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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this Circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Circular.

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

**If you have sold or transferred** all of your shares in Peace Mark (Holdings) Limited, you should at once hand this Circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

**This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe any securities.**

Peace Mark (Holdings) Limited

*(Incorporated in Bermuda with limited liability)*

Stock Code: 0304

# POSSIBLE MAJOR TRANSACTION AND CONSIDERATION ISSUE

## Pre-Conditional Voluntary General Offer by Macquarie Securities (Asia) Pte Limited for and on behalf of A-A United Limited (an indirect wholly-owned subsidiary of Peace Mark (Holdings) Limited) for Sincere Watch Limited

A notice convening a special general meeting of Peace Mark (Holdings) Limited to be held at The President and Chairman room, World Trade Centre Club, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 1 February 2008 at 10:00 a.m. is set out on pages 300 and 301 of this Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy to Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

16 January 2008

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# DEFINITIONS

*In this Circular, unless the context otherwise requires, the following expressions shall have the following meanings:*

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|---|---|
| "Announcement" | the announcement of a possible major transaction by Peace Mark dated 7 December 2007; |
| "Board" | the board of Directors; |
| "Break Fee" | S$5.3 million, which is equivalent to 1.0 per cent. of the value of the maximum aggregate Offer Consideration; |
| "Break Fee Agreement" | the break fee agreement dated 7 December 2007 between the Major Shareholder and Peace Mark which sets out the terms for payment of the Break Fee; |
| "Business Day" | a day (which is not a Saturday, a Sunday or a gazetted public holiday) on which commercial banks are open for business in Hong Kong and Singapore; |
| "Chrono Star" | Chrono Star International Participations Groupe Franck Muller S.A.; |
| "Chrono Star Agreement" | the conditional sale and purchase agreement dated 3 January 2008 between Sincere Watch and Mr. Tay in respect of the Chrono Star Divestment; |
| "Chrono Star Divestment" | has the meaning given in paragraph 9.3 (Chrono Star Divestment) of the Letter from the Company in this Circular; |
| "Chrono Star Shares" | 175,000 existing ordinary shares in Chrono Star, being Sincere Watch's interest in Chrono Star; |
| "Circular" | this circular, which is issued by Peace Mark to the Shareholders in respect of the Offer; |
| "Concert Parties" | the parties acting or presumed to be acting in concert (within the meaning ascribed to that term under the Singapore Takeovers Code) with Peace Mark and the Offeror in relation to the Offer; |
| "Controlling Shareholders Irrevocable Undertaking" | a deed of undertaking dated 7 December 2007 by the Peace Mark Controlling Shareholders in favour of the Major Shareholder pursuant to which the Peace Mark Controlling Shareholders have agreed to, among other things, vote in favour of the resolutions put forward at the Special General Meeting; |
| "Directors" | the directors of Peace Mark; |

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| "Encumbrance" | in respect of any shares, means any mortgage, debenture, lien, charge, pledge, title retention, right to acquire, security interest, option, pre-emptive or other similar right, right of first refusal and any other encumbrance or condition whatsoever; |
| "Enlarged Group" | the Peace Mark Group as enlarged by the consolidation of the Sincere Watch Group; |
| "Exchange Rate" | as to any day, the exchange rate quoted on Bloomberg; |
| "Exclusivity Period" | the period from the date of the Break Fee Agreement until the earliest of (i) the date the Offer is completed, terminated, lapses or is withdrawn, (ii) the date falling 120 Business Days from the date of the Break Fee Agreement, or (iii) the date the Break Fee Agreement is terminated by mutual consent in writing by the parties to the Break Fee Agreement; |
| "Executive" | the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive Director; |
| "Financial Adviser" | Macquarie Securities (Asia) Pte Limited, the financial adviser to the Company and the Offeror in respect of the Offer; |
| "Further Information" | has the meaning given in paragraph 11 (Financial Information and Waivers from the Stock Exchange) of the Letter from the Company in this Circular; |
| "HK$" | Hong Kong dollar, the lawful currency of Hong Kong; |
| "HKFRS" | Hong Kong Financial Reporting Standards; |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC; |
| "IFRS" | International Financial Reporting Standards; |
| "Latest Practicable Date" | 11 January 2008, being the latest practicable date for the collation of relevant information prior to the printing of this Circular; |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange; |
| "Major Shareholder" | TBJ Holdings Pte Ltd, the tenderer of the Major Shareholder's Shares and an Unconnected Person; |

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| "Major Shareholder Irrevocable Undertaking" | a deed of undertaking by the Major Shareholder dated 7 December 2007 in favour of the Company and the Offeror to, among other things, accept the Offer from the Offeror and not to accept any third party offer in respect of the Major Shareholder's Shares; |
| "Major Shareholder's Shares" | 104,719,307 Sincere Watch Shares, representing, as at 6 December 2007, approximately 50.67 per cent. of the issued share capital of Sincere Watch; |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 to the Listing Rules; |
| "Mr. Muller" | Mr. Franck Muller; |
| "Mr. Tay" | Mr. Tay Liam Wee, the Chief Executive Officer and Group Managing Director of Sincere Watch, Chairman of Sincere Watch HK and the legal and beneficial owner of the Major Shareholder; |
| "New Peace Mark Shares" | new ordinary shares of HK$0.10 each in the capital of the Company to be issued in connection with the Offer (assuming full acceptance of the Offer from all shareholders of Sincere Watch, 47,123,291 New Peace Mark Shares will be issued); |
| "Offer" | as at the date of this Circular, the voluntary conditional offer by the Offeror for the Sincere Watch Shares, other than those Sincere Watch Shares (if any) already owned, controlled or agreed to be acquired by the Company, the Offeror and their Concert Parties, subject to the satisfaction of the Pre-conditions to be effected by means of a voluntary general offer made pursuant to Rule 15 of the Singapore Takeovers Code; |
| "Offer Announcement" | the formal announcement of a firm intention to make the Offer, setting out the terms and conditions of the Offer in accordance with the Singapore Takeovers Code in the event that the Pre-conditions to the Offer have been satisfied; |
| "Offer Consideration" | (a) S$2.051 per Sincere Watch Share in cash (representing approximately HK$11.045 per Sincere Watch Share at the Exchange Rate on 6 December 2007); and<br>(b) 0.228 New Peace Mark Shares at the issue price of HK$12.096 per New Peace Mark Share; |

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| "Offer Document" | the formal document making the Offer to be sent to Sincere Watch shareholders setting out the terms and conditions of the Offer in accordance with the Singapore Takeovers Code and enclosing the appropriate forms of acceptance; |
| "Offeror" | A-A United Limited, a business company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Peace Mark; |
| "Peace Mark" or the "Company" | Peace Mark (Holdings) Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange; |
| "Peace Mark Controlling Shareholders" | the ultimate controlling shareholders of Peace Mark who have signed the Controlling Shareholders Irrevocable Undertaking, namely, Mr. Patrick Chau Cham Wong and Mr. Leung Yung; |
| "Peace Mark Group" | Peace Mark and its subsidiaries; |
| "Peace Mark Options" | share options which are convertible into Peace Mark Shares; |
| "Peace Mark Shares" | existing ordinary shares of HK$0.10 each in the capital of the Company; |
| "PRC" | The People's Republic of China; |
| "Pre-conditional Offer Announcement" | the announcement made for and on behalf of the Offeror pursuant to the Singapore Takeovers Code announcing the Offer and dated 7 December 2007; |
| "Pre-conditions" | the pre-conditions to the Offer as set out in paragraph 3.2 of the Letter from the Company in this Circular; |
| "Reference Period" | the three month period immediately preceding the date of the Pre-conditional Offer Announcement; |
| "S$" | Singapore dollar, the lawful currency of Singapore; |
| "SFO" | the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong); |
| "SFRS" | Singapore Financial Reporting Standards; |
| "SGX-ST" | the Singapore Exchange Securities Trading Limited; |

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| "Shareholders" | the shareholders of Peace Mark; |
| "SIC" | the Securities Industry Council of Singapore; |
| "Sincere Watch" | Sincere Watch Limited, a public company incorporated in Singapore with limited liability and the shares of which are listed on the SGX-ST; |
| "Sincere Watch Board" | the board of directors of Sincere Watch; |
| "Sincere Watch Group" | Sincere Watch and its subsidiaries; |
| "Sincere Watch HK" | Sincere Watch (Hong Kong) Limited, a public company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Stock Exchange; |
| "Sincere Watch Shares" | ordinary shares in the capital of Sincere Watch; |
| "Singapore" | the Republic of Singapore; |
| "Singapore Takeovers Code" | the Singapore Code on Take-overs and Mergers as revised with effect from 1 April 2007; |
| "Special General Meeting" | the special general meeting of Peace Mark to be held at The President and Chairman room, World Trade Centre Club, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 1 February 2008 at 10:00 a.m., the notice of which is set out on pages 300 and 301 of this Circular; |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited; and |
| "Unconnected Person" | a person who, to the best of the knowledge of the Board, having made all reasonable enquiries, does not own any shares in the Company or the Offeror, and is an independent third party not connected to the Company, the Offeror, each member of the Peace Mark Group, the Directors, the chief executive of Peace Mark, the substantial shareholders of Peace Mark, the Offeror or its subsidiaries or any of their respective associates. |

*All references in this Circular to times and dates are references to Hong Kong times and dates unless otherwise indicated.*

*For the purposes of this Circular, unless otherwise stated, amounts in S$ have been converted at S$:HK$ 1:5.453, being the Exchange Rate on the Latest Practicable Date.*

# Peace Mark (Holdings) Limited

*(Incorporated in Bermuda with limited liability)*
Stock Code: 0304

**Chairman:**
Mr. Chau Cham Wong, Patrick

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

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

**Registered office:**
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

16 January 2008

*To the Shareholders*

Dear Sir/Madam,

## POSSIBLE MAJOR TRANSACTION AND CONSIDERATION ISSUE

### Pre-Conditional Voluntary General Offer by Macquarie Securities (Asia) Pte Limited for and on behalf of A-A United Limited (an indirect wholly-owned subsidiary of Peace Mark (Holdings) Limited) for Sincere Watch Limited

## 1. INTRODUCTION

Peace Mark announced a possible major transaction in relation to the Offer on 7 December 2007 in Hong Kong and at the same time the Financial Adviser on behalf of the Offeror made the Pre-conditional Offer Announcement in Singapore in compliance with the Singapore Takeovers Code.

The purpose of this Circular is to provide the Shareholders with further information in relation to the Offer. None of the Directors or their respective associates as defined in the Listing Rules, have any competing interests in the Offer.

This Circular also contains a copy of the notice of the Special General Meeting to be held at The President and Chairman room, World Trade Centre Club, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 1 February 2008 at 10:00 a.m. to consider and, if deemed fit, approve the Offer, pursuant to the Listing Rules.

## 2. IRREVOCABLE UNDERTAKINGS AND THE BREAK FEE AGREEMENT

Save as disclosed below, there is no agreement, arrangement or understanding between the Company, the Offeror or any of their Concert Parties and any of the directors, or recent directors, shareholders or recent shareholders of Sincere Watch having any connection with or dependence upon the Offer, as at the Latest Practicable Date.

### 2.1 Major Shareholder Irrevocable Undertaking

Pursuant to the Major Shareholder Irrevocable Undertaking dated 7 December 2007 given by the Major Shareholder in favour of the Company and the Offeror, the Major Shareholder agreed, subject to the Offeror proceeding with the Offer on the basis of the Offer Consideration, to accept the Offer from the Offeror in respect of the Major Shareholder's Shares comprising 104,719,307 Sincere Watch Shares and representing as at 6 December 2007 approximately 50.67 per cent. of the issued share capital of Sincere Watch.

If the Offer proceeds and the Major Shareholder accepts the Offer, the consideration under the Offer for the Major Shareholder's Shares will be S$268.5 million (representing approximately HK$1,464.1 million at the Exchange Rate on the Latest Practicable Date) of which S$214.8 million will be paid in cash and S$53.7 million will be settled in New Peace Mark Shares. The maximum total consideration under the Offer amounts to S$530 million (representing approximately HK$2,890.1 million at the Exchange Rate on the Latest Practicable Date) or approximately S$2.564 per Sincere Watch Share (representing approximately HK$13.981 per Sincere Watch Share at the Exchange Rate on the Latest Practicable Date). The New Peace Mark Shares issued to the Major Shareholder will be subject to a three-year lock-up period. The consideration and other terms of the Major Shareholder Irrevocable Undertaking were arrived at after arm's length negotiations between the parties involved with reference to, among other things, the prevailing market price of Sincere Watch Shares, the nature and performance of Sincere Watch's business, the broader industry outlook and the typical control premium paid in Singapore for transactions of this nature.

The other terms of the Major Shareholder Irrevocable Undertaking include undertakings by the Major Shareholder (a) not to compete with the business of Sincere Watch and not to solicit employees of Sincere Watch within the shorter of the period of three years from completion of the Offer or the period from completion of the Offer up to the termination of the employment of Mr. Tay with Sincere Watch subject to certain exceptions, including the shareholding and directorship of Mr. Tay in Chrono Star, (b) during the Exclusivity Period, not to accept any other offer from any person other than the Offeror and to vote against any competing proposals, (c) during the Exclusivity Period, to vote against, among other things, any disposal by Sincere Watch or its subsidiaries of any material assets, with the exception of the Chrono Star Divestment, and any action which might result in the frustration of the Offer, and (d) to do and execute all such things and documents as may be necessary for the fulfilment of its obligations under the Major Shareholder Irrevocable Undertaking.

With respect to the control premium, this reflects the premium over the prevailing market price of Sincere Watch's shares, taking into account the fact that the Offeror would be able to gain a greater than 50 per cent. interest in Sincere Watch.

The Major Shareholder's Shares will be tendered free from any Encumbrance.

As at the Latest Practicable Date, to the best of the knowledge of the Board having made all reasonable enquiries, neither the Company, the Offeror nor any of their Concert Parties has an interest in any Sincere Watch Shares.

Save as disclosed in this Circular, neither the Company, the Offeror nor any of their Concert Parties has received any irrevocable undertaking from any party to accept or reject the Offer.

**2.2 Controlling Shareholders Irrevocable Undertaking**

Pursuant to the Controlling Shareholders Irrevocable Undertaking dated 7 December 2007 given by the Peace Mark Controlling Shareholders in favour of the Major Shareholder, the Peace Mark Controlling Shareholders agreed to vote, or procure the voting of, all their shares in the Company, in favour of the proposed acquisition of Sincere Watch Shares by the Offeror by way of the Offer, to take all steps to ensure that the Company will obtain all necessary resolutions to proceed with the Offer and take all steps to procure that the Company seeks all relevant clearances and/or approvals in connection with the proposed acquisition. Accordingly, the Peace Mark Controlling Shareholders will vote in favour of the resolutions to be put to the Shareholders at the Special General Meeting.

**2.3 Break Fee Agreement**

On 7 December 2007, Peace Mark and the Major Shareholder entered into the Break Fee Agreement, pursuant to which the Major Shareholder has agreed to pay the Break Fee to Peace Mark if the Major Shareholder enters into a competing proposal during the Exclusivity Period and Peace Mark has agreed to pay the Break Fee to Sincere Watch if Peace Mark enters into a competing acquisition, during the period of 120 Business Days from 18 October 2007.

The rationale for the Break Fee is to demonstrate the commitment by both Peace Mark and the Major Shareholder to commit to the Offer. The quantum of the Break Fee was agreed as a result of arm's length negotiations between the parties involved and complies with the requirement under Rule 13 of the Singapore Takeovers Code that it should not exceed one per cent. of the value of the offeree company calculated by reference to the offer price.

## 3. THE OFFER

### 3.1 Pre-conditional Offer Announcement in Singapore

At the same time as the making of the Announcement, the Financial Adviser on behalf of the Offeror made the Pre-conditional Offer Announcement in Singapore.

### 3.2 Pre-conditions

The making of the Offer is subject to the following pre-conditions being satisfied no later than the date falling four months after the date of the Pre-conditional Offer Announcement, that is on or by 7 April 2008:

(a) clearance by the Stock Exchange of this Circular and clearance of documents or announcements required by the Securities and Futures Commission of Hong Kong and/or the Stock Exchange, for or in connection with the structure of the Offer; and

(b) the passing of all resolutions as may be necessary to approve the making of the Offer at the Special General Meeting (or any adjournment thereof).

The Offeror will be obliged to proceed with the Offer once all of the Pre-conditions are satisfied, and further announcements will be made accordingly. As at the Latest Practicable Date, the Pre-condition referred to in (a) above has been satisfied. Upon the passing of the resolutions to be put to the Shareholders at the Special General Meeting, the Pre-condition referred to in (b) above will be satisfied.

### 3.3 Terms

Upon satisfaction of the Pre-conditions, the Offeror will make the Offer for the Sincere Watch Shares, in accordance with Rule 15 of the Singapore Takeovers Code. The Financial Adviser will also release the Offer Announcement for and on behalf of the Offeror.

The terms of the Offer have been determined by reference to the Singapore Takeovers Code.

The consideration under the Offer, if and when made, will be made on the following basis:

| | |
|---|---|
| **For each Sincere Watch Share:** | **S$2.051 in cash**<br>**and**<br>**0.228 New Peace Mark Shares at the issue price of HK$12.096 per New Peace Mark Share** |

The Sincere Watch Shares will be acquired (a) fully paid; (b) free from any Encumbrances; and (c) together with all rights, benefits and entitlements attached thereto as of the date of the Pre-conditional Offer Announcement and thereafter attaching thereto, including the right to receive and retain all dividends, rights and other distributions (if any) declared, paid or made by Sincere Watch on or after the date of the Pre-conditional Offer Announcement.

