital redemption reserve HK\$	Retained profits HK\$	Total HK\$
At 1st April, 2004 as originally stated	112,616,193	22,785,730	1,315,692	2,256,230	(1,000,000)	66,141,751	16,704,640	111,808,846	332,629,082
Effects of changes in accounting policies (Note 3)	–	–	–	–	–	–	–	(1,677,760)	(1,677,760)
as restated	112,616,193	22,785,730	1,315,692	2,256,230	(1,000,000)	66,141,751	16,704,640	110,131,086	330,951,322
Exchange difference not recognised in the consolidated income statement	–	–	(3,545,138)	–	–	–	–	–	(3,545,138)
Net income (expense) recognised directly in equity	–	–	(3,545,138)	–	–	–	–	–	(3,545,138)
Profit for the year	–	–	–	–	–	–	–	57,672,762	57,672,762
Total recognised income and expense for the year	–	–	(3,545,138)	–	–	–	–	57,672,762	54,127,624
Dividend paid	–	–	–	–	–	–	–	(5,523,631)	(5,523,631)
Repurchase of own shares	(2,825,800)	–	–	–	–	–	2,825,800	(7,035,231)	(7,035,231)
At 31st March, 2005	109,790,393	22,785,730	(2,229,446)	2,256,230	(1,000,000)	66,141,751	19,530,440	155,244,986	372,520,084
Effects of changes in accounting policies (Note 3)	–	–	–	(2,256,230)	3,947,500	–	–	1,901,676	3,592,946
At 1st April, 2005 as restated	109,790,393	22,785,730	(2,229,446)	–	2,947,500	66,141,751	19,530,440	157,146,662	376,113,030
Exchange difference not recognised in the consolidated income statement	–	–	(1,866,409)	–	–	–	–	–	(1,866,409)
Gain on fair value changes of available-for-sale investments	–	–	–	–	2,080,000	–	–	–	2,080,000
Net income (expense) recognised directly in equity	–	–	(1,866,409)	–	2,080,000	–	–	–	213,591
Profit for the year	–	–	–	–	–	–	–	60,104,762	60,104,762
Total recognised income and expense for the year	–	–	(1,866,409)	–	2,080,000	–	–	60,104,762	60,318,353
Dividend paid	–	–	–	–	–	–	–	(5,427,937)	(5,427,937)
Repurchase of own shares	(2,200,000)	–	–	–	–	–	2,200,000	(5,265,147)	(5,265,147)
At 31st March, 2006	107,590,393	22,785,730	(4,095,855)	–	5,027,500	66,141,751	21,730,440	206,558,340	425,738,299

Retained profits of the Group at 31st March, 2006 include a profit of HK\$1,308,360 (2005: HK\$1,316,539) attributable to associates.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2006

	2006 HK\$	2005 HK\$ (restated)
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	61,925,018	60,631,928
Adjustments for:		
Finance costs	14,986,831	6,075,492
Share of results of associates	8,179	(1,316,539)
Share of results of jointly controlled entities	1,410	70,994
Allowance for doubtful debts	2,214,382	4,122,929
Allowance for inventories	6,255,594	–
Amortisation of development costs	–	133,709
Amortisation of prepaid lease payments	624,626	624,626
Depreciation	13,723,392	16,459,758
Interest income	(643,523)	(584,819)
Impairment loss on investment in securities	–	199,801
Reversal of impairment loss recognised in respect of other non-current assets	(561,605)	–
Increase in fair value/revaluation increase in investment properties	(16,000,000)	(27,411,840)
(Gain) loss on disposal of property, plant and equipment	(170,211)	302,021
Loss on disposal of available-for-sale investments	4,453	–
Discount on acquisition of subsidiaries	(681,524)	–
Gain on disposal of subsidiaries	(37,912,580)	–
Gain on fair value changes of investment held-for-trading	(169,289)	–
Loss on fair value changes of derivative financial instruments	1,320,498	–
Loss on derecognition of derivative financial instruments	645,446	–
Operating cash flows before movements in working capital	45,571,097	59,308,060
Increase in inventories	(32,881,473)	(28,738,173)
Increase in inventory of unsold properties	(6,193,697)	(738,522)
Increase in bills receivables	(4,422,991)	(5,418,015)
Increase in trade receivables, deposits and prepayments	(49,088,835)	(2,916,600)
Increase in trade payables and accrued expenses	56,869,077	21,902,713
Decrease in derivative financial instruments	(3,387,250)	–
Increase (decrease) in bills payables	12,116,183	(11,696,815)
Increase in deposits held in trust for sale of property under development	(35,680,238)	(33,978,471)
Increase in provision for long service payments	229,928	85,378
Decrease in amount due from a jointly controlled entity	50	23,187,109
Decrease in amount due to a jointly controlled entity	–	(803,535)
Increase in deposit received from sale of properties under development	65,691,755	49,962,104
Exchange realignment	(10,301,062)	(17,447,731)
Cash generated from operations	38,522,544	52,707,502
Hong Kong Profits Tax paid	(4,196,595)	–
Overseas tax paid	(51,950)	(39,861)
Hong Kong Profits Tax refunded	–	42,564
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>	<b>34,273,999</b>	<b>52,710,205</b>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2006

