



Peace Mark (Holdings) Limited

宜進利(集團)有限公司

(Stock Code 股份編號: 0304)

06

Annual Report  
年報



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## ABOUT PEACE MARK (HOLDINGS) LIMITED

An international leading watch company headquartered in Hong Kong, Peace Mark has expanded its business worldwide over the years since its founding in 1983.

In China, Peace Mark operates an *extensive fashion watch retail network TimeZone* and the joint-venture Peace Mark Tourneau to lead its distribution and retailing business with over 70 mid-range and luxury watch brands in the Greater China Region.

With *strong design and manufacture capabilities*, the Group also manufactures and distributes timepieces to markets including the USA, China, Europe and other Asian countries. Its advanced production facilities are located in Hong Kong, Shenzhen, Guangzhou and Shanghai, China, and Bienne, Switzerland.

Peace Mark is employing more than 4,000 staff in China and overseas.

The Group has been listed on the Stock Exchange of Hong Kong since 1993 under the stock code 304. It is a constituent stock in the MSCI (Morgan Stanley Capital International) Hong Kong Small Cap Index Series.

## BUSINESS MODEL

DESIGN AND PRODUCT  
ENGINEERING

MECHANICAL MOVEMENT  
MANUFACTURING

COMPONENTS  
MANUFACTURING

ELECTROPLATING

ASSEMBLY

LOGISTIC SUPPORT

RETAIL &  
DISTRIBUTION

TECHNICAL TRAINING  
CENTRE

AFTER-SALES AND REPAIR  
SERVICES

## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### EXECUTIVE DIRECTORS

Mr. Chau Cham Wong, Patrick (Chairman)  
 Mr. Leung Yung (Chief Executive Officer)  
 Mr. Tsang Kwong Chiu, Kevin, *FCCA, HKICPA, MBA, MSC*  
 Mr. Man Kwok Keung  
 Mr. Cheng Kwan Ling

#### INDEPENDENT NON-EXECUTIVE

##### DIRECTORS

Ms. Susan So  
 Mr. Kwok Ping Ki, Albert  
 Mr. Tang Yat Kan  
 Mr. Wong Yee Sui, Andrew, *CFA*  
 Mr. Mak Siu Wing, Clifford

### COMPANY SECRETARY

Ms. Fong Ho Yan, *FCCA, HKICPA*

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

#### Hong Kong Office

Unit 3, 12th Floor  
 Cheung Fung Industrial Building  
 23-39 Pak Tin Par Street  
 Tsuen Wan,  
 Hong Kong

### OTHER OFFICES

#### US Office

140-58th Street Suite 6C  
 Brooklyn  
 New York 11220

#### Swiss Office

Route de Reuchenette 19  
 2502 Bienne  
 Switzerland

#### French Office

1 rue Royale-438 Bureaux de la Colline  
 92213 Saint-Cloud  
 France

### PRODUCTION FACILITIES

#### Hong Kong

Unit 3, 12th Floor  
 Cheung Fung Industrial Building  
 23-39 Pak Tin Par Street  
 Tsuen Wan,  
 Hong Kong

#### China

- 107 Shui Ku Lu
- Fenghuang Gang
- Xixiang, Baoan
- Shenzhen, PRC
- Block 9 & Block 12
- Tong Fu Cun Gong Ye Yuan
- Da Lang Cun
- Long Hua Zhen
- Baoan
- Shenzhen, PRC
- 32 Wudong Road
- Yangpu District
- Shanghai, PRC

- Third Gong Ye Qu
- Bitou Estate
- Songgang Baoan
- Shenzhen, PRC

- 38 Shi Ma Lu Duan
- Jiu Guang Hua Lu
- Bai Yun Qu
- Guangzhou, PRC

#### Swiss

- Route de Reuchenette 19
- 2502 Bienne
- Switzerland

### DISTRIBUTION OFFICES

#### US

- 389 5th Avenue, Suite 302, New York, N.Y. 10016

#### Hong Kong

- Unit 3, 7th Floor
- Cheung Fung Industrial Building
- 23-39 Pak Tin Par Street
- Tsuen Wan, Hong Kong

#### China

- 6th Floor, Integrated Building
- China Construction Second Division
- Shenzhen First Company
- Jing Er Road
- Luo Hu District
- Shenzhen, PRC

- Room 603
- Jinhui Building
- 123 Jiefangnan Road, Yuexiu District,
- Guangzhou, China

- Room 1501
- 15A Shuguang Building
- 189 Puan Road
- Shanghai, PRC

- Unit 11, 12/F, Metro Tower
- No. 30 Tian Yao Qiao Road
- Xu Hui District
- Shanghai, PRC

#### Taiwan

- 3/F., No. 317
- Sec 3 Ho-Ping E. Road
- Taipei
- Taiwan, ROC

#### Panama

- Apartado 2034
- Zona Libre de Colon
- Republic of Panama

#### Germany

- Milus Deutschland GmbH
- Zahringerallee 25
- DE 75177 Pforzheim
- Schlop Street 23, D-82031 Grunwald
- Postfach 1341

### WEBSITE

- <http://www.peacemark.com>

### REGISTERED OFFICE

- Clarendon House, Church Street
- Hamilton HM 11
- Bermuda

### STOCK INFORMATION

- Listed on the main board of Stock Exchange of Hong Kong Limited

### STOCK CODE

- SEHK : 304
- Bloomberg : 304 HK
- Reuters : 304.HK

### INVESTOR RELATIONS

- Corporate Communications Department - general
- Accounts and Finance Department - financials
- Unit 3, 12th Floor, Cheung Fung Industrial Building
- 23-39 Pak Tin Par Street
- Tsuen Wan,
- Hong Kong
- Email: [ir@peacemark.com](mailto:ir@peacemark.com)

### PRINCIPAL BANKERS

- ABN-AMRO Bank N.V.
- Agricultural Bank of China
- Bank of China
- BNP Paribas
- China Construction Bank
- ING Bank N.V.
- Hang Seng Bank
- HSH Nordbank AG
- HVB AG
- Merrill Lynch
- SMBC

### AUDITORS

- Chu and Chu
- A member of AGN International Suite 2302-7, ING Tower
- 308 Des Voeux Road Central
- Hong Kong

### LEGAL ADVISORS

- Simmons & Simmons
- 35th Floor, Cheung Kong Center
- 2 Queen's Road Central
- Hong Kong

- Gallant Y.T. Ho & Co
- 5th Floor, Jardine House
- 1 Connaught Place
- Hong Kong

### SHARE REGISTRARS AND TRANSFER OFFICES

#### In Hong Kong:

- Secretaries Limited
- 26/F, Tesbury Centre,
- 28 Queen's Road East
- Wanchai, Hong Kong

#### In Bermuda:

- The Bank of Bermuda Limited
- Bank of Bermuda Building
- 6 Front Street
- Hamilton HM 11
- Bermuda

## BRANDS

# TOURNEAU

SINCE 1900



## BRANDS



## BRANDS

**EEC TimeZone**  
EXCLUSIVE JEWELLERY COLLECTION

NINA RICCI

GIVENCHY

**EEC TimeZone**  
EXCLUSIVE JEWELLERY COLLECTION

**EEC TimeZone**  
EXCLUSIVE JEWELLERY COLLECTION

KENZO



## BRANDS



## MAJOR EVENTS

1 2 3

Hong Kong Watch Brandname Show (1)

37th Inauguration Ceremony of the Board of Directors 2005-2006 (2)

Milus Jewellery Launch (3)



# 2005



4 5 6

Bretling Show "The Secret of a Chronograph" (4)

Ulysse Nardin Show "Enamel Watch Exhibition 2005" (5)

Parmigiani Show "Return to the Ancients" (6)

7 8 9 10

The Hong Kong Mould and Die Technology Association Inauguration Ceremony (7)

Chronoswiss Show "Signs of the Times" (8)

Hong Kong Brands and Products Expo (9)

Hong Kong Watch Brandname Show (10)





Hong Kong



Mar 06

Shanghai



Mar 06

Basel



Mar 06

Basel

11 12 13 14

EECTime Zone Grand Opening at Central (11)

The Mondani Collection of Rolex Wristwatches Auction Preview (12)

Peace Mark Tourneau Signing Ceremony (13)

Basel World 2006 "The Watch and Jewellery Show" (14)

15 16

Milus Evening Event (15)

Corum Show "The Art of Painting" (16)



Mar 06

Basel



Apr 06

Shanghai

2006



Apr 06

Shenzhen



May 06

Ningbo



Jun-Jul 06

Shanghai

17 18 19

17th China Watch Jewellery & Gift Fair (17)

Longines Flagship Shop Grand Opening (18)

Gucci Show "Watch Collection 2006" (19)



## Sales Agents & Distribution Offices

### *The Americas*

Canada  
Chile  
Mexico  
Panama  
Peru  
United States

### *Europe*

France  
Germany  
Russia  
Switzerland  
United Kingdom

### *Middle East*

Dubai  
Kuwait  
Oman  
Saudi Arabia

### *Asia Pacific*

Australia  
China  
Indonesia  
Japan  
Korea  
Malaysia

Philippines  
Singapore  
Taiwan  
Thailand  
Vietnam

### *Production Facilities*

Bienne, Switzerland  
Guangzhou, China  
Hong Kong, China  
Longhua, China  
Shanghai, China  
Songgang, China  
Xixiang, China



## Distribution Office

|           |                |          |          |
|-----------|----------------|----------|----------|
| Beijing   | Guangzhou      | Ningbo   | Sichuan  |
| Changchun | Hebei          | Shannxi  | Tianjin  |
| Chengdu   | Heilongjiang   | Shandong | Wuhan    |
| Chongqing | Hubei          | Shanghai | Xiamen   |
| Fujian    | Hunan          | Shanxi   | Xinjiang |
| Guangdong | Inner Mongolia | Shenyang | Yunan    |
| Guangxi   | Liaoning       | Shenzhen |          |

## CHAIRMAN'S STATEMENT



Mr. Chau Cham Wong, Patrick  
**CHAIRMAN**

## OUR MISSION

*“To make Peace Mark the most admired international timepiece company with core competence in manufacture, distribution and retailing.”*

*Dear Shareholders,*

Peace Mark continued to grow strongly during 2006, with excellent performance from all core businesses.

The Group turnover was up 15.7% while net profit was increased by 61.9%. The Group as a whole saw gross profit up 29.4% and operating profit up 57.3%.

This year we are pleased to report that all businesses were delivering growth. Organic growth has been coming through strongly. Strong turnover growth and margin expansion were attributed to the strong growth in the China business and successful integration of the US distribution business.

Peace Mark had been very focused in developing the watch business while broadening its revenue base. **Distribution and Retail businesses were the growth drivers while the manufacturing provided stable and predictable cash inflows.** Right strategies with well-structured execution plans ensure the continuous delivery of encouraging operational and financial results.

The strategy of expanding downstream business was proven to be successful. In China, the Group adopted a pragmatic approach to marketing.

Since the implementation of CEPA, the Group has spent more than two and half years' time to establish its nationwide network in China. At the balance sheet date, the network for the middle-end market already covered over 650 point-of-sales for more 70 brands. Strategically, the Group is also building the networks in Hong Kong and Taiwan. Currently, we have 15 and 10 point of sales in Hong Kong and Taiwan, respectively. Approximately half of the brands we were distributing and retailing in China were of exclusive basis. The Group has been ready to capitalize on the ever-increasing fashion awareness of the Chinese market and mainland consumers' increasing disposal income. The Group will continue to expand the network by leveraging on its highly scalable infrastructure.

Following the success of the middle-end market, we also started to expand into the luxury watch market. With the formation of the Peace Mark Tourneau joint venture, the Group was well positioned to tap the growth in the luxury watch market and has devised a business plan for the coming 5 years with a view to becoming a major player in this business segment. We are beginning to see fruitful results, which will start to contribute to the top and bottom lines in the next year.

# CHAIRMAN'S STATEMENT

Peace Mark now has the people, scale, infrastructure and geographic diversity to further establish our presence in China. Leveraging on all these resources will drive the growth of this business to a new height.

For the manufacturing business, Peace Mark has been a beneficiary of the evolution of supply chain. Increasing demand for distribution service has fundamentally changed the playing field of the traditional manufacturing. Adding more value through the captive US distribution arm helped the Group to reap extra margin on top of the manufacturing. This transformation of business models will enable the Group turnover and margin to further improve even in a relatively stagnant consumer demand. Peace Mark has become a partner of choice for many US retailers.

In other markets, we continued to strengthen the French and German operations in order to extend the market reach of the European market. This will lead to a more balanced market mix of the manufacturing business.

The expanded businesses of the Group have reinforced our resilience during the market downturn while the distribution and retail businesses in China will be the engine of growth in the future. We are committed to delivering business growth and profit enhancement which will be translated to improved shareholder's value.

*Sincerely,*



*Tourneau The World's  
Largest Watch Store*



## REVIEW OF OPERATIONS



Mr. Leung Yung  
**CHIEF EXECUTIVE OFFICER**

*“Rewarding China strategy lays a cornerstone with diverse revenue streams and growth engines to take business to new heights.”*

## REVIEW OF OPERATIONS



Awarded "Hong Kong Outstanding Enterprises 2005" by Hong Kong Economic Digest

### AWARD:

|            |                                                                   |
|------------|-------------------------------------------------------------------|
| 2005-09-02 | MediaZone: Hong Kong Most Valuable Companies 2006                 |
| 2005-10-29 | Hong Kong Economic Digest: Hong Kong Outstanding Enterprises 2005 |
| 2006-06    | Best suppliers in Year 2005 from one of the customers             |

## China

Watches have becoming more of a fashion accessory and luxury item than merely a time telling device. Strong demand of fashion and luxury items provided a favorable market condition for the watch business. Increased brand advertisings have contributed significantly to the morphological changes in consumer behavior in China.

The business climate in China's watch industry has been generally good. It was characterized by the strong growth of the middle-range to luxury watches and increased consumers' brand awareness. Peace Mark has been operating two independent business models for the fashion and luxury market.

## Middle-range fashion brands

Subsequent to several acquisitions of retail networks in China in the course of last two years, this year Peace Mark was set to consolidate the business operations and grew the business organically. The strategy of providing a platform offering integrated services fledging from manufacturing, distribution to retailing in China was proven success. Peace Mark has been offering a turnkey solution to all fashion brands entering into the China.

The business turnover for this business segment has nearly double from HK\$342 million to HK\$609 million and the EBITDA margin was 18.9%, an increase of 2.8 percentage point from 16.1% in last year. Various acquisitions done in past two years have been showing progress and the synergies were realized.

TimeZone continued its strategy to expand its distribution network in China in the form of directly managed shop-in-store "SIS" format operating in the department stores. The number of SIS operating in China has been over 200 at the year-end. The number of brands within TimeZone has increased from approximately 30 in 2005 to 70 in 2006, approximately half of which were exclusive in distribution. This brand portfolio enabled TimeZone to suit diverse consumer preferences in China.

TimeZone aimed to provide a channel for the brands to develop a Greater China network. Other than mainland China, there were 13 and 1 TimeZone outlets at the year end in Hong Kong and Taiwan and additional 2 and 9 TimeZone outlets have rolled out in Hong Kong and Taiwan after the balance sheet date. These Greater China networks have enabled the brands to promote and distribute in the region in a more systematic and efficient manner.

Shanghai Shiqi, in which Peace Mark acquired an interest last year, reported record high in the sales of Swatch in the eastern part of China.

Other than the above two operations, through Dayuan, Peace Mark has partnered with various brands to expand the geographic footprint in China. Its strong local distribution capability and the wide coverage of retail network enabled the products to gain an access of more than 200 points of sales.

### Luxury watch market

Since the Group opened its first luxury watch store in China in August 2005, the velocity of change of this business has been faster than expected. Tremendous business opportunities arose notwithstanding the fact that the retail competitive landscape was becoming more intense than ever.

Signs of increasing investment by the brands in this market have been apparent. Direct import of watches from Switzerland has surged from CHF279.5 million in 2004 to CHF351.3 million in 2005, an increase of 25.7%. Luxury watches have become one of the most popular items amongst the luxury good purchases.

Peace Mark demonstrated its long-term commitment to this market by joint venturing with Tourneau, the biggest luxury watch retailer in the USA. The partnership with Tourneau not only represented a big step forward in the business profile of Peace Mark but also benefited us substantially in terms of retail management and brand relationship.

On 31 March 2006, Peace Mark and Tourneau signed the Joint Venture (JV) agreement in Basel, Switzerland. At the inception of the JV, Peace Mark, Tourneau and International Watch Group own the capital sharing as to 65%, 25% and 10% respectively with the initial capitalization of US\$15 million. We planned to roll out 30 stores in China, 1 in Macau and 1 in Hong Kong within a 3-5 years timeframe. We have rebranded two of our Solomon stores in Shanghai to Tourneau and three other locations were identified for expansion.

