**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in National Electronics Holdings Limited, you should at once hand this circular to the purchaser or transferee or the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.



# NATIONAL ELECTRONICS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 213)**

## MAJOR TRANSACTION
## ACQUISITION OF PROPERTY

17 May 2007

## CONTENTS

# DEFINITIONS

*In this circular, the following expressions have the following meaning unless the context requires otherwise:*

| | |
|---|---|
| "Acquisition" | the acquisition of the Property by the Purchaser pursuant to the Agreement |
| "Agreement" | the preliminary agreement dated 25 April 2007 entered into between the Vendor and the Purchaser for thee sale and purchase of the Property |
| "Company" | National Electronics Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Stock Exchange |
| "Deloitte" | Deloitte Touche Tohmatsu, certified public accountants |
| "Directors" | the directors of the Company |
| "DTZ" | DTZ Debenham Tie Leung Limited, an independent valuer; |
| "Group" | the Company and its subsidiaries |
| "Independent Third Party(ies) " | (an) independent third party(ies) not connected with the Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective associates as defined in the Listing Rules |
| "Latest Practical Date" | 15 May 2007 being the latest practicable date prior to the printing of this circular for ascertaining certain information contain in this circular |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "Property" | No. 59 Shouson Hill Road, Bay Villas, Hong Kong |
| "Purchaser" | Rexel Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company |
| "SFO" | Securities and Future Ordinance (Chapter 571) of the Laws of Hong Kong; |
| "Shareholder(s) " | the shareholders of the Company |
| "Shares" | ordinary share(s) of HK$0.1 each in the share capital of the Company |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Vendor" | Chan Yuen Tung, an Independent Third Party |

# NATIONAL ELECTRONICS HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*
**(Stock Code: 213)**

*Executive Directors*
Mr. Lee Yuen Ching, Jimmy *(Chairman)*
Mr. Lee Yuen Kui, James *(Managing Director)*
Mr. Lee Yuen Wong, Peter
Mr. Lee Yuen Cheor, Edward
Mr. Wai Kwong Yuen, Ricky

*Non-executive Director*
Miss Lee Yuen Yu, Dorathy

*Independent Non-executive Directors*
Dr. Samson Sun, M.B.E., J.P.
Mr. Chan Chak Cheung, William
Mr. Chan Kwok Wai

*Registered Office*
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

*Head Office and Principal Place of Business:*
Suite 3201
Gloucester Tower
The Landmark
11 Pedder Street
Central, Hong Kong

17 May 2007

*To the Shareholders*

Dear Sir or Madam,

**MAJOR TRANSACTION – ACQUISITION OF PROPERTY**

## INTRODUCTION

On 25 April 2007, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Agreement with the Vendor to acquire the Property at a consideration of HK$111,800,000.

The Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders. The Company has obtained a written approval for the Acquisition from a closely allied group of Shareholders who together hold approximately 52.51% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, no general meeting for the Shareholders' approval of the Acquisition will be held. The purpose of this circular is to provide you with further information on the Acquisition.

## AGREEMENT DATED 25 APRIL 2007

### Parties

Vendor: Chan Yuen Tung, an Independent Third Party and independent from the purchaser of the property agreed to be sold as announced on 19 April 2007

Purchaser: Rexel Limited

**Information of the Property**

The Property is located at No. 59 Shouson Hill Road, Bay Villas, Hong Kong. The Property is a residential property which is currently subject to tenancy. The term of the tenancy agreement of the Property is two years from 11 July 2006 to 10 July 2008 and the monthly rental is HK$230,000. The existing tenant is an Independent Third Party.

**Consideration and payment terms**

The consideration for the Acquisition of HK$111,800,000 has been determined after arm`s length negotiations between the parties by reference to the market value of the Property of HK$115,000,000 as at 25 April 2007 provided by an independent valuer, DTZ. Subject to obtaining the relevant banking facilities, the Group currently intends to finance the consideration of the Acquisition of HK$11,180,000 by internal resources of the Group and the remaining balance of HK$100,620,000 by bank financing.

The consideration for the Acquisition shall be payable to the Vendor in cash in the following manner:

(a) an initial deposit in the sum of HK$5,000,000 has been paid by the Purchaser upon signing of the Agreement;

(b) a further deposit of HK$6,180,000 has been paid by the Purchaser on 11 May 2007; and

(c) the remaining balance of HK$100,620,000 shall be paid by the Purchaser upon completion on or before 25 July 2007.

**Completion**

Completion of the sale and purchase of the Property shall take place on or before 25 July 2007.

## REASON FOR THE ACQUISITION

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. The acquisition of the Property allows the Group to enlarge its properties portfolio with high quality assets. The Group will continue to use the Property as an investment property for rental purpose. The Directors consider that the acquisition of the Property is in the interest of the Company and the terms of the Agreement are fair and reasonable as far as the Shareholders are concerned.

## FINANCIAL EFFECT OF THE ACQUISITION

There will not be any impact on the net assets of the Group following the Acquisition. The total assets of the Group will be increased by HK$100,620,000 which will be offset by an increase in bank loan of the same amount following the Acquisition. The Property currently generates a rental income of HK$2,760,000 per year. The Directors consider that the Property will have a positive effect on the Group’s earnings by providing a steady income source.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As stated in the Company's interim report for the six months ended 30 September 2006, the Group's turnover for the six months ended 30 September 2006 was HK$565,002,000 which was increased by 3.8% over the same period last year while the Group's net profit for the six months ended 30 September 2006 was HK$80,930,000 which was 334% of the same period last year. The substantial increase in the Group's net profit was mainly due to the disposal of the Group's 80% interest in its subsidiary, which held the site at 202-206 Queen's Road Central, Hong Kong and two commercial units in Lippo Centre, Queensway, Hong Kong.

The Group intends to continue its strategy of expanding its land bank for development as well as investment properties at desirable location in Hong Kong.

## GENERAL

As the relevant percentage under the size tests (as defined in the Listing Rules) exceed 25% but not exceed 100%, the Acquisition constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is conditional on approval by the Shareholders.