	NOTES	2006 HK\$	2005 HK\$ (restated)
<b>INVESTING ACTIVITIES</b>			
Additions to properties under development for sale		(219,913,200)	(134,832,240)
Purchase of property, plant and equipment		(11,254,811)	(27,416,725)
Repayment from an associate		61,073,924	2,879,996
(Decrease) increase in amount due to an associate		(1,559,911)	1,576,898
Net cash inflow arising from disposal of subsidiaries	40	7,800,332	–
Proceeds from disposal of available-for sale investments		4,085,107	–
Net cash inflow arising on acquisition of subsidiaries	41	1,316,424	–
Dividend received from an associate		1,280,000	–
Proceeds from disposal of property, plant and equipment		1,259,152	50,800
Interest received		643,523	584,819
Additions to investment properties		–	(38,588,160)
Decrease in pledged deposits		–	16,161,600
Purchase of investment in securities		–	(4,129,064)
Increase in other non-current assets		–	(30,873)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(155,269,460)</b>	<b>(183,742,949)</b>
<b>FINANCING</b>			
Advance from a related party		7,556,135	–
New bank loans raised		320,266,938	206,576,077
Interest paid		(26,532,145)	(15,843,592)
Dividend paid		(5,427,937)	(5,523,631)
Repayment of bank loans		(75,915,024)	(46,333,090)
Repayment of obligations under finance leases		(3,721,954)	(2,533,165)
Repurchase of own shares		(5,265,147)	(7,035,231)
<b>NET CASH GENERATED FROM FINANCING ACTIVITIES</b>		<b>210,960,866</b>	<b>129,307,368</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>89,965,405</b>	<b>(1,725,376)</b>
<b>CASH AND CASH EQUIVALENTS AT 1ST APRIL</b>		<b>28,940,736</b>	<b>30,636,278</b>
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>		<b>(11,552)</b>	<b>29,834</b>
<b>CASH AND CASH EQUIVALENTS AT 31ST MARCH</b>		<b>118,894,589</b>	<b>28,940,736</b>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Bank balances and cash		119,157,381	28,940,736
Bank overdrafts		(262,792)	–
		<b>118,894,589</b>	<b>28,940,736</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information to the annual report.

The principal activities of the Group are the manufacture, assembly and sale of electronic watches and watch parts, trading of watch movements and watch parts, property development and investment and trading of securities.

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

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

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

### Business combinations

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

#### Goodwill

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

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

#### *Excess of the Group’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over cost (previously known as “negative goodwill”)*

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



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

#### Financial instruments

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

#### *Classification and measurement of financial assets and financial liabilities*

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

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

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

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

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

#### *Financial assets and financial liabilities other than debt and equity securities*

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

#### *Financial assets and financial liabilities other than debt and equity securities (continued)*

HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as financial assets at fair value through profit or loss, "available-for-sales financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method after initial recognition. The application of HKAS 39 has had no material effect on financial assets and financial liabilities other than debt and equity securities.

#### *Derivatives*

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

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

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

#### *Derecognition*

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Group has had early applied the revised accounting policy for transfers of financial assets from 1st April, 2004 onwards. As at 31st March, 2006, the Group's bills receivables discounted with full recourse and factored trade receivables with full recourse have not been derecognised. The related borrowing of HK\$9,000,000, had been recognised on the consolidated balance sheet. This change has had no material effect on the results for the current year.

#### **Owner-occupied leasehold interest in land**

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

### Investment properties

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

### Deferred taxes related to investment properties

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation (SSAP-INT 20). In the current year, the Group has applied HK(SIC) Interpretation 21 “Income Taxes – Recovery of Revalued Non-Depreciable Assets” which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. This change has had no material effect on the results of both the current and prior year.

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

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

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

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st January, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st December, 2005.

<sup>4</sup> Effective for annual periods beginning on or after 1st March, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>6</sup> Effective for annual periods beginning on or after 1st June, 2006.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

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

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

## 4. CHANGES OF ACCOUNTING ESTIMATES

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

## 5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### Basis of consolidation

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

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

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

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

### Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities, and contingent liabilities over cost ("discount on acquisitions")

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

## **5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **Investments in associates**

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### **Joint venture**

Joint venture arrangements which involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

### **Revenue recognition**

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

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

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

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Management fee income is recognised when services are rendered.



## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Investment properties**

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gain or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset is determined as the difference between the net disposal proceeds and the carrying amount of the asset is included in the income statement in the year in which the item is derecognised.

### **Property, plant and equipment**

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

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

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the terms of the relevant lease, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

### **Prepaid lease payments**

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

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

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

#### *The Group as lessee*

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing (see below).

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

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Properties under development for sale**

Properties under development for sale are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

The cost of properties under development for sale includes land cost, construction cost, borrowing costs capitalised and other direct development expenditure.

**Development costs**

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

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

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

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

**Financial instruments**

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

**Financial assets**

Financial assets are classified into one of the following categories, including financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held- to -maturity financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The Group's financial assets comprise of investment held for trading, available-for-sale financial assets and loans and receivables. The accounting policies adopted in respect of the Group's financial assets are set out below.

*Financial assets at fair value through profit or loss*

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



**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Financial instruments (continued)****Financial assets (continued)***Loans and receivables*

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

*Available-for-sale financial assets*

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

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

**Financial liabilities and equity**

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

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

*Financial liabilities*

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

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

*Equity instruments*

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

---

## 5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Derivative financial instruments**

The Group's derivative financial instrument does not qualify for hedge accounting. Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair value of such derivatives are recognised directly in profit or loss.