The Offer Consideration is expected to be 80 per cent. in the form of cash and 20 per cent. in the form of New Peace Mark Shares and will be paid on the same basis as the consideration for the Major Shareholder's Shares, excluding the three-year lock-up period. Assuming full acceptance of the Offer from all shareholders of Sincere Watch, the New Peace Mark Shares will constitute 4.5 per cent. of the existing issued share capital of the Company and 4.3 per cent. of the enlarged issued share capital of the Company after issuance of the New Peace Mark Shares. The New Peace Mark Shares will be issued at a price equal to the volume weighted average price of the Company's shares for the 20 trading days preceding 7 December 2007, the date of the Pre-conditional Offer Announcement. Application will be made to the Stock Exchange for the listing of and permission to deal in the New Peace Mark Shares. **This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe the New Peace Mark Shares.**

The Offer Consideration represents a premium of approximately 11 per cent. to the closing price of S$2.32 per Sincere Watch Share on 6 December 2007 (being the last market day on which there were trades on the SGX-ST prior to the date of the Pre-conditional Offer Announcement) (as traded on the SGX-ST) and a premium of approximately 19 per cent. to the average closing price of S$2.146 per Sincere Watch Share for the one-month period prior to the date of the Pre-conditional Offer Announcement (as traded on the SGX-ST). As at the Latest Practicable Date, the market value of Sincere Watch Shares was S$516.7 million based on a closing price of S$2.50 per Sincere Watch Share (as traded on SGX-ST).

The Offer Consideration has been determined on the basis of willing buyer, willing seller negotiations having regard to various factors including, but not limited to, the prevailing market price of Sincere Watch Shares, the nature and performance of Sincere Watch's business, the broader industry outlook and the typical control premium paid in Singapore for transactions of this nature.

So far as the Offeror is aware, the Memorandum and Articles of Association of Sincere Watch do not contain any restrictions on the right to transfer the Sincere Watch Shares which are the subject of the Offer, which has the effect of requiring holders of such Sincere Watch Shares, before transferring them, to offer them for purchase to shareholders of Sincere Watch or to any person.

As at the Latest Practicable Date, to the best of the knowledge of the Board having made all reasonable enquiries, neither the Company, the Offeror nor any of their Concert Parties has an interest in the Sincere Watch Shares under any option, agreement or other arrangement save for the Major Shareholder Irrevocable Undertaking. As at the Latest Practicable Date, the Major Shareholder held 104,719,307 Sincere Watch Shares.

It is intended that Peace Mark will appoint at least one director to the board of Sincere Watch, however at this stage the number and identity of such director(s) have not been confirmed.

**3.4 Acceptance Condition**

The Offer will, if and when made, be conditional on the Offeror having received, by the close of the Offer, valid acceptances in respect of such number of Sincere Watch Shares which, when taken together with the number of Sincere Watch Shares already owned, controlled or agreed to be acquired before or during the Offer by or on behalf of the Offeror and its Concert Parties, will result in the Offeror and its Concert Parties holding such number of Sincere Watch Shares carrying more than 50 per cent. of the voting rights attributable to the issued share capital of Sincere Watch as at the close of the Offer.

Accordingly, the Offer will not become or be capable of being declared unconditional as to acceptances until the Offeror has received valid acceptances in respect of such number of Sincere Watch Shares which, when taken together with the number of Sincere Watch Shares already owned, controlled or agreed to be acquired before or during the Offer by or on behalf of the Offeror and its Concert Parties, will result in the Offeror and its Concert Parties holding such number of Sincere Watch Shares representing more than 50 per cent. of the voting rights attributable to the issued share capital of Sincere Watch.

Pursuant to the Major Shareholder Irrevocable Undertaking, which is legally binding, the Major Shareholder has undertaken to tender its Sincere Watch Shares, representing, as at 6 December 2007 approximately 50.67 per cent. of the issued share capital of Sincere Watch, therefore the acceptance condition will be met and the Offer will become unconditional as to acceptances once the Major Shareholder tenders the Major Shareholder's Shares in acceptance of the Offer.

The Offer, if and when made, will also be subject to obtaining listing approval by the Stock Exchange for the New Peace Mark Shares.

**3.5 The New Peace Mark Shares**

As at the Latest Practicable Date, the authorised share capital of the Company is HK$600,000,000 and the amount of paid-up issued capital of the Company is HK$104,248,428. The New Peace Mark Shares will be issued pursuant to the general mandate to allot, issue and deal with the shares of the Company granted to the Directors at the annual general meeting of the Company held on 23 August 2007, which authorised the Directors to allot and issue a maximum of 207,046,456 shares of the Company.

The general mandate has not been utilised prior to the date of this Circular and the Company has not undertaken any equity fund raising activities in the 12 months immediately before the date of this Circular.

The New Peace Mark Shares will rank pari passu with the Company's existing ordinary shares, save that the New Peace Mark Shares issued to the Major Shareholder will be subject to a three-year lock-up period.

Application will be made to the Stock Exchange for the listing of and permission to deal in the New Peace Mark Shares. Peace Mark has been advised by its Bermudian legal counsel that in consideration of the issue of the New Peace Mark Shares, the Offeror should issue new ordinary shares to Peace Mark. The reason for this is that Peace Mark is offering New Peace Mark Shares as part of the Offer Consideration and therefore effectively settling part of the Offer Consideration on behalf of the Offeror (its indirect wholly-owned subsidiary). As at the Latest Practicable Date, the actual number of new ordinary shares in the Offeror to be issued to Peace Mark has not been determined. A further announcement will be made by the Company upon the number of shares being determined.

**This Circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe the New Peace Mark Shares.**

### 3.6 Value of the Offer

On the basis of the Offer Consideration, the entire share capital of Sincere Watch in issue as at 6 December 2007 was valued at approximately S$530 million (representing approximately HK$2,854.1 million at the Exchange Rate on 6 December 2007) representing a premium of 290 per cent. to the audited consolidated net assets of Sincere Watch as at 31 March 2007 of approximately S$135.8 million (representing approximately HK$731.3 million at the Exchange Rate on 6 December 2007). The Sincere Watch Shares in aggregate were valued at approximately S$479.5 million (representing approximately HK$2,582.1 million at the Exchange Rate on 6 December 2007) based on the closing price of S$2.32 per Sincere Watch Share on 6 December 2007 (being the last market day on which there were trades on the SGX-ST prior to the date of the Pre-conditional Offer Announcement) and at S$516.7 million based on the closing price of S$2.50 per Sincere Watch Share on the Latest Practicable Date. The Offer Consideration will be paid on the same basis as the consideration for the Major Shareholder's Shares, excluding the three-year lock-up period.

### 3.7 Offer Document

If the Pre-conditions are satisfied, the formal document making the Offer and setting out the terms and conditions of the Offer and enclosing the appropriate forms of acceptance will be despatched to holders of Sincere Watch Shares not earlier than 14 days and not later than 21 days from the date of the Offer Announcement in accordance with the Singapore Takeovers Code.

The Offer Document will not be sent to the Shareholders as all relevant information is contained in this Circular. The Offer Document will, however, be available on the SGX-ST website at www.sgx.com after it has been despatched to holders of Sincere Watch Shares.

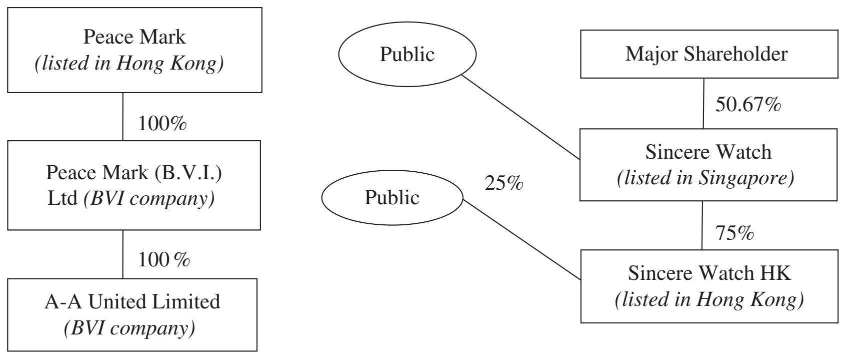
### 3.8 Tentative Timetable of the Offer

The tentative timetable below is indicative only and each of the dates are subject to change.

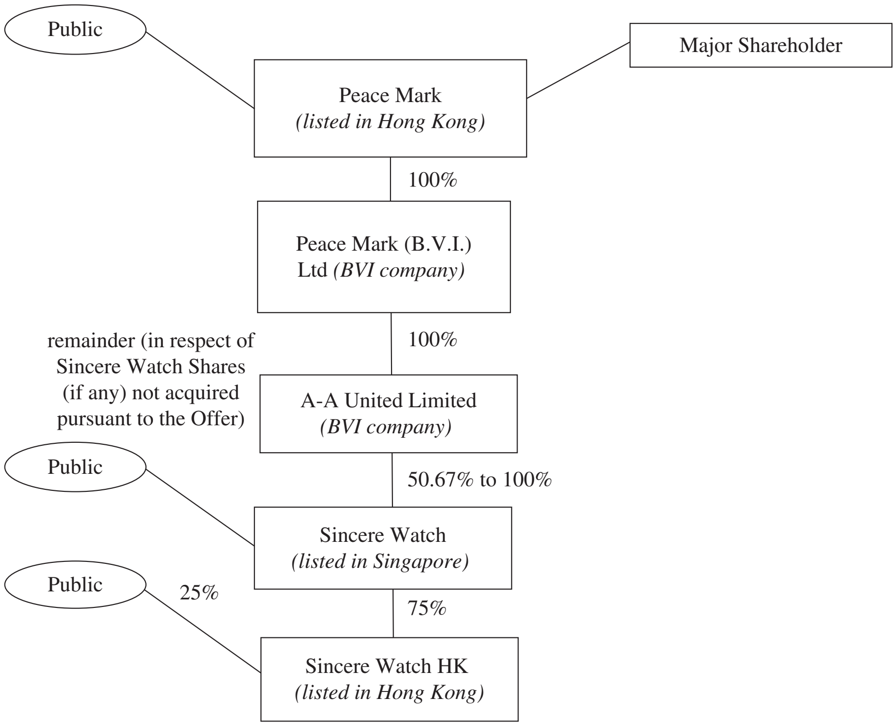
| | |
|---|---|
| Release of Offer Announcement | 1 February 2008 (assuming that the Pre-conditions are satisfied on 1 February 2008) |
| Despatch of the Offer Document to holders of Sincere Watch Shares | No earlier than 15 February 2008 and no later than 22 February 2008 (assuming that the Offer Announcement is released on 1 February 2008) |
| First possible closing date of the Offer | 14 March 2008 (assuming that the Offer Document is despatched on 15 February 2008) |
| Listing of the New Peace Mark Shares | Under the Singapore Takeovers Code, the Offer Consideration has to be paid within ten days after (a) the Offer becomes or is declared unconditional in all respects, or (b) receipt of valid acceptances where such acceptances are tendered after the Offer has become or been declared unconditional in all respects. The New Peace Mark Shares which would be issued to Sincere Watch shareholders who accept the Offer are expected to be listed as soon as the Offer becomes unconditional in all respects. |

### 3.9 Shareholding structure of the Company before and after the Offer

The current shareholding structure of the Company and Sincere Watch are displayed diagrammatically as follows:



Assuming the Offer proceeds, the shareholding structure of the Company immediately after the Offer would be displayed diagrammatically as follows:



The following table sets out the percentage shareholdings in the Company as at the date of this Circular and after the Offer (assuming 100 per cent. acceptance of the Offer):

| **Shareholders of the Company** | **Number and Percentage of shares in the Company held at the date of this Circular** | **Number and Percentage of shares in the Company held after the Offer (assuming the maximum number of New Peace Mark Shares is issued as 20% of the Offer Consideration)** |
|---|---|---|
| A-One Investments Limited | 298,660,459 (28.65%) *(see Note 1)* | 298,660,459 (27.41%) |
| United Success Enterprises Limited | 28,416,795 (2.73%) *(see Note 2)* | 28,416,795 (2.61%) |
| Mr. Chau Cham Wong, Patrick | 65,631,077 (6.3%) | 65,631,077 (6.02%) |
| Lloyd George Investment Management (Bermuda) Ltd | 53,792,000 (5.16%) *(see Note 3)* | 53,792,000 (4.94%) |
| Public | 595,983,949 (57.16%) | 595,983,949 (54.69%) The 25% minimum public float will be maintained |
| Major Shareholder | N/A | 23,876,002 (2.19%) |
| Sincere Watch shareholders | N/A | 23,247,289 (2.13%) |
| **Total** | **1,042,484,280 (100%)** | **1,089,607,571 (100%)** |

*Notes:*

1. A-One Investments Limited is held as to 50.45 per cent. by Mr. Chau Cham Wong, Patrick (the Chairman of the Company) and as to 49.55 per cent. by Mr. Leung Yung (the Chief Executive Officer of the Company).

2. United Success Enterprises Limited is wholly-owned by Mr. Leung Yung (the Chief Executive Officer of the Company).

3. Lloyd George Investment Management (Bermuda) Ltd is interested in 5.16 per cent. of the shares in the Company as an investment manager.

The completion of the Offer and issue of the New Peace Mark Shares as part of the Offer Consideration will not result in a change of control of Peace Mark.

## 4. MANAGEMENT

In the event the Offer completes, it is proposed that Mr. Tay, the Chief Executive Officer and Group Managing Director of Sincere Watch, Chairman of Sincere Watch HK and the legal and beneficial owner of the Major Shareholder, shall be appointed as an executive director of the Company. Mr. Tay has no existing relationship with the Peace Mark Group.

It is the intention and desire of Peace Mark to retain Mr. Tay as the Chief Executive Officer and Group Managing Director of Sincere Watch to facilitate the continued growth and expansion of Sincere Watch. So far as the Company is aware, at the Latest Practicable Date, Mr. Tay and parties acting or presumed to be acting in concert (within the meaning ascribed to that term under the Singapore Takeovers Code) with Mr. Tay hold no Peace Mark Shares. Peace Mark (through the Offeror) will seek to procure the following, subject to completion of the Offer:

(i) Sincere Watch and Mr. Tay will agree to extend Mr. Tay's service agreement with Sincere Watch for a period of up to three years from the date of completion of the Offer based on substantially the same terms as Mr. Tay's current service agreement with Sincere Watch; and

(ii) Sincere Watch HK and Mr. Tay will agree to extend Mr. Tay's service agreement with Sincere Watch HK for a period of up to three years from the date of completion of the Offer based on substantially the same terms as Mr. Tay's current service agreement with Sincere Watch HK.

The proposals above have not been discussed with Sincere Watch and Sincere Watch HK and will be subject to discussions between Mr. Tay and Sincere Watch and Sincere Watch HK respectively. None of the other directors of Sincere Watch are to be appointed as a director of Peace Mark.

As at the Latest Practicable Date, there is no agreement, arrangement or understanding for any payment or other benefit to be made or given to any director of Sincere Watch or of any corporation which is by Section 6 of the Companies Act, Chapter 50 of Singapore, deemed to be related to Sincere Watch as compensation for loss of office or otherwise in connection with the Offer.

As at the Latest Practicable Date, there is no agreement, arrangement or understanding between the Offeror or its Concert Parties and any director of the Offeror, whereby the total emoluments received by directors of the Offeror will be affected as a consequence of the Offer.

It is intended that Peace Mark will appoint at least one director to the board of Sincere Watch, however at this stage the number and identity of such director(s) have not been confirmed.

## 5. FINANCING OF THE OFFER

The cash element of the Offer Consideration will be financed by a combination of the Company's internal resources and external bank borrowing or an equity fund raising, which will be confirmed at the time of making the Offer Announcement. The Company is currently in discussions with relevant finance parties.

## 6. THE OFFEROR'S INTENTIONS FOR SINCERE WATCH

The Offeror intends for Sincere Watch to continue with its existing activities and has no current intention to (i) introduce any major changes to the business of Sincere Watch, (ii) redeploy Sincere Watch's fixed assets, (iii) affect the operations of any of its subsidiaries, or (iv) discontinue the employment of any of the existing employees of Sincere Watch and its subsidiaries, other than in the ordinary course of business.

As the Offeror's intention is to acquire a controlling shareholding interest in Sincere Watch and to maintain the present listing status of Sincere Watch on the Main Board of the SGX-ST, the Offeror does not intend to avail itself of powers of compulsory acquisition pursuant to Section 215 of the Companies Act, Chapter 50 of Singapore.

As at the Latest Practicable Date, there is no agreement, arrangement or understanding whereby any Sincere Watch Shares acquired by the Offeror pursuant to the Offer will be transferred to any other person.

## 7. REASONS FOR THE OFFER

The Board believes that the proposed transaction provides Peace Mark with an opportunity to complement and further develop its existing business by extending its geographic reach, expanding its existing luxury retail network and expanding its management team. It is expected over time that the combination of these factors will allow Peace Mark to increase the pace of expansion of its luxury retail operations in the PRC and Hong Kong, as well as enjoying greater customer and supplier recognition and economies of scale.

With respect to geographic reach, Sincere Watch presently operates luxury watch retail shops in several markets where Peace Mark has no existing operations, namely Singapore, Malaysia, Thailand, India, Australia, South Korea and Indonesia. Peace Mark believes each of these markets offer positive growth prospects for the Peace Mark Group and an exposure to these markets is in line with Peace Mark's strategy of being a major regional player in the south-east Asian luxury watch retail segment.

In terms of brand portfolio, Sincere Watch currently carries a portfolio of over 40 internationally acclaimed brands and has exclusive agency rights for 15 brands within certain territories, notably Franck Muller, de GRISOGONO, A. Lange & Söhne, and F.P. Journe. Peace Mark currently has no involvement with these brands. Accordingly, completion of the Offer will allow Peace Mark to expand its brand reach and develop new relationships with leading watch makers.