The JV is surely conducive to accelerating our business plans in China. Tourneau's commitment in the JV would benefit the long-term development of the JV. In a follow-up transaction, Peace Mark granted an extended option



Peace Mark and Tourneau signed the joint venture agreement in Basel, Switzerland.

## REVIEW OF OPERATIONS



Rolex and Tudor boutique in XinTianDi

to Tourneau on 2 May 2006 to acquire from it 14% of the shareholding in the JV at the fair value of the JV after 2 years.

For the past few months, the Group also formed local joint ventures in Chongqing, Ningbo and Shenzhen. In Chongqing, the Group operated 11 shops for luxury watches including brands like Omega, Rado, Longines, Gucci, Breguet, Blancpain, Glashutte. In Ningbo, the Group occupied 300 square metre retail space for brands like Rolex, Omega, Tudor, Piaget, IWC, Longines and Rado. In Shenzhen, the retail points were one Omega boutique shop and one multi-brands shop located in The Sun shopping mall.

The Group has been working closely with brands for managing and operating image and boutique shops in China.

### US distribution/direct export

The turnover was HK\$310 million, up 47.2% and the EBITDA margin was 14.5%, an improvement of 1.2% percentage points from 13.3% in last year.

In the USA, we have continued to develop the distribution business in order to serve the retailers directly. The US distribution business saw another year of growth. The cost containment and successful

integration of the operations contributed to the improved results. The trend of the US customers buying directly from manufacturers continued. The pace of market consolidation and the tendency of supply chain de-layering have been well conceived by the Group since 2003 and distribution now becomes the leading edge service. Major US retailers have skewed to partner with well-established manufacturers that qualified their requirements. Manufacturers with captive distribution capability benefited from the trend. This helped the Group ward off the competitive threat of smaller competitors. Margin improved as a result of successfully executed integration and improved competitiveness.

### Manufacturing

The net manufacturing business after elimination for this year was HK\$1,297 million. Taking into account the US distribution business, the gross manufacturing business for the year edged up by approximately 1% which was in line with that of the industry. Strategically, Peace Mark has been re-positioning itself by moving towards making high margin products while the operating and raw materials costs continued to increase. We have increased outsourcing the manufacturing of low margin products and made use of the capacity for higher margin product manufacturing. The change in production mix led to stable gross profit margin notwithstanding increased cost environment.

The Group has 8 production facilities located in China, Switzerland and Hong Kong. The capacity of production facilities of the Group was approximately 80% utilized and will be sufficient to support the production demand for the next few years with out-sourcing support.

In the USA, the Group mainly targeted the mass-market watches. Its products were found in over 24,000 points of sales including supermarket chains, drug chains, direct marketing companies, home-shopping companies and sport products chains.

In order to strengthen the marketing of the European market, the Group had increased its presence in France and Germany. A subsidiary in France was set up for the penetration of France and the Eastern bloc of Europe. A marketing office was set up in Germany to strengthen its marketing capability there.

The China distribution business also benefited the manufacturing business, as many of the brands the Group has been selling in China also sought our manufacturing supports.

The mechanical watch movement factory in Shanghai had undergone substantial production upgrades. Although last year it had not yet started to contribute to the bottom line, it has repositioned itself to target the manufacturers of higher-end products in China and overseas.

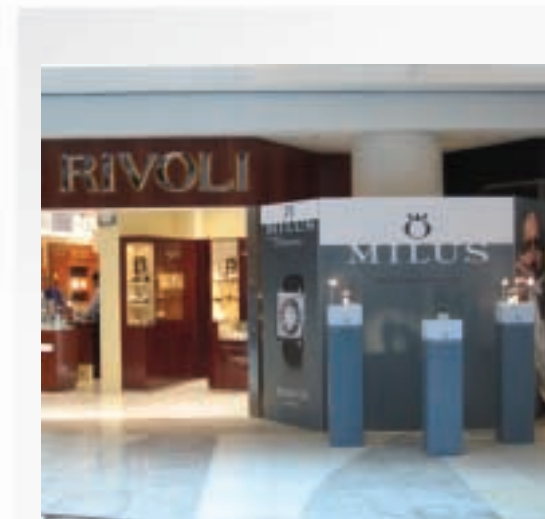
## Milus

Milus, originated in Switzerland since 1919 and is one of the major own brands of the Group. The Group had repositioned Milus as a brand of unique design and targeted those with distinctive characters and lifestyles. Its worldwide presence covered Switzerland, Spain, Germany, Netherlands, Russia, China and Middle East. We have developed several highly outstanding designs that were well received by the market in the 2005 and 2006 Basel Fair.

In June 2005, Milus finished top 10 along side with other world renowned brands in the list of the Best Lady Watches 2005 presented by Chronos Magazine in Germany.

## Outlook

The three core operating businesses of the Group look disparate but in fact complementary to each other, and they have founded a solid platform for the Group to expand. With this strength and flexible expansion strategy, the Group will continue to ally with strategic business partners that fit its strategic needs. The depth and breath of our businesses and products would certainly be imperative to diversify the revenue stream with a view to making the earning growth sustainable.



*Milus special store promotional event in Dubai*

## REVIEW OF OPERATIONS

### China

China's fashion and luxury markets are set to grow continuously. There has been no apparent sign of slowing down in these business segments amidst the implementation of the recent macro-economic measures. The macro economic climate, including the recent austerity and credit tightening measures, is believed to contribute to the healthy development of the market in the long term.

For the middle-range market in China, Peace Mark will continue to develop a strategic platform for all the brands by offering the services from manufacturing to retailing. By the end of financial year 2007, we expect to build a retail network of over 800 point-of-sales and hence achieve further economies of scale for improved margins.

For TimeZone, the Greater China concept will be further developed and more shop-in-stores will be rolled out. An advertising campaign will be launched and more shops will be refurbished to uphold its image. This retail network is highly scalable and we are studying new strategy to accelerate the network expansion plan spanning to second-and third-tier cities in China.

Peace Mark will accelerate its luxury watch retail network expansion plan in China. The opening of Tourneau stores is crystallizing as planned. We are actively looking for prime locations for store opening in strategic locations including major cities in China, Macau and Hong Kong.

Apart from the Tourneau joint venture, Peace Mark will form partnerships with domestic companies in certain areas for strategic purposes. We are also looking for more opportunities to manage the retail operations of boutique and image shops for various brands.

In our view, the new consumption tax in China announced in March 2006 has moderately impacted the luxury watch market. It is worth noting that the new consumption tax has been provisionally implemented. Nevertheless, the direct import of Swiss watches into China is still growing strongly. It seems that the luxury market is price-inelastic and has shown no signs of slowdown.

### Manufacturing and US distribution

In the face of growing margin pressure of the low-end manufacturing caused by the rising raw materials and operating costs in China, shifting the focus to manufacture of higher-end products would provide additional gross margin to mitigate the increased costs. Downstream expansion would continue to add value along the supply chain and enhanced distribution margin on top of the manufacturing margin would lead to overall margin improvement.

Concerted management efforts taken during the year have contributed to the creation of a strong platform for sustainable growth across each of our core businesses. A broadened revenue base with strong growth coming from China enabled the Group to use its cash generating businesses to fund the investment of expansion plans. We are determined to deliver positive results, capitalizing on the exciting potential of the watch business we are building.

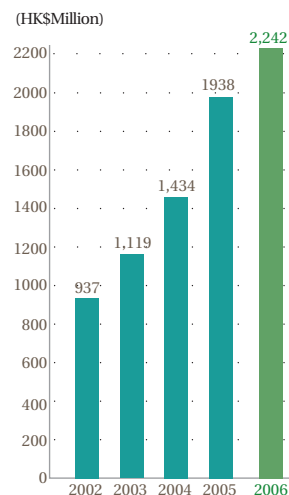
## MANAGEMENT DISCUSSION AND ANALYSIS



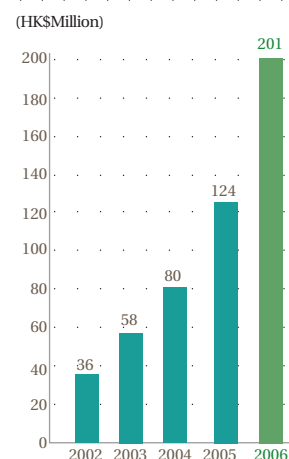
Mr. Tsang Kwong Chiu, Kevin  
**CHIEF FINANCIAL OFFICER**

*“Leveraging our balanced business portfolio to generate stronger cash flow and better return.”*

## MANAGEMENT DISCUSSION AND ANALYSIS



### TURNOVER



### PROFIT ATTRIBUTABLE TO SHAREHOLDERS

## Financial Reviews

### Turnover and Profits

Peace Mark continued to grow strongly during 2006, with excellent performance from all core businesses.

The Group turnover was HK\$2,242 million, up 15.7% compared to last year. The turnover growth was a result of organic growth and accounted for full year contribution of results of the China subsidiaries acquired last year. The US distribution business increased by 47.2% to HK\$310 million.

The margins have been improved at all levels. Gross margin continued to improve to 31.1% as compared to 27.8% reported last year. EBITDA was HK\$342 million and margin was 15.3%, an improvement of 37.3% year-on-year. The improvement was a result of an increased share of China business of the total turnover, which commanded higher margin.

Net profits was HK\$201 million, up 61.9%, representing a margin of 8.9%. The basic earnings per share were at HK22.13 cents after taking into account the dilution effect of 90 million new shares issuance in February 2006.

### Selling, Distribution and Administration

Selling, Distribution and Administration expenses was stabilized at a level of 19.9% of turnover. Selling and Distribution expenses were increased due to increased turnover of distribution and retailing businesses but the administrative expense as a percentage of turnover was reduced from 9.7% to 8.3% due to economies of scale. Further integration of the US distribution and manufacturing contributed to a lower level of operating expenses. Management had focused on integrating various China businesses acquired last year and removed overlapping resources. This highly scalable platform enabled the Group to further control the level of operating expenses.

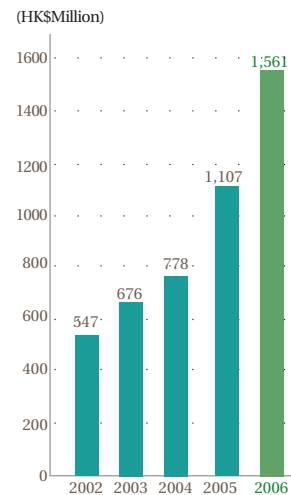
### Taxation

The effective tax rate before deferred tax for the year was 14.5%. China distribution and retail businesses in general had a higher tax rate than the manufacturing export business.

## Liquidity and Financial Resources

### Shareholders' Funds

Shareholders' Funds increased from HK\$1,107 million to HK\$1,561 million. No significant acquisitions were done during the year and the new share placement completed in February 2006 had increased the Shareholders' Fund by approximately HK\$286 million. Net Asset Value per share was HK\$1.58 per share.



### SHAREHOLDERS' FUNDS

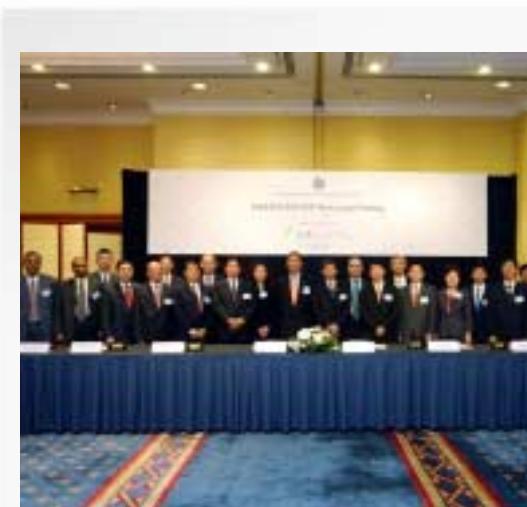
### Financial Position

At the year end date, the cash and bank balances stood at HK\$1,186 million and the borrowings were at HK\$1,159 million. The net cash, expressed as a percentage of total net borrowings to equity attributable to shareholders, was 1.7%. The improved financial position from net gearing to net cash was a result of additional cash generated from operation and raised from the share placement proceeds.

The year-end borrowings were split into 47% short-term and 53% long-term. The structures of the borrowings were mainly term and trade finance facilities. The Group continued to refinance the existing borrowings by cheaper financing. The major financings were: a 4-year syndicated term and revolving facilities of HK\$630 million completed in April 2005 and a share placement of HK\$286 million in February 2006. Subsequent to the balance sheet date, the Group also completed a 3-year syndicated term loan facility of HK\$600 million. This syndicated loan is extendable to 7-years under certain conditions. The purposes of the fund raising activities were to finance the China distribution and retail network expansion plan and to refinance part of the higher costs short term debts.

More than 70% of the carrying amounts of the year-end borrowings are denominated in Hong Kong dollar.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 5.7, which remained at a comfortable level.



Syndicated Loan

## MANAGEMENT DISCUSSION AND ANALYSIS

### Working Capital

The Group's current ratio was 2.5. The improved ratio was due a combination of increased level of current assets from HK\$1,575 million to HK\$2,456 million and the longer maturity profile of the borrowings.

The improved financial position and current ratio will enable the Group to further leverage on the balance sheet and take on mergers and acquisitions opportunities.

The management continued to focus on the working capital management. Net working capital, expressed as the net of accounts receivables of HK\$479 million, inventory of HK\$654 million and accounts payable of HK\$385 million as a percentage of turnover, was 33.4%, which improved from 35.5% last year.

Total trade and other receivables increased by HK\$204 million to HK\$600 million. Included in this amount, was a non-recurring deposit of HK\$76 million paid for the capital of joint venture and a receivable of HK\$45 million from the partial disposal of a subsidiary. The trade and other receivables, net of the above two non-recurring items, were HK\$479 million.

Inventory level was at HK\$654 million. The Group started the China luxury watch business in the second half of the year. Inventory of approximately HK\$114 million was maintained for new store openings at the balance sheet date and a large part of the sales will be reflected in the next financial year. Excluding that amount, the inventory turnover days improved by 6 days for the established business. It is imperative to control the inventory level at lower turnover days given the fact that the business cycle of a vertical integrated manufacturer and distributor, in particular for the US market, have trended towards longer inventory days. The lower inventory turnover days of the China mid-range business attributed to the overall improvements. The accounts payable increased from HK\$220 million to HK\$385 million as a result of more favorable sales terms obtained from suppliers.

As part of the working capital management, the Group also utilized working capital loans for the financing of its purchases. The costs of trade financing have been much lower than the suppliers' credit in general. Net working capital of the Group after working capital loans was HK\$557 million and was 24.8% of the total turnover.

### Capital Expenditure

Capital expenditure for the year was HK\$78 million. The deployment of capital expenditure for the year was slower than the original forecast as the refurbishment of existing points of sales and new stores roll out plans have been postponed to the next financial year.

### Capital Commitment and Contingent Liability

As at 31 March 2006, there were no material capital commitment and contingent liability.

### New Shares Placement

In February 2006, the Company placed 90 million shares to independent investors at a price of HK\$3.25 per share. The new shares placed represented approximately 9.09% of the enlarged share capital of the Company at the date of placement. The net proceeds of HK\$286 million were intended to be used for the China expansion plans and repayment of certain borrowings.

## Financial Risk Management

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

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

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

1. The Group closely monitors the cash-resources. We maintain a conservative cash reserve and review our position regularly to ensure that cost-efficient funding is available for operating expenses, capital expenditure needs and business expansion;
2. Our policy is to deposit surplus cash with creditworthy financial institutions or invest in low risk and liquid instruments; and

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

During the year 2006 and post balance sheet significant financing activities were as follows:-

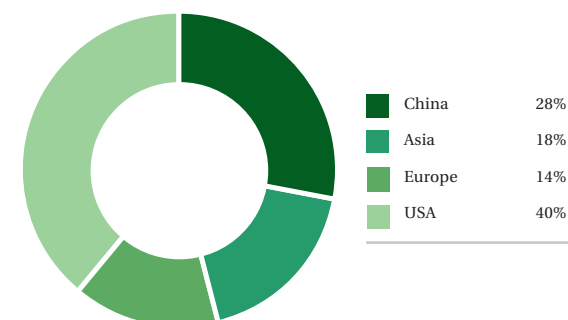
In April 2005, the Group completed a 4-year syndicated term loan and revolving credit facility of HK\$630 million;

in February 2006, the Group placed 90 million new shares at a price of \$3.25 per share and raised approximately HK\$286 million in order to broaden the shareholder base; and

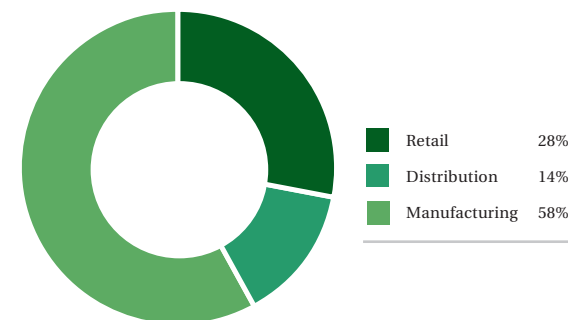
in June 2006, the Group obtained a 3-year syndicated term loan facility with an extendable feature for up to 7 years under certain conditions.