### **Derecognition**

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

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

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

### **Inventory of unsold properties**

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

### **Impairment of tangible and intangible assets**

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### **Foreign currencies**

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

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

**5. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Foreign currencies (continued)**

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

**Retirement benefit costs**

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

For provision for long service payments, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations carried out at each balance sheet date. Actuarial gains and losses are recognised by amortising the amount by which cumulative unrecognised gains and losses exceed 10% of the assets and the defined benefit obligation over the average future working life of the active employees. The amount of amortisation is first recognised in the financial year ended 31st March, 2004. The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognized past service cost.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

---

### 6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies, which are described in note 5 management has made the following estimations that have effect on the amounts recognised in the consolidated financial statements.

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of giving a rise to a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### **Estimated useful lives of property, plant and equipment**

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

#### **Impairment loss on property, plant and equipment**

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

#### **Allowance of doubtful debts**

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

#### **Allowance of inventories**

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

#### **Recognition of deferred tax assets**

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

### 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)****Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparts' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has policies in place for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regards, management considers that the Group's credit risk is significantly reduced.

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

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

**Market risk***(i) Foreign exchange risk*

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

*(ii) Fair value interest rate risk*

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

*(iii) Cash flow interest rate risk*

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

*(iv) Price risk*

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

**Liquidity risk**

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

**8. REVENUE**

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION

### Business segments

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

Principal activities are as follows:

Manufacture of watches	–	manufacture, assembly and sale of electronic watches and watch parts.
Trading of watch movements	–	trading of watch movements and watch parts.
Property development	–	development and sale of properties.
Property investment	–	holding of properties for investment and leasing purposes.

Segment information about these businesses is presented below.

### 2006

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

Inter-segment sales are charged at cost.

### RESULT

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION (CONTINUED)

### Business segments (continued)

#### BALANCE SHEET

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

#### OTHER INFORMATION

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION (CONTINUED)

### Business segments (continued)

2005

	Manufacture of watches HK\$	Trading of watch movements HK\$	Property development HK\$	Property investment HK\$	Eliminations HK\$	Consolidated HK\$
<b>REVENUE</b>						
External sales	377,177,561	644,274,107	—	5,521,668	—	1,026,973,336
Inter-segment sales	—	6,071,983	—	—	(6,071,983)	—
Total revenue	377,177,561	650,346,090	—	5,521,668	(6,071,983)	1,026,973,336
Inter-segment sales are charged at cost.						
<b>RESULT</b>						
Segment result	36,786,467	7,750,277	(7,649,275)	31,317,968	—	68,205,437
Interest income						584,819
Unallocated other income						1,132,264
Unallocated corporate expenses						(4,460,645)
Finance costs						(6,075,492)
Share of result of an associate				1,316,539		1,316,539
Share of results of jointly controlled entities			(70,994)			(70,994)
Profit before taxation						60,631,928
Income tax expenses						(2,959,166)
Profit for the year						57,672,762



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION (CONTINUED)

### Business segments (continued)

#### BALANCE SHEET

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

#### OTHER INFORMATION

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION (CONTINUED)

### Geographical segments

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

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

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

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

### 2006

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 9. SEGMENT INFORMATION (CONTINUED)

### Geographical segments (continued)

2005

	Carrying amount of total assets HK\$	Additions to investment properties HK\$	Additions to property, plant and equipment HK\$	Additions to prepaid lease payment HK\$	Additions to properties under development for sale HK\$
Hong Kong and the PRC	742,386,932	38,588,160	20,397,051	9,683,983	68,301,815
North America	431,902,404	—	145,691	—	76,540,895
Europe	4,530,997	—	—	—	—
Others	162,864	—	—	—	—
Total segment assets	1,178,983,197	38,588,160	20,542,742	9,683,983	144,842,710

## 10. OTHER INCOME

	2006 HK\$	2005 HK\$
Bank interest income	643,523	584,819
Discount on acquisition of subsidiaries	681,524	—
Dividend income from unlisted investments	—	186,159
Gain on disposal of property, plant and equipment	170,211	—
Gain on fair value changes of investment held-for-trading	169,289	—
Management fee income received from others	—	96,604
Sundry income	1,469,892	1,976,408
	<b>3,134,439</b>	<b>2,843,990</b>

## 11. FINANCE COSTS

	2006 HK\$	2005 HK\$
Interest on:		
Bank loans and overdrafts		
Wholly repayable within five years	21,668,460	13,295,938
Not wholly repayable within five years	4,346,759	2,339,102
Obligations under finance leases	516,926	208,552
Total borrowing costs	26,532,145	15,843,592
Less: Amount capitalised to properties under development for sale	(11,545,314)	(9,768,100)
	<b>14,986,831</b>	<b>6,075,492</b>

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 5% (2005: 6%) to expenditure on properties under development for sale.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 12. PROFIT BEFORE TAXATION