Finally, Peace Mark's major revenue contribution to date has been from watch manufacturing and watch retail. While the Company has some existing operations in the luxury segment, these are not presently of the scale that the Peace Mark Group would like and the Company believes the proposed transaction with Sincere Watch will allow it to increase its exposure to the luxury segment on a larger scale and within a shorter timeframe than would be possible through organic expansion. A key related element of this is the combined management depth of Peace Mark and Sincere Watch which the Board believes is complementary. In particular, the knowledge that Sincere Watch's management has developed in the building of luxury watch brands and the operation of luxury watch retail stores will be of significant benefit in helping Peace Mark to expand its operation of luxury watch retail stores in Mainland China.

In the event that the Offer proceeds and completes, the current intention is for Sincere Watch to remain focused on the retail of luxury timepieces in south-east Asia and other new markets like India, while Sincere Watch HK will focus on brand management and the operation of its luxury retail outlets in Hong Kong. Peace Mark's focus will remain on retail expansion, especially in Mainland China.

## 8. RISKS IN RELATION TO THE OFFER

Shareholders and potential investors should note that the making of the Offer is subject to satisfaction of the Pre-conditions and that the Offer, if made, may not be successful and may not complete.

There can be no assurance that shareholders of Sincere Watch other than the Major Shareholder will tender their Sincere Watch Shares in acceptance of the Offer.

If the Offer lapses or is otherwise terminated (as may be permitted under the Singapore Takeovers Code or by the SIC), the Offeror will not hold any shares in Sincere Watch.

Shareholders and investors are advised to exercise caution when dealing in the securities of Peace Mark, the securities of Sincere Watch and the securities of Sincere Watch HK.

In the event the Offer proceeds and completes, Peace Mark intends to maintain Sincere Watch's listing on the SGX-ST. Accordingly, the Offeror and/or Peace Mark will take steps to restore the minimum public float so that Sincere Watch meets the requirement under the Listing Manual of the SGX-ST that the proportion of issued Sincere Watch Shares held by members of the public must be at least ten per cent., in the event that the Offeror and its Concert Parties end up holding more than 90 per cent. of the issued Sincere Watch Shares pursuant to the Offer.

## 9. BUSINESS OF SINCERE WATCH AND SINCERE WATCH HK

### 9.1 Business of Sincere Watch

Sincere Watch was incorporated in Singapore on 10 May 1977. It has been listed on SGX Sesdaq since 2 September 1993 and subsequently on the SGX-ST since 1 February 2005.

Sincere Watch is the holding company in the Sincere Watch Group. The Sincere Watch Group is one of Singapore's oldest and most established retailers and distributors of brand-name luxury watches, with a network spanning Singapore, Malaysia, Thailand, Hong Kong, Mainland China, India, Australia, South Korea, Indonesia and other countries in both south-east and north-east Asia. Sincere Watch's businesses include brand management, fine watch retailing, travel watch retailing and lifestyle watch retailing. The Sincere Watch Group now carries a portfolio of over 40 internationally acclaimed brands and enjoys exclusive agency rights for 15 brands within certain territories, such as Franck Muller, de GRISOGONO, A. Lange & Söhne and F.P. Journe.

The Sincere Watch Group also operates a food and beverages business through its wholly-owned subsidiaries Culina Holdings Pte Limited and Culina Pte Limited (together, "**Culina**") and Food Resources Pte Ltd ("**Food Resources**"). Culina has distributed fine food and beverages for the Sincere Watch Group since its establishment in 1994. Culina has two gourmet shops and is one of the largest suppliers of imported premium food and beverages to hotels, retail stores and restaurants throughout Singapore. Food Resources was acquired by the Sincere Watch Group in 2006 and distributes fast moving consumables such as beverages, fruit and vegetable juices, ice cream and other frozen desserts and frozen foods. Unlike Culina, Food Resources focuses its channels of distribution on convenience stores and supermarkets.

As at 6 December 2007, Sincere Watch had a market capitalisation of approximately S$479.5 million. The audited consolidated net profit of Sincere Watch for the financial year ended 31 March 2007 was approximately S$25.385 million after tax (representing approximately HK$136.698 million at the Exchange Rate on 6 December 2007) and S$30.733 million before tax (representing approximately HK$165.497 million at the Exchange Rate on 6 December 2007) and the audited consolidated net profit of Sincere Watch for the financial year ended 31 March 2006 was approximately S$35.096 million after tax (representing approximately HK$188.992 million at the Exchange Rate on 6 December 2007) and S$42.252 million before tax (representing approximately HK$227.527 million at the Exchange Rate on 6 December 2007), respectively. The audited consolidated net assets of Sincere Watch as at 31 March 2006 and 31 March 2007 were approximately S$131.692 million (representing approximately HK$709.161 million at the Exchange Rate on 6 December 2007) and S$135.800 million (representing approximately HK$731.283 million at the Exchange Rate on 6 December 2007), respectively.

### 9.2 Business of Sincere Watch HK

Sincere Watch HK is a subsidiary of Sincere Watch listed on the Stock Exchange, and is engaged in the brand management, marketing and distribution of branded fine watches, timepieces and accessories in Hong Kong, Macau, Taiwan and Mainland China.

The Company wrote to the Executive of the Securities and Futures Commission of Hong Kong on 17 October 2007 requesting a ruling that the Company is not required to make a mandatory general offer for Sincere Watch HK as a result of the chain principle under Note 8 to Rule 26.1 of the Hong Kong Code on Takeovers and Mergers. Based on the submissions and the representations made by the Company, the Executive confirmed on 29 October 2007 that the Company was not required to make a mandatory general offer for Sincere Watch HK in Hong Kong.

**9.3 Chrono Star Divestment**

Peace Mark understands that the Sincere Watch Board have announced that Sincere Watch entered into a conditional sale and purchase agreement on 3 January 2008 (the "**Chrono Star Agreement**") with Mr. Tay pursuant to which Sincere Watch has agreed to sell, and Mr. Tay has agreed to purchase, an aggregate of 175,000 existing ordinary shares in Chrono Star (the "**Chrono Star Shares**") for an aggregate consideration of S$10,957,496 (the "**Chrono Star Divestment**").

Chrono Star is a private limited company incorporated in Luxembourg and the parent company for the Franck Muller group, whose principal activities involve owning and operating the Franck Muller brand (amongst other brands). As at 3 January 2008, 175,000 ordinary shares in the capital of Chrono Star represent one per cent. of the existing total number of issued Chrono Star shares. As at 3 January 2008, Chrono Star had an issued share capital of 35,000,000 Swiss Francs divided into 17,500,000 ordinary shares.

Sincere Watch had appointed Sallmanns (Far East) Limited as independent valuer to determine the market value of the Chrono Star Shares, but on 31 December 2007 Sallmanns (Far East) Limited issued a report stating that they were unable to perform a valuation to reliably estimate the market value of the Chrono Star Shares because there was limited information available from Chrono Star and they were unable to obtain the necessary information to fulfill the requirements for an independent assessment of the market value of the Chrono Star Shares. Accordingly, the consideration is based on one per cent. of the latest available audited book value of Chrono Star of 863,400,000 Swiss Francs as at 31 December 2006, being 8,634,000 Swiss Francs, calculated at the exchange rate of 1.2691 Singapore Dollars to one Swiss Franc (the simple average of the exchange rates of Singapore Dollars to Swiss Francs quoted by Bloomberg over the 20-day period preceding the date of the Chrono Star Agreement). This is above the price paid by Sincere Watch when it acquired the Chrono Star Shares, therefore the Sincere Watch Board is of the view that the consideration represents a reasonable return on the investment made by Sincere Watch in Chrono Star.

The obligations of Sincere Watch and Mr. Tay under the Chrono Star Agreement are conditional upon the following:

(a) the approval of the shareholders of Sincere Watch being obtained at an extraordinary general meeting to be convened for the purpose of approving the sale of the Chrono Star Shares by Sincere Watch to Mr. Tay. (Pursuant to Chapter 9 of the Listing Manual of the SGX-ST, the approval of Sincere Watch's shareholders is required to be obtained if the value of the Chrono Star Shares is equal to or exceeds S$6,117,250 (being five per cent. of S$122,345,000, the audited consolidated value of the net tangible assets of Sincere Watch as at 31 March 2007). As the consideration of S$10,957,496 for the Chrono Star Shares exceeds the relevant financial threshold of S$6,117,250, the Chrono Star Divestment is subject to the approval of Sincere Watch's shareholders);

(b) the Offer becoming or being declared unconditional as to acceptances; and

(c) such waivers or consents as may be necessary to enable Mr. Tay and/or his nominee(s) to be registered in the register of members of Sincere Watch as holders of any and all of the Chrono Star Shares.

If any of the aforesaid conditions shall not be fulfilled on or before 2 April 2008 or such other date as Sincere Watch and Mr. Tay shall mutually agree in writing, the Chrono Star Agreement shall terminate.

Peace Mark understands from Mr. Tay that Chrono Star had indicated that if the Major Shareholder ceased to be the controlling shareholder of Sincere Watch, it would prefer Mr. Tay to acquire the Chrono Star Shares, which Sincere Watch had acquired in December 2005 from Mr. Muller, one of the major shareholders in Chrono Star. The Chrono Star Shares were originally personally offered to Mr. Tay by the major shareholders of Chrono Star, who were agreeable to the Chrono Star Shares being held by Sincere Watch while the Major Shareholder was a major shareholder in Sincere Watch. Peace Mark has no existing interest in Chrono Star.

Mr. Tay is an existing director of Chrono Star. It should be noted that Mr. Muller and the other major shareholders in Chrono Star have pre-emptive rights in respect of the Chrono Star Shares held by Sincere Watch, but such pre-emptive rights would be waived upon the completion of the transfer of Sincere Watch's interest in Chrono Star to Mr. Tay.

The SIC has ruled that the Chrono Star Divestment does not constitute a special deal for the purpose of Rule 10 of the Singapore Takeovers Code, subject to the independent financial adviser to Sincere Watch publicly stating that the terms of the Chrono Star Divestment are fair and reasonable in its opinion. Sincere Watch has appointed Kim Eng Capital Pte. Ltd. to be the independent financial adviser to advise the directors of Sincere Watch who do not have an interest in the Chrono Star Divestment on whether the Chrono Star Divestment is on normal commercial terms and whether it is prejudicial to the interests of Sincere Watch and its minority shareholders. Peace Mark understands that a circular containing further details of the Chrono Star Divestment and the opinion of Kim Eng Capital Pte. Ltd. and the audit committee of Sincere Watch, and enclosing a notice of extraordinary general meeting in connection therewith, will be despatched to Sincere Watch's shareholders in due course.

At this stage, the parties do not know when the Chrono Star Divestment will complete. However, in the event that the Chrono Star Divestment completes, among other things, after completion of the Offer and the appointment of Mr. Tay as an executive director of the Company, the Company will comply with the relevant Listing Rules. As at the Latest Practicable Date, the Company is not aware of any further material developments in the Chrono Star Divestment since the announcement by Sincere Watch on 3 January 2008 that it had entered into the Chrono Star Agreement.

## 10. BUSINESS OF THE OFFEROR

The Peace Mark Group is a Hong Kong-based mid to luxury timepiece company with operations mainly located in Hong Kong and Mainland China.

The Peace Mark Group has expanded its business worldwide over the years since its founding in 1983. With strong design capability, the Peace Mark Group manufactures, distributes and sells international brand name timepieces to major markets including the United States of America, Europe, the PRC and other Asian countries. In the case of brands sold in the PRC, Peace Mark operates a number of service stores which provide after-sales services.

Headquartered in Hong Kong, Peace Mark boasts an extensive fashion watch retail network for the mid-range market in the Greater China Region, for instance through its TimeZone retail stores, as well as the Peace Mark Tourneau joint-venture and strategic partnerships with local players leading the retailing business of luxury watches in Mainland China. The Peace Mark Group has also diversified and expanded into the high-end jewellery market as it now operates two Boucheron stores in Hong Kong and Shanghai under franchise arrangement (Boucheron being a French high jewellery brand under the Gucci Group). Its advanced production facilities are located in (i) Hong Kong, (ii) Shenzhen and Shanghai in the PRC and (iii) Bienne in Switzerland, and the Peace Mark Group employs more than 10,000 staff.

The Offeror is a company incorporated in the British Virgin Islands and is an indirect wholly-owned subsidiary of the Company. Its principal activities are that of an investment holding company and it has no business other than to make the Offer.

## 11. FINANCIAL INFORMATION AND WAIVERS FROM THE STOCK EXCHANGE

Given the structure of the Offer, and, in particular, the need to maintain confidentiality prior to the Announcement and the Pre-conditional Offer Announcement being made, it has not been possible to gain access to such financial and other records/information of the Sincere Watch Group prior to the Latest Practicable Date as is required in order to comply fully with the disclosure requirements under the Listing Rules in relation to the inclusion of certain financial and other information of the Sincere Watch Group in this Circular.

For the purposes of this Circular, Peace Mark has extracted the published audited consolidated financial statements of the Sincere Watch Group prepared under SFRS, for the three consecutive years ended 31 March 2007 and the published unaudited consolidated financial statements of the Sincere Watch Group for the six months periods ended 30 September 2006 and 30 September 2007. Peace Mark, however, is unable to comply with the following Listing Rules requirements in respect of the disclosure of the following information as at the date of this Circular:

(a) an accountants' report on the Sincere Watch Group prepared using accounting policies which are materially consistent with those of the Peace Mark Group (Rule 14.67(4)(a)(i) of the Listing Rules);

(b) a pro forma statement of the assets and liabilities of the Enlarged Group on the same accounting basis and in compliance with Chapter 4 of the Listing Rules (Rule 14.67(4)(a)(ii) of the Listing Rules);

(c) an indebtedness statement as at the Latest Practicable Date of the Enlarged Group (Rule 14.66(2) and paragraph 28 and note 2 of Appendix 1B of the Listing Rules);

(d) a statement by the Directors that in their opinion the working capital as at the Latest Practicable Date available to the Enlarged Group is sufficient or, if not, how it is proposed the additional working capital thought by the directors to be necessary will be made available (Rules 14.66(2) and 14.66(4) and paragraph 30 and note 2 of Appendix 1B of the Listing Rules);

(e) the dates of and parties to all material contracts entered into by any member of the Enlarged Group within the two years immediately preceding the issue of this Circular together with a summary of the principal contents of such contracts and particulars of any consideration passing to or from any member of the Enlarged Group and inspection of such contracts (Rule 14.66(2), paragraphs 42 and 43(2)(b) and note 2 of Appendix 1B of the Listing Rules);

(f) particulars of any litigation or claims of material importance pending or threatened against any member of the Enlarged Group (Rule 14.64(2) and paragraph 33 and note 2 to Appendix 1B of the Listing Rules); and

(g) a management discussion and analysis of the results of the Sincere Watch Group covering all those matters set out in paragraph 32 of Appendix 16 of the Listing Rules for the period reported in the accountants' report (Rule 14.67(5) and paragraph 32 of Appendix 16 of the Listing Rules).

(Paragraphs (b) to (g) above are collectively defined as the "**Further Information**")

The Company applied to the Stock Exchange for a waiver from strict compliance with the disclosure requirements of the Listing Rules set out in paragraphs (a) to (g) above and on 30 November 2007 the Stock Exchange indicated, in writing, that it was minded to grant a waiver to the Company from such requirements subject to the following conditions:

(a) this Circular contains:

(i) a statement of indebtedness of the Peace Mark Group (as included in Appendix I to this Circular);

(ii) a statement by the Directors that in their opinion the working capital available to the Peace Mark Group is sufficient (as included in Appendix I to this Circular);

(iii) the published audited financial statements of Sincere Watch for each of the three years ended 31 March 2005, 31 March 2006 and 31 March 2007 (as included in Appendix II of this Circular);

(iv) the published unaudited financial statements of Sincere Watch for each of the six month periods ended 30 September 2006 and 30 September 2007 (as included in Appendix II of this Circular);

(v) a qualitative explanation of the differences in accounting practices between HKFRS and SFRS which may have a material impact on the financial statements of Sincere Watch (as included in Appendix V to this Circular);

(vi) a statement of the assets and liabilities of the Sincere Watch Group as shown in its published unaudited interim accounts for the six months ended 30 September 2007 under SFRS and a statement of the assets and liabilities of the Peace Mark Group for the six months ended 30 September 2007 under HKFRS (as included in Appendix I, II and III to this Circular);

(vii) details of any litigation or claims of material importance pending or threatened against any member of each of the Peace Mark Group and the Sincere Watch Group (or an appropriate negative statement) (as included in Appendix VI to this Circular);

(viii) all material contracts (not being contracts entered into in the ordinary course of business) entered into by the Peace Mark Group within the two years immediately preceding the issue of this Circular (as included in Appendix VI to this Circular);

(ix) other material information relating to Sincere Watch which is in the public domain or made available by Sincere Watch and which the Company is aware of and free to disclose (as included in Appendix VI to this Circular); and

(x) the reasons why access to books and records of Sincere Watch has not been granted to the Company; and

(b) the Company issues a supplemental circular within 45 days of the earlier of the date when the Company is able to exercise control over Sincere Watch or gain access to the books and records of Sincere Watch, and in any event on or before 31 March 2008. The supplemental circular will include the following information:

(i) an accountant's report of the Sincere Watch Group for each of the three years ended 31 March 2005, 31 March 2006 and 31 March 2007 and for each of the six months ended 30 September 2006 and 30 September 2007 prepared under IFRS or HKFRS in accordance with Chapter 4 and Rule 14.67(4)(a)(i) of the Listing Rules; and

(ii) the Further Information.

## 12. GENERAL

To the best of the Board's knowledge, having made all reasonable enquiries, Sincere Watch, the Major Shareholder, Mr. Tay, the legal and beneficial owner of the Major Shareholder and the other shareholders of Sincere Watch are Unconnected Persons. Each of the Company and the Major Shareholder have submitted to the SIC a letter confirming that they are not parties acting or presumed to be acting in concert (within the meaning ascribed to that term under the Singapore Takeovers Code).