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

Turnover by Geographical Market



Turnover by Business



## MANAGEMENT DISCUSSION AND ANALYSIS

### Interest Rate Exposure

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

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

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

### Foreign Currency Exposure

The Group manages its foreign currency exposure by entering into currency hedging instruments, like currency forwards, to hedge currency exposure at an optimal level. Operating exposure of currency movement will be closely monitored. Currency derivatives (e.g. EUR, GBP and CHF) will be entered into

to hedge the change of expected cash flows arising from an unexpected change in exchange rates. For RMB, the Company tends to naturally hedge its RMB denominated liabilities and expenses by the RMB denominated assets and revenue.

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

### Credit Exposure

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

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

### Risk Factors

There are several risk factors pertaining to the core businesses that the Group considers that may adversely its results of operations and financial position. There may be other risks in addition to those listed below which are not known to the Group or which may not be material now could turn out be material in the future.

### Industry Trends

#### *Intense competition in the watch industry*

#### *China retail*

The Group faces competition from both domestic and overseas watch distributors and retailers. Domestic companies have dominated the watch distribution and retail industry in China. After China entered into WTO, more foreign brand owners may operate a distribution business by themselves to better control the sales channel. New market entrants entering into this market also cause higher competition. In the face of such risks, the Group sped up its business plan for the retail network expansion to raise the barrier to entry; establishing a vertical integrated platform from manufacturing, distribution, retail to after-sales services; and formed strategic alliances with foreign and domestic companies for leveraging the resources.

#### *Manufacturing*

Manufacturing business has been highly competitive and the industry is fragmented. The Group, through participating in industry association involved in the industry strategy and policy formulation; improved the quality of its products; made considerable efforts in product development and design; and formed strategic partnership with major industry players combining the respective strength.

### *Changes and uncertainties in PRC policies*

Regulatory environment including the tax regime in China may change and adversely affect the operating environment and consumer market. These risks can be addressed through establishing and maintaining a good relationship with relevant authorities for updating the regulatory changes.

### *Increase in raw materials prices*

The increase in raw materials price may adversely affect the margin of the manufacturing business if the Group is not able to pass the increased costs to the customers. Satisfactory level of hedging is not possible given the uncertainty of the volume and kind of materials for OEM manufacturing. We manage the margin of the this business by advising alternative or mixed materials in substitution of the more expensive one.

## **Human Resources**

The Group employed over 4,000 employees mainly in China, Hong Kong, the USA and Europe. The total staff costs amounted to HK\$140 million as compared to HK\$110 million of last year.

The remuneration packages for the senior executives and marketing staff are performance linked. Share and option schemes as well as bonus scheme are in place to ensure the employees and shareholders goals are congruent.

### *Share Incentive Scheme*

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

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

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

The aggregate number of Shares to be offered under the Scheme shall at all times be less than 5% of the issued share capital of the Company from time to time and the aggregate acquisition cost of all Shares purchased under the Scheme shall not exceed HK\$150 million.

## CORPORATE GOVERNANCE REPORT

*Peace Mark (Holdings) Limited (the “Company”) is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interest in general. The Board of Directors (the “Board”) and the senior management of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.*

### Corporate Governance Practices

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“Corporate Governance Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices. This report describes the Company’s corporate governance practices with specific reference to the Corporate Governance Code.

The Company has complied with the code provisions of the Corporate Governance Code for the year ended 31 March 2006 except the following deviations:

Code provision A.4.2 (the last sentence)

The code provision A.4.2. of the Corporate Governance Code (the last sentence) provides that every director (including directors appointed with specific terms) should be subject to retirement by rotation at least once every three years. According to Bye-law 87(1) of the Bye-laws of the Company then in effect before 26 August 2005, however, at each annual general meeting, one-third of the directors for the time being (if the number of Directors is not a multiple of three then the number nearest to three) shall retire from office by rotation provided that notwithstanding anything therein, the Chairman of the Board and/or the Managing Director of

the Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of directors to be retired in each year.

The Bye-laws of the Company constitutes a deviation from the last sentence of the code provision A.4.2 of the Corporate Governance Code. To comply with the last sentence of the code provision A.4.2 of the Corporate Governance Code, amendment to Bye-law 87(1) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting of the Company held on 26 August 2005.

Code provision A.4.2 (first sentence)

The code provision A.4.2 of the Corporate Governance Code (the first sentence) provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Paragraph 4(2) of Appendix 3 of the Listing Rules and the existing Bye-law 86(2) of the Bye-laws of the Company, however, require any director appointed by the Board to fill a casual vacancy to hold office only until the next following annual general meeting and shall then be eligible for re-election at that meeting.

The Bye-laws of the Company constitutes a deviation from the first sentence of the code provision A.4.2 of the Corporate Governance Code. The Company will put

forward at its forthcoming annual general meeting to be held in 25 August 2006 a proposal to amend the Bye-law 86(2) of the Bye-laws of the Company to comply with the first sentence of the code provision A.4.2 of the Corporate Governance Code.

## Directors/Senior Management's Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding director's securities transactions. Having made specific enquiry of all directors of the Company, they have confirmed that they have complied with the required standards set out in the Model Code for the year ended 31 March 2006.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

## Board of Directors

The Board is responsible for the management of the Company. Key responsibilities include formulation of

the Group's overall strategies, the setting of management targets and supervision of management performance. Both the Board and the management have clearly defined authorities under various internal control and checks-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objective and business development plans, monitoring the performance of the senior management and assuming responsibility for corporate governance. The management, under the leadership of the CEO, is responsible for implementing these strategies and plans.

All directors have full and timely access to all relevant information, including regular reports from the Board and briefings on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The Board currently consists of 10 members. Among them, 5 are executive directors and 5 are independent non-executive directors.

## Separation of Chairman and Chief Executive Office ("CEO")

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same



*Sponsorship of Corporate Governance Conference*

## CORPORATE GOVERNANCE REPORT

individual to ensure their independence, accountability and responsibility. The Chairman, Mr. Chau Cham Wong, Patrick, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, Mr. Leung Yung, supported by other board members and the senior management, is responsible for managing the Group's responsibilities, the businesses, implementation major strategies, making day-to-day decision and coordinating overall business operations.

### Independent Non-Executive Directors

The Company has five independent non-executive directors. They are highly experienced professionals and business people with a broad range of expertise and experience in areas such as accounting, finance, legal and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole. The Company has received an annual written confirmation from each independent non-executive director to confirm his independence to the Company and accordingly, the Company considers all of the independent non-executive directors to be independent.

Each of the independent non-executive director has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years, subject to the rotational retirement provision of the Bye-laws of the Company. The appointment shall terminate on the earlier of either (i) the date of expiry of the 3-year period, or (ii) the date on which the director ceases to be a director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

### Board Meetings

The Board held a total of five board meetings during the year ended 31 March 2006. Of these, two meetings were held to approve the 2005 final results and 2006 interim results of the Company; the other three meetings were held to consider financial and operating performances of the Group and corporate governance issues of the Company. The Chief Financial Officer and Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

The attendance of individual directors during the year ended 31 March 2006 is set out in the table below. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

| DIRECTOR                                   | NO. OF BOARD MEETINGS<br>ATTENDED/HELD IN FY2006 | ATTENDANCE<br>RATE |
|--------------------------------------------|--------------------------------------------------|--------------------|
| <b>Executive Directors</b>                 |                                                  |                    |
| Mr. Chau Cham Wong, Patrick                | 5/5                                              | 100%               |
| Mr. Leung Yung                             | 5/5                                              | 100%               |
| Mr. Tsang Kwong Chiu, Kevin                | 5/5                                              | 100%               |
| Mr. Cheng Kwan Ling                        | 5/5                                              | 100%               |
| Mr. Man Kwok Keung                         | 5/5                                              | 100%               |
| <b>Independent Non-executive Directors</b> |                                                  |                    |
| Mr. Kwok Ping Ki, Albert                   | 5/5                                              | 100%               |
| Ms. Susan So                               | 2/5                                              | 40%                |
| Mr. Tang Yat Kan                           | 5/5                                              | 100%               |
| Mr. Wong Yee Sui, Andrew                   | 4/5                                              | 80%                |
| Mr. Mak Siu Wing, Clifford                 | 4/5                                              | 80%                |

The Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group before each board meeting. At least 14 day's notice of a regular board meeting is given to all directors to give them the opportunity to attend and all directors are given an opportunity to include matters in the agenda for meeting. Board papers are dispatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Senior management who are responsible for the preparation of the Board papers are usually invited to present their papers and to take any questions or address queries that

the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The proceedings of the Board at its meetings are conducted by the Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns. Minutes of the Board meetings record in sufficient detail the matters considered by the Board and the decisions reached. The draft minutes of each Board meeting are sent to all the directors for comments within a reasonable time after the date on which the board meeting is held.

## Chief Financial Officer ("CFO")

The CFO is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. The CFO is accountable to the Chairman of the Audit Committee and maintain regular communications with the external auditors. The CFO

also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

## Company Secretary

The Company Secretary is responsible directly to the Board. All directors have easy access to the Company Secretary who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advices to the Board on directors' obligations on disclosure of interests in securities, disclosure requirements of notifiable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws.

The Company Secretary, being the primary channel of communications between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value. In addition, on a timely basis, the Company Secretary will provide the directors with information, update and continuing professional development on legal, regulatory and other continuing

compliance obligations for being directors of a listed company.

## Board Committees

To assist the Board in execution of its duties, the Board is supported by four board committees which consists of directors and members of senior management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. The terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee are of no less exacting terms than those set out in the Corporate Governance Code.

### (1) Audit Committee

The Audit Committee comprises 4 members and is chaired by Mr. Wong Yee Sui, Andrew. Other members are Mr. Mak Siu Wing, Clifford, Mr. Kwok Ping Ki, Albert and Mr. Tang Yat Kan. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting, legal and finance areas. The terms of reference of the Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

## CORPORATE GOVERNANCE REPORT

The Audit Committee provides advice and recommendations to the Board and oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the CFO, Company Secretary and the internal auditor are directly accountable to the Chairman of the Audit Committee.

During the year ended 31 March 2006, the Audit Committee met three times during the year with the senior management and the internal and external auditors. The work performed by the Audit Committee during the financial year included the followings:

- reviewed the annual report and result announcement for the year ended 31 March 2006;
- reviewed the interim report and interim results announcement for the six months ended 30 September 2005;
- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters;
- reviewed the results of external audit and discussion with external auditors on any significant findings and audit issues;

- reviewed the external auditors' independence and report and the re-appointment of the external auditors at the 2006 annual general meeting;
- reviewed the internal audit plan and the internal audit reports;
- discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management;
- considered and approved audit and non-audit services;
- reviewed all significant business affairs managed by the executive directors in particular on connected transactions.

Attendance of individual members at Audit Committee meetings:

| NAME OF MEMBERS                              | NO. OF MEETINGS ATTENDED<br>/HELD IN FY2006 | ATTENDANCE<br>RATE |
|----------------------------------------------|---------------------------------------------|--------------------|
| Mr. Wong Yee Sui, Andrew ( <i>Chairman</i> ) | 3/3                                         | 100%               |
| Mr. Mak Siu Wing, Clifford                   | 2/3                                         | 67%                |
| Mr. Kwok Ping Ki, Albert                     | 3/3                                         | 100%               |
| Mr. Tang Yat Kan                             | 3/3                                         | 100%               |

## (2) Risk Management Committee

The Risk Management Committee comprises 3 members and is chaired by Mr. Mak Siu Wing, Clifford, an independent non-executive director of the Company. It provides independent support to the Board to review financial and financial-related matters as well as issues regarding the management and operations of the Company. Such reviews include but are not limited to the following: all financing transactions of the Group, issuance of shares and share repurchase; major contracts and variations; major investments, acquisitions and disposals, etc.

Attendance of individual members at Risk Management Committee meetings:

| NAME OF MEMBERS                                | NO. OF MEETINGS ATTENDED<br>/HELD IN FY2006 | ATTENDANCE<br>RATE |
|------------------------------------------------|---------------------------------------------|--------------------|
| Mr. Mak Siu Wing, Clifford ( <i>Chairman</i> ) | 2/3                                         | 67%                |
| Mr. Wong Yee Sui, Andrew                       | 3/3                                         | 100%               |
| Mr. Tsang Kwong Chiu, Kevin                    | 3/3                                         | 100%               |

## (3) Nomination Committee

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors. The committee is chaired by Mr. Kwok Ping Ki, Albert, an independent non-executive director of the Company and the other members are Ms. Susan So and Mr. Chau Cham

## CORPORATE GOVERNANCE REPORT

Wong, Patrick. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

During the financial year ended 31 March 2006, the work performed by the committee includes the following:

- review of the adequacy of the size, structure and composition of the Board
- consideration of the independence of the independent non-executive directors
- recommendation to the Board on relevant matters relating to the appointment and re-appointment of directors

All newly appointment of directors and re-nomination of directors for re-election at the annual general meeting are first considered by the Nomination Committee. The recommendations of the Nomination Committee will then be put to the Board for decision. Thereafter, all the directors are subject to re-election by shareholders at the annual general meeting pursuant to the Bye-laws of the Company. In considering the new appointment or re-nomination of directors, Nomination Committee will base its decision on criteria such as integrity, independent mindedness, experience,

skills and the ability to commit time and effort to carry out his duties and responsibilities effectively, etc.

In August 2006, the Nomination Committee nominated and the Board recommended Mr. Man Kwok Keung and Mr. Kwok Ping Ki, Albert to retire at the 2006 annual general meeting and stand for re-appointment and Mr. Chau Cham Wong, Patrick and Mr. Leung Yung also offer themselves for re-election by shareholders of the Company at the 2006 annual general meeting.

Attendance of individual members at Nomination Committee meetings:

| NAME OF MEMBERS                              | NO. OF MEETINGS ATTENDED<br>/HELD IN FY2006 | ATTENDANCE<br>RATE |
|----------------------------------------------|---------------------------------------------|--------------------|
|                                              |                                             |                    |
| Mr. Kwok Ping Ki, Albert ( <i>Chairman</i> ) | 3/3                                         | 100%               |
| Ms. Susan So                                 | 1/3                                         | 33%                |
| Mr. Chau Cham Wong, Patrick                  | 3/3                                         | 100%               |

#### (4) Remuneration Committee

The Remuneration Committee comprises 3 members, a majority of whom are independent non-executive directors. The chairman of the committee is Mr. Tang Yat Kan, an independent non-executive director of the Company and other members are Ms. Susan So and Mr. Chau Cham Wong, Patrick.

The Remuneration Committee reviews and determines the directors' remuneration package and makes recommendations to the Board. The committee engaged independent professional advisers to review and give recommendations on the current position titles of the all directors and benchmark the remuneration levels of all directors with those prevailing in equivalent companies. The review taken into account factors such as the remuneration package paid by the comparable companies, job responsibilities and shareholders' return.

The Remuneration Committee met three times in 2006. The following is a summary of work performed by the Remuneration Committee:

- grant of share options to directors, employees and other eligible persons
- recommendation for Independent non-executive directors' fee for FY2007 to the Board for approval
- review and approval of the remuneration packages and service contracts for executive directors
- administration of the share option scheme, share incentive scheme

## CORPORATE GOVERNANCE REPORT

The remuneration policy of the Company is to ensure the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees.

The key components of the Company's remuneration package include basic salary plus other allowance, bonus, mandatory provident fund and share options. Bonus is tied to the performance of individual employee and the Company. As a long-term incentive plan and with the aim at motivating employees in the continued pursuit of the Company's goal and objectives, the Company granted share options to subscribe for the shares of the Company to the employees of the Group based on their performance and contribution to the Company under share option scheme adopted on 24 January 2002.

Attendance of individual members at Remuneration Committee meetings:

| NAME OF MEMBERS                      | NO. OF MEETINGS ATTENDED<br>/HELD IN FY2006 | ATTENDANCE<br>RATE |
|--------------------------------------|---------------------------------------------|--------------------|
| Mr. Tang Yat Kan ( <i>Chairman</i> ) | 3/3                                         | 100%               |
| Ms. Susan So                         | 1/3                                         | 33%                |
| Mr. Chau Cham Wong, Patrick          | 3/3                                         | 100%               |

## Internal control and internal audit

The Board is ultimately responsible for the Group's internal control system and, through the Audit Committee, has reviewed the effectiveness of the system. The Group's internal control system is designed to allow the Board to monitor the Group's overall financial position, to protect its assets and to prevent material financial misstatement of loss.

The Group's internal control framework includes the following:

- (1) To allow delegation of authority as well as to increase accountability, a clear organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual and interim results, annual budgets, distribution of dividends, Board structure, and the Board's composition and succession.
- (2) Systems and procedures are set up to identify, measure, manage and control risks including but not limited to operational risk, accounting risk, interest rate risk and environmental risk

and compliance risk that may have an impact on the business of the Group. The Risk Management Committee also evaluates whether the Group's risk management is in line with the established strategies, policies and procedures of the Company.