	2006 HK\$	2005 HK\$
Profit before taxation has been arrived at after charging:		
Allowance for doubtful debts	2,214,382	—
Allowance for inventories	6,255,594	4,122,929
Amortisation of development costs included in administrative expenses	—	133,709
Auditors' remuneration	1,600,522	853,271
Depreciation of property, plant and equipment	13,965,762	16,702,128
Less: Amount capitalised to properties under development for sale	(242,370)	(242,370)
	<b>13,723,392</b>	<b>16,459,758</b>
Amortisation of prepaid lease payment	624,626	624,626
Impairment loss on investment in securities (included in administrative expenses)	—	199,801
Loss on disposal of property, plant and equipment	—	302,021
Loss on disposal of available-for-sale investments	4,453	—
Loss on fair value changes of derivative financial instruments	1,320,498	—
Loss on derecognition of derivative financial instruments	645,446	—
Minimum lease payments for operating leases in respect of land and buildings	2,072,918	2,998,477
Share of taxation of an associate	—	279,911
Staff costs including directors' emoluments	105,504,042	94,269,626
Less: Amount capitalised to properties under development for sale	(11,152,543)	(11,824,170)
	<b>94,351,499</b>	<b>82,445,456</b>
Exchange loss, net	997,015	9,503,580
and after crediting:		
Gain on fair value changes of investment held-for-trading	169,289	—
Gross rental income from properties	4,870,697	5,521,668
Less: Outgoings	(51,488)	(507,843)
Net rental income from properties	<b>4,819,209</b>	<b>5,013,825</b>

Minimum lease payments for operating leases in respect of staff quarters amounting to HK\$4,615,520 (2005: HK\$5,346,968) are included in staff costs.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

	Mr. Jimmy Lee Yuen Ching HK\$	Mr. James Lee Yuen Kui HK\$	Mr. Peter Lee Yuen Wong HK\$	Mr. Edward Lee Yuen Cheor HK\$	Dr. Samson Sun, M.B.E., J.P. HK\$	Mr. William Chan Chak Cheung HK\$	Ms. Dorathy Lee Yuen Yu HK\$	Mr. Chan Kwok Wai HK\$	Mr. Tommy Tam Hok Lam HK\$	Other Director HK\$	Total 2006 HK\$
<b>2006</b>											
Fees	50,000	50,000	50,000	50,000	200,000	150,000	50,000	150,000	50,000	–	800,000
Other emoluments											
Salaries and other benefits	5,620,000	2,700,000	570,661	1,020,000	–	–	–	–	1,728,000	–	11,638,661
Retirement benefit scheme contributions	12,000	12,000	–	12,000	–	–	–	–	12,000	–	48,000
	5,682,000	2,762,000	620,661	1,082,000	200,000	150,000	50,000	150,000	1,790,000	–	12,486,661
<b>2005</b>											
Fees	50,000	50,000	50,000	50,000	150,000	87,500	29,167	–	50,000	200,000	716,667
Other emoluments											
Salaries and other benefits	5,842,741	3,585,000	548,867	1,288,200	–	–	–	–	1,728,000	–	12,992,808
Retirement benefit scheme contributions	12,000	12,000	–	12,000	–	–	–	–	12,000	–	48,000
	5,904,741	3,647,000	598,867	1,350,200	150,000	87,500	29,167	–	1,790,000	200,000	13,757,475

Note:

1. Mr. Tommy Tam Hok Lam resigned as an executive director on 31st March, 2006.
2. The performance related incentive payment is determined as a percentage of the revenue of the Group for the two years ended 31st March, 2006.

Included in salaries and other benefits is an amount of HK\$3,628,000 (2005: HK\$3,535,741) in respect of accommodation provided to the directors of the Company.

Besides above remuneration, two of the Group's properties are provided to the directors as an accommodation. The rateable value of the property is amounting to HK\$507,480 (2005: HK\$503,280).

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2005: four) are directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining one (2005: one) individual are as follows:

	2006 HK\$	2005 HK\$
Salaries and other benefits	5,170,000	4,060,000

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION (CONTINUED)

### (b) Employees' emoluments (continued)

The emoluments were within the following band:

	No. of employees 2006	2005
HK\$4,000,001 to HK\$4,500,000	–	1
HK\$5,000,001 to HK\$5,500,000	1	–

## 14. INCOME TAX EXPENSES

	2006 HK\$	2005 HK\$
The charge comprises:		
Hong Kong Profits Tax		
Current year	1,412,504	2,837,849
Underprovision in prior years	–	81,456
	1,412,504	2,919,305
Other jurisdictions – current year	51,950	39,861
	1,464,454	2,959,166
Deferred tax liabilities (note 39)	355,802	–
	1,820,256	2,959,166

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both years.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 14. INCOME TAX EXPENSES (CONTINUED)

The taxation charge for the year can be reconciled to profit before taxation per the income statement as follows:

	2006 HK\$	2005 HK\$
Profit before taxation	61,925,018	60,631,928
Tax at the domestic income tax rate of 17.5%	10,836,878	10,610,587
Tax effect of share of results of associates	1,432	(230,394)
Tax effect of share of results of jointly controlled entities	247	12,424
Tax effect of expenses not deductible for tax purpose	1,252,378	2,219,203
Tax effect of income not taxable for tax purpose	(9,548,111)	(6,552,689)
Tax effect of deductible temporary differences not recognised	(770,151)	(1,674,382)
Tax effect of tax losses not recognised	4,289,952	4,215,601
Tax effect on different tax rate of operations in other jurisdictions	(161,019)	(330,814)
Utilisation of tax losses previously not recognised	(3,455,468)	(2,401,900)
Underprovision in prior years	—	81,456
Effect of tax exemption (note)	(776,647)	(2,964,236)
Others	150,765	(25,690)
Taxation charge for the year	1,820,256	2,959,166

*Note:* The profits of certain subsidiaries are subject to Hong Kong Profits Tax on a 50:50 apportionment basis.