No Shareholders are required to abstain from voting at the Special General Meeting in connection with the Offer.

**Shareholders and potential investors should note that the making of the Offer is subject to the Pre-conditions being satisfied and the Offer, if made, is also subject to certain conditions being satisfied, therefore the Offer may not be successful and may not complete. Shareholders and investors are advised to exercise caution when dealing in the securities of the Company, the securities of Sincere Watch and the securities of Sincere Watch HK.**

## 13. SPECIAL GENERAL MEETING

A notice convening the Special General Meeting to be held at The President and Chairman room, World Trade Centre Club, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 1 February 2008 at 10:00 a.m. is set out on pages 300 and 301 of this Circular. At the Special General Meeting, four ordinary resolutions relating to the Offer will be proposed. The first will be to approve the making of the Offer by the Offeror, subject to the satisfaction of the Pre-Conditions. The second will be to approve the Company's participation in the Offer. The third will be to authorise any Director to take any action on behalf of the Company he may consider necessary, desirable or expedient in connection with the Offer. And the fourth will be to authorise, approve and, to the extent necessary, ratify and confirm any and all past actions by the Directors which they may deem or have deemed useful, necessary or expedient with respect to any of the matters contemplated by the resolutions.

A form of proxy for use at the Special General Meeting is enclosed. Whether or not the Shareholders are able to attend the meeting, they are requested to complete and return the enclosed form of proxy to Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the meeting should they wish to do so.

## 14. RECOMMENDATION

The Board believes the terms of the Offer to be fair and reasonable and in the interests of all the Shareholders and recommends the Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting for approving, among other things, the Offer.

## 15. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the following appendices to this Circular:

(i) Appendix I – Peace Mark Group Financial Information;

(ii) Appendix II – Sincere Watch Group Financial Information;

(iii) Appendix III – Statement of Assets and Liabilities of the Peace Mark Group and the Sincere Watch Group;

(iv) Appendix IV – Financial Information relating to the Enlarged Group;

(v) Appendix V – Differences between Hong Kong Financial Reporting Standards and Singapore Financial Reporting Standards; and

(vi) Appendix VI – General Information.

Yours faithfully,
For and on behalf of the Board of
Directors of
**Peace Mark (Holdings) Limited**
**Mr. Chau Cham Wong, Patrick**
*Chairman*

## A SUMMARY OF FINANCIAL INFORMATION OF THE PEACE MARK GROUP

*The following is a summary of the consolidated financial information for the three financial years ended 31 March 2007 extracted from the audited financial statements of the Peace Mark Group for the years ended 31 March 2006 and 31 March 2007 which are not qualified.*

**Consolidated Balance Sheet**

*As at 31 March 2007*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | (As restated) |
| **Non-current assets** | | | |
| Property, plant and equipment | 518,010 | 401,288 | 457,529 |
| Freehold land and interest in leasehold land | 7,961 | 5,461 | 21,256 |
| Intangible assets | 239,289 | 196,143 | 201,624 |
| Interest in associates | 87,300 | 134,533 | 65,375 |
| Interest in a jointly controlled entity | 15,994 | 13,776 | 15,640 |
| Investments in securities | – | – | 16,768 |
| Other financial assets | 181,057 | 44,941 | 29,225 |
| Deferred tax assets | 9,566 | 9,224 | 12,577 |
| | 1,059,177 | 805,366 | 819,994 |
| **Current assets** | | | |
| Inventories | 1,015,963 | 654,417 | 513,300 |
| Derivative financial instruments | 46,282 | 17,119 | – |
| Other financial assets at fair value through profit or loss | 6,585 | 9,364 | – |
| Trade receivables | 613,776 | 318,849 | 276,038 |
| Trade deposits and other receivables | 266,718 | 280,783 | 119,402 |
| Cash and bank balances | 1,460,091 | 1,185,789 | 666,167 |
| | 3,409,415 | 2,466,321 | 1,574,907 |
| **Current liabilities** | | | |
| Trade and other payables | 294,789 | 385,057 | 220,094 |
| Derivative financial instruments | 24,023 | 9,932 | – |
| Interest-bearing borrowings | 988,231 | 547,240 | 671,570 |
| Obligations under finance leases | 200 | 1,195 | 2,918 |
| Tax payable | 33,878 | 37,853 | 21,974 |
| | 1,341,121 | 981,277 | 916,556 |
| **Net current assets** | 2,068,294 | 1,485,044 | 658,351 |
| **Total assets less current liabilities** | 3,127,471 | 2,290,410 | 1,478,345 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 1,077,727 | 609,914 | 269,140 |
| Obligations under finance leases | 142 | 206 | 1,651 |
| Deferred tax liabilities | 13,064 | 11,392 | 15,314 |
| | 1,090,933 | 621,512 | 286,105 |
| **Net assets** | 2,036,538 | 1,668,898 | 1,192,240 |
| **Capital and reserves** | | | |
| Share capital | 99,308 | 98,974 | 86,808 |
| Reserves | 1,707,171 | 1,462,351 | 1,020,620 |
| **Equity attributable to equity holders of the Company** | 1,806,479 | 1,561,325 | 1,107,428 |
| **Minority interests** | 230,059 | 107,573 | 84,812 |
| **Total equity** | 2,036,538 | 1,668,898 | 1,192,240 |

**Consolidated Income Statement**
*For the year ended 31 March 2007*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | | | (As restated) |
| **Turnover** | 3,040,514 | 2,241,771 | 1,937,947 |
| Cost of sales | (2,055,700) | (1,544,183) | (1,398,828) |
| Gross profit | 984,814 | 697,588 | 539,119 |
| Other revenue | 132,846 | 80,444 | 22,864 |
| Selling and distribution expenses | (363,782) | (261,145) | (181,738) |
| Administrative and general expenses | (283,896) | (185,650) | (188,065) |
| Other operating expenses | (13,644) | (17,806) | (11,096) |
| Profit from operations | 456,338 | 313,431 | 181,084 |
| Share of (loss) profit of associates | (9,512) | 2,974 | (357) |
| Share of loss of a jointly controlled entity | (2,027) | (2,134) | (929) |
| Finance costs | (111,880) | (60,346) | (27,439) |
| Profit before taxation | 332,919 | 253,925 | 152,359 |
| Taxation | (28,316) | (37,924) | (23,158) |
| Profit for the year | 304,603 | 216,001 | 129,201 |
| Attributable to: | | | |
| Equity holders of the Company | 300,276 | 200,619 | 123,917 |
| Minority interests | 4,327 | 15,382 | 5,284 |
| | 304,603 | 216,001 | 129,201 |
| Dividends | 102,727 | 69,572 | 43,106 |
| **Earnings per share for profit attributable to equity holders of the Company during the year** | | | |
| Basic (HK cents) | 30.28 | 22.13 | 14.90 |
| Diluted (HK cents) | 29.54 | 22.03 | 14.49 |

## B AUDITED FINANCIAL INFORMATION

*The following are the audited financial statements of the Peace Mark Group for the financial year ended 31 March 2007 extracted from the published annual financial statements of the Peace Mark Group for the year ended 31 March 2007 which are not qualified.*

**Consolidated Balance Sheet**

*As at 31 March 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | 518,010 | 401,288 |
| Freehold land and interest in leasehold land | 16 | 7,961 | 5,461 |
| Intangible assets | 18 | 239,289 | 196,143 |
| Interest in associates | 20 | 87,300 | 134,533 |
| Interest in a jointly controlled entity | 21 | 15,994 | 13,776 |
| Other financial assets | 22 | 181,057 | 44,941 |
| Deferred tax assets | 31 | 9,566 | 9,224 |
| | | 1,059,177 | 805,366 |
| **Current assets** | | | |
| Inventories | 23 | 1,015,963 | 654,417 |
| Derivative financial instruments | 26 | 46,282 | 17,119 |
| Other financial assets at fair value through profit or loss | 27 | 6,585 | 9,364 |
| Trade receivables | 24 | 613,776 | 318,849 |
| Trade deposits and other receivables | 25 | 266,718 | 280,783 |
| Cash and bank balances | | 1,460,091 | 1,185,789 |
| | | 3,409,415 | 2,466,321 |
| **Current liabilities** | | | |
| Trade and other payables | 28 | 294,789 | 385,057 |
| Derivative financial instruments | 26 | 24,023 | 9,932 |
| Interest-bearing borrowings | 29 | 988,231 | 547,240 |
| Obligations under finance leases | 30 | 200 | 1,195 |
| Tax payable | | 33,878 | 37,853 |
| | | 1,341,121 | 981,277 |
| **Net current assets** | | 2,068,294 | 1,485,044 |
| **Total assets less current liabilities** | | 3,127,471 | 2,290,410 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 29 | 1,077,727 | 609,914 |
| Obligations under finance leases | 30 | 142 | 206 |
| Deferred tax liabilities | 31 | 13,064 | 11,392 |
| | | 1,090,933 | 621,512 |
| **Net assets** | | 2,036,538 | 1,668,898 |
| **Capital and reserves** | | | |
| Share capital | 32 | 99,308 | 98,974 |
| Reserves | 33 | 1,707,171 | 1,462,351 |
| **Equity attributable to equity holders of the Company** | | 1,806,479 | 1,561,325 |
| **Minority interests** | | 230,059 | 107,573 |
| **Total equity** | | 2,036,538 | 1,668,898 |

**Balance Sheet**
*As at 31 March 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | 19 | 2,297,523 | 1,800,986 |
| **Current assets** | | | |
| Other receivables | | 41,186 | 38,167 |
| Derivative financial instruments | 26 | 14,744 | 1,630 |
| Cash and bank balances | | 94,047 | 60,416 |
| | | 149,977 | 100,213 |
| **Current liabilities** | | | |
| Accruals and other payables | | 9,797 | 265 |
| Derivative financial instruments | 26 | 1,872 | – |
| Interest-bearing borrowings | 29 | 416,000 | 166,050 |
| Tax payable | | 1,539 | – |
| | | 429,208 | 166,315 |
| **Net current liabilities** | | (279,231) | (66,102) |
| **Total assets less current liabilities** | | 2,018,292 | 1,734,884 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 29 | 804,000 | 570,000 |
| **Net assets** | | 1,214,292 | 1,164,884 |
| **Capital and reserves** | | | |
| Share capital | 32 | 99,308 | 98,974 |
| Reserves | 33 | 1,114,984 | 1,065,910 |
| **Total equity** | | 1,214,292 | 1,164,884 |

**Consolidated Income Statement**
*For the year ended 31 March 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Turnover** | 7 | 3,040,514 | 2,241,771 |
| Cost of sales | | (2,055,700) | (1,544,183) |
| Gross profit | | 984,814 | 697,588 |
| Other revenue | 7 | 132,846 | 80,444 |
| Selling and distribution expenses | | (363,782) | (261,145) |
| Administrative and general expenses | | (283,896) | (185,650) |
| Other operating expenses | | (13,644) | (17,806) |
| Profit from operations | | 456,338 | 313,431 |
| Share of (loss) profit of associates | | (9,512) | 2,974 |
| Share of loss of a jointly controlled entity | | (2,027) | (2,134) |
| Finance costs | 9 | (111,880) | (60,346) |
| Profit before taxation | 8 | 332,919 | 253,925 |
| Taxation | 11 | (28,316) | (37,924) |
| Profit for the year | | 304,603 | 216,001 |
| Attributable to: | | | |
| Equity holders of the Company | 12 | 300,276 | 200,619 |
| Minority interests | | 4,327 | 15,382 |
| | | 304,603 | 216,001 |
| Dividends | 13 | 102,727 | 69,572 |
| **Earnings per share for profit attributable to equity holders of the Company during the year** | 14 | | |
| Basic (HK cents) | | 30.28 | 22.13 |
| Diluted (HK cents) | | 29.54 | 22.03 |

**Consolidated Statement of Changes in Equity**
*For the year ended 31 March 2007*

| | Note | Attributable to equity holders of the Company | | | |
|---|---|---|---|---|---|
| | | Share capital | Reserves | Minority interests | Total |
| | *Note* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance at 1 April 2005** | | 86,808 | 1,020,983 | 84,812 | 1,192,603 |
| Fair value adjustment of available-for-sale financial assets | | – | (146) | – | (146) |
| Exchange realignment | | – | (4,761) | – | (4,761) |
| Net loss recognized directly in equity | | – | (4,907) | – | (4,907) |
| Profit for the year | | – | 200,619 | 15,382 | 216,001 |
| Total recognized income for the year | | – | 195,712 | 15,382 | 211,094 |
| Disposal of subsidiaries | | – | 7,310 | – | 7,310 |
| Share-based payment | | – | 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 |
| Shares repurchased and cancelled | | (597) | (10,502) | – | (11,099) |
| Dividend paid during the year | | – | (52,352) | – | (52,352) |
| Increase in investment from minority interests | | – | – | 4,874 | 4,874 |
| Minority interests arising from acquisition of subsidiaries | | – | – | 2,505 | 2,505 |
| | | 12,166 | 245,656 | 7,379 | 265,201 |
| **Balance at 31 March 2006** | | 98,974 | 1,462,351 | 107,573 | 1,668,898 |
| **Balance at 1 April 2006** | | 98,974 | 1,462,351 | 107,573 | 1,668,898 |
| Fair value adjustment of available-for-sale financial assets | | – | (171) | – | (171) |
| Exchange realignment | | – | 220 | – | 220 |
| Net gain recognized directly in equity | | – | 49 | – | 49 |
| Profit for the year | | – | 300,276 | 4,327 | 304,603 |
| Total recognized income for the year | | – | 300,325 | 4,327 | 304,652 |
| Share-based payment | | – | 20,935 | – | 20,935 |
| Issue of new shares pursuant to the exercise of options | *32* | 334 | 6,941 | – | 7,275 |
| Dividend paid during the year | | – | (83,381) | – | (83,381) |
| Acquisition of minority interests in subsidiaries | | – | – | (10,560) | (10,560) |
| Increase in investment from minority interests | | – | – | 123,057 | 123,057 |
| Minority interests arising from acquisition of subsidiaries | | – | – | 5,662 | 5,662 |
| | | 334 | (55,505) | 118,159 | 62,988 |
| **Balance at 31 March 2007** | | 99,308 | 1,707,171 | 230,059 | 2,036,538 |

**Consolidated Cash Flow Statement**

*For the year ended 31 March 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit from ordinary activities before taxation | | 332,919 | 253,925 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 70,508 | 70,802 |
| Amortization of land lease premium | | 141 | 103 |
| Impairment loss on intangible assets | | 12,484 | 7,133 |
| Interest expenses | | 111,880 | 60,346 |
| Interest income | | (64,293) | (42,039) |
| Share-based payment | | 20,935 | 3,588 |
| Gain on fair value adjustment on derivative financial instruments | | (15,072) | (5,657) |
| Share of loss of a jointly controlled entity | | 2,027 | 2,134 |
| Share of loss (profit) of associates | | 9,512 | (2,974) |
| Loss on disposal of property, plant and equipment | | 2,981 | 1,203 |
| Unrealized gain on other financial assets at fair value through profit or loss | | – | (556) |
| Provision for impairment loss on trade receivables | | 120 | 553 |
| Loss on write-down of inventories to net realizable value | | 1,217 | 8,552 |
| Gain on disposal of subsidiaries | | (10,054) | (15,123) |
| Operating profit before changes in working capital | | 475,305 | 341,990 |
| Increase in inventories | | (269,045) | (143,916) |
| Decrease in other financial assets at fair value through profit or loss | | 2,779 | – |
| Increase in trade receivables | | (289,806) | (38,370) |
| Increase in deposits and other receivables | | (107,896) | (42,077) |
| (Decrease) Increase in trade and other payables | | (146,325) | 215,076 |
| Increase in trust receipt loans | | 94,974 | 14,675 |
| Cash (used in) generated from operations | | (240,014) | 347,378 |
| Profits tax paid | | (30,961) | (22,891) |
| **Net cash (outflow) inflow from operating activities** | | (270,975) | 324,487 |

**Consolidated Cash Flow Statement (Continued)**
*For the year ended 31 March 2007*

| | Note | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for purchase of property, plant and equipment | | (184,440) | (77,575) |
| Payment for purchase of interest in leasehold land | | (2,641) | – |
| Proceed from disposal of property, plant and equipment | | 926 | 703 |
| Proceed from disposal of available-for-sale financial assets | | 698 | – |
| Proceed from sales of debt instruments | | 774,344 | 344,776 |
| Payment for purchase of other financial assets at fair value through profit or loss | | – | (8,808) |
| Interest-bearing advances to associates | | (115,310) | – |
| Interest-bearing advances from associates | | 21,339 | – |
| Movement in amount due from a jointly controlled entity | | (4,245) | (269) |
| Movement in amounts due from associates | | 12,338 | (34,782) |
| Movement in amounts due to associates | | 139,290 | – |
| Proceed for disposal of subsidiaries, net of cash disposed of | 37 | (356) | (20,678) |
| Payment for purchase of subsidiaries, net of cash acquired | 36 | (83,477) | (13,327) |
| Payment for purchase of available-for-sale financial assets | | (100) | (230) |
| Deposit payment for investment in a subsidiary | | – | (75,660) |
| Payment for investment in an associate | | (19,936) | – |
| Payment for acquisition of minority interest in subsidiary | | (20,414) | – |
| Investment in debt instruments | | (741,000) | (325,260) |
| Repayment from an associate | | – | 1,765 |
| Increase investment from minority shareholders | | 123,057 | 4,874 |
| Interest received | | 30,949 | 22,523 |
| Exchange realignment | | (530) | (4,120) |
| **Net cash outflow from investing activities** | | (69,508) | (186,068) |
| **Financing activities** | | | |
| Capital element of finance lease rentals paid | | (1,255) | (3,221) |
| Interest element of finance lease rentals paid | | (211) | (306) |
| Proceed from subscription of new shares | | – | 285,919 |
| Premium paid on repurchase of shares | | – | (10,502) |
| Proceed from exercise of options | | 7,275 | – |
| Proceed from exercise of warrants | | – | 24,455 |
| Nominal value of shares repurchased | | – | (597) |
| Proceed from bank loans | | 973,813 | 829,287 |
| Repayment of bank loans | | (169,787) | (631,440) |
| Interest paid | | (111,669) | (60,040) |
| Interim dividend paid | | (40,801) | (26,992) |
| Final dividend paid | | (42,580) | (25,360) |
| **Net cash inflow from financing activities** | | 614,785 | 381,203 |
| **Net increase in cash and cash equivalents** | | 274,302 | 519,622 |
| **Cash and cash equivalents at the beginning of the year** | | 1,185,789 | 666,167 |
| **Cash and cash equivalents at the end of the year** | | | |
| – Cash and bank balances | | 1,460,091 | 1,185,789 |

## Notes to the Financial Statements

*For the Year Ended 31 March 2007*

*These notes form an integral part of the financial statements.*

### 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 HM11, 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 19 to the financial statements.