- (3) In day-to-day income and expenditure arrangements, the Group has clear authority limits and has a sound system to ensure that its day-to-day operations meet the relevant regulations set by the Company.
- (4) In order to establish a sound system of internal controls to safeguard shareholders' interests and the Group's assets, the Company established an Internal Audit Department. The role of the internal auditor is to assist the Audit Committee to ensure that the Company maintains a sound system of internal controls by reviewing all aspects of the Group's activities and internal controls with unrestricted right of access, conducting comprehensive audits of the practices and procedures as well as income and expenditure, internal controls of all business units of the Group on a regular basis and conducting special reviews and investigations of areas of concern identified by management.

The internal auditor has unrestricted direct

## CORPORATE GOVERNANCE REPORT

access to the Audit Committee. The head of the Internal Audit Department reports directly to the Chairman of the Audit Committee, attends all Audit Committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

During the year, the internal auditor adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Audits were carried out on all significant business units in the Company. All internal audit reports are submitted to the Audit Committee for review and approval. The internal auditor's summary of findings and recommendations are discussed at the Audit Committee meetings.

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2006 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until

appropriate corrective measures are implemented.

The Company's internal auditor has conducted a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management during the year. All material non-compliance of failures in internal controls and recommendations for improvements have been reported to the Audit Committee. The Audit Committee also reviewed the effectiveness of the actions taken by the Management on the recommendations made by the internal auditor in this respect.

## Auditors' remuneration

For the year ended 31 March 2006, the auditor's remuneration paid or payable in respect of the audit and other non-audit service provided by the auditors to the Group were as follows:

| NATURE OF SERVICE | 2006<br>AMOUNT<br>HK'000 |
|-------------------|--------------------------|
| Audit service     | 2,122                    |
| Non-audit service | 232                      |
|                   | 2,354                    |

## Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Press and analysts conferences are held subsequent to the final result announcements at which the executive directors are available to answer questions regarding the Group's operational and financial performances. Designated executive director and senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

## CORPORATE GOVERNANCE REPORT

### *Communication with Shareholders*

The Company attaches great priority to communicate with shareholders and investors. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at [www.peacemark.com](http://www.peacemark.com)

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholder's queries. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings.

### *Code of Conduct*

To enhance the ethical standards of employees, the Company has employee handbook, setting out standards of professional and ethical conduct for all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

### *Conclusion*

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company's corporate governance.

## INVESTOR RELATIONS

*The Company has committed to create an efficient communication channel for investors to have regular meetings with the senior management of the Company. This serves to enhance the transparency and quality of information disclosure to ensure better understanding by investors of our management philosophy, business strategies and our perceptions of the industry. We have developed an open and interactive way of communication with global investors and analysts through regular one-on-one meetings and analysts and press briefings, non-deal road shows as well as conferences.*

From 1 April 2006 and up to the date of this report, our senior management has met various investors and analysts through different formats. We attended four road shows and six corporate days/conference as well as over 100 one-on-one meetings.

### Share Price Performance

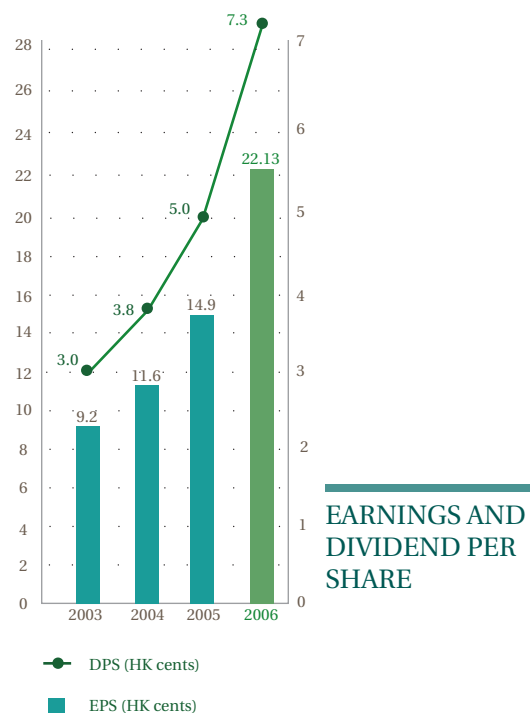
The price of the Company's shares has outperformed the market during the year. For the year ended 31 March 2006, our share price had increased by 58% and the Hang Seng Index ("HSI") had increased by 17%.

### Earnings and Dividend per Share

Earnings per share increased by from HK14.90 cents to HK22.13 cents, while the dividend per share rose from HK 5 cents to HK 7.3 cents. This was in line with the Group's stable dividend policy, which has maintained the dividend payout at around 35%. This year, in line with our dividend policy, the Board has recommended a final dividend payable on 8 September, 2006 of HK 4.3 cents. Together with the interim dividend of HK 3 cents per share, the total dividend amounted to HK 7.3 cents.



## INVESTOR RELATIONS



## Major Investor Relations Activities 2006

| Month          | Activities                                                                                                                                                                                                                                                                                     |
|----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| July 2005      | <ul style="list-style-type: none"> <li>Post-results roadshows in Hong Kong, Singapore, UK, New York and San Francisco</li> <li>Announcement of 2005 annual results               <ul style="list-style-type: none"> <li>– press conference</li> <li>– Analyst briefings</li> </ul> </li> </ul> |
| September 2005 | <ul style="list-style-type: none"> <li>Analysts and fund managers visited our POS in Shanghai</li> </ul>                                                                                                                                                                                       |
| November 2005  | <ul style="list-style-type: none"> <li>Luncheon organized by Macquaire</li> <li>DBS Vickers 5th Asian Corporate Conference</li> </ul>                                                                                                                                                          |
| December 2005  | <ul style="list-style-type: none"> <li>Announcement of 2006 interim results</li> </ul>                                                                                                                                                                                                         |
| January 2006   | <ul style="list-style-type: none"> <li>Hong Kong &amp; China Retail Corporate day in Singapore, arranged by Macquarie</li> </ul>                                                                                                                                                               |
| February 2006  | <ul style="list-style-type: none"> <li>China Corporate day in Singapore, by HSBC</li> </ul>                                                                                                                                                                                                    |

|            |                                                                                                                                                          |
|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| March 2006 | <ul style="list-style-type: none"> <li>Luncheon organized by UBS</li> <li>Credit Suisse Asian Small Cap Conference</li> </ul>                            |
| April 2006 | <ul style="list-style-type: none"> <li>Road show activities in Taiwan</li> <li>China Conference 2006 in Beijing, by JP Morgan</li> </ul>                 |
| May 2006   | <ul style="list-style-type: none"> <li>Road shows in US, UK and Paris</li> </ul>                                                                         |
| June 2006  | <ul style="list-style-type: none"> <li>Road shows in Australia</li> <li>Regional Small &amp; Mid cap Corporate Day organized by Deutsche Bank</li> </ul> |

## CORPORATE CULTURE



Milus Charity Dinner for Hong Kong Cancer Fund



Social Contribution Award by the Chinese Watch and Clock Industry



Peace Mark's 4th Annual Residential Seminar

*“As a reputable manufacturer and distributor in the timepiece industry, we firmly believe that people are our most valuable asset. Inherent in our culture is the respect for individual, teamwork synergy, proactive thinking and mutual development in an endeavor to pursue long-term success in business with particular emphasis on harmony, excellence and quality.*

*The “people come first” principle is the guiding force behind the culture of life and activity for the Group.”*

### Communication, Continuous Improvement and Commitment

Corporate success lies in the professionalism and devotion of our staff. We place strong emphasis on communications with our employees to provide highly efficient services and to strive for continuous improvement in the operation.

Peace Mark's 4th Annual Residential Seminar was held in June, 2006 in the International Conference Centre Hotel, Zhuhai. The yearly event is designed to provide the process and tools that enable the Group's employees to proactively align their values, interests and skills with the organization's commitment as well as promoting social harmony. The theme of this year's seminar was “competence” that offered a valuable opportunity for employees to come together for discussions and exchanges to cope with future workforce requirements. Representatives from Peace Mark's subsidiaries along with our 250 employees of the Hong Kong headquarter subsidiaries from China attended the residential seminar. In addition, our newsletter “Peace Mark

Newsletter” serves as an another much-needed channel to promote communication among employees and with the management. Published on a monthly basis, it effectively keeps our people well informed of the latest development of the company.

### Career Training and Development

Honoring our employees as individuals is the cornerstone of our culture. We seek to attract the most talented and motivated people by offering them a rewarding and challenging environment. People development is fundamental to our business and ongoing growth. In our ongoing commitment to provide a workplace that works for everyone, Peace Mark allows employees to develop their skills and progress within the organization. We provide pertinent information and resources to all employees and implement effective training and development programs through seminars, workshops and academic courses. These programs not only strengthen employees' core competencies but also motivate them to pursue their career goals.

## CORPORATE CULTURE



*Oxfam Trailwalker*



*Swiss student exchange program*

## Compensation and Benefits

In order to attract and retain the best employees, Peace Mark has always been making substantial efforts to enhance their individual work life balance. Apart from the basic benefits such as paid holidays and healthcare coverage, we have a wide range of preferential offers available to help employees stay healthy and meet their financial goals. They range from birthday parties held monthly to recreational activities and annual sports day, free body checkup for our China employees, new cafeteria and library in our China dormitories, and incentive share scheme.

## Social Responsibilities

Peace Mark has a strong commitment to social responsibility. We understand that our success depends not only on the highly professional services of our people, but also on the health and prosperity of the community of which we are part. We are committed to

contributing to the community in which we operate. The Group and its members have supported numerous community programs through donations and various kinds of sponsorship. In August, 2005, we made a cash donation in a Shenzhen charity fund-raising event for flood victims in the mainland. In November, we sponsored a team to participate in Oxfam Trailwalker to raise funds for the needy. Other community initiatives included the Milus Charity Dinner for Hong Kong Cancer Fund, supporting the Career Skill Enhancement Scheme and the internship training and employment programme of the Higher Diploma in Horological Science & Technology, charity walk for the provision of specially designed watches for the blind, the Gentlemen's Night Out charity event, Swiss student exchange program with Vocational Training School and donation to PolyU Development Foundation as well as wish-granting program for underprivileged children. In April, 2006, we were granted Social Contribution Award by the Chinese Watch and Clock Industry. Our senior management always acts as role models, demonstrating their caring spirit to the community with personal commitment and donations to various

charitable organizations. They encourage employees to participate in social activities and fundraising campaigns to help the needy and the underprivileged.

## DIRECTORS AND SENIOR MANAGEMENT PROFILES

### BOARD OF DIRECTORS



MR. CHAU Cham Wong,  
Patrick (Left)



MR. LEUNG Yung  
(Right)



MR. TSANG Kwong Chiu,  
Kevin (Centre)



MR. MAN Kwok Keung  
(Left)



MR. CHENG Kwan Ling  
(Right)



#### MR. CHAU Cham Wong, Patrick

##### Chairman (Peace Mark (Holdings) Ltd.)

57, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Chau has been with the Group for over 14 years, bringing with him over 32 years experience in the timepiece industry. He served as the director of the Hong Kong Watch and Clock Manufacturing Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He was also the former advisor and the committee member of the Hong Kong Watch and Clock Trade Advisory Council to the Hong Kong Trade Development Council.

#### MR. LEUNG Yung

##### Chief Executive Officer (Peace Mark (Holdings) Ltd.)

58, is responsible for the Group strategic planning, business development, marketing and product research and development, as well as coordinating overall business operations. He joined the Group since it was founded and has over 39 years experience in the timepiece industry. He is the President of the Hong Kong Watch Manufacturers Association Limited.

#### MR. TSANG Kwong Chiu, Kevin

##### Chief Financial Officer (Peace Mark (Holdings) Ltd.)

39, is responsible for the accounting and overall financial management, corporate finance, investor relations function of the Group. Mr. Tsang holds a Master of Business Administration degree from the University of Hull and a Master degree in Electronic Commerce and Internet Computing from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Institute of Directors. Mr. Tsang has more than 17 years experience in accounting and finance.

#### MR. MAN Kwok Keung

##### Technical Director (Peace Mark (Holdings) Ltd.)

59, is responsible for product engineering in the PRC. Mr. Man holds a Bachelor's degree in Civil Engineering from the University of Calgary, Canada and has more than 23 years experience in production management in the timepiece industry. He has been with the Group since it was founded.

#### MR. CHENG Kwan Ling

##### Director (Peace Mark (Holdings) Ltd.)

55, is responsible for the general management and finance of the Group's operations in the PRC. Mr. Cheng holds a diploma in Management Association and is a member of the British Institute of Management. He has over 31 years experience in accountancy and general management and has been with the Group for over 17 years.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### MS. SO, Susan

#### *Independent Non-executive Director (Peace Mark (Holdings) Ltd.)*

53, is the Managing Director of Guo Ye Holdings Co., Limited and Guo Ye Enterprises Limited the principal activities of which are investment holding and the provision of investment consultancy services covering, among others, telecommunication, media, energy supply in the PRC. Ms. So has extensive management experience in relation to trade and investment projects (including information technology, sales and marketing) in the PRC. She has been a consultant of various companies in USA and PRC.

### MR. KWOK Ping Ki, Albert

#### *Independent Non-executive Director (Peace Mark (Holdings) Ltd.)*

72, is a former Director of the Electrical and Mechanical Services of the HKSAR Government and retired in 1993. Mr. Kwok served as the Secretary and Director General of Hong Kong Institution of Engineers until February in 2002. He holds a Master of Business Administration degree. He has extensive experience in business administration and in engineering professional practice.

### MR. TANG, Yat Kan

#### *Independent Non-executive Director (Peace Mark (Holdings) Ltd.)*

56, is a partner of Messrs. King & Co., a firm of Solicitors & Notaries in Hong Kong and has been a Notary Public since 1991. He is a Solicitor of the Supreme Court of England and Wales, the Supreme Court of Hong Kong and the Supreme Court of Singapore. He has been in general legal practice for over 21 years and is experienced in the fields of conveyancing and civil litigation.

### MR. WONG Yee Sui, Andrew

#### *Independent Non-executive Director (Peace Mark (Holdings) Ltd.)*

57, is a partner of W. M. Sum & Co., a firm of Certified Public Accountants in Hong Kong. Mr. Wong holds a Master of Business Administration degree and is a Chartered Accountant and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in the auditing and finance field in Hong Kong and overseas. He is also an independent non-executive director and chairman of the audit committee of Lai Fung Holdings Limited, a company listed in Hong Kong.

### MR. MAK Siu Wing, Clifford

#### *Independent Non-executive Director (Peace Mark (Holdings) Ltd.)*

64, is the Managing Director of TCW Asia Limited, the Asian subsidiary of the TCW Group (Trust Company of The West), which is a Los Angeles based investment management company. Mr. Mak holds a Master of Business Administration degree from New York University. He has extensive experience in investment management. Mr. Mak also serves as an advisor to SG Asset Management (Hong Kong) Limited, the asset management arm of the Societe Generale.

## CORPORATE SUPPORT



### MR. CHANG, Eddy

#### *Financial Controller (Peace Mark (Holdings) Ltd.)*

41, is responsible for the finance and banking relationship of the Group. He is a member of the Hong Kong Institute of Certified Public Accountants and the Senior International Financial Manager of International Financial Management Association. Mr. Chang was appointed as a Justice of the Peace by Western Australia.



### MS. FONG, Sams

#### *Company Secretary and Assistant Financial Controller (Peace Mark (Holdings) Ltd.)*

31, is responsible for the Group's company secretarial matters, accounting as well as investor relations functions. She graduated with a Bachelor's degree in Accounting. Ms. Fong is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.



### MR. KWEE, Raymond

#### *Financial Controller (China Division) (Peace Mark Ltd.)*

31, is responsible for the accounting and banking relationship functions for the Group's subsidiary companies in the PRC. He graduated with a Bachelor's degree in Managerial Statistics from the City University of Hong Kong. He has been with the Group for over 9 years.



### MR. AU-YEUNG, Billy

#### *Internal Auditor (Peace Mark (Holdings) Ltd.)*

31, is responsible for the internal audit function of the Group. Mr. Au-yeung holds a Bachelor's degree in Accounting from the Hong Kong University of Science & Technology and a Master degree in Electronic Commerce from the Open University of Hong Kong. He is an associate member of Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

DIRECTORS AND SENIOR MANAGEMENT PROFILES



**MR. GEWIRTZ, Jonah**

*Chief Financial Officer (Omni Watch & Clock Co., LLC.)*

51, is responsible for the accounting and financial matters of the Group's US subsidiary. He graduated on the deans list, summa cum laude from Queens College with Bachelor's degree in Accounting. He is a member of the American Institute of Certified Public Accountants.



**MR. TRIEBOLD, Oliver**

*Director (Milus International S.A.)*

40, is responsible for the legal and compliance matters of the Group's Swiss operation. He holds a PhD in law, M.C.J. from New York University. He is also the Attorney at law admitted to the Bar of Zurich.