## 15. DIVIDEND

The final dividend of 1.5 HK cents for the year ended 31st March, 2006 (2005: 0.5 HK cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## 16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	2006 HK\$	2005 HK\$
Earnings for the purpose of basic earnings per share	60,104,762	57,672,762
	<b>Number of shares</b>	
	2006	2005
	HK\$	HK\$
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,083,381,512	1,106,014,684

No diluted earnings per share has been presented as there were no potential ordinary shares in both years.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 16. EARNINGS PER SHARE (CONTINUED)

The following table summaries the impact on basic earnings per share as a result of the changes in accounting policies as described in note 2.

	2006 HK cents	2005 HK cents
Reported figures before adjustments	5.7	5.2
Adjustments arising from changes in accounting policies (see note 3)	(0.2)	—
	5.5	5.2

## 17. INVESTMENT PROPERTIES

	THE GROUP HK\$
<b>FAIR VALUE</b>	
At 1st April, 2004	84,000,000
Additions	38,588,160
Revaluation increase	27,411,840
At 31st March, 2005 and 1st April, 2005	150,000,000
Net increase in fair value recognised in the income statement	16,000,000
At 31st March, 2006	166,000,000

All of the Group's leasehold interests in land held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The investment properties are situated in Hong Kong under medium-term leases and are rented out under operating leases.

The fair value of the Group's investment properties at 31st March, 2006 have been arrived at on the basis of a valuation carried out on that date by DTZ Debenham Tie Leung Limited, independent qualified professional valuers not connected with the Group. DTZ Debenham Tie Leung Limited is a member of the Hong Kong Institute of Surveyors, and has appropriate qualifications and recent experiences in the valuation of properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties of the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 18. PROPERTY, PLANT AND EQUIPMENT

	Buildings in Hong Kong held under long leases <i>HKS</i>	Buildings in Hong Kong held under medium- term leases <i>HKS</i>	Freehold land and buildings outside Hong Kong <i>HKS</i>	Buildings outside Hong Kong held under medium- term leases <i>HKS</i>	Construction in progress <i>HKS</i>	Leasehold improvements <i>HKS</i>	Plant and machinery <i>HKS</i>	Motor vehicles <i>HKS</i>	Furniture, fixtures and office equipment <i>HKS</i>	Antiques and pictures <i>HKS</i>	Tools and moulds <i>HKS</i>	Total <i>HKS</i>
<b>THE GROUP</b>												
<b>COST</b>												
At 1st April, 2004												
– as originally stated	42,294,801	15,396,068	5,160,789	6,367,821	–	28,527,328	65,613,367	24,024,831	53,975,249	–	51,773,896	293,134,150
– Effect of changes in accounting policies	(26,630,000)	(11,854,660)	–	–	–	–	–	–	–	–	–	(38,484,660)
– as restated	15,664,801	3,541,408	5,160,789	6,367,821	–	28,527,328	65,613,367	24,024,831	53,975,249	–	51,773,896	254,649,490
Exchange realignment	–	–	3,310	–	–	39,874	–	–	252,997	–	–	296,181
Additions	–	–	–	–	587,730	2,599,158	7,050,256	569,515	9,736,083	–	–	20,542,742
Disposals	–	–	–	–	–	(550,000)	(85,075)	(1,505,177)	(522,624)	–	–	(2,662,876)
Written off	–	–	–	–	–	(4,931,953)	(2,887,674)	(572,525)	(3,595,847)	–	(6,640,877)	(18,628,876)
At 31st March, 2005	15,664,801	3,541,408	5,164,099	6,367,821	587,730	25,684,407	69,690,874	22,516,644	59,845,858	–	45,133,019	254,196,661
Exchange realignment	–	–	(26,680)	–	–	23,205	–	–	153,023	–	–	149,548
Additions	–	–	–	–	266,692	2,567,818	8,742,569	3,982,953	2,678,597	153,140	20,000	18,411,769
Transfer from other non-current assets	–	–	–	–	–	–	–	–	–	10,235,986	–	10,235,986
Disposals	–	–	–	–	–	–	–	(2,400,314)	(27,520)	–	–	(2,427,834)
At 31st March, 2006	15,664,801	3,541,408	5,137,419	6,367,821	854,422	28,275,430	78,433,443	24,099,283	62,649,958	10,389,126	45,153,019	280,566,130
<b>DEPRECIATION</b>												
At 1st April, 2004												
– as originally stated	5,815,948	2,549,433	909,857	1,290,114	–	25,832,034	58,273,288	18,662,188	44,453,168	–	47,521,184	205,307,214
– Effect of changes in accounting policies	(245,875)	(1,959,259)	–	–	–	–	–	–	–	–	–	(2,205,134)
– as restated	5,570,073	590,174	909,857	1,290,114	–	25,832,034	58,273,288	18,662,188	44,453,168	–	47,521,184	203,102,080
Exchange realignment	–	–	590	–	–	9,347	–	–	58,853	–	–	68,790
Provided for the year	387,979	70,519	132,397	218,513	–	2,084,482	4,925,903	1,823,468	3,509,336	–	3,549,531	16,702,128
Eliminated on disposals	–	–	–	–	–	(293,328)	(85,075)	(1,505,177)	(468,800)	–	–	(2,352,380)
Written off	–	–	–	–	–	(4,931,953)	(2,887,674)	(572,525)	(3,571,244)	–	(6,623,155)	(18,586,551)
At 31st March, 2005	5,958,052	660,693	1,042,844	1,508,627	–	22,700,582	60,226,442	18,407,954	43,981,313	–	44,447,560	198,934,067
Exchange realignment	–	–	(5,388)	–	–	8,424	–	–	50,729	–	–	53,765
Provided for the year	387,979	70,519	131,729	218,513	–	2,069,526	4,632,519	1,464,025	4,140,616	831,130	19,206	13,965,762
Eliminated on disposals	–	–	–	–	–	–	–	(1,335,293)	(3,600)	–	–	(1,338,893)
At 31st March, 2006	6,346,031	731,212	1,169,185	1,727,140	–	24,778,532	64,858,961	18,536,686	48,169,058	831,130	44,466,766	211,614,701
<b>CARRYING VALUES</b>												
At 31st March, 2006	9,318,770	2,810,196	3,968,234	4,640,681	854,422	3,496,898	13,574,482	5,562,597	14,480,900	9,557,996	686,253	68,951,429
At 31st March, 2005	9,706,749	2,880,715	4,121,255	4,859,194	587,730	2,983,825	9,464,432	4,108,690	15,864,545	–	685,459	55,262,594