### 2. BASIS OF PREPARATION

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**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance. 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 financial 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 to the financial statements.

#### (a) Standards, amendments and interpretations effective in year 2007

The following new standards, amendments and interpretations are mandatory for the financial year ended 31 March 2007:

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

The adoption of the above new standards, amendments to standards and interpretations did not have a significant impact on the Group.

**(b) Standards, amendment to standards and interpretations that are not yet effective and have not been adopted early by the Group**

The following standards and interpretations have been published and are mandatory for accounting periods beginning on or after 1 May 2006 or later periods that the Group has not adopted early:

- HKFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). HKAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 January 2007). The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1 April 2007;

- HKFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, Segment Reporting, which requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 will have no significant impact on the segment disclosures of the Group. The Group will apply HKFRS 8 from 1 April 2009;

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have any impact on the Group's financial statements;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group will apply HK(IFRIC)-Int 9 from 1 April 2007;

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have any impact on the Group's financial statements;

- HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transfer (effective for accounting periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1 April 2008 but it is not expected to have any significant impact on the Group's financial statements; and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for accounting periods beginning on or after 1 January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

The adoption of the above amendments to standards and interpretations did not have any significant impact on the financial statements of the Group.

## 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, interests 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.

**(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**

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 categorized 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.

*(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 long-term deposits, 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.

**(e) Interest in leasehold land**

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.

**(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.

**(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. Taxes 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 assets 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.

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 taxes 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.

**(l) Foreign currency translation**

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

*(iii) Group companies*

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

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting exchange differences are recognized as a separate component of equity.

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

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

**(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.

**(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 a 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.

*(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.

**(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 intragroup 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 recognized 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.

**(x) Share capital**

Ordinary shares are classified as equity.

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

Where any Group company purchases the Company's equity share capital, 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 objective 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 maintains a conservative cash reserve and reviews its 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 has been managed 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 its maturities profile, if necessary, to meet business requirements.

**(a) Interest Rate Risk**

The Group manages its interest rate exposure with a view to increasing the predictability of the interest payment and lowering 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 its balance sheet management, the Group has matched the maturity of its assets and liabilities to the greatest possible extent. Certain shorter-term tenor bank borrowings have been refinanced by longer term debt with flexible interest rates. This has increased the financial flexibility of the Group. Interest rate movement and hedging advice is provided from time to time by leading banks to the Group.

After taking into consideration interest rate swaps, the Group's fixed rate debt was at an effective interest rate ranging from 4.95%-5.20% as a percentage of total debt which was approximately 40%.

**(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 movements is closely monitored. Currency derivatives (e.g. EUR, GBP and CHF) are 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 having RMB denominated assets and revenue.

Currency transaction loss was HK$3.8 million and was expensed during the year.

**(c) Credit Risk**

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

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

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

### (a) Deprecation and amortization

The Group's carrying amount of property, plant and equipment as at 31 March 2007 was approximately HK$518,010,000. The Group depreciates the property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the reducing balance method, at 20% per annum. The estimated useful life reflects the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment. The residual values reflect the directors' estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated cost of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

### (b) Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are slowing moving as defined in the internal accounting polices. The management estimates the net realizable 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 life 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**") and intangible assets with indefinite useful lives by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. The recoverable amounts of the CGUs are determined based on value-in-use calculation. Save as the impairment loss disclosed in note 18 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.

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 cash flow projections based on financial forecasts covering a five to ten-year period with cash flows beyond that extrapolated using an estimated growth rate of 3%. The discount rates used were 9.5%. The growth rate used does not exceed the average long-term growth rates for the businesses and the relevant markets in which 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 a 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 behaviour, 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 a vesting period involves management estimation. Should the number of options being vested at the end of a 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 estimated value provided by financial institutions for equivalent instruments at the balance sheet date. The amount is estimated by using a discount cash flow model with incorporated 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.

| | 2007 | | | |
|---|---|---|---|---|
| | Turnover | Segment results | Segment assets | Capital expenditure |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| The Americas | 823,139 | 123,329 | 358,983 | 24,490 |
| Asia (excluding China) | 336,356 | 33,263 | 21,890 | 11,709 |
| Europe | 337,249 | 32,397 | 116,844 | 12,295 |
| China and Hong Kong | 1,543,770 | 276,135 | 3,940,908 | 136,142 |
| | 3,040,514 | 465,124 | 4,438,625 | 184,636 |
| Unallocated expenses | | (70,649) | | |
| Gain on disposal of subsidiaries | | 10,054 | | |
| Impairment loss of intangible assets | | (12,484) | | |
| Finance costs net of interest income | | (47,587) | | |
| Share of loss of associates | | (9,512) | | |
| Share of loss of a jointly controlled entity | | (2,027) | | |
| Profit before taxation | | 332,919 | | |
| Unallocated assets | | | 29,967 | |
| Total assets | | | 4,468,592 | |

| | 2006 | | | |
|---|---|---|---|---|
| | Turnover | Segment results | Segment assets | Capital expenditure |
| | *HK$'000* | *HK$'000* (Restated) | *HK$'000* | *HK$'000* |
| The Americas | 884,780 | 135,060 | 351,979 | 167 |
| Asia (excluding China) | 400,126 | 42,036 | 8,985 | – |
| Europe | 322,027 | 33,143 | 63,358 | 1,526 |
| China and Hong Kong | 634,838 | 124,068 | 2,793,912 | 75,883 |
| | 2,241,771 | 334,307 | 3,218,234 | 77,576 |
| Unallocated expenses | | (70,905) | | |
| Gain on disposal of subsidiaries | | 15,123 | | |
| Impairment loss of intangible assets | | (7,133) | | |
| Finance costs net of interest income | | (18,307) | | |
| Share of profit of associates | | 2,974 | | |
| Share of loss of a jointly controlled entity | | (2,134) | | |
| Profit before taxation | | 253,925 | | |
| Unallocated assets | | | 53,453 | |
| Total assets | | | 3,271,687 | |

## 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

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Interest income | 30,949 | 22,523 |
| Interest income from debt instruments | 33,344 | 19,516 |
| Sale of scrapped materials | 993 | 1,690 |
| Rental income | 2,484 | 2,432 |
| Net unrealized gain on other financial assets at fair value through profit or loss | – | 556 |
| Net realized gain on other financial assets at fair value through profit or loss | 1,612 | 3,464 |
| Fair value adjustment on derivative financial instruments | 16,398 | 7,187 |
| Net realized gains on derivative financial instruments | 23,208 | – |
| Technical service income | 2,084 | 1,121 |
| Gain on disposal of subsidiaries | 10,054 | 15,123 |
| Commission income from brand subsidy | 5,212 | 791 |
| Sundry income | 6,508 | 6,041 |
| | 132,846 | 80,444 |

## 8. PROFIT BEFORE TAXATION

| | 2007<br>*HK$'000* | 2006<br>*HK$'000* |
|---|---|---|
| Profit before taxation is arrived at after charging: | | |
| Auditors' remuneration | 3,275 | 2,354 |
| Depreciation of property, plant and equipment | 70,508 | 70,802 |
| Amortization of land lease premium | 141 | 103 |
| Impairment loss of intangible assets | 12,484 | 7,133 |
| Loss on write-down of inventories to net realizable value | 1,217 | 8,552 |
| Loss on disposal of property, plant and equipment | 2,981 | 1,203 |
| Staff costs, including directors' emoluments | | |
| – Wages, salaries and benefits in kind | 177,532 | 136,611 |
| – Pension costs: defined contribution plans, net of forfeited contributions | 4,278 | 3,223 |
| – Share option expense | 14,804 | 2,093 |
| Minimum lease payments in respect of properties under operating leases | 70,650 | 27,853 |
| Provision for impairment loss on trade receivables | 120 | 553 |
| Exchange loss | 3,765 | 10,959 |

**9. FINANCE COSTS**

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest on: | | |
| Term loans, syndicated loans and bank overdrafts wholly repayable within five years | 111,669 | 60,040 |
| Obligations under finance leases | 211 | 306 |
| | 111,880 | 60,346 |

**10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

Particulars of the Directors' and the five 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 of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance is as follows:

*For the Year Ended 31 March 2007*

| Name of Director | Fees | Salary | Other benefits *(Note i)* | Employer's contribution to pension scheme | Share-based payments *(Note ii)* | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Mr. Chau Cham Wong, Patrick | – | 900 | 840 | 41 | 3,747 | 5,528 |
| Mr. Leung Yung | – | 900 | 864 | 41 | 3,747 | 5,552 |
| Mr. Tsang Kwong Chiu, Kevin | – | 1,200 | – | 55 | 563 | 1,818 |
| Mr. Man Kwok Keung | – | 690 | 288 | 32 | 191 | 1,201 |
| Mr. Cheng Kwan Ling | – | 450 | 110 | 21 | 191 | 772 |
| Ms. Susan So | 80 | – | – | – | 99 | 179 |
| Mr. Kwok Ping Ki, Albert | 80 | – | – | – | 99 | 179 |
| Mr. Tang Yat Kan | 80 | – | – | – | 99 | 179 |
| Mr. Wong Yee Sui, Andrew | 80 | – | – | – | 99 | 179 |
| Mr. Mak Siu Wing, Clifford | 80 | – | – | – | 99 | 179 |
| | 400 | 4,140 | 2,102 | 190 | 8,934 | 15,766 |

*For the year ended 31 March 2006*

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

*Notes:*

(i) Other benefits include leave pay, insurance premium and club membership.

(ii) 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 (2006: nil).

The details of share-based payments are disclosed in note 34 to the financial statements.

**(b) Five highest paid individuals**

During the year ended 31 March 2007, the five (2006: six) highest paid individuals included four Directors (2006: three), 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:

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other benefits | 1,795 | 3,353 |
| Pension scheme contributions | – | – |
| | 1,795 | 3,353 |

The emoluments of the one (2006: three) individual(s) with the highest emoluments are within the following bands:

| | **2007** *Number of individuals* | **2006** *Number of individuals* |
|---|---|---|
| Nil to HK$1,000,000 | – | – |
| HK$1,000,001 to HK$1,500,000 | – | 3 |
| HK$1,500,001 to HK$2,000,000 | 1 | – |
| | 1 | 3 |

During the year, no remuneration was paid by the Group to any one (2006: three) highest paid, non-director employees as an inducement to join or upon joining the Group or as compensation for loss of office.

## 11. TAXATION

### (a) Income tax in the consolidated income statement represents:

| | **2007** *HK$'000* | **2006** *HK$'000* |
|---|---|---|
| Current profits tax | | |
| Hong Kong | 37,197 | 36,940 |
| The People's Republic of China (the "PRC") | 800 | 556 |
| Overseas | 1,038 | 997 |
| Overprovision in prior years | (12,049) | – |
| Deferred taxation | | |
| Origination and reversal of temporary differences | 1,330 | (569) |
| | 28,316 | 37,924 |

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 have unused tax losses of HK$8,750,000 (2006: HK$4,990,000) 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 2012.

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

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Profit before taxation | 332,919 | 253,925 |
| Notional tax charge on profit before taxation, calculated at the applicable tax rate of 17.5% (2006: 17.5%) | 58,261 | 44,437 |
| Tax effect of income not taxable for tax purpose | (15,263) | (5,244) |
| Tax effect of expenses not deductible for tax purpose | 16,894 | 18,936 |
| Utilization of tax losses previously not recognized | (1,973) | (61) |
| Recognition of previously unrecognized tax losses | (19) | (742) |
| Tax effect of unused tax losses not recognized | 21,048 | 1,800 |
| Effect of different tax rates for certain subsidiaries | (41,159) | (23,264) |
| Overprovision in prior years | (12,049) | – |
| Others | 2,576 | 2,062 |
| Actual tax expense | 28,316 | 37,924 |

## 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$104,579,000 (2006: HK$35,891,000) which has been dealt with in the financial statements of the Company.

## 13. DIVIDENDS

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interim dividend paid of HK4.1 cents per share (2006: HK3.0 cents) | 40,704 | 26,992 |
| Final dividend proposed of HK6.2 cents per share (2006: HK4.3 cents) | 62,023 | 42,580 |
| | 102,727 | 69,572 |

A final dividend in respect of 2007 of HK6.2 cents per share amounting to approximately HK$62,023,000 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:

| | 2007 | 2006 |
|---|---|---|
| Profit attributable to equity holders of the Company *(in HK$'000)* | 300,276 | 200,619 |
| Weighted average number of shares for the purpose of basic earnings per share calculation *(in '000)* | 991,796 | 906,636 |
| Potential dilutive shares – share options *(in '000)* | 24,548 | 3,960 |
| Weighted average number of shares for the purpose of diluted earnings per share calculation *(in '000)* | 1,016,344 | 910,596 |
| Basic earnings per share *(HK cents)* | 30.28 | 22.13 |
| Diluted earnings per share *(HK cents)* | 29.54 | 22.03 |

## 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:

| | | 2007 | 2006 |
|---|---|---|---|
| | *Note* | *HK$'000* | *HK$'000* |
| Sale of finished goods to | | | |
| – Associates | *(a)* | 6,600 | 44,232 |
| – A substantial shareholder of an associate | *(a)* | 58,610 | – |
| Purchase of finished goods from | *(b)* | | |
| – An associate | | – | 1,697 |
| – A substantial shareholder of a non-wholly owned subsidiary | | 1,298 | – |
| Rental for use of leasehold properties provided from and charged from an associate | *(c)* | 6,410 | 3,151 |
| Rental for use of plant and machinery provided to and charged to a jointly controlled entity | *(c)* | 2,400 | 1,846 |
| Electroplating services provided by and respective fee charged by a jointly controlled entity | *(d)* | 14,723 | 9,841 |
| Royalty payment to a substantial shareholder of a non-wholly owned subsidiary | *(e)* | 546 | – |
| Interest income charged to | *(f)* | | |
| – An associate | | 573 | – |
| – A jointly controlled entity | | 393 | 303 |
| Interest payment to an associate | *(f)* | 848 | 272 |
| Key management compensation | *(g)* | 2,418 | 2,030 |

*Notes:*

(a) Sale of finished goods to associates and a substantial shareholder of an associate 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 and a substantial shareholder of a non-wholly owned subsidiary were 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 an 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) The royalty payment to a substantial shareholder of a non-wholly owned subsidiary was conducted in the normal course of business at rates and terms under the license agreement between the transaction parties.

(f) Details of amounts due (to)/from an associate and a jointly controlled entity were set out in note 20 and note 21 to the financial statements, respectively.

(g) Details of key management compensation of the Group are as follows:

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Salaries and other short-term employee benefits | 1,660 | 1,669 |
| Post-employment benefits | 71 | 74 |
| Share-based payment | 687 | 287 |
| | 2,418 | 2,030 |

**16. FREEHOLD LAND AND INTEREST IN LEASEHOLD LAND**

The carrying value of the freehold land and interest in leasehold land held for own use are analyzed as follows:

| | **Group** | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Freehold land outside Hong Kong | 1,220 | 1,220 |
| Interest in leasehold land in Hong Kong under leases of between 10 to 50 years *(Note)* | 6,741 | 4,241 |
| | 7,961 | 5,461 |

*Note:* Interest in leasehold land held for own use represents prepaid operating lease premium payments.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Plant and machinery under installation | Building for own use | Leasehold improvement | Plant and machinery | Other assets | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | | | | |
| At 1 April 2006 | 66 | 121,406 | 149,362 | 317,864 | 80,474 | 669,172 |
| Additions | 2,448 | 796 | 116,392 | 43,634 | 21,366 | 184,636 |
| Acquisition of subsidiaries | – | 172 | 4,130 | – | 1,282 | 5,584 |
| Disposals | – | – | (4,250) | – | (2,364) | (6,614) |
| Disposal of subsidiaries | – | – | – | – | (17) | (17) |
| Reclassification | (1,067) | – | 1,422 | 209 | (564) | – |
| Exchange realignment | – | 562 | (1,176) | (253) | (948) | (1,815) |
| **As at 31 March 2007** | 1,447 | 122,936 | 265,880 | 361,454 | 99,229 | 850,946 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2006 | – | 12,453 | 53,699 | 167,297 | 34,435 | 267,884 |
| Provided for the year | – | 2,399 | 30,477 | 27,243 | 10,389 | 70,508 |
| Eliminated on disposal | – | – | (1,712) | – | (995) | (2,707) |
| Disposal of subsidiaries | – | – | – | – | (7) | (7) |
| Reclassification | – | – | 88 | – | (88) | – |
| Exchange realignment | – | 64 | (724) | (884) | (1,198) | (2,742) |
| **As at 31 March 2007** | – | 14,916 | 81,828 | 193,656 | 42,536 | 332,936 |
| **Carrying amount** | | | | | | |
| **As at 31 March 2007** | 1,447 | 108,020 | 184,052 | 167,798 | 56,693 | 518,010 |
| As at 31 March 2006 | 66 | 108,953 | 95,663 | 150,567 | 46,039 | 401,288 |
| **Cost** | | | | | | |
| At 1 April 2005 | – | 176,888 | 123,139 | 304,836 | 81,322 | 686,185 |
| Additions | 2,486 | – | 52,893 | 12,692 | 9,505 | 77,576 |
| Acquisition of subsidiaries | – | – | 153 | 149 | 215 | 517 |
| Disposals | – | – | (1,267) | (191) | (932) | (2,390) |
| Disposal of subsidiaries | (2,420) | (55,577) | (27,601) | (4,887) | (10,238) | (100,723) |
| Exchange realignment | – | 95 | 2,045 | 5,265 | 602 | 8,007 |
| **As at 31 March 2006** | 66 | 121,406 | 149,362 | 317,864 | 80,474 | 669,172 |
| **Accumulated depreciation** | | | | | | |
| At 1 April 2005 | – | 17,616 | 47,680 | 131,885 | 31,475 | 228,656 |
| Provided for the year | – | 3,347 | 20,062 | 35,985 | 11,408 | 70,802 |
| Eliminated on disposal | – | – | (200) | (30) | (254) | (484) |
| Disposal of subsidiaries | – | (8,347) | (14,819) | (4,050) | (8,403) | (35,619) |
| Exchange realignment | – | (163) | 976 | 3,507 | 209 | 4,529 |
| **As at 31 March 2006** | – | 12,453 | 53,699 | 167,297 | 34,435 | 267,884 |
| **Carrying amount** | | | | | | |
| **As at 31 March 2006** | 66 | 108,953 | 95,663 | 150,567 | 46,039 | 401,288 |
| As at 31 March 2005 | – | 159,272 | 75,459 | 172,951 | 49,847 | 457,529 |

As at 31 March 2007, the carrying amount of the Group's property, plant and equipment held under finance leases was approximately HK$5,561,000 (2006: HK$7,242,000).