Pursuant to Rule 14.44 of the Listing Rules, Shareholders` approval for the Acquisition may be obtained by written Shareholders' approval in lieu of holding a general meeting if (a) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition; and (b) written Shareholders' approval has been obtained from a closely allied group of Shareholders who together hold more than 50% in nominal value of the issued share capital of the Company giving the right to attend and vote at that general meeting to approve the Acquisition. So far as the Directors are aware after making reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition. The Company has obtained a written approval for the Acquisition from the following closely allied group of Shareholders who together hold approximately 52.51% of the issued share capital of the Company as at the Latest Practicable Date:

(1) Brentford Investments Limited, holding 252,102,979 Shares (representing approximately 24.40% of the issued share capital of the Company), which is wholly owned by a discretionary trust of which each of Messrs James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor, the executive directors of the Company, are named beneficiaries. Mr. Jimmy Lee Yuen Ching is the cousin of Messrs James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor;

(2) Fenmore Investments Limited, holding 253,106,873 Shares (representing approximately 24.50% of the issued share capital of the Company), which is wholly owned by a discretionary trust of which Mr. Jimmy Lee Yuen Ching, an executive director of the Company, and his family members are named beneficiaries. Mr. Jimmy Lee Yuen Ching is the cousin of Messrs James Lee Yuen Kui, Peter Lee Yuen Wong and Edward Lee Yuen Cheor; and

(3) Bursa Investment Limited, holding 32,646,150 Shares (representing approximately 3.16% of the issued share capital of the Company), and Valera Investment Limited, holding 4,621,617 Shares (representing approximately 0.45% of the issued share capital of the Company), which are wholly owned by Mr. Ricky Wai Kwong Yuen, an executive director of the Company.

The above closely allied group of Shareholders has been voting in the same way in all resolutions since they were Shareholders. They have been Shareholders for over 6 years. The most recent major transaction that was approved by these Shareholders by way of written resolution is the disposal of a property announced by the Company on 19 April 2007.

Accordingly, no general meeting for the Shareholders` approval of the Acquisition will be held.

## ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendices to this circular.

By Order of the Board
**National Electronics Holdings Limited**
**Lee Yuen Ching Jimmy**
*Chairman*

## 1. INDEBTEDNESS

At the close of business on 31 March 2007, being the latest practicable date prior to the printing of this circular, the Group had outstanding bank borrowings of approximately HK$986 million (of which HK$825 million was secured by fixed charges on certain of the Group's assets, including properties and short-term bank deposits) representing short and long term loans and trust receipt loans. In addition, the Group had outstanding at that date obligations under hire purchase contracts and finance leases of approximately HK$6 million and contingent liabilities in respect of guarantees given to third parties of approximately HK$0.2 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 31 March 2007 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

## 2. WORKING CAPTIAL

The Directors are of the opinion that, after taking into account the financial resources and banking facilities available to the Group, including its internally generated funds, and assuming that the existing banking facilities of the Group will not be withdrawn, the Group will have sufficient working capital to satisfy its present requirements for the next twelve months from the date of this circular in the absence of unforeseen circumstances.

## 3. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 4. SUMMARY OF FINANCIAL INFORMATION

The following summary of financial information is extracted from the 2006 annual report of the Company.

**Results:**

| | Year ended 31st March, | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | **HK$'000** | HK$'000 (restated) | HK$'000 | HK$'000 | 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/revaluation 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** | 2005 | 2004 | 2003 | 2002 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | 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:*

1. 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 ("SAP") 34 issued by the HKICPA in respect of provision for long service payments.

2. 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.

## 5. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The following audited financial statements of the Group are extracted from the 2006 annual report of the Company.

**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) |
|---|---|---|---|
| Non-current assets | | | |
| 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 |
| | | **360,668,573** | 302,296,010 |
| Current assets | | | |
| 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 |
| | | **1,205,992,402** | 876,686,878 |
| Current liabilities | | | |
| 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 |
| | | **452,865,622** | 351,084,228 |
| Net current assets | | **753,126,780** | 525,602,650 |
| Total assets less current liabilities | | **1,113,795,353** | 827,898,660 |

**CONSOLIDATED BALANCE SHEET**
At 31st March 2006

| | NOTES | 2006 HK$ | 2005 HK$ (restated) |
|---|---|---|---|
| Capital and reserves | | | |
| Share capital | | **107,590,393** | 109,790,393 |
| Reserves | | **318,147,906** | 262,729,691 |
| | | **425,738,299** | 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 |
| | | **688,057,054** | 455,378,576 |
| | | **1,113,795,353** | 827,898,660 |

## 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 recognized 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 recognized 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| | | (restated) |
| **OPERATING ACTIVITIES** | | |
| 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 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | **34,273,999** | 52,710,205 |

**CONSOLIDATED CASH FLOW STATEMENT**
For the year ended 31st March, 2006

| | NOTES | 2006 HK$ | 2005 HK$ (restated) |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| 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) |
| **NET CASH USED IN INVESTING ACTIVITIES** | | **(155,269,460)** | (183,742,949) |
| **FINANCING** | | | |
| 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) |
| **NET CASH GENERATED FROM FINANCING ACTIVITIES** | | **210,960,866** | 129,307,368 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **89,965,405** | (1,725,376) |
| **CASH AND CASH EQUIVALENTS AT 1ST APRIL** | | **28,940,736** | 30,636,278 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | | **(11,552)** | 29,834 |
| **CASH AND CASH EQUIVALENTS AT 31ST MARCH** | | **118,894,589** | 28,940,736 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Bank balances and cash | | **119,157,381** | 28,940,736 |
| Bank overdrafts | | **(262,792)** | - |
| | | **118,894,589** | 28,940,736 |

**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.

**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 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).

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

[1] Effective for annual periods beginning on or after 1st January, 2007.
[2] Effective for annual periods beginning on or after 1st January, 2006.
[3] Effective for annual periods beginning on or after 1st December, 2005.
[4] Effective for annual periods beginning on or after 1st March, 2006.
[5] Effective for annual periods beginning on or after 1st May, 2006.
[6] Effective for annual periods beginning on or after 1st June, 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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) | Retrospective adjustments Effect of HKAS 17 | As at 31st March, 2005 (restated) | Prospective adjustments Effect of HKFRS 3 | Effect of HKAS 39 | As at 1st April, 2005 (restated) |
|---|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **Balance sheet items** | | | | | | |
| 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 | |

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 | Retrospective adjustments Effect of HKAS 17 | As restated |
|---|---|---|---|
| | HK$ | HK$ | HK$ |
| Retained profits | 111,808,846 | (1,677,760) | 110,131,086 |
| Total effects on equity | | (1,677,760) | |

## 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.

### 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.

**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 arsing 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.

**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.

*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.