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 18. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis after taking into account of their estimated residual values at the following rates per annum:

Category of assets	Estimated useful lives
Freehold land	Nil
Buildings	Over the shorter of the terms of leases, or 50 years
Leasehold improvements	14 $\frac{1}{3}$ % – 33 $\frac{1}{3}$ %
Plant and machinery	25%
Motor vehicles	25%
Furniture, fixtures and office equipment	14 $\frac{1}{3}$ % – 25%
Antiques and pictures	10%
Tools and moulds	15% – 33 $\frac{1}{3}$ %

The net book values of property, plant and equipment held under finance leases are as follows:

	2006 HK\$	2005 HK\$
Plant and machinery	2,919,291	3,528,429
Motor vehicles	2,850,125	1,871,097
	<b>5,769,416</b>	<b>5,399,526</b>

## 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises:

	2006 HK\$	2005 HK\$
Leasehold land in PRC held under		
– medium-term leases	9,296,623	9,490,303
Leasehold land in Hong Kong held under		
– long leases	24,284,497	24,486,221
– medium-term leases	9,455,377	9,684,599
	<b>43,036,497</b>	<b>43,661,123</b>
Analysed for reporting purposes as:		
– Non-current asset	42,411,871	43,036,497
– Current asset	624,626	624,626
	<b>43,036,497</b>	<b>43,661,123</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 20. DEVELOPMENT COSTS

	HK\$
<b>THE GROUP</b>	
<b>COST</b>	
At 1st April, 2004, 31st March, 2005 and 31st March, 2006	3,970,683
<b>AMORTISATION</b>	
At 1st April, 2004	3,836,974
Provided for the year	133,709
At 31st March, 2005 and 31st March, 2006	3,970,683
<b>NET BOOK VALUES</b>	
At 31st March, 2006	—
At 31st March, 2005	—

The development costs are amortised on a straight-line basis over their estimated useful lives from three to eight years.

## 21. INTERESTS IN ASSOCIATES

	2006 HK\$	2005 HK\$
Cost of investment in unlisted associates	160	4
Share of post-acquisition reserves	31,404	1,316,539
	<b>31,564</b>	<b>1,316,543</b>

The amounts due from (to) an associate is unsecured, interest free and repayable on demand.

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

Name of associate	Form of business structure	Place of incorporation/operation	Proportion of nominal value of issued share capital indirectly held by the Company	Principal activity
Artlink International Holdings Limited	Incorporated	Hong Kong	40%*	Inactive
Roebuck II Investments Limited	Incorporated	British Virgin Island/Hong Kong	20%	Investment holding
Schofield Development Limited	Incorporated	British Virgin Island/Hong Kong	20%	Investment holding
Super Plus Limited	Incorporated	Hong Kong	20%*	Property development

\* These represent interest in ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 21. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the Group's associates is set out below:

	2006 HK\$	2005 HK\$
Total assets	106,276,201	3,997,136
Total liabilities	(143,831,394)	(705,777)
Net (liabilities) assets	(37,555,193)	3,291,359
Group's share of net assets of associates	31,564	1,316,543
Revenue	—	79,000,000
(Loss) profit for the year	(24,806)	3,291,349
Group's share of results of associates for the year	(8,179)	1,316,539

## 22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP	
	2006 HK\$	2005 HK\$
Cost of unlisted investments in jointly controlled entities	—	500,000
Share of post-acquisition profits	—	(59,976)
	—	440,024

The amount due from a jointly controlled entity is unsecured, interest free and repayable on demand.

The summarised financial information in respect of the Group's interest in jointly controlled entities which are accounted for using the equity method is set out below:

	2006 HK\$	2005 HK\$
Current assets	—	18,666,827
Current liabilities	—	(303,967)
Net assets	—	18,362,860
Less: amount not attributable to the Group	—	(17,922,836)
	—	440,024
Income	—	65,555
Expenses	—	(136,549)
	—	(70,994)

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

### 22. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Pursuant to a joint venture deed dated 30th March, 2001 (the “Deed”), the other joint venture partner was entitled to a preferential distribution of profit of Parklane Limited and Phoenix Limited up to an amount as specified in the Deed (the “Agreed Return”) and the Group was entitled to the remaining profit up to an amount equivalent to the Agreed Return. Thereafter, the Group was entitled to share the profit equally with the joint venture partner.