### 18. INTANGIBLE ASSETS

| | Goodwill | Group Trademarks | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Cost** | | | |
| At 1 April 2005 | 160,570 | 61,860 | 222,430 |
| Additions | 11,693 | – | 11,693 |
| Disposals | (9,865) | – | (9,865) |
| Exchange realignment | – | (190) | (190) |
| As at 31 March 2006 | 162,398 | 61,670 | 224,068 |
| Additions | 54,450 | 1,000 | 55,450 |
| Exchange realignment | – | 193 | 193 |
| **As at 31 March 2007** | 216,848 | 62,863 | 279,711 |
| **Accumulated amortization and impairment losses** | | | |
| At 1 April 2005 | 12,575 | 8,231 | 20,806 |
| Impairment loss *(Note a)* | 7,133 | – | 7,133 |
| Exchange realignment | – | (14) | (14) |
| **As at 31 March 2006** | 19,708 | 8,217 | 27,925 |
| Impairment loss *(Note a)* | 10,484 | 2,000 | 12,484 |
| Exchange realignment | – | 13 | 13 |
| **As at 31 March 2007** | 30,192 | 10,230 | 40,422 |
| **Carrying amount** | | | |
| **As at 31 March 2007** | 186,656 | 52,633 | 239,289 |
| As at 31 March 2006 | 142,690 | 53,453 | 196,143 |

*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**") and intangible assets with indefinite useful lives by comparing their recoverable amounts to their carrying amounts as at the balance sheet date. 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 amounts of the CGUs are determined based on a value-in-use calculation. These calculations use cash flow projections based on financial forecasts covering a five to ten-year period with cash flows beyond that extrapolated using an estimated growth rate of 3% (2006: 2%-3%). The discount rates used were 9.5% (2006: 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.

(b) As at 31 March 2007, the accumulated amortization and impairment losses for trademarks are HK$8,230,000 (2006: HK$8,217,000) and HK$2,000,000 (2006: HK$ nil) respectively.

## 19. INTEREST IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Unlisted shares, at cost | 51,398 | 51,398 |
| Amounts due from subsidiaries | 2,246,125 | 1,749,588 |
| | 2,297,523 | 1,800,986 |

Included in amounts due from subsidiaries is an amount of HK$1,797,781,000 (2006: HK$1,547,559,000) advances to a subsidiary which are unsecured, interest-bearing at annual rates around 3.8% (2006: 2.5%) and are not expected to be realized 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 2007, 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 2007 are as follows:

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid capital/ registered capital | Percentage of equity held by the Company | | Principal place of operation | Principal activities |
|---|---|---|---|---|---|---|
| | | | *Direct* % | *Indirect* % | | |
| Aerostar Timewear International Limited | British Virgin Islands | US$1 Ordinary | – | 100 | The Americas | Trademark holding |
| Bensonic International Limited | British Virgin Islands | US$100 Ordinary | – | 51 | The Americas | Timepiece distribution, trading and marketing |
| Cornell Worldwide International Holdings Limited | British Virgin Islands | US$1 Ordinary | – | 100 | The Americas | Trademark holding |
| Eastern Group (Asia) Limited | Hong Kong | HK$2,000,000 Ordinary | – | 100 | Hong Kong | Timepiece distribution, trading and marketing |
| Eastco Business Limited | British Virgin Islands | US$10 Ordinary | – | 100 | Hong Kong | Trademark holding |
| Easy Winner Development Limited | Hong Kong | HK$1 Ordinary | – | 100 | Hong Kong | Timepiece retail |
| Ever Precision Corporation | British Virgin Islands | US$1 Ordinary | – | 100 | The People's Republic of China | Trademark holding |

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid capital/ registered capital | Percentage of equity held by the Company Direct % | Percentage of equity held by the Company Indirect % | Principal place of operation | Principal activities |
|---|---|---|---|---|---|---|
| Epoch World Company Limited [4] | Taiwan | NTD19,000,000 | – | 100 | Taiwan | Timepiece distribution, trading and marketing |
| Fiorucci Timewear (Far East) Limited | British Virgin Islands | US$1 Ordinary | – | 100 | Hong Kong | License holding |
| Gala City Limited [4] | Taiwan | NTD1,000,000 | – | 100 | Taiwan | Timepiece distribution, trading and retail |
| Haussman Group Limited | Hong Kong | HK$5,000,000 Ordinary | – | 70 | Hong Kong | Jewellery distribution, and retail |
| Inter Mark Worldwide Limited | Hong Kong | HK$100 Ordinary | – | 100 | Hong Kong | Timepiece distribution and marketing |
| Madison N.Y. Limited | Hong Kong | HK$10,000 Ordinary | – | 51 | Germany | Timepiece distribution, trading and marketing |
| Mega Chains (China) Limited | Hong Kong | HK$100 Ordinary | – | 100 | Hong Kong | Timepiece trading and marketing |
| Mega Chains (Taiwan) Limited [4] | Taiwan | NTD1,000,000 | – | 100 | Taiwan | Timepiece distribution and marketing |
| Milus (Far East) Co., Limited | Hong Kong | HK$100 Ordinary | – | 100 | Hong Kong | Timepiece distribution, trading and marketing |
| Milus International S.A. [4] | Switzerland | CHF760,000 | – | 100 | Switzerland | Timepiece manufacturing and trading |
| Omni Watch & Clock Co., LLC. [4] | State of New York, United Stated | US$8,698,090 | – | 51 | United Stated | Timepiece distribution, trading and marketing |
| Peace Mark (B.V.I.) Limited | British Virgin Islands | HK$10,000 Ordinary | 100 | – | British Virgin Islands | Investment holding |
| Peace Mark Distribution & Marketing Limited | British Virgin Islands | US$10 Ordinary | – | 100 | British Virgin Islands | Investment holding |
| Peace Mark Limited | Hong Kong | HK$110,000 Ordinary<br>HK$10,000 Non-voting deferred [3] | – | 100 | Hong Kong | Timepiece trading, marketing and manufacturing |
| Peace Mark Production Limited | British Virgin Islands | US$10 Ordinary | – | 100 | British Virgin Islands | Investment holding |
| Peace Mark Timepiece (Guangzhou) Limited [2] | The People's Republic of China | RMB10,000,000 | – | 100 | The People's Republic of China | Timepiece distribution and retail |
| Peace Mark Timepiece (Shenzhen) Limited [2] | The People's Republic of China | RMB10,000,000 | – | 100 | The People's Republic of China | Timepiece distribution and retail |
| Peace Mark Tourneau (Holdings) Limited | Hong Kong | 14,250,000 Ordinary Shares of US$0.8 each<br>750,000 Preference Shares of US$0.8 each | – | 65 | Hong Kong | Timepiece distribution, trading and marketing |

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid capital/ registered capital | Percentage of equity held by the Company Direct % | Indirect % | Principal place of operation | Principal activities |
|---|---|---|---|---|---|---|
| PM License Management Limited | British Virgin Islands | US$100 Ordinary | – | 100 | British Virgin Islands | Licence holding |
| Pure Riches Industries Limited | Hong Kong | HK$2,760,000 Ordinary | – | 100 | The People's Republic of China | Manufacturing of timepiece components |
| Shenzhen Winning Wealth Trading Co., Limited [2] | The People's Republic of China | RMB10,000,000 | – | 100 | 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 |
| Solomon Trademark Management Limited | British Virgin Islands | US$10 Ordinary | – | 100 | Hong Kong | Trademark holding |
| Solomon Watch & Jewellery Co., Limited | Hong Kong | HK$1 Ordinary | – | 100 | Hong Kong | Timepiece distribution trading and marketing |
| Timetech Industrial Limited | Hong Kong | HK$100 Ordinary | – | 100 | The People's Republic of China | Manufacturing of timepiece components |
| Timezone Trademark Management Limited | British Virgin Islands | US$10 Ordinary | – | 100 | Hong Kong | Trademark holding |
| T&T Timepieces Co., Limited | Hong Kong | HK$1 Ordinary | – | 100 | Hong Kong | Timepiece distribution trading and marketing |
| World Grade Industries Limited | Hong Kong | HK$10,000 Ordinary | – | 100 | Hong Kong | Property holding |
| 富明高鐘錶(深圳)有限公司 [2] (Transliteration: Flamingo Watch (Shenzhen) Co., Ltd) | The People's Republic of China | RMB10,000,000 | – | 70 | The People's Republic of China | Timepiece retail |
| 深圳市大元錶業有限公司 [1] (Transliteration: Shenzhen Dayuan Watches Co., Limited) | The People's Republic of China | RMB15,000,000 | – | 100 | The People's Republic of China | Timepiece distribution and retail |
| 深圳現代世界鐘錶精品有限公司 (Transliteration: Shenzhen Modern Watch Showpiece Co. Ltd.) | The People's Republic of China | RMB1,000,000 | – | 51 | The People's Republic of China | Timepiece retail |
| 廣州金匠時計有限公司[2] (Transliteration: Guangzhou Goldsmith Timepiece Co., Limited) | The People's Republic of China | RMB500,000 | – | 100 | The People's Republic of China | Timepiece distribution and retail |
| 廣州表匠鐘錶維修有限公司[2] (Transliteration: Guangzhou Watchsmith Timepiece Servicing Co., Limited) | The People's Republic of China | RMB100,000 | – | 100 | The People's Republic of China | Provision of after sales service and timepiece components trading |
| 重慶美達實業有限公司 (Transliteration: Chongqing Media Enterprise Co., Limited) | The People's Republic of China | RMB10,000,000 | – | 51 | The People's Republic of China | Timepiece retail |

| Name of subsidiary | Place of incorporation/ registration | Issued and fully paid capital/ registered capital | Percentage of equity held by the Company *Direct* % | *Indirect* % | Principal place of operation | Principal activities |
|---|---|---|---|---|---|---|
| 上海金時精密機械有限公司[1] (Transliteration: Shanghai Golden Time Precision Instrument Co., Limited) | The People's Republic of China | RMB30,000,000 | – | 51 | The People's Republic of China | Manufacturing of mechanical movement |
| 上海世琪貿易有限公司[1] (Transliteration: Shanghai Shigi Trading Co., Limited) | The People's Republic of China | RMB500,000 | – | 51 | The People's Republic of China | Timepiece distribution and retail |
| 君時鐘錶(上海)有限公司[2] (Transliteration: Lord Time (Shanghai) Co., Ltd.) | The People's Republic of China | US$16,818,000 | – | 100 | The People's Republic of China | Timepiece distribution and retail |
| 寧波美和時計珠寶鐘錶有限公司 (Transliteration: Nigbo Meihe Watch and Jewellery Company Limited) | The People's Republic of China | RMB16,000,000 | – | 51 | The People's Republic of China | Timepiece retail |

*Notes:*

1. Represents a Sino-foreign equity joint venture.

2. Represents 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 0.45% and 7.85% 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.

## 20. INTEREST IN ASSOCIATES

| | Group 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Share of net assets | 43,611 | 35,687 |
| Unamortized goodwill | 30,940 | 28,440 |
| | 74,551 | 64,127 |
| Amounts due from associates *(Note a)* | 173,378 | 70,406 |
| Amounts due to associates *(Note b)* | (160,629) | – |
| | 12,749 | 70,406 |
| | 87,300 | 134,533 |

*Notes:*

(a) Included in amounts due from associates is an amount of HK$115,310,000 (2006: HK$ nil) advances to an associate which are unsecured, interest-bearing at around 6.7% (2006: nil) and are not expected to be realized within one year from the balance sheet date. The remaining balances with associates are unsecured, non-interest bearing and not repayable within the next twelve months.

(b) Included in amounts due to associates is an amount of HK$21,339,000 (2006: HK$ nil) advances from an associate which are unsecured, interest-bearing at rates ranging from 5% to 6.7% (2006: nil) and are not expected to be realized within one year from the balance sheet date. The remaining balances with associates are unsecured, non-interest bearing and not repayable within the next twelve months.

Details of the Group's associates as at 31 March 2007 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** |
| 瀋陽大公鐘錶有限公司 | The People's Republic of China | RMB4,000,000 | 51 | Timepiece retail |

* *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 | Liabilities | Equity | Revenue | Profit (Loss) for the year |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 2007 | | | | | |
| 100% | 641,717 | (549,214) | 92,503 | 51,082 | (17,913) |
| Group's effective interest | 305,156 | (263,267) | 41,889 | 20,734 | (9,512) |
| 2006 | | | | | |
| 100% | 365,866 | (287,243) | 78,623 | 69,045 | 7,145 |
| Group's effective interest | 167,034 | (132,500) | 34,534 | 29,423 | 2,974 |

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | Group 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Share of net assets of a jointly controlled entity | 5,445 | 7,535 |
| Amount due from a jointly controlled entity *(Note)* | 10,549 | 6,241 |
| | 15,994 | 13,776 |

*Note:* Included in amount due from a jointly controlled entity is an amount of HK$3,100,000 (2006: HK$3,100,000) advances to a jointly controlled entity which are unsecured, interest-bearing at prime rate (2006: prime rate) and are not expected to be realized within one year from the balance sheet date. The remaining balance with a jointly controlled entity is unsecured, interest-free and not repayable within the next twelve months.

Details of the Group's jointly controlled entity as at 31 March 2007 are as follows:

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

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

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

Summary of financial information on the jointly controlled entity:

| | Non-current assets HK$'000 | Current assets HK$'000 | Non-current liabilities HK$'000 | Current liabilities HK$'000 | Equity HK$'000 | Revenue HK$'000 | Profit (Loss) for the year HK$'000 |
|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | |
| 100% | 2,341 | 42,397 | (9,495) | (36,199) | (956) | 48,589 | (4,137) |
| Group's effective interest | 1,147 | 20,775 | (4,652) | (17,738) | (468) | 23,808 | (2,027) |
| 2006 | | | | | | | |
| 100% | 1,757 | 40,891 | (5,740) | (33,618) | 3,290 | 41,076 | (4,355) |
| Group's effective interest | 861 | 20,037 | (2,813) | (16,473) | 1,612 | 20,127 | (2,134) |

## 22. OTHER FINANCIAL ASSETS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Long term deposits *(Note a)* | 136,885 | – |
| Available-for-sale financial assets comprise: | | |
| Unlisted investments: | | |
| – China and Hong Kong | 830 | 1,428 |
| – Japan *(Note b)* | 15,600 | 15,600 |
| Other unlisted investments *(Note c)* | 27,742 | 27,913 |
| | 181,057 | 44,941 |

*Notes:*

(a) In the year, the Group placed an amount of HK$136,885,000 in the form of long-term deposits to business associates for joint business development purpose. Such deposits are unsecured, interest bearing at an annual rate of prime rate plus 1% and are expected to be realized within 24 months from the balance sheet date. The carrying value of the long term deposits approximated to their fair value.

(b) 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-coordinating 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.

(c) The amount of HK$27,742,000 (2006: 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.

## 23. INVENTORIES

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Raw materials | 103,057 | 109,361 |
| Work in progress | 187,481 | 177,636 |
| Finished goods | 725,425 | 367,420 |
| | 1,015,963 | 654,417 |

The carrying amount of inventories that are carried at net realizable value, with the original cost of HK$21,311,000 (2006: HK$16,079,000) is HK$ nil (2006: HK$ nil).

The cost of inventories recognized as an expense and included in cost of sales amounts to HK$1,797,255,000 (2006: HK$1,333,661,000).