**MS. LAI, Cherry**

*Corporate Communications Manager (Peace Mark (Holdings) Ltd.)*

32, is responsible for media relations activities, corporate events as well as managing the Group's corporate communications campaigns. She holds a Master degree in Marketing from Stirling University.



**MR. NG, Bernie**

*Group Human Resources Manager (Peace Mark (Holdings) Ltd.)*

40, is responsible for all the human resources management of the Group. Mr. Ng holds an MBA from the City University of Hong Kong and a Master degree in Human Resources Management from the Hong Kong Polytechnic University. He has more than 12 years experience in Hong Kong and China human resources management.

**MARKETING & DISTRIBUTION  
CHINA & TAIWAN**



**MR. MA, Xiao Di**

*Chief Executive Officer (Chongqing Meida Enterprise Co., Ltd.)*

55, is responsible for managing and developing new business opportunities for the group's retail operations within the western China markets. He is a member of the 14th and 15th National People's Congress representative in the Yu Chong District and also serves in numerous business and government related councils and organizations in the Yu Chong District.



**MR. HO, Curtis**

*General Manager (Mega Chains (China) Ltd.)*

44, is responsible for operating "TimeZone" a watch retail network covering 45 major cities in mainland China. Mr. Ho holds a Master of Business Administration degree from the Heriot-Watt University. He has over 20 years' experience and exposure in retail and distribution network establishment over the region including Hong Kong, China and the Pacific rim.



**MR. KWOK, Samuel**

*General Manager (Solomon Watch & Jewellery Co., Ltd.)*

41, is responsible for the business development of the luxury watch retail market in China. Mr. Kwok holds a Master of Business Administration degree from the University of Paisley and a PhD in Management jointly from the European University of Ireland and University of International Business and Economics of Beijing. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.



**MR. LEVITT, Howard**

*Director (Peace Mark Tourneau (Holdings) Ltd.)*

50, joined Tourneau in 1991 as Vice President/Finance. In July 2006, he was awarded the Ernst & Young Entrepreneur of the Year in the Retail category for the New York Area and is Vice President of the Retail Marketing Society and a member of the National Retail Federation.



**MR. HSIEH, Stephen**

*Cheif Executive Officer (Epoch World Co., Ltd.)*

48, is responsible for the brand name and retail outlets development of the Taiwanese subsidiary. He has 22 years experience in brand development and wholesale distribution. He also has over 7 years experience in developing retail outlets.

DIRECTORS AND SENIOR MANAGEMENT PROFILES



**MS. YIM, Jenny**

*General Manager (Goldsmith Timepieces Co., Ltd.)*

54, is responsible for the Group's China sales and distribution development. She has over 28 years experience in timepiece production management and retail development. Prior to joining the Group, Ms. Yim was the Chief factory manager of a state owned enterprise namely 上海手錶二廠.



**MR. CHONG, Jonathan**

*Assistant General Manager, Regional China (Peace Mark Ltd.)*

39, is responsible for managing and developing new business opportunities for the Group's retail operations in western China. Mr. Chong holds a Bachelor's degree in Commerce from Saint Mary's University. Prior to joining the Group, he was with Le Saunda Group to develop a new cosmetic brand in China and was responsible for image building and product sourcing to the retail operation.



**MR. CHEN, Wei**

*General Manager (Ningbo Yihe Timepieces Co. Ltd.)*

37, is responsible for managing and developing the timepiece and jewellery retailing network in Zhejiang province. He has more than 10 years experience in jewellery and timepiece retail and wholesale management.



**MR. LIN, Shaowei**

*General Manager (Shenzhen Modern Watch Showpiece Co. Ltd.)*

42, is responsible for business development of the timepiece retail market in Guangdong province. Mr. Lin has extensive experience and exposure in retailing management of timepiece products.

**MARKETING & DISTRIBUTION  
US + OEM/ODM SALES & MARKETING**



**MR. SCHNECK, Robert**

*Chief Executive Officer (Omni Watch & Clock Co., LLC.)*

58, is responsible for the overall business development for the U.S. subsidiary. Mr. Schneck has over 37 years experience in the timepiece importing and distribution industry and was the recipient of several "Vendor of the Year" Awards. He also serves as the Chairman of the United States Watch Council Membership Committee.



**MR. FABBRI, Terence**

*Sales Manager (Omni Watch & Clock Co., LLC.)*

55, is based in both Bentonville, Arkansas and Hong Kong and is directly responsible for development of new merchandising program with Wal-Mart Stores and other key retailers in the United States. Prior to joining the Group, Mr. Fabbri served as Vice President of Timex Watch Co.



**MR. CHAN, Gary**

*Head of Marketing (Peace Mark Ltd.)*

37, is responsible for the timepiece marketing function, in particular the US market of the Group. He has over 15 years experience in the timepiece industry. He has been with the Group for over 11 years.



**MR. TAI, Terry**

*Head of Brand Name Division (Peace Mark Ltd.)*

55, is responsible for the business development of the brand name division of the Group. He is a former Director (1992-1995) of the Federation of Hong Kong Watch Traders and Industries Ltd. He is also an organizing committee member of HK Watch Q Mark. He has over 35 years experience in the timepiece industry.



**MS. SHING, Money**

*Marketing Manager (Peace Mark Ltd.)*

33, is responsible for the timepiece marketing function, in particular the US market. She has been with the Group for over 8 years.

DIRECTORS AND SENIOR MANAGEMENT PROFILES



**MR. WONG, Eddie**

*Marketing Manager (Peace Mark Ltd.)*

47, is responsible for the OEM business of Japan and part of the European market. He has 11 years experience in the related business.



**Mr. HECK, Hardy**

*Consultant of Business Development (Peace Mark Ltd.)*

62, graduated from the Academy of Business in Duesseldorf, Germany. He is an advisor to the board of directors for business development and marketing in Central Europe. He has 35 years experience in the timepiece industry.

**MARKETING & DISTRIBUTION  
EUROPE**



**MR. EDÖCS, Jan**

*CEO (Milus International S.A.)*

35, is responsible for the business development and marketing of the Milus brand. Prior to joining the Group, he was the Sales-Marketing Director (Switzerland) and International Sales Manager of VERSACE S.A..



**MS. SIEBER, Barbara**

*Marketing Director (Milus International S.A.)*

39, is responsible for developing brand positioning and marketing strategies for the brand. Prior to joining the Group, she was the Marketing Director of Flik Flak – Swatch Group and Visual Marketing Manager of Swarovski.



**MR. CHAU, Quinton**

*Director (Milus (Far East) Ltd.)*

26, is responsible for the business development and brand positioning of Milus in the Greater China region. Prior to joining Milus, he was the Group's Head of Corporate Communications. He graduated deans list, cum laude from the University of San Francisco with a Bachelor's degree in Finance and holds a Master degree in Corporate Governance & Directorship from the Baptist University of Hong Kong. He is the son of the Chairman.



**MR. KOHLERMANN, Philipp**

*Director (Milus Germany GmbH)*

41, is responsible for the business development and brand positioning of Milus in Germany and Austria. Prior to joining the Group, he was CEO of Luxury Brand International and Sales Director for Charriol Watches and D'Arsy in Germany, Austria, Benelux and Scandinavia.



**MR. DE JAILLON, Hugues**

*Chief Executive Officer (Peace Mark Holdings SAS)*

50, is responsible for developing and managing new businesses within the EU region as well as other new markets. He holds a Bachelor's degree in Commerce and Law and has over 24 years experience in China trade, and headed numerous operations related to import, export and manufacturing.



**MR. JOURDAIN, Bruno**

*Vice President, Marketing (Peace Mark Holdings SAS)*

45, is involved in development and the marketing of Peace Mark activities in France. Prior to joining the Group, he worked for 15 years in the watch industry as Product Manager for MAIER SA in France and Watch Department Manager for COMOTEC Far East Ltd. in Hong Kong.



**MR. BOETTO, Marcello**

*Vice President, Marketing (Peace Mark Ltd.)*

45, is responsible for representing Peace Mark in Italy, Greece, Spain, and Portugal. He is also in-charge of developing, managing, and marketing the OEM business in Europe. Prior to joining the Group, he was marketing and product consultant for several Italian watch companies interacting with the brand customers and suppliers in Asia and Switzerland. He has over 20 years experience in the timepiece industry.



**MRS. NIEDERLEITNER, Ulrike**

*General Manager (Madison N.Y. Ltd.)*

52, is responsible for the overall business development of the Central Europe market. Together with her husband, Mr. Lorenz Niederleitner was one of the earliest exporters of watches and clocks to the German market. Mrs. Niederleitner is very popular and well received by the buyers of the European importers.

DIRECTORS AND SENIOR MANAGEMENT PROFILES

## MANUFACTURING MANAGEMENT & OPERATION



### MR. LEUNG, Winson

#### Chief Factory Manager (Peace Mark Ltd.)

49, is responsible for managing the watch production and the development of our watch repair school in Shenzhen, the PRC. Mr. Leung holds a certificate in watch repairing from Lee Wai Lee Technical Institute in Hong Kong. He has over 27 years experience in product management in the timepiece industry. He is the brother of the CEO.



### MR. FUNG, Charles

#### General Manager (Timetech Industrial Ltd.)

41, is responsible for the timepiece marketing function, in particular the Japanese and European market, of the Group. He has over 24 years experience in the timepiece industry and 13 years experience in the field of timepiece production engineering.



### MR. LEUNG, David

#### Director (Watchsmith Timepieces Servicing Co., Ltd.)

63, is responsible for overseeing the service center network. Having worked over 20 years in one of the world's largest watch group, he brings on board experience in different sectors of the watch industry including technical training, marketing and manufacturing of watches and movements.



### MR. YIP, Samuel

#### Operation Manager (Peace Mark Ltd.)

52, is responsible for managing the timepiece operation of the Group. Mr. Yip is also the management representative of ISO 9001 ensuring the Group's continuing compliance of the ISO 9001 standard. He has over 22 years experience in the timepiece industry.

## MANUFACTURING R&D & ENGINEERING



### MR. LIU, Ken

#### Chief Designer (Peace Mark Ltd.)

32, is responsible for the Group's product design development, management and training for the OEM/ODM design division. He graduated in Commercial Design from Hong Kong Vocational Training Centre and also holds various certificates relating to jewellery and timepiece design, appraisal, and production. His designs and creations has won the Group numerous awards and recognitions.



### MR. WONG, Ronald

#### Senior Designer (Peace Mark Ltd.)

34, is responsible for the Group's product design development projects. He holds Bachelor's degree in Product Design and Analysis. Mr. Wong is a full member of the Chartered Society of Designers (MCSD) and Industrial Designers Society of America (I/IDSA). And is also a course development advisor of department of design at Hong Kong Institute of Vocational Education – Shatin.



### MR. JUNOD, Paul

#### Independent Design Consultant (Milus International S.A.)

49, is a ETS Micro-technical Engineer and creates and develops very outstanding and innovative watch collections. Mr. Junod's designs have won numerous awards and stand for uncompromising creativity.



### MR. TAKEHIKO, Emi

#### Production Engineer (Peace Mark Ltd.)

62, is in charge of managing quality control issues and operational issues for the assembly plant in China. He is also responsible for technical support and staff training. Mr. Takehiko holds a Bachelor's degree in an Electrical and Mechanical Engineering from Kagoshima University. He has over 38 years of experience in production management.



[www.peacemark.com](http://www.peacemark.com)



Peace Mark (Holdings) Limited

宜進利(集團)有限公司

(Stock Code: 0304)

# *Financial Statements*



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## AUDITORS' REPORT

永正會計師事務所  
**CHU and CHU**  
Certified Public Accountants

**A Member of AGN International**



To the Shareholders of  
**Peace Mark (Holdings) Limited**  
*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 15 to 95 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### BASIS OF OPINION

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

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

## AUDITORS' REPORT

**OPINION**

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



**Chu and Chu**  
Certified Public Accountants

Hong Kong  
13 July 2006

## DIRECTORS' REPORT

The directors of the Company are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31 March 2006.

### PRINCIPAL ACTIVITIES

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

### SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 6 to the financial statements.

### RESULTS AND APPROPRIATION

Details of the results of the Group for the year ended 31 March 2006 are set out in the consolidated income statement on page 15 of this report and the accompanying notes to the financial statements.

The directors declared an interim dividend of HK3.0 cents per share, totaling HK\$26,992,000, which was paid on 26 January 2006.

The directors recommend the payment of a final dividend of HK4.3 cents per share, totaling HK\$42,580,000, payable on or before 8 September 2006.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on pages 97 to 98 of this report.

### RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on pages 20 of this report.

Movements in the reserves of the Company during the year are set out in note 36 to the financial statements.

### DISTRIBUTABLE RESERVES

As at 31 March 2006, the reserves of the Company available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK\$435.7 million. In addition, the share premium of the Company, in the amount of approximately HK\$626.6 million, may be distributed in the form of fully paid bonus shares.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 17 to the financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

## BORROWINGS

Details of the Group's and the Company's borrowings and obligations under finance leases are set out in note 32 and note 33 to the financial statements respectively.

## RETIREMENT SCHEME BENEFITS

Details of retirement scheme benefits are set out in note 42 to the financial statements.

## POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group which took place subsequent to 31 March 2006 and up to the date of the report are set out in note 45 to the financial statements.

## DIRECTORS

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

### *Executive Directors*

Mr. Chau Cham Wong, Patrick (*Chairman*)  
Mr. Leung Yung (*Chief Executive Officer*)  
Mr. Tsang Kwong Chiu, Kevin (*Chief Financial Officer*)  
Mr. Man Kwok Keung  
Mr. Cheng Kwan Ling

### *Independent Non-Executive Directors*

Mrs. Susan So  
Mr. Kwok Ping Ki, Albert  
Mr. Tang Yat Kan  
Mr. Wong Yee Sui, Andrew  
Mr. Mak Siu Wing, Clifford

Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Mr. Man Kwok Keung and Mr. Kwok Ping Ki, Albert shall retire and being eligible to offer themselves for re-election while Mr. Chau Cham Wong, Patrick and Mr. Leung Yung also offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmation from each of the independent non-executive directors concerning their independence to the Company and considers that each of the independent non-executive directors is independent to the Company.

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract with the Group, which is not terminable by the Group within one year without payment of compensation, other than normal statutory compensations.

### DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and of the senior management of the Group are set out on pages 41 to 46 of the annual report.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 23 August 2006 to Friday, 25 August 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 22 August 2006.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

Directors' and officers' liability insurance was maintained during the year.

### DIRECTORS' INTERESTS IN CONTRACTS

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

### DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2006, the interests or short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

# DIRECTORS' REPORT

The table below sets out the aggregate long positions in the shares of each director of the Company:

| Name of director        | Personal interests | Corporate interests | Other interests        | Number of underlying shares held under equity derivatives | Total interests | Percentage of total issued share capital (%) |
|-------------------------|--------------------|---------------------|------------------------|-----------------------------------------------------------|-----------------|----------------------------------------------|
| Chau Cham Wong, Patrick | 65,631,077         | 296,840,459         | 28,416,795<br>(Note 1) | –                                                         | 390,888,331     | 39.49                                        |
| Leung Yung              | –                  | 325,257,254         | 65,631,077<br>(Note 2) | –                                                         | 390,888,331     | 39.49                                        |
| Tsang Kwong Chiu, Kevin | 98,353             | –                   | –                      | 3,000,000<br>(Note 3)                                     | 3,098,353       | 0.31                                         |
| Cheng Kwan Ling         | 293,904            | –                   | –                      | 1,000,000<br>(Note 3)                                     | 1,293,904       | 0.13                                         |
| Man Kwok Keung          | –                  | –                   | –                      | 1,000,000<br>(Note 3)                                     | 1,000,000       | 0.10                                         |
| Tang Yat Kan            | –                  | –                   | –                      | 500,000<br>(Note 3)                                       | 500,000         | 0.05                                         |
| Kwok Ping Ki, Albert    | –                  | –                   | –                      | 500,000<br>(Note 3)                                       | 500,000         | 0.05                                         |
| Mak Siu Wing, Clifford  | –                  | –                   | –                      | 500,000<br>(Note 3)                                       | 500,000         | 0.05                                         |
| Wong Yee Sui, Andrew    | –                  | –                   | –                      | 500,000<br>(Note 3)                                       | 500,000         | 0.05                                         |
| Susan So                | –                  | –                   | –                      | 500,000<br>(Note 3)                                       | 500,000         | 0.05                                         |

## DIRECTORS' REPORT

### *Notes:*

1. Mr. Chau Cham Wong, Patrick was deemed to be interested in 28,416,795 shares for the purposes of section 317 of the SFO, representing the deemed interests in United Success Enterprises Limited ("United Success") in respect of its holdings pursuant to a placing and subscription completed in April 2004 (the "Placing and Top Up"). As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 390,888,331 shares of the Company.
2. Mr. Leung Yung has 49.55% voting control of A-ONE Investments Limited ("A-ONE") and 100% voting control of United Success, both of which are vendors acting in concert with him in the Placing and Top Up. He was deemed to be interested in 65,631,077 shares of the Company for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 390,888,331 shares of the Company.
3. These interest represented the interest in underlying shares of the Company in respect of share options granted by the Company to these directors as beneficial owners.