During the year, the Group acquired the remaining 50% equity interests of the jointly controlled entities from another joint venture partner. Accordingly, the jointly controlled entities had then become the wholly-owned subsidiaries of the Group and their results and assets and liabilities were consolidated into the consolidated financial statements. Details of acquisition of the subsidiaries during the year are set out in note 41.

### 23. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments as at 31st March, 2006 comprises:

	2006 HK\$
Club debentures, unlisted	13,615,000
Unlisted equity securities, at cost	1,000,000
Less: impairment loss recognised	(1,000,000)
	—
	13,615,000

Upon the application of HKAS 39 on 1st April, 2005, club debentures of HK\$8,025,895 and unlisted equity securities of HK\$4,089,560 were reclassified to available-for-sale investments. During the year, the unlisted equity securities of HK\$4,089,560 were disposed of.

As at the balance sheet date, all available-for-sale investments are stated at fair value, except for those unlisted equity investments of which their fair values cannot be measured reliably. Fair values of those investments have been determined by reference to bid prices quoted in active markets.

The unlisted equity securities issued by private entities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of opinion that their fair values cannot be measured reliably.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 24. OTHER NON-CURRENT ASSETS

	<b>THE GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Club debentures, at cost	–	8,025,895
Antiques and pictures, at cost	–	10,235,986
	–	18,261,881

Upon the application of HKAS 39 on 1st April, 2005, club debentures of HK\$8,025,895 were reclassified to available-for-sale investments.

During the year, antiques and pictures of HK\$10,235,986 were transferred to property, plant and equipment.

## 25. INVENTORIES

	<b>THE GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Raw materials and consumables	<b>73,036,778</b>	59,899,180
Work in progress	<b>18,793,669</b>	14,079,781
Finished goods	<b>93,486,897</b>	84,712,504
	<b>185,317,344</b>	158,691,465

## 26. INVESTMENT HELD FOR TRADING

The amount represents investment in the debt securities listed in Austria with fixed interest rate of 5% and maturity date on 19th May, 2014. The fair value of the held-for-trading investment is determined based on quoted market bid price available on the relevant exchange.

## 27. INVESTMENTS IN SECURITIES

Investments in securities as at 31st March, 2005 were set out below:

	<b>Trading securities</b>	<b>Other securities</b>	<b>THE GROUP Total</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>	<b>HK\$</b>
Listed debt securities			
Overseas	3,929,263	–	3,929,263
Unlisted equity equities	–	4,089,560	4,089,560
	3,929,263	4,089,560	8,018,823
Market value of listed securities	3,929,263	–	3,929,263

Upon the application of HKAS 39 on 1st April, 2005, investment in securities of HK\$3,929,263 and HK\$4,089,560 were reclassified to investments held-for-trading and available-for-sale investments respectively.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 28. INVENTORY OF UNSOLD PROPERTIES

	THE GROUP	
	2006	2005
	HK\$	HK\$
At 1st April	119,418,851	117,367,985
Exchange difference	669,605	1,312,344
Additions	6,193,697	738,522
	<b>126,282,153</b>	<b>119,418,851</b>

The Group's inventory of unsold properties comprises:

	2006	2005
	HK\$	HK\$
Properties held under long leases:		
– in Hong Kong	62,659,142	62,583,352
– in North America	17,819,162	17,180,329
	<b>80,478,304</b>	<b>79,763,681</b>
Properties held under medium-term leases in Hong Kong	45,803,849	39,655,170
	<b>126,282,153</b>	<b>119,418,851</b>

## 29. PROPERTIES UNDER DEVELOPMENT FOR SALE

	THE GROUP	
	2006	2005
	HK\$	HK\$
At 1st April	450,962,653	286,454,125
Exchange difference	14,099,109	19,665,818
Additions	231,700,884	144,842,710
Eliminated on disposal of subsidiaries	(61,679,020)	–
At 31st March	<b>635,083,626</b>	<b>450,962,653</b>

At 31st March, 2006, interest of HK\$37,714,397 (2005: HK\$26,241,062) was capitalised to properties under development for sale.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

### 29. PROPERTIES UNDER DEVELOPMENT FOR SALE (CONTINUED)

The net book value of properties shown above comprises:

	<b>THE GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Land in Hong Kong:		
Long lease	<b>66,940,888</b>	89,467,013
Land outside Hong Kong:		
Freehold	<b>568,142,738</b>	361,495,640
	<b>635,083,626</b>	450,962,653

Included in properties under development for sale an amount of HK\$568,142,738 (2005: HK\$450,962,653) will be realised after twelve months from the balance sheet date.

### 30. BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS

Included in bills receivables is discounted bills receivables with full recourse of HK\$9,000,000 (2005: HK\$6,000,000) which is aged within 30 days.

The Group has a policy of allowing an average credit period of 30 - 60 days to its trade customers.