**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.

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

**Taxation**

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

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

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

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

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

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

**Retirement benefit costs**

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

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

## 6. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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

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

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

**Allowance of doubtful debts**

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

**Allowance of inventories**

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

**Recognition of deferred tax assets**

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

## 7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

**Credit risk**

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

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

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

**Market risk**

*(i) Foreign exchange risk*

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

*(ii) Fair value interest rate risk*

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

*(iii) Cash flow interest rate risk*

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

*(iv) Price risk*

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

**Liquidity risk**

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

## 8. REVENUE

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

## 9. SEGMENT INFORMATION

**Business segments**

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

Principal activities are as follows:

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

Segment information about these businesses is presented below.

**2006**

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

Inter-segment sales are charged at cost.

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

## BALANCE SHEET

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

## OTHER INFORMATION

| | Manufacture of watches HK$ | Trading of watch movements HK$ | Property development HK$ | Property investment HK$ | Unallocated HK$ | Consolidated HK$ |
|---|---|---|---|---|---|---|
| Capital additions | 13,415,495 | 4,934,698 | 231,757,423 | 5,037 | 16,027 | 250,112,653 |
| Depreciation of property, plant and equipment | 7,893,463 | 3,982,498 | 406,081 | 1,667,693 | - | 13,965,762 |
| Amortisation of prepaid | 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) |

**2005**

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

Inter-segment sales are charged at cost.

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

## BALANCE SHEET

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

## OTHER INFORMATION

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

**Geographical segments**

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

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

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

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

**2006**

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

**2005**

| | Carrying amount of total assets<br>HK$ | Additions to investment properties<br>HK$ | Additions to property, plant and equipment<br>HK$ | Additions to prepaid lease payment<br>HK$ | Additions to properties under development for sale<br>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**<br>**HK$** | 2005<br>HK$ |
|---|---|---|
| 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 |
| | **3,134,439** | 2,843,990 |

## 11. FINANCE COSTS

| | **2006**<br>**HK$** | 2005<br>HK$ |
|---|---|---|
| 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) |
| | **14,986,831** | 6,075,492 |

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.

## 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) |
| | **13,723,392** | 16,459,758 |
| 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) |
| | **94,351,499** | 82,445,456 |
| 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 | **4,819,209** | 5,013,825 |

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.

## 13. DIRECTORS' AND EMPLOYEES' REMUNERATION

### (a) Directors' remuneration

| | 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 | Mr. Tommy Tam Hok Lam | Other Director | Total 2006 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ |
| **2006** | | | | | | | | | | | |
| 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 |
| **2005** | | | | | | | | | | | |
| 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| Salaries and other benefits | **5,170,000** | 4,060,000 |

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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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** | - |
| Taxation attributable to the Company and its subsidiaries | **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.

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| Earnings for the purpose of basic earnings per share | **60,104,762** | 57,672,762 |

| | **Number of shares** | |
|---|---|---|
| | **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.

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** | 2005 |
|---|---|---|
| | **HK cents** | 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$ |
| **FAIR VALUE** | |
| 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.

## 18. PROPERTY, PLANT AND EQUIPMENT

| | Buildings in Hong Kong held under long leases HK$ | Buildings in Hong Kong held under medium-term leases HK$ | Freehold land and buildings outside Hong Kong HK$ | Buildings outside Hong Kong held under medium-term leases HK$ | Construction in progress HK$ | Leasehold improvements HK$ | Plant and machinery HK$ | Motor vehicles HK$ | Furniture, fixtures and office equipment HK$ | Antiques and pictures HK$ | Tools and moulds HK$ | Total HK$ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| ***THE GROUP*** | | | | | | | | | | | | |
| **COST** | | | | | | | | | | | | |
| 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 |
| ***DEPRECIATION*** | | | | | | | | | | | | |
| 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 |
| **CARRYING VALUES** | | | | | | | | | | | | |
| 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 |

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 1/3% - 33 1/3% |
| Plant and machinery | 25% |
| Motor vehicles | 25% |
| Furniture, fixtures and office equipment | 14 1/3% - 25% |
| Antiques and pictures | 10% |
| Tools and moulds | 15% - 33 1/3% |

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| Plant and machinery | **2,919,291** | 3,528,429 |
| Motor vehicles | **2,850,125** | 1,871,097 |
| | **5,769,416** | 5,399,526 |

## 19. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises:

| | **2006** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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 |
| | **43,036,497** | 43,661,123 |
| Analysed for reporting purposes as: | | |
| - Non-current asset | **42,411,871** | 43,036,497 |
| - Current asset | **624,626** | 624,626 |
| | **43,036,497** | 43,661,123 |

## 20. DEVELOPMENT COSTS

| | HK$ |
|---|---|
| **THE GROUP** | |
| **COST** | |
| At 1st April, 2004, 31st March, 2005 and 31st March, 2006 | 3,970,683 |
| **AMORTISATION** | |
| At 1st April, 2004 | 3,836,974 |
| Provided for the year | 133,709 |
| At 31st March, 2005 and 31st March, 2006 | 3,970,683 |
| **NET BOOK VALUES** | |
| 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 |
| | **31,564** | 1,316,543 |

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.

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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** | 2005 |
| | **HK$** | HK$ |
| 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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) |

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.

## 24. OTHER NON-CURRENT ASSETS

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$** | HK$ |
| Club debentures | **-** | 8,025,895 |
| Antiques and pictures | **-** | 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

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$** | HK$ |
| Raw materials and consumables | **73,036,778** | 59,899,180 |
| Work in progress | **18,793,669** | 14,079,781 |
| Finished goods | **93,486,897** | 84,712,504 |
| | **185,317,344** | 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:

| | Trading securities 2005 HK$ | Other securities 2005 HK$ | THE GROUP Total 2005 HK$ |
|---|---|---|---|
| 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.

## 28. INVENTORY OF UNSOLD PROPERTIES

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

The Group's inventory of unsold properties comprises:

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

## 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 | **635,083,626** | 450,962,653 |

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

The net book value of properties shown above comprises:

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$** | HK$ |
| Land in Hong Kong: | | |
| Long lease | **66,940,888** | 89,467,013 |
| Land outside Hong Kong: | | |
| Freehold | **568,142,738** | 361,495,640 |
| | **635,083,626** | 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:

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$** | HK$ |
| Within 30 days | **44,843,794** | 32,590,812 |
| 31 to 90 days | **34,364,807** | 31,192,486 |
| 91 to 180 days | **7,109,470** | 3,568,800 |
| Over 180 days | **12,833,813** | 9,131,278 |
| | **99,151,884** | 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.