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the Directors in trust for the Company, as at 31 March 2006, none of the directors of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE OPTION SCHEME

Share options are granted to the Directors, employees and other eligible persons under the Share Option Scheme of the Company (the "Scheme") adopted on 24 January 2002. Details of the Scheme are set out in note 37 to the financial statements.

## SHARE INCENTIVE SCHEME

On 31 March 2006, the Company adopted a share incentive scheme which the details are set out in note 38 to the financial statements.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements that enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors, their spouses or their children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, the following persons (other than directors of the Company) were substantial shareholders of the Company or had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name of substantial shareholder                            | Number of<br>shares in<br>which interested | Percentage of<br>issued<br>share capital |
|------------------------------------------------------------|--------------------------------------------|------------------------------------------|
| United Success                                             | 390,888,331<br>(Note 1)                    | 39.49                                    |
| A-ONE                                                      | 390,888,331<br>(Note 2)                    | 39.49                                    |
| Value Partner Limited ("Value Partners")                   | 84,470,000<br>(Note 3)                     | 8.53                                     |
| Cheah Cheng Hye ("Mr. Cheah")                              | 84,470,000<br>(Note 4)                     | 8.53                                     |
| Arisaig Greater China Fund ("Arisaig")                     | 62,640,119<br>(Note 5)                     | 6.33                                     |
| Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius") | 62,640,119<br>(Note 6)                     | 6.33                                     |
| Cooper Lindsay William Ernest ("Mr. Cooper")               | 62,640,119<br>(Note 7)                     | 6.33                                     |

## DIRECTORS' REPORT

### *Notes:*

1. United Success was wholly-owned by Mr. Leung Yung. United Success was one of the parties acting in concert under the Placing and Top Up, and so was deemed to be interested in 390,888,331 shares of the Company pursuant to section 317 of the SFO.
2. Mr. Chau Cham Wong, Patrick controlled 50.45% and Mr. Leung Yung controlled 49.55% of A-ONE respectively. A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 390,888,331 shares of the Company pursuant to section 317 of the SFO.
3. Value Partners was interested in 84,470,000 shares of the Company as investment manager.
4. Mr. Cheah was deemed to be interested, through his indirect 32.77% beneficial interest, in Value Partners.
5. This represented a direct holding by Arisaig of the shares of the Company.
6. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in and the shares arising by virtue of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO.
7. Mr. Cooper was deemed interested through his indirect 33.33% beneficial interest in Arisaig Mauritius.

Save as disclosed above, the Company has not been notified of any other person (other than directors of the Company) who had an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, the company has maintained the prescribed public float under the Listing Rules.

## DIRECTORS' REPORT

### PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased 5,970,000 ordinary shares of the Company in the Stock Exchange of Hong Kong Limited at an aggregate consideration of approximately HK\$11,063,000 before expenses. The repurchased shares were subsequently cancelled. The repurchase was effected by the Directors for the enhancement of shareholders value in the long term. Details of the shares repurchased are as follows:

| Month of repurchase | Number of shares repurchased | Price per shares |                | Aggregate price paid<br>HK\$'000 |
|---------------------|------------------------------|------------------|----------------|----------------------------------|
|                     |                              | Highest<br>HK\$  | Lowest<br>HK\$ |                                  |
| October 2005        | 4,050,000                    | 1.90             | 1.77           | 7,551                            |
| November 2005       | 1,920,000                    | 1.88             | 1.77           | 3,512                            |
| Total               | 5,970,000                    |                  |                | 11,063                           |

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

### MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

## DIRECTORS' REPORT

**DISCLOSURE UNDER RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES**

- (1) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22 April 2005 relating to a term loan and revolving credit facility in an aggregate amount of HK\$630,000,000 (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

- (a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and
- (b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 35% of the voting share capital of the Company; or no longer control the board of directors of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, ABN AMRO Bank N.V. as agent may, inter alia, upon instructions from the majority lenders declare that all or part of the Facility, together with accrued interest, and all other amounts accrued under the finance documents as referred to under the Facility Agreement be immediately due and payable.

- (2) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 5 June 2006 relating to a term loan facility in an aggregate amount of HK\$600,000,000 (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

- (a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and
- (b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 30% of the voting share capital of the Company; or no longer have management control of the Company.

Upon the occurrence of an event of default under the Facility Agreement and so long as it is continuing, Sumitomo Mitsui Banking Corporation as agent may, inter alia, upon instructions from the majority lenders declare that all or part of the Facility, together with accrued interest, and all other amounts accrued under the finance documents as referred to under the Facility Agreement be immediately due and payable.

## CONNECTED TRANSACTIONS

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

The Group has also granted an option to Tourneau Investment to acquire from it a 14% interest in Peace Mark Tourneau at the par value of such capital.

Peace Mark Tourneau and Tourneau also entered into a trademark license agreement on 31 March 2006 whereby Tourneau will grant an exclusive right to Peace Mark Tourneau to use the trademark of "Tourneau". As Tourneau Investment will become a substantial shareholder of Peace Mark Tourneau which will be a subsidiary of the Company, the transactions contemplated under the Trademark License Agreement will constitute continuing connected transactions for the Company under the Listing Rules.

The Directors (including the independent non-executive Directors) consider that (i) the payment of the royalties and the transactions contemplated under a trademark license agreement ("Trademark License Agreement") are entered into in the usual and ordinary course of business of the Group; (ii) their terms being fair and reasonable in so far as the Company and the shareholders of the Company (the "Shareholders") are concerned have been negotiated and will be conducted on an arm's length basis and on normal commercial terms between Peace Mark Tourneau and Tourneau; (iii) the annual caps thereunder are fair and reasonable in so far as the Company and the Shareholders are concerned; and (iv) the transactions contemplated under the Trademark License Agreement are in the interests of the Company and the Shareholders as a whole.

As the annual cap of the royalties under the Trademark License Agreement is expected to be less than 2.5 of the percentage ratios (other than the profits ratio) under the Listing Rules, the transactions are exempt from the independent Shareholders' approval under Rule 14A.34 of the Listing Rules and the Company is required to comply with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Company is also required to comply with the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules for the Royalties. If the annual cap of the royalties under the Trademark License Agreement is exceeded or when the Trademark License Agreement is renewed or there is a material change to the terms thereof, the Company will need to re-comply with Rules 14A.35(3) and (4).

- (2) The details of other connected transactions made during the year were set out in note 15 to the financial statements according to the Listing Rules.

In the opinion of the independent non-executive directors, these transactions entered into by the Group were:

- (a) in the ordinary and usual course of business of the Group;

## DIRECTORS' REPORT

- (b) either (a) on normal commercial terms; or (b) where there is re-available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and
- (c) either (a) in accordance with the terms of the agreements; or (b) where there are no such agreements, on terms no less favourable than those available to or from independent third parties;

Save as disclosed above, there were no other transactions which are required to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2006, the five largest ultimate customers to whom the goods were exported by the Group together accounted for not more than 50% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 80% of the Group's purchases for which the largest supplier accounting for approximately 30%.

Save as disclosed above, none of the Directors, their associates nor any shareholder who, to the knowledge of the Directors own more than 5% of the Company's share capital, had an interest in any of the five largest suppliers or customers.

## AUDITORS

The financial statements for the year ended 31 March 2006 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to reappoint them as auditors.

On behalf of the Board



**Chau Cham Wong, Patrick**  
*Chairman*

Hong Kong  
13 July 2006

## CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 March 2006

|                                                                                             | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000<br>(restated) |
|---------------------------------------------------------------------------------------------|------|------------------|--------------------------------|
| Turnover                                                                                    | 7    | 2,241,771        | 1,937,947                      |
| Cost of sales                                                                               |      | (1,544,183)      | (1,398,828)                    |
| Gross profit                                                                                |      | 697,588          | 539,119                        |
| Other revenue                                                                               | 7    | 80,444           | 22,864                         |
| Selling and distribution expenses                                                           |      | (261,145)        | (181,738)                      |
| Administrative and general expenses                                                         |      | (185,650)        | (188,065)                      |
| Other operating expenses                                                                    |      | (17,806)         | (11,096)                       |
| Profit from operations                                                                      | 8    | 313,431          | 181,084                        |
| Share of profit (loss) of associates                                                        |      | 2,974            | (357)                          |
| Share of loss of a jointly controlled entity                                                |      | (2,134)          | (929)                          |
| Finance costs                                                                               | 9    | (60,346)         | (27,439)                       |
| Profit before taxation                                                                      |      | 253,925          | 152,359                        |
| Taxation                                                                                    | 11   | (37,924)         | (23,158)                       |
| Profit for the year                                                                         |      | 216,001          | 129,201                        |
| Attributable to:                                                                            |      |                  |                                |
| Equity holders of the Company                                                               | 12   | 200,619          | 123,917                        |
| Minority interest                                                                           |      | 15,382           | 5,284                          |
|                                                                                             |      | 216,001          | 129,201                        |
| Dividends                                                                                   | 13   | 69,572           | 43,106                         |
| Earnings per share for profit attributable to equity holders of the Company during the year | 14   |                  |                                |
| Basic (HK cents)                                                                            |      | 22.13            | 14.90                          |
| Diluted (HK cents)                                                                          |      | 22.03            | 14.49                          |

The notes on pages 24 to 95 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

As at 31 March 2006

|                                                                | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000<br>(restated) |
|----------------------------------------------------------------|------|------------------|--------------------------------|
| <b>NON-CURRENT ASSETS</b>                                      |      |                  |                                |
| Freehold land and interest in leasehold land held for own use  | 16   | 5,461            | 21,256                         |
| Property, plant and equipment                                  | 17   | 401,288          | 457,529                        |
| Intangible assets                                              | 18   | 53,453           | 53,629                         |
| Goodwill                                                       | 19   | 142,690          | 147,995                        |
| Interest in associates                                         | 21   | 134,533          | 65,375                         |
| Interest in a jointly controlled entity                        | 22   | 13,776           | 15,640                         |
| Available-for-sale financial assets                            | 23   | 44,941           | –                              |
| Investments in securities                                      | 24   | –                | 16,768                         |
| Other financial assets                                         | 25   | –                | 29,225                         |
| Deferred tax assets                                            | 34   | 9,224            | 12,577                         |
|                                                                |      | <b>805,366</b>   | <b>819,994</b>                 |
| <b>CURRENT ASSETS</b>                                          |      |                  |                                |
| Inventories                                                    | 26   | 654,417          | 513,300                        |
| Trade receivables                                              | 27   | 318,849          | 276,038                        |
| Trade deposits and other receivables                           | 28   | 280,783          | 119,402                        |
| Derivative financial instruments                               | 29   | 17,119           | –                              |
| Other financial assets at fair value<br>through profit or loss | 30   | 9,364            | –                              |
| Cash and bank balances                                         |      | 1,185,789        | 666,167                        |
|                                                                |      | <b>2,466,321</b> | <b>1,574,907</b>               |
| <b>CURRENT LIABILITIES</b>                                     |      |                  |                                |
| Trade and other payables                                       | 31   | 385,057          | 220,094                        |
| Interest-bearing borrowings                                    | 32   | 547,240          | 671,570                        |
| Obligations under finance leases                               | 33   | 1,195            | 2,918                          |
| Derivative financial instruments                               | 29   | 9,932            | –                              |
| Tax payable                                                    |      | 37,853           | 21,974                         |
|                                                                |      | <b>981,277</b>   | <b>916,556</b>                 |
| <b>NET CURRENT ASSETS</b>                                      |      | <b>1,485,044</b> | <b>658,351</b>                 |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                   |      | <b>2,290,410</b> | <b>1,478,345</b>               |

# CONSOLIDATED BALANCE SHEET

As at 31 March 2006

|                                                             | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000<br>(restated) |
|-------------------------------------------------------------|------|------------------|--------------------------------|
| <b>NON-CURRENT LIABILITIES</b>                              |      |                  |                                |
| Interest-bearing borrowings                                 | 32   | 609,914          | 269,140                        |
| Obligations under finance leases                            | 33   | 206              | 1,651                          |
| Deferred tax liabilities                                    | 34   | 11,392           | 15,314                         |
|                                                             |      | 621,512          | 286,105                        |
| <b>NET ASSETS</b>                                           |      |                  |                                |
|                                                             |      | 1,668,898        | 1,192,240                      |
| <b>CAPITAL AND RESERVES</b>                                 |      |                  |                                |
| Share capital                                               | 35   | 98,974           | 86,808                         |
| Reserves                                                    | 36   | 1,462,351        | 1,020,620                      |
| <b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b> |      |                  |                                |
|                                                             |      | 1,561,325        | 1,107,428                      |
| <b>MINORITY INTEREST</b>                                    |      |                  |                                |
|                                                             |      | 107,573          | 84,812                         |
| <b>TOTAL EQUITY</b>                                         |      |                  |                                |
|                                                             |      | 1,668,898        | 1,192,240                      |

The notes on pages 24 to 95 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 13 July 2006, and signed on its behalf by:



**Chau Cham Wong, Patrick**  
Chairman



**Leung Yung**  
Chief Executive Officer

## BALANCE SHEET

As at 31 March 2006

|                                              | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|----------------------------------------------|------|------------------|------------------|
| <b>NON-CURRENT ASSETS</b>                    |      |                  |                  |
| Interest in subsidiaries                     | 20   | 1,800,986        | 1,219,800        |
| <b>CURRENT ASSETS</b>                        |      |                  |                  |
| Other receivables                            |      | 38,167           | 100              |
| Derivative financial instruments             | 29   | 1,630            | –                |
| Cash and bank balances                       |      | 60,416           | 63,626           |
|                                              |      | 100,213          | 63,726           |
| <b>CURRENT LIABILITIES</b>                   |      |                  |                  |
| Accruals and other payables                  |      | 265              | 395              |
| Interest-bearing borrowings                  | 32   | 166,050          | 182,600          |
|                                              |      | 166,315          | 182,995          |
| <b>NET CURRENT LIABILITIES</b>               |      | (66,102)         | (119,269)        |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b> |      | 1,734,884        | 1,100,531        |
| <b>NON-CURRENT LIABILITIES</b>               |      |                  |                  |
| Interest-bearing borrowings                  | 32   | 570,000          | 222,050          |
| <b>NET ASSETS</b>                            |      | 1,164,884        | 878,481          |

## BALANCE SHEET

As at 31 March 2006

|                                    | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|------------------------------------|------|------------------|------------------|
| <b><i>CAPITAL AND RESERVES</i></b> |      |                  |                  |
| Share capital                      | 35   | 98,974           | 86,808           |
| Reserves                           | 36   | 1,065,910        | 791,673          |
| <b><i>TOTAL EQUITY</i></b>         |      | <b>1,164,884</b> | <b>878,481</b>   |

The notes on pages 24 to 95 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 13 July 2006, and signed on its behalf by:



**Chau Cham Wong, Patrick**  
*Chairman*



**Leung Yung**  
*Chief Executive Officer*

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2006

|                                                                                         | Note | Attributable to equity holders<br>of the Company |                      | Minority<br>interest<br>HK\$'000 | Total<br>HK\$'000 |
|-----------------------------------------------------------------------------------------|------|--------------------------------------------------|----------------------|----------------------------------|-------------------|
|                                                                                         |      | Share capital<br>HK\$'000                        | Reserves<br>HK\$'000 |                                  |                   |
| <b>Balance at 1 April 2004</b> , as previously reported as equity                       |      | 69,075                                           | 708,824              | –                                | 777,899           |
| <b>Balance at 1 April 2004</b> , as previously separately reported as minority interest |      | –                                                | –                    | 60,178                           | 60,178            |
| Effect of adopting HKAS 17                                                              |      | –                                                | (4,488)              | –                                | (4,488)           |
| <b>Balance at 1 April 2004</b> , as restated                                            |      | 69,075                                           | 704,336              | 60,178                           | 833,589           |
| Net profit for the year, as previously reported                                         |      |                                                  |                      |                                  |                   |
| – Attributable to equity holders of the company                                         |      | –                                                | 123,811              | –                                | 123,811           |
| – Attributable to minority interest                                                     |      | –                                                | –                    | 5,284                            | 5,284             |
| Effect of adopting HKAS 17                                                              |      | –                                                | 106                  | –                                | 106               |
| Net profit for the year, as restated                                                    |      | –                                                | 123,917              | 5,284                            | 129,201           |
| Currency translation differences                                                        |      | –                                                | 1,341                | 831                              | 2,172             |
| Total recognized income for the year                                                    |      | –                                                | 125,258              | 6,115                            | 131,373           |
| Issue of new shares at premium                                                          |      | 12,650                                           | 193,409              | –                                | 206,059           |
| Issue of new shares pursuant to the exercise of warrants                                |      | 4,330                                            | 23,812               | –                                | 28,142            |
| Issue of new shares as 2004 final scrip dividend, in lieu of cash                       |      | 833                                              | 9,833                | –                                | 10,666            |
| Share repurchased and cancelled                                                         |      | (80)                                             | (930)                | –                                | (1,010)           |
| Dividend declared or approved during the year                                           |      | –                                                | (35,098)             | –                                | (35,098)          |
| Increase investment from minority interest                                              |      | –                                                | –                    | 3,164                            | 3,164             |
| Minority interest arising from acquisition of subsidiaries                              |      | –                                                | –                    | 15,355                           | 15,355            |
|                                                                                         |      | 17,733                                           | 191,026              | 18,519                           | 227,278           |
| <b>Balance at 31 March 2005</b>                                                         |      | 86,808                                           | 1,020,620            | 84,812                           | 1,192,240         |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 March 2006

|                                                            | Note | Attributable to equity holders<br>of the Company |                      | Minority<br>interest<br>HK\$'000 | Total<br>HK\$'000 |
|------------------------------------------------------------|------|--------------------------------------------------|----------------------|----------------------------------|-------------------|
|                                                            |      | Share capital<br>HK\$'000                        | Reserves<br>HK\$'000 |                                  |                   |
| <b>Balance at 1 April 2005</b> as per above                |      | 86,808                                           | 1,020,620            | 84,812                           | 1,192,240         |
| Opening adjustment for the adoption of HKAS 39             |      | –                                                | 363                  | –                                | 363               |
| <b>Balance at 1 April 2005, as restated</b>                |      | 86,808                                           | 1,020,983            | 84,812                           | 1,192,603         |
| Fair value gains, net of tax:                              |      |                                                  |                      |                                  |                   |
| – available-for-sale financial assets                      |      | –                                                | (146)                | –                                | (146)             |
| Currency translation differences                           |      | –                                                | (4,761)              | –                                | (4,761)           |
| Net loss recognized directly in equity                     |      | –                                                | (4,907)              | –                                | (4,907)           |
| Profit for the year                                        |      | –                                                | 200,619              | 15,382                           | 216,001           |
| <b>Total recognized income for the year</b>                |      | –                                                | 195,712              | 15,382                           | 211,094           |
| Disposal of subsidiaries                                   |      | –                                                | 7,310                | –                                | 7,310             |
| Employee share option scheme:                              |      |                                                  |                      |                                  |                   |
| – value of employee services                               |      | –                                                | 3,588                | –                                | 3,588             |
| Issue of new shares for subscription                       |      | 9,000                                            | 276,919              | –                                | 285,919           |
| Issue of new shares pursuant to the exercise of warrants   |      | 3,763                                            | 20,693               | –                                | 24,456            |
| Share repurchased and cancelled                            |      | (597)                                            | (10,502)             | –                                | (11,099)          |
| Dividend declared or approved during the year              |      | –                                                | (52,352)             | –                                | (52,352)          |
| Increase investment from minority interest                 |      | –                                                | –                    | 4,874                            | 4,874             |
| Minority interest arising from acquisition of subsidiaries |      | –                                                | –                    | 2,505                            | 2,505             |
|                                                            |      | 12,166                                           | 245,656              | 7,379                            | 265,201           |
| <b>Balance at 31 March 2006</b>                            |      | 98,974                                           | 1,462,351            | 107,573                          | 1,668,898         |

The notes on pages 24 to 95 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 March 2006

|                                                                                | Note | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|--------------------------------------------------------------------------------|------|------------------|------------------|
| <b>OPERATING ACTIVITIES</b>                                                    |      |                  |                  |
| Profit from ordinary activities before taxation                                |      | 253,925          | 152,359          |
| Adjustments for:                                                               |      |                  |                  |
| Depreciation of property, plant and equipment                                  |      | 70,802           | 64,381           |
| Amortization of land lease premium                                             |      | 103              | 103              |
| Amortization of goodwill                                                       |      | –                | 9,074            |
| Impairment loss on goodwill                                                    |      | 7,133            | 12,575           |
| Amortization of intangible assets                                              |      | –                | 3,093            |
| Interest expenses                                                              |      | 60,346           | 27,439           |
| Interest income                                                                |      | (42,039)         | (8,590)          |
| Share based payment                                                            |      | 3,588            | –                |
| Gain on fair value adjustment on derivative financial instruments              |      | (5,657)          | –                |
| Share of loss of a jointly controlled entity                                   |      | 2,134            | 929              |
| Share of (profit) loss of associates                                           |      | (2,974)          | 357              |
| Loss on disposal of property, plant and equipment                              |      | 1,203            | 56               |
| Unrealized gain on other financial assets at fair value through profit or loss |      | (556)            | –                |
| Provision for impairment loss on trade receivables                             |      | 553              | –                |
| Loss on written down of inventories to net realizable value                    |      | 8,552            | –                |
| Gain on disposal of subsidiaries                                               |      | (15,123)         | –                |
| Operating profit before changes in working capital                             |      | 341,990          | 261,776          |
| Increase in inventories                                                        |      | (143,916)        | (172,174)        |
| Increase in trade receivables                                                  |      | (38,370)         | (66,045)         |
| (Increase) Decrease in trade deposits and other receivables                    |      | (42,077)         | 86,518           |
| Increase in trade and other payables                                           |      | 215,076          | 51,995           |
| Increase in trust receipt loans                                                |      | 14,675           | 15,227           |
| Cash generated from operations                                                 |      | 347,378          | 177,297          |
| Profits tax paid                                                               |      | (22,891)         | (6,403)          |
| <b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>                               |      | <b>324,487</b>   | <b>170,894</b>   |

# CONSOLIDATED CASH FLOW STATEMENT

For the Year ended 31 March 2006

|                                                                                     | Note   | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|-------------------------------------------------------------------------------------|--------|------------------|------------------|
| <b>INVESTING ACTIVITIES</b>                                                         |        |                  |                  |
| Payment for purchase of property, plant and equipment                               |        | (77,575)         | (120,498)        |
| Proceed from disposal of property, plant and equipment                              |        | 703              | 146              |
| Payment for acquisition of investments in securities                                |        | –                | (500)            |
| Proceed from sales of debt instruments                                              |        | 344,776          | –                |
| Payment for purchase of other financial assets at fair value through profit or loss |        | (8,808)          | –                |
| Movement in amount due from a jointly controlled entity                             |        | (269)            | (5,647)          |
| Movement in amounts due from associates                                             |        | (34,782)         | (1,705)          |
| Proceed for disposal of subsidiaries, net of cash disposed of                       | 40, 41 | (20,678)         | –                |
| Payment for purchase of subsidiaries, net of cash acquired                          | 39     | (13,327)         | (145,761)        |
| Payment for purchase of available for sale investment                               |        | (230)            | –                |
| Deposit payment for investment in a joint venture                                   |        | (75,660)         | –                |
| Investment in debt instruments                                                      |        | (325,260)        | –                |
| Repayment from an associate                                                         |        | 1,765            | –                |
| Increase investment from minority shareholders                                      |        | 4,874            | 3,164            |
| Interest received                                                                   |        | 22,523           | 8,590            |
| Exchange realignment                                                                |        | (4,120)          | 511              |
| <b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>                                   |        | <b>(186,068)</b> | <b>(261,700)</b> |
| <b>FINANCING ACTIVITIES</b>                                                         |        |                  |                  |
| Capital element of finance lease rentals paid                                       |        | (3,221)          | (3,461)          |
| Interest element of finance lease rentals paid                                      |        | (306)            | (437)            |
| Proceed from subscription of new shares                                             |        | 285,919          | 206,059          |
| Premium paid on repurchase of shares                                                |        | (10,502)         | (930)            |
| Proceed from exercise of warrants                                                   |        | 24,455           | 28,142           |
| Nominal value of shares repurchased                                                 |        | (597)            | (80)             |
| Proceed from bank loans                                                             |        | 829,287          | 344,885          |
| Repayment of bank loans                                                             |        | (631,440)        | (233,262)        |
| Interest paid                                                                       |        | (60,040)         | (27,002)         |
| Interim dividend paid                                                               |        | (26,992)         | (18,574)         |
| Final dividend paid                                                                 |        | (25,360)         | (5,858)          |
| <b>NET CASH INFLOW FROM FINANCING ACTIVITIES</b>                                    |        | <b>381,203</b>   | <b>289,482</b>   |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                                    |        | <b>519,622</b>   | <b>198,676</b>   |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>                       |        | <b>666,167</b>   | <b>467,491</b>   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>                             |        | <b>1,185,789</b> | <b>666,167</b>   |

The notes on pages 24 to 95 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 1. GENERAL

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

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

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

### The adoption of new/revised HKFRSs

In current year, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

|         |                                                                 |
|---------|-----------------------------------------------------------------|
| HKAS 1  | Presentation of Financial Statements                            |
| HKAS 2  | Inventories                                                     |
| HKAS 7  | Cash Flow Statements                                            |
| HKAS 8  | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date                             |
| HKAS 12 | Income Taxes                                                    |
| HKAS 14 | Segment Reporting                                               |
| HKAS 16 | Property, Plant and Equipment                                   |
| HKAS 17 | Leases                                                          |
| HKAS 18 | Revenue                                                         |
| HKAS 19 | Employee Benefits                                               |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates                |
| HKAS 23 | Borrowing Costs                                                 |
| HKAS 24 | Related Party Disclosures                                       |

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37, HKAS-Int 15 and HK-Int 4 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

### HKAS 17

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

**HKASs 32 and 39**

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

- Equity investments, other than investments in subsidiaries, associates and a jointly controlled company, were classified as (i) investment securities, where the investments were held on a continuing basis for an identifiable long-term strategic purpose, and were stated at cost less any provisions for impairment loss; and (ii) other financial assets, and were stated at cost less any provisions for impairment loss.
- The notional amounts of derivative financial instruments, including interest rate and currency swaps, interest rate options and foreign currency options, entered into by the Group were not reflected in the balance sheet. The related interest flows were accounted for on an accrual basis and the premiums paid on purchased options were amortized over the terms of the respective options.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)***HKASs 32 and 39 (Continued)*

- Fair value of financial instruments is estimated as follows:
  - (i) The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale financial assets) is based on quoted market prices at the balance sheet date.
  - (ii) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques such as estimated discounted cash flows are used to determine the fair value of the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

*HKFRS 3 and HKASs 36 and 38*

In prior periods,

- Goodwill arising on consolidation for acquisitions:
  - (i) before 1 April 2001 was taken directly to reserves at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and
  - (ii) on or after 1 April 2001 was amortized on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.
- Intangible assets mainly comprise the trademark, which is stated at acquisition cost and is amortized on a straight-line basis over its expected future economic life of 20 years.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**2. BASIS OF PREPARATION AND ACCOUNTING POLICIES *(Continued)*****HKFRS 3 and HKASs 36 and 38 *(Continued)***

- Goodwill which had previously been taken directly to reserves will not be recognized in the income statement on disposal or impairment of the acquired business, or under any other circumstances;
- Goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount; and
- The Group has reassessed the useful lives of its intangible assets. Intangible assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events that the carrying amount may not be recoverable.

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

**HKAS 21**

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

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

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

**HKFRS 2**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

### HKFRS 2 (Continued)

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

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

#### a. Effect on the consolidated income statement

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

### b. Effect on the consolidated balance sheet

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

<sup>1</sup> Effective for accounting period beginning on or after 1 January 2007

<sup>2</sup> Effective for accounting period beginning on or after 1 January 2006

<sup>3</sup> Effective for accounting period beginning on or after 1 December 2005

<sup>4</sup> Effective for accounting period beginning on or after 1 March 2006

<sup>5</sup> Effective for accounting period beginning on or after 1 May 2006

<sup>6</sup> Effective for accounting period beginning on or after 1 June 2006

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of consolidation**

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

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

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

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

**(b) Associates and jointly controlled entities**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

**(d) Investments**

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

- Equity investments, other than investments in subsidiaries, associates and a jointly controlled company, were classified as (i) investment securities, where the investments were held on a continuing basis for an identifiable long-term strategic purpose, and were stated at cost less any provisions for impairment loss; and (ii) other financial assets, and were stated at cost less any provisions for impairment loss.
- The notional amounts of derivative financial instruments, including interest rate and currency swaps, interest rate options and foreign currency options, entered into by the Group were not reflected in the balance sheet. The related interest flows were accounted for on an accrual basis and the premiums paid on purchased options were amortized over the terms of the respective options.

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(d) Investments *(Continued)******(ii) Loans and receivables***

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

***(iii) Available-for-sale financial assets***

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

#### (e) Interest in leasehold land held for own use

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

#### (f) Property, plant and equipment

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

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

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

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

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

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

#### (g) Plant and machinery under installation

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(h) Intangible assets (other than goodwill)**

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

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

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

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

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

**(i) Impairment of assets**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

**(k) Taxation**

- (i) Taxation for the year comprises current tax and movements in deferred tax assets and liabilities. Taxation are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(k) Taxation *(Continued)*****(iii) *(Continued)***

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

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

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

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

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, or
  - In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
    - the same taxable entity; or
    - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****(I) Foreign currency translation***(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

*(iii) Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(m) Trade and other receivables**

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

**(n) Trade and other payables**

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

**(o) Provisions and contingencies**

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

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

**(p) Revenue recognition**

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

Service income is recognized when the services are rendered.

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)***(q) Leases***Finance leases*

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

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

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

*Operating leases*

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

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

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

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

*(ii) Pension obligations*

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(r) Employee benefits *(Continued)******(iii) Share-based compensation***

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

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

**(s) Related parties**

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

**(t) Cash and cash equivalents**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

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

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

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

**(v) Borrowings**

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

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

**(w) Derivative financial instruments**

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*****(x) Share capital**

Ordinary share are classified as equity.

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

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

**4. FINANCIAL RISK MANAGEMENT**

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

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

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

1. The Group closely monitors the cash-resources. The Group maintain a conservative cash reserve and review our position regularly to ensure that cost-efficient funding is available for operating expenses, capital expenditure needs and business expansion;
2. The Group's policy is to deposit surplus cash with creditworthy financial institutions or invest in low risk and liquid instruments; and
3. To the extent possible the financing and cash management of the subsidiaries have been management by the centralized treasury functions for the efficient allocation of capital, lower funding costs and control purposes.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**4. FINANCIAL RISK MANAGEMENT** *(Continued)***(a) Interest Rate Risk**

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

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

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

**(b) Foreign Exchange Risk**

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

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

**(c) Credit Risk**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

**(a) Depreciation and amortization**

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

**(b) Allowances for inventories**

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

**(c) Indefinite useful lives of intangible assets**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)****(d) Impairment testing on goodwill and intangible assets with indefinite useful lives (Continued)**

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

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

**(e) Taxation**

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

**(f) Share option benefit expenses**

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

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

**(g) Fair value of derivative financial instruments**

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

**6. SEGMENT INFORMATION**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

6. SEGMENT INFORMATION *(Continued)*

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 6. SEGMENT INFORMATION (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 7. TURNOVER AND OTHER REVENUE

### (a) Turnover

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

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

### (b) Other revenue

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 8. PROFIT FROM OPERATIONS

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 9. FINANCE COSTS

|                                                                                     | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|-------------------------------------------------------------------------------------|------------------|------------------|
| Interest on:                                                                        |                  |                  |
| Term loans, syndicated loans and bank overdrafts wholly repayable within five years | 60,040           | 27,002           |
| Obligations under finance leases                                                    | 306              | 437              |
|                                                                                     | <b>60,346</b>    | <b>27,439</b>    |

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

### (a) Directors' emoluments

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

For the year ended 31 March 2006

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

### (a) Directors' emoluments (Continued)

For the year ended 31 March 2005

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

#### Notes:

- (a) Other benefits include leave pay, share option, insurance premium and club membership.
- (b) Share-based payments represent the estimated value of share options granted to the Directors under the Company's share option schemes. The value of these share options is measured according to the Group's accounting policies for share-based compensation as set out in note 3r(iii).