Included in trade receivables, deposits and prepayments are trade receivables of HK\$99,151,884 (2005: HK\$76,483,376) with an aged analysis as follows:

	<b>THE GROUP</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$</b>	<b>HK\$</b>
Within 30 days	<b>44,843,794</b>	32,590,812
31 to 90 days	<b>34,364,807</b>	31,192,486
91 to 180 days	<b>7,109,470</b>	3,568,800
Over 180 days	<b>12,833,813</b>	9,131,278
	<b>99,151,884</b>	76,483,376

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 31. BANK BALANCES AND CASH

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

## 32. BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES

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

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

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

## 33. AMOUNT DUE TO A RELATED PARTY

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

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

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

## 34. DERIVATIVE FINANCIAL INSTRUMENTS

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 35. OBLIGATIONS UNDER FINANCE LEASES

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 36. BANK OVERDRAFTS AND BORROWINGS

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 37. SHARE CAPITAL

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

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

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

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

## 38. PROVISION FOR LONG SERVICE PAYMENTS

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 38. PROVISION FOR LONG SERVICE PAYMENTS (CONTINUED)

The amount recognised in the balance sheet is as follows:

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

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

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 39. DEFERRED TAXATION

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

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

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

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

## 40. DISPOSAL OF SUBSIDIARIES

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 40. DISPOSAL OF SUBSIDIARIES (CONTINUED)

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

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

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

## 41. ACQUISITION OF SUBSIDIARIES

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 41. ACQUISITION OF SUBSIDIARIES (CONTINUED)

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

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

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

## 42. MAJOR NON-CASH TRANSACTIONS

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 43. CONTINGENT LIABILITIES AND COMMITMENTS

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

## 44. OPERATING LEASE ARRANGEMENTS

### The Group as lessee:

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

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

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

### The Group as lessor:

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 45. RETIREMENT BENEFIT SCHEME

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

## 46. PLEDGE OF ASSETS

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

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

## 47. POST BALANCE SHEET EVENTS

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

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

## 48. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2006

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

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

\* A wholly foreign owned enterprise.

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

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

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

## SCHEDULE OF MAJOR PROPERTIES HELD BY THE GROUP

---

Details of the major properties held by the Group at 31st March, 2006 are as follows:

**(i) Investment property**

Location	Lease term	Group's interest	Type
45th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong	Medium lease	100%	Commercial
All offices on 6th Floor & Car parking spaces No. 28, 29 & 57 on 2nd Floor, Citicorp Centre, No. 18 Whitfield Road, Hong Kong	Medium lease	100%	Commercial

**(ii) Property under development for sale**

Location	Stage of completion	Category of lease	Group's interest	Approximate site area	Use	Estimated completion date
3952, 3972 and 3988 Highway, No. 7 Markham, Ontario L3R 1L3 Toronto, Canada	Planning is in progress	Freehold	100%	10.9 acres	Residential	Not yet determined
82 - 98 Charles Street West, ROW in Sultan Street Laneway, 76 - 80 Charles Street West, 1, 3 Sultan Street and 11 St. Thomas Street, Toronto, Canada	Development is in progress	Freehold	100%	34,793 sq.ft.	Residential	2006
Nos. 202, 204 and 206 Queen's Road, Central, Hong Kong. Inland Lot Nos. 4852 - 4854	Development is in progress	Long lease	100%	1,899 sq.ft.	Commercial and residential	2006

## FINANCIAL SUMMARY

### Results:

	Year ended 31st March,				
	2006 HK\$'000	2005 HK\$'000 (restated)	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Revenue	1,045,506	1,026,973	934,119	693,296	872,339
Cost of sales	(950,112)	(919,974)	(846,059)	(619,833)	(786,253)
Gross profit	95,394	106,999	88,060	73,463	86,086
Other income	3,134	2,844	13,620	23,531	7,147
Increase in fair value/valuation increase (decrease) in investment properties	16,000	27,412	22,500	(22,000)	(29,409)
Distribution costs	(8,446)	(8,562)	(15,373)	(14,081)	(13,641)
Administrative expenses	(67,073)	(63,231)	(61,316)	(60,005)	(77,342)
Finance costs	(14,987)	(6,075)	(5,830)	(6,939)	(13,768)
Gain on disposal of subsidiaries	37,913	—	—	—	—
Share of results of associates	(8)	1,316	—	—	—
Share of results of jointly controlled entities	(2)	(71)	10,100	8,728	(759)
Profit (loss) before taxation	61,925	60,632	51,761	2,697	(41,686)
Income tax expenses	(1,820)	(2,959)	(568)	56	(3,134)
Net profit (loss) for the year	60,105	57,673	51,193	2,753	(44,820)
Earnings (loss) per share	5.5 HKcents	5.2 HKcents	4.5 HKcents	0.2 HKcents	(3.8 HKcents)

### Assets and liabilities:

	At 31st March,				
	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Total assets	1,566,661	1,178,983	908,894	775,197	714,383
Total liabilities	1,140,923	806,463	576,265	483,425	422,252
Total net assets	425,738	372,520	332,629	291,772	292,131

### Notes:

- The summary of assets and liabilities for the Group at 31st March, 2002 has been extracted from the Company's annual report after restatement to reflect the effect of the prior period adjustments on adoption of Statement of Standard Accounting Practice ("SSAP") 34 issued by the HKICPA in respect of provision for long service payments.
- The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1st January, 2005. Information on the changes in accounting policies resulting from the initial application of these new and revised HKFRSs is provided in notes 2 and 3 to the consolidated financial statements. Figures for 2005 and 2006 have been adjusted for these new and revised policies in accordance with the transitional provisions and as disclosed in notes 2 and 3. The figures relating to earlier years have not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the benefits derived from restating these figures would not justify the cost of such restatement.





*One St. Thomas, Toronto, Canada.*  
加拿大多倫多 St. Thomas 壹號府第。





*202 Queen's Road Central, Hong Kong close to completion.*  
香港皇后大道中 202 號接近竣工。