## 24. TRADE RECEIVABLES

An aging analysis of trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Trade receivables | | |
| Not yet due | 369,553 | 168,203 |
| Overdue within 90 days | 221,559 | 141,189 |
| Overdue between 91 to 180 days | 14,739 | 9,457 |
| Overdue over 180 days | 7,925 | – |
| | 613,776 | 318,849 |

**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.

## 25. TRADE DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| Trade and other deposits, prepayments and other receivables | 256,718 | 160,123 |
| Deposit payment for investment in a joint venture *(Note)* | – | 75,660 |
| Sale proceeds receivable from the disposal of subsidiaries | 10,000 | 45,000 |
| | 266,718 | 280,783 |

*Note:* 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 proportions of 65%, 25% and 10%, respectively. The Group has provided HK$75,660,000 as a deposit for such investment. In the current year, Peace Mark Tourneau has been set up the details of which are set out in note 19 to the financial statements.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 March 2007, the details of derivative financial instruments are as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2007** | | **2006** | |
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Foreign currency forward contracts | 13,651 | 7,151 | 11,518 | 357 |
| Interest rate swap contracts | 32,631 | 16,872 | 5,601 | 9,575 |
| | 46,282 | 24,023 | 17,119 | 9,932 |

| | The Company | | | |
|---|---|---|---|---|
| | **2007** | | **2006** | |
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Foreign currency forward contracts | 8,964 | 15 | – | – |
| Interest rate swap contracts | 5,780 | 1,857 | 1,630 | – |
| | 14,744 | 1,872 | 1,630 | – |

*Note:*

(a) The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on estimated value provided by financial institutions for equivalent instruments at the balance sheet date.

(b) The notional principal amounts of the outstanding interest rate swap contracts at 31 March 2007 for the Group and the Company were HK$3,926 million (2006: HK$874 million) and HK$644 million (2006: HK$78 million) respectively. The fixed interest rates vary from 3.6% to 7% and main floating rates are LIBOR.

**27. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Listed Securities: | | |
| – Equity securities – Hong Kong | 4,696 | 9,364 |
| – Bond – Overseas | 1,889 | – |
| | 6,585 | 9,364 |

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

**28. TRADE AND OTHER PAYABLES**

An aging analysis of trade payables is as follows:

| | **2007** | **2006** |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade payables | | |
| Not yet due | 67,054 | 56,722 |
| Overdue within 90 days | 42,300 | 39,053 |
| Overdue between 91 to 180 days | 16,334 | 8,355 |
| Overdue over 180 days | 24,806 | 9,506 |
| | 150,494 | 113,636 |
| Accruals and other payables | 144,295 | 271,421 |
| | 294,789 | 385,057 |

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

## 29. INTEREST-BEARING BORROWINGS

| | Group 2007 | Group 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest-bearing borrowings are repayable as follows: | | |
| – Not exceeding one year or upon demand | 988,231 | 547,240 |
| – More than one year, but not exceeding two years | 285,815 | 291,478 |
| – More than two years, but not exceeding five years | 791,912 | 318,436 |
| | 2,065,958 | 1,157,154 |
| Representing: | | |
| Current portion | 988,231 | 547,240 |
| Non-current portion | 1,077,727 | 609,914 |
| | 2,065,958 | 1,157,154 |
| Analyzed as: | | |
| Secured | – | – |
| Unsecured | 2,065,958 | 1,157,154 |
| | 2,065,958 | 1,157,154 |

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

| | The Company 2007 | The Company 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Interest-bearing borrowings are repayable as follows: | | |
| – Not exceeding one year or upon demand | 416,000 | 166,050 |
| – More than one year, but not exceeding two years | 264,000 | 268,000 |
| – More than two years, but not exceeding five years | 540,000 | 302,000 |
| | 1,220,000 | 736,050 |
| Representing: | | |
| Current portion | 416,000 | 166,050 |
| Non-current portion | 804,000 | 570,000 |
| | 1,220,000 | 736,050 |
| Analyzed as: | | |
| Secured | – | – |
| Unsecured | 1,220,000 | 736,050 |
| | 1,220,000 | 736,050 |

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

### 30. OBLIGATIONS UNDER FINANCE LEASES

| | Group 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Within one year | 208 | 1,240 |
| More than one year, but not exceeding two years | 128 | 141 |
| More than two years, but not exceeding five years | 23 | 66 |
| | 359 | 1,447 |
| Less: finance charges | (17) | (46) |
| | 342 | 1,401 |
| Representing: | | |
| Current portion | 200 | 1,195 |
| Non-current portion | 142 | 206 |
| | 342 | 1,401 |

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.

### 31. DEFERRED TAXATION

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

| | | | Group | | |
|---|---|---|---|---|---|
| | Accelerated tax depreciation | Tax losses | Unrealized profits on inventories | Revaluation of properties | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 31 March 2005 | (15,314) | 11,878 | 653 | 46 | (2,737) |
| Credited (Charged) to consolidated income statement for the year | 3,922 | (3,508) | 201 | (46) | 569 |
| As at 31 March 2006 | (11,392) | 8,370 | 854 | – | (2,168) |
| Credited (Charged) to consolidated income statement for the year | (1,672) | 555 | (213) | – | (1,330) |
| As at 31 March 2007 | (13,064) | 8,925 | 641 | – | (3,498) |

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 operate.

The analysis of the deferred tax balances is as follows:

| | Group 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Deferred tax assets | 9,566 | 9,224 |
| Deferred tax liabilities | (13,064) | (11,392) |
| | (3,498) | (2,168) |

Deferred tax assets are recognized for unused tax losses to the extent that realization of the related tax benefits through the future taxable profit is probable. As at 31 March 2007, the Group has unrecognized tax losses of approximately HK$35,659,000 (2006: HK$32,545,000) 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.

## 32. SHARE CAPITAL

| | *Note* | **Number of shares** | **Amounts** |
|---|---|---|---|
| | | | *HK$'000* |
| Ordinary shares of HK$0.1 each | | | |
| *Authorized:* | | | |
| As at 31 March 2005, 31 March 2006 and 31 March 2007 | | 6,000,000,000 | 600,000 |
| *Issued and fully paid:* | | | |
| As at 31 March 2005 | | 868,082,259 | 86,808 |
| Issue of new shares for subscription | *(a)* | 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 | *(c)* | (5,970,000) | (597) |
| As at 31 March 2006 | | 989,735,780 | 98,974 |
| Issue of new shares pursuant to the exercise of options *(Note 34)* | | 3,345,000 | 334 |
| As at 31 March 2007 | | 993,080,780 | 99,308 |

*Notes:*

(a) 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.

(b) As at 31 March 2006, 37,623,521 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. The share capital increase in relation to the exercise of warrants was HK$3,762,352. These shares rank pari passu with existing shares of the Company.

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

**Year 2006**

| | Number of shares | Price per share | Aggregate consideration paid |
|---|---|---|---|
| | | *HK$* | *HK$'000* |
| **Month of repurchase** | | | |
| 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 |

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.

## 33. RESERVES

| | | | | | | Group | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share premium | Merger deficit | Capital reserve | Contributed surplus | Other reserve | Fair value reserve | Share option reserve | Exchange fluctuation reserve | Retained profits | Proposed final dividend | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 31 March 2005 | 339,498 | (11,988) | 12,372 | 349,431 | (26) | (1,166) | – | 2,209 | 306,121 | 24,532 | 1,020,983 |
| Issue of new share for subscription | 276,919 | – | – | – | – | – | – | – | – | – | 276,919 |
| Shares repurchased and cancelled | (10,502) | – | – | – | – | – | – | – | – | – | (10,502) |
| Exercise of warrants | 20,693 | – | – | – | – | – | – | – | – | – | 20,693 |
| Disposal of subsidiaries | – | 1 | – | 7,309 | – | – | – | – | – | – | 7,310 |
| Fair value adjustment of available-for-sale investment | – | – | – | – | – | (146) | – | – | – | – | (146) |
| Share-based payment | – | – | – | – | – | – | 3,588 | – | – | – | 3,588 |
| 2005 final cash dividend | – | – | – | – | – | – | – | – | (828) | (24,532) | (25,360) |
| 2006 interim cash dividend | – | – | – | – | – | – | – | – | (26,992) | – | (26,992) |
| Exchange realignment | – | – | – | – | – | – | – | (4,761) | – | – | (4,761) |
| Net profit for the year | – | – | – | – | – | – | – | – | 200,619 | – | 200,619 |
| Proposed 2006 final cash dividend | – | – | – | – | – | – | – | – | (42,580) | 42,580 | – |
| As at 31 March 2006 | 626,608 | (11,987) | 12,372 | 356,740 | (26) | (1,312) | 3,588 | (2,552) | 436,340 | 42,580 | 1,462,351 |
| Issue of new share pursuant to the exercise of options | 6,941 | – | – | – | – | – | – | – | – | – | 6,941 |
| Fair value adjustment of available-for-sale investment | – | – | – | – | – | (171) | – | – | – | – | (171) |
| Share-based payment | – | – | – | – | – | – | 20,935 | – | – | – | 20,935 |
| Transfer from share option reserve to share premium upon exercise of options | 1,067 | – | – | – | – | – | (1,067) | – | – | – | – |
| 2006 final cash dividend | – | – | – | – | – | – | – | – | (97) | (42,580) | (42,677) |
| 2007 interim cash dividend | – | – | – | – | – | – | – | – | (40,704) | – | (40,704) |
| Exchange realignment | – | – | – | – | – | – | – | 220 | – | – | 220 |
| Net profit for the year | – | – | – | – | – | – | – | – | 300,276 | – | 300,276 |
| Proposed 2007 final cash dividend | – | – | – | – | – | – | – | – | (62,023) | 62,023 | – |
| As at 31 March 2007 | 634,616 | (11,987) | 12,372 | 356,740 | (26) | (1,483) | 23,456 | (2,332) | 633,792 | 62,023 | 1,707,171 |

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | Share premium | Contributed surplus | Retained profits | Share option reserve | Proposed final dividend | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| 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 cash dividend | – | – | (42,580) | – | 42,580 | – |
| As at 31 March 2006 | 626,608 | 388,830 | 4,304 | 3,588 | 42,580 | 1,065,910 |
| Issue of new shares pursuant to the exercise of options | 6,941 | – | – | – | – | 6,941 |
| Share-based payment | – | – | – | 20,935 | – | 20,935 |
| Transfer from share option reserve to share premium upon exercise of options | 1,067 | – | – | (1,067) | – | – |
| 2006 final cash dividend | – | – | (97) | – | (42,580) | (42,677) |
| 2007 interim cash dividend | – | – | (40,704) | – | – | (40,704) |
| Profit for the year | – | – | 104,579 | – | – | 104,579 |
| Proposed 2007 final cash dividend | – | – | (62,023) | – | 62,023 | – |
| As at 31 March 2007 | 634,616 | 388,830 | 6,059 | 23,456 | 62,023 | 1,114,984 |

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.

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 Bermuda Companies Act, 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:

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Contributed surplus | 388,830 | 388,830 |
| Retained profits | 6,059 | 4,304 |
| Proposed final dividend | 62,023 | 42,580 |
| | 456,912 | 435,714 |

**34. 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.

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 the grant of options 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.

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

| | Date of grant | Vesting period | As at 1 April 2006 | Granted during the year | Exercised during the year | At as 31 March 2007 | Exercise Price *(Note a)* *HK$* | Price of Company's shares *(Note b)* At grant date of options *HK$* | At exercise date of options *HK$* |
|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | |
| Chau Cham Wong, Patrick | 29/12/2006 | 01/09/2007 – 31/03/2012 | – | 19,800,000 | – | 19,800,000 | 5.37 | 6.95 | – |
| Leung Yung | 29/12/2006 | 01/09/2007 – 31/03/2012 | – | 19,800,000 | – | 19,800,000 | 5.37 | 6.95 | – |
| Tsang Kwong Chiu, Kevin | 19/12/2005 | 19/06/2006 – 19/06/2010 | 3,000,000 | – | – | 3,000,000 | 2.175 | 2.175 | – |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Man Kwok Keung | 19/12/2005 | 19/06/2006 – 19/06/2010 | 1,000,000 | – | (250,000) | 750,000 | 2.175 | 2.175 | 5.08 |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Cheng Kwan Ling | 19/12/2005 | 19/06/2006 – 19/06/2010 | 1,000,000 | – | (250,000) | 750,000 | 2.175 | 2.175 | 4.10 |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Susan So | 19/12/2005 | 19/06/2006 – 19/06/2010 | 500,000 | – | – | 500,000 | 2.175 | 2.175 | – |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Kwok Ping Ki, Albert | 19/12/2005 | 19/06/2006 – 19/06/2010 | 500,000 | – | (125,000) | 375,000 | 2.175 | 2.175 | 3.91 |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |

| | Date of grant | Vesting period | As at 1 April 2006 | Granted during the year | Exercised during the year | At as 31 March 2007 | Exercise Price (Note a) HK$ | Price of Company's shares (Note b) At grant date of options HK$ | At exercise date of options HK$ |
|---|---|---|---|---|---|---|---|---|---|
| **Director** | | | | | | | | | |
| Tang Yat Kan | 19/12/2005 | 19/06/2006 – 19/06/2010 | 500,000 | – | (125,000) | 375,000 | 2.175 | 2.175 | 4.10 |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Wong Yee Sui, Andrew | 19/12/2005 | 19/06/2006 – 19/06/2010 | 500,000 | – | – | 500,000 | 2.175 | 2.175 | – |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| Mak Siu Wing, Clifford | 19/12/2005 | 19/06/2006 – 19/06/2010 | 500,000 | – | – | 500,000 | 2.175 | 2.175 | – |
| | 19/03/2007 | 19/09/2007 – 19/03/2008 | – | 100,000 | – | 100,000 | 7.55 | 7.55 | – |
| **Employees in aggregate** | 19/12/2005 | 19/06/2006 – 19/06/2010 | 18,750,000 | – | (2,595,000) | 16,155,000 | 2.175 | 2.175 | 4.48 |
| | 01/09/2006 | 01/09/2007 – 31/08/2010 | – | 2,000,000 | – | 2,000,000 | 4.76 | 4.76 | – |
| | 08/03/2007 | 08/09/2007 – 08/03/2012 | – | 14,785,000 | – | 14,785,000 | 7.06 | 7.03 | – |
| **Others** | 19/12/2005 | 19/06/2006 – 19/06/2010 | 18,750,000 | – | – | 18,750,000 | 2.175 | 2.175 | – |
| | 08/03/2007 | 08/09/2007 – 08/03/2012 | – | 41,415,000 | – | 41,415,000 | 7.06 | 7.03 | – |
| | | | 45,000,000 | 98,600,000 | (3,345,000) | 140,255,000 | | | |

*Notes:*

(a) 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.

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

As at 31 March 2007, the Company had 140,255,000 (2006: 45,000,000) share options outstanding under the Scheme, with the exercise period from 19 June 2006 to 31 March 2012 (both dates inclusive) and the exercise price from HK$2.175 to HK$7.55. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 140,255,000 additional shares of HK$0.10 each and proceeds of approximately HK$715,584,000 (2006: HK$97,875,000).

These fair values were calculated using the Binominal model. The valuation of fair values for share options granted during the year were carried out by Sallmanns (Far East) Limited. The inputs used in the model were as follows:

| Date of grant | Share price at date of grant | Exercise price | Expected volatility *(Note 5)* | Risk-free interest rate *(Note 6)* | Expected option life | Expected annual dividend yield |
|---|---|---|---|---|---|---|
| 19 December 2005 *(Note 1)* | HK$2.175 | HK$2.175 | 43.45% | 4.16% | 4.5 years | 3.42% |
| 1 September 2006 | HK$4.76 | HK$4.76 | 41% | 3.98% | 4 years | 3% |
| 29 December 2006 *(Note 2)* | HK$6.95 | HK$5.37 | 48% | 3.70% | 5 years | 2.23% |
| 8 March 2007 *(Note 3)* | HK$7.03 | HK$7.06 | 47.3% | 4.12% | 5 years | 1.42% |
| 19 March 2007 *(Note 4)* | HK$7.55 | HK$7.55 | 36.21% | 3.97% | 1 year | 1.40% |

*Notes:*

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

| | **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% |

(2) (a) The options granted to Mr. Chau Cham Wong, Patrick and Mr. Leung Yung ("**the Grantees**") have a maximum term of five years and the maximum percentage of the options which may be exercised in the following manner:

i. 20% of the Options (the "**First Tranche of Options**") will be exercisable at any time during the period commencing on 1 September 2007 up to 31 March 2012 provided that the performance target for the financial year ending 31 March 2007 as set forth in paragraph (b) below shall have been met;

ii. In addition to any Options that may have become exercisable as referred to in paragraph (a)(i) above, 20% of the Options (the "**Second Tranche of Options**") will be exercisable at any time during the period commencing on 1 September 2008 up to 31 March 2012 provided that the performance target for the financial year ending 31 March 2008 as set forth in paragraph (b) below shall have been met;

iii. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) and (a)(ii) above, 20% of the Options (the "**Third Tranche of Options**") will be exercisable at any time during the period commencing on 1 September 2009 up to 31 March 2012 provided that the performance target for the financial year ending 31 March 2009 as set forth in paragraph (b) below shall have been met;

iv. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) to (a)(iii) above, 20% of the Options (the "**Fourth Tranche of Options**") will be exercisable at any time during the period commencing on 1 September 2010 up to 31 March 2012 provided that the performance target for the financial year ending 31 March 2010 as set forth in paragraph (b) below shall have been met; and

v. In addition to any Options that may have become exercisable as referred to in paragraphs (a)(i) to (a)(iv) above, 20% of the Options (the "**Fifth Tranche of Options**") will be exercisable at any time during the period commencing on 1 September 2011 up to 31 March 2012 provided that the performance target for the financial year ending 31 March 2011 as set forth in paragraph (b) below shall have been met.