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

#### (b) Six highest paid individuals

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

|                              | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|------------------------------|------------------|------------------|
| Salaries and other benefits  | 3,353            | 3,758            |
| Pension scheme contributions | –                | 48               |
|                              | <b>3,353</b>     | <b>3,806</b>     |

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

|                                | 2006<br>Number of<br>individuals | 2005<br>Number of<br>individuals |
|--------------------------------|----------------------------------|----------------------------------|
| Nil to HK\$1,000,000           | –                                | –                                |
| HK\$1,000,001 to HK\$1,500,000 | 3                                | 3                                |
|                                | <b>3</b>                         | <b>3</b>                         |

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 11. TAXATION

(a) Taxation in the consolidated income statement represents:

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 11. TAXATION (Continued)

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

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

### 12. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 13. DIVIDENDS

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

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

### 14. EARNINGS PER SHARE

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 15. RELATED PARTY TRANSACTIONS

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

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

Notes:

- (a) Sale of finished goods to associates were conducted in the normal course of business at prices and terms as determined by the transaction parties.
- (b) Purchase of finished goods from an associate was conducted in the normal course of business at prices and terms as determined by the transaction parties.
- (c) The amount of the rental received from/charged to a jointly controlled entity and an associate was agreed between the transaction parties on arm's length basis.
- (d) Fee for electroplating services provided by a jointly controlled entity was charged at prices and terms as agreed between the transaction parties.
- (e) Details of key management compensation of the Group are as follows:

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 17. PROPERTY, PLANT AND EQUIPMENT

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 18. INTANGIBLE ASSETS

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 19. GOODWILL

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

*Note:*

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES

|                               | The Company      |                  |
|-------------------------------|------------------|------------------|
|                               | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| Unlisted shares, at cost      | 51,398           | 51,398           |
| Amounts due from subsidiaries | 1,749,588        | 1,168,402        |
|                               | <b>1,800,986</b> | 1,219,800        |

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES (Continued)

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 20. INTEREST IN SUBSIDIARIES (Continued)

Notes:

1. Represents a Sino-foreign equity joint venture.
2. Represents a wholly foreign owned enterprises.
3. The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.
4. Companies not audited by Chu and Chu, Certified Public Accountants. The financial statements of the subsidiaries not audited by Chu and Chu, Certified Public Accountants reflect total net assets and total turnover constituting approximately 0.93% and 10.2% respectively of the related consolidated totals.

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

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

## 21. INTEREST IN ASSOCIATES

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 21. INTEREST IN ASSOCIATES (Continued)

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

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

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

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

Summary of financial information of associates:

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 22. INTEREST IN A JOINTLY CONTROLLED ENTITY

|                                                    | <b>Group</b>                   |                  |
|----------------------------------------------------|--------------------------------|------------------|
|                                                    | <b>2006</b><br><b>HK\$'000</b> | 2005<br>HK\$'000 |
| Share of net assets of a jointly controlled entity | <b>7,535</b>                   | 9,668            |
| Amount due from a jointly controlled entity        | <b>6,241</b>                   | 5,972            |
|                                                    | <b>13,776</b>                  | 15,640           |

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

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

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

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

Summary of financial information on the jointly controlled entity:

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

*Notes:*

- (a) In 2004, the Group invested HK\$15,600,000 in 20% of the capital of a watch company incorporated in Japan, for long-term purpose. This company advises and assists Japanese brands in identifying and co-ordinating with PRC manufacturers, distribution partners and acquisition targets. It also assists the Group to serve its Japanese customers. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair value at balance sheet date cannot be measured reliably.
- (b) The amount of HK\$27,913,000 represents investments in three investment and insurance combined policies issued by an international insurance group. A minimum annual return of 4% is guaranteed by the insurance group. Fair value of the investments have been determined by reference to the year ended review by the insurance group.

### 24. INVESTMENTS IN SECURITIES

|                               | Group<br>2005<br>HK\$'000 |
|-------------------------------|---------------------------|
| Unlisted investments, at cost | 16,768                    |

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

### 25. OTHER FINANCIAL ASSETS

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

## 26. INVENTORIES

|                  | <b>Group</b>    |          |
|------------------|-----------------|----------|
|                  | <b>2006</b>     | 2005     |
|                  | <b>HK\$'000</b> | HK\$'000 |
| Raw materials    | <b>109,361</b>  | 52,105   |
| Work in progress | <b>177,636</b>  | 64,493   |
| Finished goods   | <b>367,420</b>  | 396,702  |
|                  | <b>654,417</b>  | 513,300  |

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

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

## 27. TRADE RECEIVABLES

|                   | <b>Group</b>    |          |
|-------------------|-----------------|----------|
|                   | <b>2006</b>     | 2005     |
|                   | <b>HK\$'000</b> | HK\$'000 |
| Trade receivables | <b>318,849</b>  | 276,038  |

An aging analysis of trade receivables is as follows:

|                                | <b>2006</b>     | 2005     |
|--------------------------------|-----------------|----------|
|                                | <b>HK\$'000</b> | HK\$'000 |
| Not yet due                    | <b>168,203</b>  | 214,307  |
| Overdue within 90 days         | <b>141,189</b>  | 38,444   |
| Overdue between 91 to 180 days | <b>9,457</b>    | 21,021   |
| Overdue over 180 days          | <b>—</b>        | 2,266    |
|                                | <b>318,849</b>  | 276,038  |

Credit policy:

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

The carrying value of trade receivables approximated its fair value.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 28. TRADE DEPOSITS AND OTHER RECEIVABLES

|                                                                     | Group            |                  |
|---------------------------------------------------------------------|------------------|------------------|
|                                                                     | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
| Trade and other deposits, prepayments and other receivables         | 160,123          | 119,402          |
| Deposit payment for investment in a joint venture ( <i>Note a</i> ) | 75,660           | –                |
| Receivable for disposal of subsidiaries                             | 45,000           | –                |
|                                                                     | <b>280,783</b>   | <b>119,402</b>   |

*Note:*

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

### 29. DERIVATIVE FINANCIAL INSTRUMENTS

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

|                                    | Group              |                         |
|------------------------------------|--------------------|-------------------------|
|                                    | Assets<br>HK\$'000 | Liabilities<br>HK\$'000 |
| Foreign currency forward contracts | 11,518             | 357                     |
| Interest rate swap contracts       | 5,601              | 9,575                   |
|                                    | <b>17,119</b>      | <b>9,932</b>            |

|                              | Company            |                         |
|------------------------------|--------------------|-------------------------|
|                              | Assets<br>HK\$'000 | Liabilities<br>HK\$'000 |
| Interest rate swap contracts | 1,630              | –                       |

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

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

|                                 | 2006<br>HK\$'000 |
|---------------------------------|------------------|
| Listed Securities:              |                  |
| – Equity securities – Hong Kong | 9,364            |

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

### 31. TRADE AND OTHER PAYABLES

An aging analysis of trade payables is as follows:

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 32. INTEREST-BEARING BORROWINGS

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 32. INTEREST-BEARING BORROWINGS (Continued)

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 33. OBLIGATIONS UNDER FINANCE LEASES

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 34. DEFERRED TAXATION

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 34. DEFERRED TAXATION *(Continued)*

The analysis of the deferred tax balances is as follows:

|                          | <b>Group</b>    |          |
|--------------------------|-----------------|----------|
|                          | <b>2006</b>     | 2005     |
|                          | <b>HK\$'000</b> | HK\$'000 |
| Deferred tax assets      | <b>9,224</b>    | 12,577   |
| Deferred tax liabilities | <b>(11,392)</b> | (15,314) |
|                          | <b>(2,168)</b>  | (2,737)  |

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 35. SHARE CAPITAL

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

*Notes:*

- (a) On 6 April 2004, A-ONE Investments Limited and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 126,500,000 new shares in total at HK\$1.63 per share.
- (b) As at 31 March 2006, 37,623,521 (2005: 43,295,402) shares were issued pursuant to the exercise of warrant holders' right to purchase the shares at HK\$0.65. The gross proceeds were approximately HK\$24,455,000 (2005: HK\$28,142,000). The share capital increase in relation to the exercises of warrants was HK\$3,762,352 (2005: HK\$4,329,540). These shares rank pari passu with existing shares of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 35. SHARE CAPITAL (Continued)

Notes: (Continued)

- (c) On 3 February 2006, A-ONE Investments Limited and United Success Enterprises Limited, substantial shareholders of the Company, subscribed for 90,000,000 new shares in total at HK\$3.25 per share
- (d) The Company repurchased its own shares on the Stock Exchange as follows:

#### Year 2006

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

#### Year 2005

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 35. SHARE CAPITAL (Continued)

Notes: (Continued)

| (e)<br>Year | Number of shares<br>issued as final dividend | Scrip price<br>HK\$ | Credited to                       |                                   | Total<br>HK\$'000 |
|-------------|----------------------------------------------|---------------------|-----------------------------------|-----------------------------------|-------------------|
|             |                                              |                     | share capital account<br>HK\$'000 | share premium account<br>HK\$'000 |                   |
| 2006        | –                                            | –                   | –                                 | –                                 | –                 |
| 2005        | 8,333,326                                    | 1.35                | 833                               | 9,833                             | 10,666            |

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 36. RESERVES

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 36. RESERVES (Continued)

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 36. RESERVES (Continued)

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

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

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

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

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

|                         | 2006<br>HK\$'000 | 2005<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Contributed surplus     | 388,830          | 388,830          |
| Retained profits        | 4,304            | 38,813           |
| Proposed final dividend | 42,580           | 24,532           |
|                         | <b>435,714</b>   | 452,175          |

### 37. SHARE OPTION SCHEME

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**37. SHARE OPTION SCHEME *(Continued)***

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 37. SHARE OPTION SCHEME (Continued)

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 37. SHARE OPTION SCHEME (Continued)

Notes:

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

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

- (b) The exercise prices of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.
- (c) The prices of the Company's shares disclosed as at the dates of the grant of the share options are the Stock Exchange closing prices on the trading days immediately prior to the dates of the grant of the options. The prices of the Company's shares disclosed as at the dates of the exercise of the share options are the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 37. SHARE OPTION SCHEME *(Continued)*

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

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

*Notes:*

- (a) Expected volatility was determined by using historical volatility of the price return of the ordinary shares of the Company.
- (b) The risk-free interest rate was based on the yield of Exchange Fund Note.
- (c) The expected dividend yield was assumed to be 3.42% per annum.

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**38. SHARE INCENTIVE SCHEME**

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

### 39. ACQUISITION OF SUBSIDIARIES

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

#### 40. DISPOSAL OF SUBSIDIARIES

Net assets of the subsidiaries partially disposed comprise of:

|                                                                                                  | 2006<br>HK\$'000 |
|--------------------------------------------------------------------------------------------------|------------------|
| Interest in leasehold land, property, plant and equipment                                        | 80,797           |
| Goodwill                                                                                         | 9,865            |
| Trade receivables, deposits and other receivables                                                | 131,979          |
| Bank balances and cash                                                                           | 20,678           |
| Loans and other payables                                                                         | (187,586)        |
| Contributed surplus and merger reserve                                                           | 7,310            |
| Gain on disposal                                                                                 | 15,123           |
|                                                                                                  | <b>78,166</b>    |
| Satisfied by:                                                                                    |                  |
| Cash consideration receivable                                                                    | 45,000           |
| Reclassification of interest in associates                                                       | 33,166           |
|                                                                                                  | <b>78,166</b>    |
| Analysis of net outflow of cash and cash equivalents in respect of the disposal of subsidiaries: |                  |
|                                                                                                  | 2006<br>HK\$'000 |
| Bank and cash balance disposed of                                                                | (20,678)         |

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

**41. MAJOR NON-CASH TRANSACTION**

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

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

**42. RETIREMENT BENEFIT SCHEME****(i) Plan for Hong Kong employees***Defined contribution plan*

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

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

**(ii) Plan for PRC employees**

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

**43. CONTINGENT LIABILITIES**

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 March 2006

#### 44. OPERATING LEASE ARRANGEMENTS

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

|                                        | <b>Group</b>    |          |
|----------------------------------------|-----------------|----------|
|                                        | <b>2006</b>     | 2005     |
|                                        | <b>HK\$'000</b> | HK\$'000 |
| – Within one year                      | <b>49,985</b>   | 5,126    |
| – After one year but within five years | <b>58,484</b>   | 8,679    |
| – After five years                     | <b>8,201</b>    | –        |
|                                        | <b>116,670</b>  | 13,805   |

#### 45. POST BALANCE SHEET EVENT

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

## SUMMARY OF PROPERTIES

For the Year ended 31 March 2006

|    | <b>Location</b>                                                                                                                                                                                                | <b>Lease expiry</b> | <b>Gross floor area<br/>(square metre)</b> | <b>Type</b> | <b>Category</b> | <b>Stage of<br/>completion</b> | <b>Group<br/>interest</b> |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|--------------------------------------------|-------------|-----------------|--------------------------------|---------------------------|
| 1. | Unit 3 together with air conditioning plant room on 7th Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories                                            | 2047                | 933.11                                     | Industrial  | Own use         | Existing                       | 100%                      |
| 2. | Unit 3 together with air conditioning plant room on 12th Floor and car parking space No. P5 on 1st Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories | 2047                | 933.11                                     | Industrial  | Own use         | Existing                       | 100%                      |
| 3. | 19 Reuchenettestrasse 2502 Bienne Switzerland                                                                                                                                                                  | Freehold            | 526                                        | Industrial  | Own use         | Existing                       | 100%                      |

## FIVE-YEAR FINANCIAL SUMMARY

### RESULTS

Year ended 31 March

|                                                      | 2002<br>HK\$'000 | 2003<br>HK\$'000 | 2004<br>HK\$'000 | 2005<br>HK\$'000<br>(restated) | 2006<br>HK\$'000 |
|------------------------------------------------------|------------------|------------------|------------------|--------------------------------|------------------|
| Turnover                                             | 937,010          | 1,119,099        | 1,434,492        | 1,937,947                      | <b>2,241,771</b> |
| Profit from operations                               | 48,971           | 93,629           | 108,290          | 181,084                        | <b>313,431</b>   |
| Finance costs                                        | (9,264)          | (13,407)         | (18,155)         | (27,439)                       | <b>(60,346)</b>  |
| Share of profit (loss) of associates                 | –                | –                | 321              | (357)                          | <b>2,974</b>     |
| Share of loss of a jointly controlled entity         | –                | (6,194)          | (2,998)          | (929)                          | <b>(2,134)</b>   |
| Profit before taxation                               | 39,707           | 74,028           | 87,458           | 152,359                        | <b>253,925</b>   |
| Taxation                                             | (4,577)          | (7,995)          | (206)            | (23,158)                       | <b>(37,924)</b>  |
| Profit for the year                                  | 35,130           | 66,033           | 87,252           | 129,201                        | <b>216,001</b>   |
| Attributable to:                                     |                  |                  |                  |                                |                  |
| Profit attributable to equity holders of the Company | 36,397           | 58,199           | 80,005           | 123,917                        | <b>200,619</b>   |
| Minority interest                                    | (1,267)          | 7,834            | 7,247            | 5,284                          | <b>15,382</b>    |
|                                                      | 35,130           | 66,033           | 87,252           | 129,201                        | <b>216,001</b>   |

The financial summary of 2004, 2003 and 2002 has not been restated as it is impracticable to determine the amounts relating to prior periods or to restate the comparative information.

## FIVE-YEAR FINANCIAL SUMMARY

**ASSETS AND LIABILITIES**

As at 31 March

|                                                               | 2002<br>HK\$'000     | 2003<br>HK\$'000     | 2004<br>HK\$'000       | 2005<br>HK\$'000<br>(restated) | 2006<br>HK\$'000                     |
|---------------------------------------------------------------|----------------------|----------------------|------------------------|--------------------------------|--------------------------------------|
| Freehold land and interest in leasehold land held for own use | –                    | –                    | –                      | 21,256                         | <b>5,461</b>                         |
| Property, plant and equipment                                 | 292,942              | 357,070              | 383,668                | 457,529                        | <b>401,288</b>                       |
| Intangible assets                                             | 43,851               | 60,912               | 56,532                 | 53,629                         | <b>53,453</b>                        |
| Goodwill                                                      | 11,714               | 19,381               | 60,052                 | 147,995                        | <b>142,690</b>                       |
| Interest in associates                                        | –                    | 29,738               | 65,680                 | 65,375                         | <b>134,533</b>                       |
| Interest in a jointly controlled entity                       | –                    | 9,535                | 10,922                 | 15,640                         | <b>13,776</b>                        |
| Investments in securities                                     | 15                   | 11                   | 15,600                 | 16,768                         | –                                    |
| Available-for-sale financial assets                           | –                    | –                    | –                      | –                              | <b>44,941</b>                        |
| Other financial assets                                        | –                    | 29,225               | 29,225                 | 29,225                         | –                                    |
| Deferred tax assets                                           | –                    | 46                   | 12,272                 | 12,577                         | <b>9,224</b>                         |
| Net current assets                                            | 417,004              | 396,145              | 638,204                | 658,351                        | <b>1,485,044</b>                     |
| Long-term liabilities                                         | 765,526<br>(214,791) | 902,063<br>(176,590) | 1,272,155<br>(424,659) | 1,478,345<br>(270,791)         | <b>2,290,410</b><br><b>(610,120)</b> |
| Deferred tax liabilities                                      | (3,396)              | (6,802)              | (9,419)                | (15,314)                       | <b>(11,392)</b>                      |
| Minority interest                                             | –                    | (43,149)             | (60,178)               | (84,812)                       | <b>(107,573)</b>                     |
| Net assets                                                    | 547,339              | 675,522              | 777,899                | 1,107,428                      | <b>1,561,325</b>                     |

The financial summary of 2004, 2003 and 2002 has not been restated as it is impracticable to determine the amounts relating to prior periods or to restate the comparative information.

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