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

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

## 33. AMOUNT DUE TO A RELATED PARTY

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

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

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

## 34. DERIVATIVE FINANCIAL INSTRUMENTS

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

## 35. OBLIGATIONS UNDER FINANCE LEASES

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$** | HK$ | **HK$** | HK$ |
| 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.

## 36. BANK OVERDRAFTS AND BORROWINGS

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

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

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

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

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

## 37. SHARE CAPITAL

| | Number of shares | | Amount | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | | | **HK$** | HK$ |
| 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$0.1 each | Price per share Highest | Lowest | Aggregate consideration paid |
|---|---|---|---|---|
| | | HK$ | HK$ | 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.

The amount recognised in the balance sheet is as follows:

| | THE GROUP | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$** | HK$ |
| 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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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** | 2005 |
| | **HK$** | HK$ |
| 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 |

## 39. DEFERRED TAXATION

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

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

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

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

## 40. DISPOSAL OF SUBSIDIARIES

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

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

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

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

## 41. ACQUISITION OF SUBSIDIARIES

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

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) |
| | 15,706,138 |
| Discounts on acquisition released to the income statement | (681,524) |
| Total consideration | 15,024,614 |
| Satisfied by: | |
| Cash | 14,586,000 |
| Interests in jointly controlled entities | 438,614 |
| | 15,024,614 |
| Net cash inflow arising on acquisition: | |
| Cash consideration paid | (14,586,000) |
| Cash and cash equivalents acquired | 15,902,424 |
| | 1,316,424 |

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).

## 43. CONTINGENT LIABILITIES AND COMMITMENTS

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

## 44. OPERATING LEASE ARRANGEMENTS

**The Group as lessee:**

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

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

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

**The Group as lessor:**

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

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

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

**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** | 2005 |
|---|---|---|
| | **HK$** | HK$ |
| 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.

## 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 |
|---|---|---|---|
| *Direct subsidiary* | | | |
| 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 |
| *Indirect subsidiary* | | | |
| 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 |

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Principal activities |
|---|---|---|---|
| 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 |
| 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 |

| Name of subsidiary | Place/country of incorporation/ operations | Issued share capital | Principal activities |
|---|---|---|---|
| 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 |
| Unionville evelopment 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, results 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 |

## 6. CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006

The following unaudited financial statements of the Group are extracted from the 2007 interim report of the Company.

**CONDENSED CONSOLIDATED INCOME STATEMENT**
**For the six months ended 30th September 2006**

| | | **Six months ended 30th September** | |
|---|---|---|---|
| | | **2006** | 2005 |
| | | **(unaudited)** | (unaudited) |
| | *Notes* | **HK$'000** | HK$'000 |
| Revenue | 3 | **565,002** | 544,028 |
| Cost of sales | | **(501,375)** | (486,946) |
| Gross profit | | **63,627** | 57,082 |
| Other income | | **10,200** | 5,603 |
| Distribution costs | | **(5,535)** | (3,257) |
| Administrative expenses | | **(39,807)** | (28,207) |
| Finance costs | 4 | **(9,572)** | (5,219) |
| Share of results of associates | | **(37)** | - |
| Gain on disposal of subsidiaries | | **64,595** | - |
| Profit before taxation | 5 | **83,471** | 26,002 |
| Income tax expenses | 6 | **(2,541)** | (1,765) |
| Profit for the period | | **80,930** | 24,237 |
| Earnings per share - Basic | 7 | **7.59 cents** | 2.23 cents |

## CONDENSED CONSOLIDATED BALANCE SHEET
### At 30th September 2006

| | Notes | 30th September, 2006 (unaudited) HK$'000 | 31st March, 2006 (audited) HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | | **306,616** | 166,000 |
| Property, plant and equipment | | **63,828** | 68,951 |
| Prepaid lease payments | | **42,099** | 42,412 |
| Deposits held in trust for sale of property under development | | **32,645** | 69,659 |
| Interests in associates | | **32** | 32 |
| Available-for-sale investments | | **15,620** | 13,615 |
| | | **460,840** | 360,669 |
| **CURRENT ASSETS** | | | |
| Inventories | | **158,026** | 185,317 |
| Prepaid lease payments | | **625** | 625 |
| Investments held for trading | | **3,929** | 3,828 |
| Inventory of unsold properties | | **100,966** | 126,282 |
| Properties under development | | **677,132** | 635,084 |
| Bills receivable | 8 | **12,000** | 10,423 |
| Trade receivables, deposits and prepayments | 8 | **111,364** | 123,365 |
| Amount due from an associate | | **1,818** | 1,144 |
| Tax recoverable | | **1,069** | 767 |
| Bank balances and cash | | **195,105** | 119,157 |
| | | **1,262,034** | 1,205,992 |
| **CURRENT LIABILITIES** | | | |
| Trade payables and accrued expenses | 9 | **101,062** | 147,901 |
| Bills payables | 9 | **77,053** | 75,905 |
| Amount due to associates | | **4,848** | 17 |
| Amount due to a related party | | **5,033** | 7,556 |
| Taxation payable | | **2,121** | 1 |
| Derivative financial instruments | | **1,735** | 1,320 |
| Obligations under finance leases | | **2,779** | 2,883 |
| Bank overdrafts | | **265** | 263 |
| Bank borrowings | 10 | **583,400** | 217,020 |
| | | **778,296** | 452,866 |
| **NET CURRENT ASSETS** | | **483,738** | 753,126 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **944,578** | 1,113,795 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 11 | **105,282** | 107,590 |
| Reserves | | **375,718** | 318,148 |
| | | **481,000** | 425,738 |
| **NON-CURRENT LIABILITIES** | | | |
| Provision for long service payment | | **4,362** | 4,362 |
| Obligations under finance leases | | **3,499** | 4,790 |
| Bank borrowings | 10 | **298,725** | 546,381 |
| Deposits received from sale of properties under development | | **155,689** | 131,131 |
| Deferred taxation | | **1,303** | 1,393 |
| | | **463,578** | 688,057 |
| | | **944,578** | 1,113,795 |

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**For the six months ended 30th September 2006**

| | Six months ended 30th September | |
|---|---|---|
| | **2006** | 2005 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| Total equity at the beginning of the period | **425,738** | 374,410 |
| Repurchase of shares | **(7,286)** | (4,114) |
| Exchange loss arising on translation of overseas operations not recognized in the income statement | **(2,415)** | (1,335) |
| Dividend paid | **(15,967)** | (5,428) |
| Net profit for the period | **80,930** | 24,237 |
| Total equity at the end of period | **481,000** | 387,770 |

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**
**For the six months ended 30th September 2006**

| | Six months ended 30th September | |
|---|---|---|
| | **2006** | 2005 |
| | **(unaudited)** | (unaudited) |
| | **HK$'000** | HK$'000 |
| **OPERATING ACTIVITIES** | | |
| Cash generated from operations | **143,565** | 18,819 |
| Income taxes paid | **(812)** | (275) |
| **NET CASH GENERATED FROM OPERATING ACTIVITIES** | **142,753** | 18,544 |
| **INVESTING ACTIVITIES** | | |
| Additions to investment properties | **(140,616)** | - |
| Additions to properties under development | **(30,267)** | (96,057) |
| Dividends paid | **(15,967)** | (5,428) |
| Purchase of property, plant and equipment | **(3,014)** | (9,625) |
| Purchase of available-for-sale investments | **(2,005)** | - |
| Cash inflow arising from disposal of subsidiaries | **31,964** | - |
| Increase in pledged deposit | **-** | (12,480) |
| Interest received | **2,771** | 241 |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(157,134)** | (123,349) |
| **FINANCING ACTIVITIES** | | |
| New bank borrowings | **118,726** | 146,588 |
| New obligations (repayment) under finance leases | **(1,395)** | 3,015 |
| Increase in amount due to associates | **4,157** | - |
| Decrease in amount due to a related party | **(2,523)** | - |
| Repurchases of own shares | **(7,286)** | (4,114) |
| Interest paid | **(21,353)** | (11,871) |
| **NET CASH FROM FINANCING ACTIVITIES** | **90,326** | 133,618 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **75,945** | 28,813 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **118,895** | 28,941 |
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **194,840** | 57,754 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | **195,105** | 57,754 |
| Bank overdraft | **(265)** | - |
| | **194,840** | 57,754 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2006

### (1) BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with the Hong Kong Accounting Standard (HKAS) 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

### (2) PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31st March 2006, except that the Group adopted all the new standards, amendments to standards and interpretations (new/revised HKFRSs) which are effective for accounting periods commencing on 1st April 2006. The adoption of these new/revised HKFRSs did not have material financial impact to the result of the Group.

### (3) SEGMENT INFORMATION

The following is an analysis of the Group's revenue and operating profit by principal activity and geographical market for the six months ended 30th September, 2006 and 2005:

**Business Segments**

**2006**

| | **Manufacture, assembly and sale of electronic watches** | **Trading of watch movements and watch parts** | **Property development and investment** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **REVENUE** | | | | | |
| External sales | 188,595 | 332,828 | 43,579 | - | 565,002 |
| Inter-segment sales | - | 2,070 | - | (2,070) | - |
| Total revenue | 188,595 | 334,898 | 43,579 | (2,070) | 565,002 |
| **SEGMENT RESULT** | 790 | 10,064 | 74,906 | | 85,760 |
| Interest income | | | | | 2,771 |
| Unallocated other income (corporate expenses) | | | | | 4,549 |
| Finance costs | | | | | (9,572) |
| Share of results of associates | | | (37) | | (37) |
| Profit before taxation | | | | | 83,471 |
| Income tax expenses | | | | | (2,541) |
| Profit for the period | | | | | 80,930 |

**2005**

| | Manufacture, assembly and sale of electronic watches HK$'000 | Trading of watch movements and watch parts HK$'000 | Property development and investment HK$'000 | Eliminations HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| External sales | 236,931 | 304,034 | 3,063 | - | 544,028 |
| Inter-segment sales | - | 7,740 | - | (7,740) | - |
| Total revenue | 236,931 | 311,774 | 3,063 | (7,740) | 544,028 |
| **SEGMENT RESULT** | 26,685 | 2,912 | 1,870 | | 31,467 |
| Interest income | | | | | 241 |
| Unallocated other income (corporate expenses) | | | | | (487) |
| Finance costs | | | | | (5,219) |
| Share of results of associates | | | - | | - |
| Profit before taxation | | | | | 26,002 |
| Income tax expenses | | | | | (1,765) |
| Profit for the period | | | | | 24,237 |

**Geographical Segments**

| | Sales revenue by geographical market | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Hong Kong and other regions in the People's Republic of China | **380,953** | 308,110 |
| North America | **112,290** | 126,120 |
| Europe | **70,845** | 107,684 |
| Others | **914** | 2,114 |
| | **565,002** | 544,028 |

## (4) FINANCE COSTS

| | Six months ended 30th September | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest on borrowings: | | |
| Bank borrowings | **21,135** | 11,680 |
| Obligations under finance leases | **218** | 191 |
| Total borrowing costs | **21,353** | 11,871 |
| Less: Amount capitalized to property development projects | **(11,781)** | (6,652) |
| | **9,572** | 5,219 |

## (5) PROFIT BEFORE TAXATION

| | Six months ended 30th September | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Profit from operations has been arrived at after charging: | | |
| Amortization of land lease payments | **313** | - |
| Depreciation: | | |
| Owned fixed assets | **6,869** | 5,403 |
| Assets held under finance leases | **1,377** | 926 |

## (6) TAXATION

| | Six months ended 30th September | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Current profits tax | | |
| Hong Kong | **1,901** | 1,762 |
| Overseas tax | **-** | 3 |
| | **1,901** | 1,765 |
| Deferred taxation | **640** | - |
| | **2,541** | 1,765 |

Hong Kong profits tax has been provided for at 17.5% (2005 - 17.5%) on the estimated assessable profit for the six months ended 30th September, 2006 for each of the companies comprising the Group in Hong Kong. Profits tax for the profits of foreign subsidiaries of the Group has been provided for in accordance with the relevant local laws.

**(7) EARNINGS PER SHARE**

Earnings per share for the six months ended 30th September, 2006 is based on the profit attributable to shareholders of HK$80,930,000 (2005 - HK$24,237,000) and on the weighted average number of 1,066,604,748 shares (2005 - 1,088,958,256 shares) in issue during the six months ended 30th September, 2006.

**(8) BILLS RECEIVABLES, TRADE RECEIVABLES, DEPOSITS AND PREPAYMENTS**

An aged analysis of trade receivables at the balance sheet date is as follows:

| | **At 30th September, 2006 HK$'000** | At 31st March, 2006 HK$'000 |
|---|---|---|
| Within 30 days | **50,838** | 44,844 |
| 31 to 90 days | **27,805** | 34,365 |
| 91 to 180 days | **648** | 7,109 |
| Over 180 days | **8,496** | 12,834 |
| | **87,787** | 99,152 |

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

**(9) BILLS PAYABLES, TRADE PAYABLES AND ACCRUED EXPENSES**

At the balance sheet date, the balance included bills and trade payables of HK$120,065,000 (31st March, 2006: HK$138,180,000) with aged analysis as follows:

| | **At 30th September, 2006 HK$'000** | At 31st March, 2006 HK$'000 |
|---|---|---|
| Within 30 days | **81,855** | 77,013 |
| 31 to 90 days | **30,632** | 27,460 |
| 91 to 180 days | **7,569** | 33,562 |
| Over 180 days | **9** | 145 |
| | **120,065** | 138,180 |

## (10) BANK BORROWINGS

| | At 30th September, 2006 HK$'000 | At 31st March, 2006 HK$'000 |
|---|---|---|
| Secured bank loan | **767,344** | 649,692 |
| Unsecured bank loan | **115,046** | 113,972 |
| | **882,390** | 763,664 |
| Less: Amount due within one year shown under current liabilities | **(583,665)** | (217,283) |
| Amount due after one year | **298,725** | 546,381 |

## (11) SHARE CAPITAL

| | Number of shares | Share Capital HK$ |
|---|---|---|
| Ordinary shares of HK$0.1 each | | |
| Authorised: | | |
| At 1st April, 2006 and 30th September, 2006 | 1,500,000,000 | 150,000,000 |
| Issued and fully paid: | | |
| At 1st April, 2006 | 1,075,903,928 | 107,590,393 |
| Cancelled on repurchase of shares | (23,088,000) | (2,308,800) |
| At 30th September, 2006 | 1,052,815,928 | 105,281,593 |

## (12) CONTINGENT LIABILITIES AND COMMITMENTS

| | At 30th September, 2006 HK$'000 | At 31st March, 2006 HK$'000 |
|---|---|---|
| Contingent liabilities: | | |
| Other guarantees | **247** | 247 |

## 1. PROFIT AND LOSS STATEMENT OF THE PROPERTY

The profit and loss statement of the Property for the three financial years ended 31 March 2007 set out below has been prepared by the Directors based on the existing tenancy agreement of the Property ("Tenancy Agreement") provided by the Vendor as the Directors are unable to gain access to the underlying books and records of the Vendor in relation to the Property. Accordingly, it may not give a true picture of the performance of the Property actually occurred during each of the three financial years ended 31 March 2007

| | For the year ended 31 March, | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| | *HK$* | *HK$* | *HK$* |
| Rental income | 1,995,806 | - | - |

*Notes:*

1. The rental income for each of the three financial years ended 31 March 2007 is derived from the Tenancy Agreement. After making reasonable enquiries, the Directors are told that the Tenancy Agreement is the only tenancy agreement which the Vendor has entered into for the Property.

2. Based on the Tenancy Agreement, government rent and rates, gas, water, electricity and air-conditioning charges are borne by the tenant of the Property.

3. Save for the Tenancy Agreement, the Directors do not have access to other information about the Property such as the Vendor's financing agreement or tax arrangement in relation to the Property. Due to the limited information available to them, the Directors are unable to ascertain the other expenses (if any) in relation to the Property. Accordingly, no other expenses such as property management fees, finance costs and provision for Hong Kong Profits Tax were included in the above profit and loss statement.

## 2. VALUATION OF THE PROPERTY

No valuation of the Property at the end of each of the three years ended 31 March 2007 were disclosed herein as the Directors were unable to obtain any valuation reports from the Vendor.

## 1. UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

The unaudited pro forma statement of assets and liabilities of the Group as set out below has been prepared to illustrate the effect of the Acquisition to the financial position of the Group based on the unaudited consolidated balance sheet of the Company as at 30 September 2006 after making certain pro forma adjustments in respect of the Acquisition.

The unaudited pro forma statement of assets and liabilities of the Group is prepared on the basis as if the Acquisition had been completed as at 30 September 2006.

The unaudited pro forma statement of assets and liabilities of the Group has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group as at 30 September 2006 or following the Acquisition.

| | **Unaudited statement of assets and liabilities of the Group as at 30 September 2006** | **Adjustments for the Acquisition** | | **Unaudited pro forma statement of assets and liabilities of the Group after the Acquisition** |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | |
| Non-current assets | | | | |
| Investment properties | 306,616 | 117,261 | (a) | 423,877 |
| Property, plant and equipment | 63,828 | - | | 63,828 |
| Prepaid lease payments | 42,099 | - | | 42,099 |
| Deposits held in trust for sale of property under development | 32,645 | - | | 32,645 |
| Interest in associates | 32 | - | | 32 |
| Available-for-sale investments | 15,620 | - | | 15,620 |
| | 460,840 | 117,261 | | 578,101 |
| Current assets | | | | |
| Inventories | 158,026 | - | | 158,026 |
| Prepaid lease payments | 625 | - | | 625 |
| Investments held for trading | 3,929 | - | | 3,929 |
| Inventory of unsold properties | 100,966 | - | | 100,966 |
| Properties under development | 677,132 | - | | 677,132 |
| Bills receivable | 12,000 | - | | 12,000 |
| Trade receivables, deposits and prepayments | 111,364 | - | | 111,364 |
| Amount due from an associate | 1,818 | - | | 1,818 |
| Tax recoverable | 1,069 | - | | 1,069 |
| Bank balances and cash | 195,105 | (116,571) | (b),(c) | 78,534 |
| | 1,262,034 | (116,571) | | 1,145,463 |

| | Unaudited statement of assets and liabilities of the Group as at 30 September 2006 | Adjustments for the Acquisition | | Unaudited pro forma statement of assets and liabilities of the Group after the Acquisition |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | | *HK$'000* |
| | *(Note 1)* | *(Note 2)* | | |
| Current liabilities | | | | |
| Trade payables and accrued expenses | 101,062 | 690 | (c) | 101,752 |
| Bills payables | 77,053 | - | | 77,053 |
| Amount due to associates | 4,848 | - | | 4,848 |
| Amount due to a related party | 5,033 | - | | 5,033 |
| Taxation payable | 2,121 | - | | 2,121 |
| Derivative financial instruments | 1,735 | - | | 1,735 |
| Obligations under finance leases | 2,779 | - | | 2,779 |
| Bank overdrafts | 265 | - | | 265 |
| Bank borrowings | 583,400 | - | | 583,400 |
| | 778,296 | 690 | | 778,986 |
| Non-current liabilities | | | | |
| Provision for long service payment | 4,362 | - | | 4,362 |
| Obligations under finance leases | 3,499 | - | | 3,499 |
| Bank borrowings | 298,725 | - | | 298,725 |
| Deposits received from sale of properties under development | 155,689 | - | | 155,689 |
| Deferred taxation | 1,303 | - | | 1,303 |
| | 463,578 | - | | 463,578 |
| Total assets less total liabilities | 481,000 | - | | 481,000 |

*Notes:*

1. Being the unaudited statement of assets and liabilities of the Group as at 30 September 2006. Details of which were disclosed in the interim report of the Company for the six months ended 30 September 2006.

2. Being the adjustments for the Acquisition, including adjustments on :

a. The total costs of the Acquisition as follows:

| | *HK$* |
|---|---|
| Consideration for the Acquisition | 111,800,000 |
| Stamp duty wholly borne by the Purchaser | 4,193,000 |
| Purchase commission payable to the agent | 1,118,000 |
| Professional fees in connection with the Acquisition | 150,000 |
| | 117,261,000 |

b. The total costs of the Acquisition, amounting to HK$117,261,000 is being settled through internal resources of the Group.

c. The Vendor shall transfer to the Purchaser the rental deposit, amounting to HK$690,000 paid by the tenant to the Vendor pursuant to a tenancy agreement.

## 2. LETTER FROM THE REPORTING ACCOUNTANTS OF THE COMPANY

*The following is the text of the report on the unaudited pro forma statement of assets and liabilities of the Group received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong for the purpose of incorporation in this circular.*

**Deloitte.**
**德勤**

### ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE GROUP

### TO THE DIRECTORS OF NATIONAL ELECTRONICS HOLDINGS LIMITED

We report on the unaudited pro forma financial information of National Electronics Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the acquisition of a property known as "Bay Villas", located at No. 59 Shouson Hill Road, Hong Kong (the "Acquisition") might have affected the financial information presented, for inclusion in Section 1 of Appendix III to the circular dated 17 May 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out on pages 75 to 77 to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 September 2006, or any future date.

**Opinion**

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group so far as such policies relate to the Acquisition; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong, 17 May 2007

*The following is the text of the letter and the valuation certificate in relation to the Property received from DTZ, an independent property valuer, prepared for the purpose for incorporation in this circular.*

17 May 2007

The Directors
National Electronics Holdings Limited
Room 3201, Gloucester Tower, The Landmark
11 Pedder Street
Central
Hong Kong

Dear Sirs,

**RE: NO. 59 SHOUSON HILL ROAD, BAY VILLAS, NOS. 57-71 SHOUSON HILL ROAD, ISLAND SOUTH, HONG KONG.**

**Instructions, Purpose & Date of Valuation**

We refer to your instructions for us to carry out a market valuation of the captioned property. We confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 25th April, 2007 (the "date of valuation"). We are acting as an independent party, and not as an agent of the lender or any other parties and our valuation is prepared impartially without bias to any of the parties concerned.

**Basis of Valuation**

Our valuation of the property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

**Valuation Assumptions**

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

**Method of Valuation** We have valued the property by direct comparison approach assuming sale of the property in its existing state with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant market.

**Source of Information** We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approval, statutory notices, easements, tenure, occupancy, lettings, rentals, floor areas and all other relevant matters. Dimensions and measurements are based on the copies of documents provided to us and are therefore only approximations. No on-site measurement has been carried out.

**Title Investigation** We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to ascertain any amendment. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

**Site Inspection** We have inspected the exterior of the property. No structural survey has been made and in the course of our inspection, we did not note any serious defects. We are not able to report whether the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services.

Neither the whole nor any part of this report or any reference thereto may be included in any document, circular or statement without our prior written approval of the form and context in which it will appear.

Finally and in accordance with our standard practice, we must state that this report is for the use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

Our valuation certificate is hereby enclosed for your attention.

Yours faithfully,
for and on behalf of
**DTZ Debenham Tie Leung Limited**
**Peter Lee**
*Registered Professional Surveyor*
*M.H.K.I.S., M.R.I.C.S.*
*Director*

## VALUATION CERTIFICATE

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 25th April, 2007 |
|---|---|---|---|
| No. 59 Shouson Hill Road, Bay Villas, Nos. 57-71 Shouson Hill Road, Island South, Hong Kong.<br><br>1958/21461st shares of and in Section A of Rural Building Lot No. 365. | Bay Villas comprises 2 detached houses and 6 semi-detached houses with car park and private garden provided in each house. Construction is of reinforced concrete with granite and spray paint external elevations. It was completed in 2003.<br><br>The property comprises one of two detached houses.<br><br>The property has a saleable area of approximately 3,935 sq.ft. (365.57 sq.m.) together with a garden terrace of approximately 627 sq.ft. (58.25 sq.m.).<br><br>The property is held from the Government for a term of 75 years from 9th January, 1924 and renewed for a further term of 75 years. The current annual Government Rent payable for the whole lot is HK$102,600. | The property was leased at monthly rent of HK$230,000 for a term expiring on 10th July, 2008. | HK$115,000,000 |

*Notes:-*

(1) The registered owner of the property is Chan Yuen Tung.

(2) The property is subject to a Mortgage to secure general banking facilities in favour of Bank of China (Hong Kong) Limited vide Memorial No. UB9155145 dated 18th February, 2004.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

*Long positions in Shares*

| Name of Director | Personal interests | Corporate interests | Other interests | Total interests | Percentage of the issued share capital of the Company |
|---|---|---|---|---|---|
| Mr. Jimmy Lee Yuen Ching | - | - | 253,106,873 *(note a)* | 253,106,873 | 24.50% |
| Mr. James Lee Yuen Kui | 5,940 | - | 252,102,979 *(note b)* | 252,108,919 | 24.40% |
| Mr. Peter Lee Yuen Wong | - | - | 252,102,979 *(note b)* | 252,102,979 | 24.40% |
| Mr. Edward Lee Yuen Cheor | - | - | 252,102,979 *(note b)* | 252,102,979 | 24.40% |
| Mr. Ricky Wai Kwong Yuen | - | 37,267,767 *(note d)* | - | 37,267,767 | 3.61% |
| Dr. Samson Sun, M.B.E., J.P. | - | 4,988,968 *(note c)* | - | 4,988,968 | 0.48% |

*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 YuenWong 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.

(d) The 37,267,767 Shares are held by two companies controlled by Mr. Ricky Wai Kwong Yuen.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares and debentures of the Company or any associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors had any interest, either direct or indirect, in any assets which have been, since 31 March 2006 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Group.

**(b) Interests of Shareholders**

As at the Latest Practicable Date, so far as is known to the Directors and the chief executives of the Company, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## 3. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any member of the Group which will not expire or may not be terminated by the Company within one year without payment of compensation (other than statutory compensation).

## 4. LITIGATION

As at the Latest Practicable Date, there was no litigation or claims of material importance known to the Directors pending or threatened against any member of the Group.

## 5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or any of their associates (as such term is defined in the Listing Rules) had an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## 6. EXPERT AND CONSENT

The following is the qualifications of the experts who have been named in this circular or have given opinions, letters or advices contained in this circular:

| Name | Qualification |
|---|---|
| Deloitte | Certified public accountants |
| DTZ | Professional surveyors and valuers |

As at the Latest Practicable Date, each of Deloitte and DTZ do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. Each of Deloitte and DTZ has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report and/or references to its name in the form and context in which they are included.

As at the Latest Practicable Date, each of Deloitte and DTZ did not have any direct or indirect interests in any assets which have been, since 31 March 2006 (the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

## 7. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Group within the two years immediately preceding the date of this circular and are or may be material:

1. a disposal agreement dated 6 April 2006 entered into between National Hotel Holdings Limited ("NHHL"), a wholly owned subsidiary of the Company and CPI Asia National 1 Limited ("CPI") in relation to the sale of 80% of the issued share capital of Roebuck Investments Limited ("Roebuck") at a consideration of HK$31,963,714 (as disclosed in the Company's circular dated 2 May 2006);

2. an acquisition agreement dated 25 April 2006 entered into between Panteria International Limited, a wholly owned subsidiary of the Company, and Man Ka Limited in relation to an acquisition of a property located at No. 21 Whitfield Road, North Point, Hong Kong at a consideration of HK$78,000,000 (as disclosed in the Company's circular dated 8 June 2006)

3. a shareholders' deed dated 8 May 2006 entered into between NHHL, CPI, Roebuck and National Properties Holdings Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Company (as guarantor) to regulate the relationship between the parties and provide for the management and the conduct of the business or Roebuck (as disclosed in the circular dated 2 May 2006);

4. a disposal agreement dated 29 May 2006 entered into between Samford Limited, a wholly owned subsidiary of the Company, and Roxy Property Investment Co., Ltd. in relation to a sale of a property located at Room 2802 and Room 2803, 28th Floor, Tower One, Lippo Centre, 89 Queensway, Hong Kong at a consideration of HK$39,960,000 (as disclosed in the Company's circular dated 12 June 2006);

5. an acquisition agreement dated 24 June 2006 entered into between Joyful Asia Group Limited, a wholly owned subsidiary of the Company, and Worldround Developments Limited in relation to an acquisition of a property named King Hung Commercial Building located at No.

194 – 196 Queen's Road Central, Hong Kong at a consideration of HK$56,500,000 (as disclosed in the Company's circular dated 4 July 2006);

6. an acquisition agreement dated 12 February 2007 entered into between Batilone Limited, a wholly owned subsidiary of the Company, and Luckico Development Limited in relation to an acquisition of a property located at No. 87 and 89, Jervois Street, Hong Kong at a consideration of HK$90,000,000 (as disclosed in the Company's circular dated 2 March 2007);

7 a disposal agreement dated 18 April 2007 entered into between Cinic Limited, a wholly owned subsidiary of the Company, and Chalco Hongkong Limited in relation to a sale of a property located at 45th floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong at a consideration of HK$136,000,000 (as disclosed in the Company's circular dated 10 May 2007);

8 the Agreement;

9 an acquisition agreement dated 9 May 2007 entered into between Champian Limited, a wholly owned subsidiary of the Company, and Fairgold Company Limited in relation to an acquisition of a property located at 22nd floor (including the roof thereof) and car parking space no. 9 on level 1, Century Tower II, Nos. 1 and 1A Tregunter Path, Hong Kong at a consideration of HK$57,500,000 (as disclosed in the Company's announcement dated 11 May 2007); and

10 an acquisition agreement dated 9 May 2007 entered into between Asiatic Limited, a wholly owned subsidiary of the Company, and Eternal Supreme Limited in relation to an acquisition of a property located at No. 101 and 103 Bonham Strand and No. 127 Wing Lok Street, Hong Kong at a consideration of HK$88,000,000 (as disclosed in the Company's announcement dated 11 May 2007).

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's principal place of business at Suite 3201, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong during normal business on any weekday (except public holidays) from the date of this circular up to and including 31 May 2007:

(a) the memorandum and Bye-laws of the Company;

(b) the annual reports of the Company of each of the two financial years immediately preceding the issue of this circular;

(c) the report from Deloitte referred to in Appendix II to this circular;

(d) the letter and valuation certificate from DTZ referred to in Appendix IV to this circular;

(e) the material contracts referred to in this appendix; and

(f) the Company's circulars dated 2 May 2006, 8 June 2006, 12 June 2006, 4 July 2006, 2 March 2007 and 10 May 2007.

## 9. GENERAL

(i) The qualified accountant and company secretary of the Company is Ms. Yue Man Ying, who is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Ms. Yue holds a Master Degree in Business Administration.

(ii) The branch registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(iii) The English version of this circular shall prevail over the Chinese text.