(b) The Options may only be exercised by the Grantees if the following performance targets are met for the following financial years:

| **Financial year ending** | **Performance target** |
|---|---|
| 31 March 2007 | The First Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 125% of the Net Profit for the year ended 31 March 2006 |
| 31 March 2008 | The Second Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 150% of the Net Profit for the year ended 31 March 2006 |
| 31 March 2009 | The Third Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 180% of the Net Profit for the year ended 31 March 2006 |
| 31 March 2010 | The Fourth Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 207% of the Net Profit for the year ended 31 March 2006 |
| 31 March 2011 | The Fifth Tranche of Options could only be exercised if the Net Profit for such financial year is not less than 238% of the Net Profit for the year ended 31 March 2006 |

The Options granted to Mr. Chau Cham Wong, Patrick and Mr. Leung Yung will exceed 1% of the issued share capital of the Company within a 12-month period. Pursuant to the note to Rule 17.03(4) of the Listing Rules, where any further grant of options to a participant would result in the Shares issued or to be issued upon exercise of all options granted and to be granted to such person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be approved by the Independent Shareholders in a general meeting. It is proposed that voting in respect of the Independent Shareholders' approval to be sought at the Special General Meeting shall be taken by poll with Mr. Chau Cham Wong, Patrick, Mr. Leung Yung and their respective associates abstaining from voting, and all other connected persons of the Company abstaining from voting in favour, at the Special General Meeting.

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

| | Percentage of options granted |
|---|---|
| On or after 8 September 2007 | 25% |
| On or after 8 September 2008 | another 25% |
| On or after 8 September 2009 | another 25% |
| On or after 8 September 2010 | another 25% |

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

| | Percentage of options granted |
|---|---|
| On or after 19 September 2007 | 50% |
| On or after 19 March 2008 | another 50% |

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

(6) The risk-free interest rate was based on the yield of Exchange Fund Notes issued by the Hong Kong Monetary Authority.

The estimated fair value of HK$20,935,000 (2006: HK$3,588,000) with respect to share options granted to directors, employees and other eligible persons were charged to the income statement during the year.

**35. SHARE INCENTIVE SCHEME**

On 31 March 2006, the Company adopted a share incentive scheme (the "**2006 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.

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 2006 Scheme. Shares to be purchased pursuant to the 2006 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 2006 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 2006 Scheme shall not exceed HK$150 million.

For the year ended 31 March 2007, the discount expenses incurred by the Group amounted to HK$7,583,000 (2006: HK$785,000) approximately.

Subsequent to the balance sheet date on 20 April 2007, the Company adopted a share incentive scheme (the "**2007 Scheme**") details of which are disclosed in note 42 to the financial statements.

## 36. ACQUISITION OF SUBSIDIARIES

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net assets of the subsidiaries acquired comprised of: | | |
| Building for own use | 172 | – |
| Furniture, fixtures and office equipment | 1,282 | 356 |
| Leasehold improvements | 4,130 | – |
| Plant and machinery | – | 161 |
| Deferred tax assets | – | 23 |
| Intangible assets | 1,000 | – |
| Inventories | 93,718 | 5,754 |
| Trade and other receivables | 15,684 | 4,996 |
| Cash and bank balances | 1,467 | 972 |
| Trade and other payables | (47,589) | (6,722) |
| Tax payable | (9,117) | (429) |
| Shareholders' loan | (31,022) | – |
| Bank Loan | (10,060) | – |
| Minority interests | (5,662) | (2,505) |
| | 14,003 | 2,606 |
| Assignment of shareholders' loan | 26,346 | – |
| Goodwill arising on consolidation | 44,595 | 11,693 |
| Total purchase price paid, satisfied in cash | 84,944 | 14,299 |
| Less: cash of the subsidiaries acquired | (1,467) | (972) |
| Net outflow of cash and cash equivalents in connection with the acquisition of the subsidiaries | 83,477 | 13,327 |

## 37. DISPOSAL OF SUBSIDIARIES

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Net assets of the subsidiaries disposed comprised of: | | |
| Interest in leasehold land, property, plant and equipment | – | 80,797 |
| Furniture, Fixtures and office equipment | 10 | – |
| Goodwill | – | 9,865 |
| Trade receivables, deposits and other receivables | 6,289 | 131,979 |
| Cash and bank balances | 356 | 20,678 |
| Loans and other payables | (6,709) | (187,586) |
| Contributed surplus and merger reserve | – | 7,310 |
| Gain on disposal | 10,054 | 15,123 |
| | 10,000 | 78,166 |
| Satisfied by: | | |
| Cash consideration receivable | 10,000 | 45,000 |
| Reclassification of interest in associates | – | 33,166 |
| | 10,000 | 78,166 |

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

| | 2007 | 2006 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Cash and bank balances disposed of | (356) | (20,678) |

## 38. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into a finance lease arrangement in respect of assets with a total capital value at inception of the leases of HK$196,000. The Group did not enter into any finance lease arrangement last year.

During the year, the proceeds from the disposal of subsidiaries to an independent third party of HK$10,000,000 have not yet been settled as at year end.

## 39. 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 or staying in existing schemes. Where staff elected to join the 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.

**40. CONTINGENT LIABILITIES**

As at 31 March 2007, 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$2.52 billion (2006: HK$1.85 billion) and in respect of the general banking facilities granted to associates amounting to approximately HK$268,000,000 (2006: HK$217,000,000).

As at 31 March 2007, there was no material capital commitment.

**41. OPERATING LEASE ARRANGEMENTS**

As at 31 March 2007, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings were payable as follows:

| | **Group** | |
|---|---|---|
| | **2007** | **2006** |
| | *HK$'000* | *HK$'000* |
| – Within one year | 105,260 | 49,985 |
| – After one year but within five years | 226,110 | 58,484 |
| – After five years | 22,700 | 8,201 |
| | 354,070 | 116,670 |

**42. POST BALANCE SHEET EVENT**

On 20 April 2007, the Company adopted a share incentive scheme (the "**2007 Scheme**") which will enable selected eligible persons of the Group to purchase the shares of the Company at a 5% discount to their market price. A wholly owned subsidiary of the Company obtained a loan facility of up to HK$350,000,000 from a bank for the purpose of financing the operation of the 2007 Scheme.

On 22 June 2007, the Group entered into a facility agreement with ABN AMRO Bank N.V., Hong Kong Branch and ING Bank N.V. and other international banks and financial institutions as lenders in relation to a term-loan in an aggregate amount of HK$1,200,000,000. The term-loan has a tenor of 48 months.

## C STATEMENT OF ASSETS AND LIABILITIES

*The following is the statement of assets and liabilities of the Peace Mark Group for the six months ended 30 September 2007 extracted from Peace Mark's unaudited interim report for the six months ended 30 September 2007.*

**Consolidated Balance Sheet**

| | As at 30 September 2007 (Unaudited) *HK$'000* | As at 31 March 2007 (Audited) *HK$'000* |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | 677,435 | 518,010 |
| Freehold land and interest in leasehold land | 7,877 | 7,961 |
| Intangible assets | 251,452 | 239,289 |
| Interest in associates | 130,324 | 87,300 |
| Interest in a jointly controlled entity | 16,298 | 15,994 |
| Other financial assets | 269,171 | 181,057 |
| Deferred tax assets | 9,131 | 9,566 |
| | 1,361,688 | 1,059,177 |
| **Current assets** | | |
| Inventories | 1,450,596 | 1,015,963 |
| Derivative financial instruments | 51,903 | 46,282 |
| Other financial assets at fair value through profit or loss | 29,938 | 6,585 |
| Trade receivables | 773,147 | 613,776 |
| Trade deposits and other receivables | 435,942 | 266,718 |
| Cash and bank balances | 1,813,314 | 1,460,091 |
| | 4,554,840 | 3,409,415 |
| **Current liabilities** | | |
| Trade and other payables | 472,207 | 294,789 |
| Derivative financial instruments | 57,592 | 24,023 |
| Interest-bearing borrowings | 817,812 | 988,231 |
| Obligations under finance leases | 146 | 200 |
| Tax payable | 49,192 | 33,878 |
| | 1,396,949 | 1,341,121 |
| **Net current assets** | 3,157,891 | 2,068,294 |
| **Total assets less current liabilities** | 4,519,579 | 3,127,471 |
| **Non-current liabilities** | | |
| Interest-bearing borrowings | 2,013,868 | 1,077,727 |
| Obligations under finance leases | 82 | 142 |
| Deferred tax liabilities | 12,729 | 13,064 |
| | 2,026,679 | 1,090,933 |
| **Net assets** | 2,492,900 | 2,036,538 |
| **Capital and reserves** | | |
| Share capital | 104,153 | 99,308 |
| Reserves | 2,144,907 | 1,707,171 |
| **Equity attributable to equity holders of the Company** | 2,249,060 | 1,806,479 |
| **Minority interests** | 243,840 | 230,059 |
| **Total equity** | 2,492,900 | 2,036,538 |

## D STATEMENT OF INDEBTEDNESS

### Borrowings

As at the close of business on 30 November 2007, the Peace Mark Group's bank borrowings and finance leases comprised unsecured short-term bank loans of approximately HK$542 million, trust receipt bank loans of approximately HK$321 million, non-current unsecured bank borrowings of approximately HK$1,980 million, and finance lease liabilities of approximately HK$0.2 million.

### Security

As at 30 November 2007, the Peace Mark Group had no outstanding mortgages and charges.

### Debt securities

As at 30 November 2007, the Peace Mark Group did not have any debt securities which were issued and outstanding, and authorized or otherwise created but unissued.

### Commitments

As at 30 November 2007, the Peace Mark Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings amounting to approximately HK$541 million.

As at 30 November 2007, the Peace Mark Group had no material capital commitment.

### Guarantees and contingent liabilities

As at 30 November 2007, the Peace Mark Group had given corporate guarantees to banks in respect of general banking facilities and derivative facilities granted to an associate amounting to approximately HK$172 million.

As at 30 November 2007, the Peace Mark Group did not have any material contingent liabilities.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities and normal accounts payable in the ordinary course of business of the Peace Mark Group, at the close of business on 30 November 2007, the Peace Mark Group did not have any debt securities issued and outstanding or authorized or otherwise created but issued, term loan, bank overdrafts, loan or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

Subsequent to 30 November 2007, the directors of the Company have confirmed that, save as disclosed above, there has not been any other material change in indebtedness and contingent liabilities of the Peace Mark Group since 30 November 2007.

## E STATEMENT OF SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, based on available banking facilities and other facilities and internal resources of the Peace Mark Group, and subject to the completion of the following arrangements to finance the Offer, the Peace Mark Group has sufficient working capital for its present requirements and for the period ending twelve months from the date of this Circular.

As at the date of this Circular, the Company is in negotiations with certain financial institutions to finance the Offer by granting a bridge loan and term loan facilities to the Company. The Company is also considering an equity fund raising as a means to finance the Offer. The Directors expect to finalise such financing arrangements before the release of the Offer Announcement. A further announcement will be made by the Company once the financing arrangements have been finalised.

## F UNAUDITED FINANCIAL INFORMATION (REPRODUCED FROM THE COMPANY'S INTERIM REPORT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007)

*Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the financial statements reproduced from the unaudited condensed consolidated financial statements published in the Company's interim report for the six months ended 30 September 2007.*

**Condensed Consolidated Income Statement**

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2007** | **2006** |
| | | (Unaudited) | (Unaudited) |
| | *Note* | *HK$'000* | *HK$'000* |
| Turnover | *3* | 1,793,871 | 1,292,624 |
| Cost of sales | | (1,214,958) | (894,055) |
| Gross profit | | 578,913 | 398,569 |
| Other revenue | | 56,480 | 59,647 |
| Selling and distribution expenses | | (185,254) | (158,507) |
| Administrative and general expenses | | (175,074) | (113,819) |
| Other operating expenses | | (20,966) | (9,619) |
| Profit from operations | | 254,099 | 176,271 |
| Share of profit (loss) of associates | | 2,436 | (723) |
| Share of profit (loss) of a jointly controlled entity | | 1,276 | (618) |
| Finance costs | | (56,372) | (47,117) |
| Profit before taxation | *3, 4* | 201,439 | 127,813 |
| Taxation | *5* | (21,646) | (7,300) |
| Profit for the period | | 179,793 | 120,513 |
| Attributable to: | | | |
| Equity holders of the Company | | 172,505 | 119,395 |
| Minority interests | | 7,288 | 1,118 |
| | | 179,793 | 120,513 |
| Interim dividend | *6* | 52,115 | 40,704 |
| Earnings per share for profit attributable to equity holders of the Company during the period | *7* | | |
| Basic (HK cents) | | 16.78 | 12.05 |
| Diluted (HK cents) | | 16.00 | 11.81 |

**Condensed Consolidated Balance Sheet**

| | Note | As at 30 September 2007 (Unaudited) HK$'000 | As at 31 March 2007 (Audited) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | | 677,435 | 518,010 |
| Freehold land and interest in leasehold land | | 7,877 | 7,961 |
| Intangible assets | | 251,452 | 239,289 |
| Interest in associates | | 130,324 | 87,300 |
| Interest in a jointly controlled entity | | 16,298 | 15,994 |
| Other financial assets | | 269,171 | 181,057 |
| Deferred tax assets | | 9,131 | 9,566 |
| | | 1,361,688 | 1,059,177 |
| **Current assets** | | | |
| Inventories | | 1,450,596 | 1,015,963 |
| Derivative financial instruments | | 51,903 | 46,282 |
| Other financial assets at fair value through profit or loss | | 29,938 | 6,585 |
| Trade receivables | 8 | 773,147 | 613,776 |
| Trade deposits and other receivables | | 435,942 | 266,718 |
| Cash and bank balances | | 1,813,314 | 1,460,091 |
| | | 4,554,840 | 3,409,415 |
| **Current liabilities** | | | |
| Trade and other payables | 9 | 472,207 | 294,789 |
| Derivative financial instruments | | 57,592 | 24,023 |
| Interest-bearing borrowings | 10 | 817,812 | 988,231 |
| Obligations under finance leases | | 146 | 200 |
| Tax payable | | 49,192 | 33,878 |
| | | 1,396,949 | 1,341,121 |
| **Net current assets** | | 3,157,891 | 2,068,294 |
| **Total assets less current liabilities** | | 4,519,579 | 3,127,471 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 10 | 2,013,868 | 1,077,727 |
| Obligations under finance leases | | 82 | 142 |
| Deferred tax liabilities | | 12,729 | 13,064 |
| | | 2,026,679 | 1,090,933 |
| **Net assets** | | 2,492,900 | 2,036,538 |
| **Capital and reserves** | | | |
| Share capital | | 104,153 | 99,308 |
| Reserves | | 2,144,907 | 1,707,171 |
| **Equity attributable to equity holders of the Company** | | 2,249,060 | 1,806,479 |
| **Minority interests** | | 243,840 | 230,059 |
| **Total equity** | | 2,492,900 | 2,036,538 |

## Condensed Consolidated Statement of Changes in Equity

| | Attributable to Equity Holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Merger deficit | Capital reserve | Contributed surplus | Other reserve | Fair value reserve | Share option reserve | Exchange fluctuation reserve | Retained profits | Total | Minority interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| As at 1 April 2007 | 99,308 | 634,616 | (11,987) | 12,372 | 356,740 | (26) | (1,483) | 23,456 | (2,332) | 695,815 | 1,806,479 | 230,059 | 2,036,538 |
| Issue of new shares pursuant to the exercise of options | 4,845 | 271,313 | – | – | – | – | – | – | – | – | 276,158 | – | 276,158 |
| Fair value adjustment of available-for-sale investment | – | – | – | – | – | – | 321 | – | – | – | 321 | – | 321 |
| Share-based payment | – | – | – | – | – | – | – | 46,960 | – | – | 46,960 | – | 46,960 |
| Transfer from share option reserve to share premium upon exercise of options | – | 45,580 | – | – | – | – | – | (45,580) | – | – | – | – | – |
| Exchange realignment | – | – | – | – | – | – | – | – | 8,660 | – | 8,660 | – | 8,660 |
| Profit for the period | – | – | – | – | – | – | – | – | – | 172,505 | 172,505 | 7,288 | 179,793 |
| Increase in investment from minority interests | – | – | – | – | – | – | – | – | – | – | – | 2,005 | 2,005 |
| Minority interests arising from acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 16,188 | 16,188 |
| Acquisition of minority interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | – | (11,700) | (11,700) |
| 2007 final dividend paid | – | – | – | – | – | – | – | – | – | (62,023) | (62,023) | – | (62,023) |
| As at 30 September 2007 | 104,153 | 951,509 | (11,987) | 12,372 | 356,740 | (26) | (1,162) | 24,836 | 6,328 | 806,297 | 2,249,060 | 243,840 | 2,492,900 |
| As at 1 April 2006 | 98,974 | 626,608 | (11,987) | 12,372 | 356,740 | (26) | (1,312) | 3,588 | (2,552) | 478,920 | 1,561,325 | 107,573 | 1,668,898 |
| Issue of new shares pursuant to the exercise of options | 289 | 6,008 | – | – | – | – | – | – | – | – | 6,297 | – | 6,297 |
| Fair value adjustment at available-for-sale investment | – | – | – | – | – | – | 411 | – | – | – | 411 | – | 411 |
| Share-based payment | – | – | – | – | – | – | – | 4,000 | – | – | 4,000 | – | 4,000 |
| Exchange realignment | – | – | – | – | – | – | – | – | (3,706) | – | (3,706) | – | (3,706) |
| Profit for the period | – | – | – | – | – | – | – | – | – | 119,395 | 119,395 | 1,118 | 120,513 |
| Increase in investment from minority interests | – | – | – | – | – | – | – | – | – | – | – | 1,441 | 1,441 |
| Minority interests arising from setting up new subsidiaries | – | – | – | – | – | – | – | – | – | – | – | 42,992 | 42,992 |
| Acquisition of minority interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | – | (10,559) | (10,559) |
| 2006 final dividend paid | – | – | – | – | – | – | – | – | – | (42,664) | (42,664) | – | (42,664) |
| As at 30 September 2006 | 99,263 | 632,616 | (11,987) | 12,372 | 356,740 | (26) | (901) | 7,588 | (6,258) | 555,651 | 1,645,058 | 142,565 | 1,787,623 |

**Condensed Consolidated Cash Flow Statement**

| | | Six months ended 30 September | |
|---|---|---|---|
| | | **2007** | **2006** |
| | | (Unaudited) | (Unaudited) |
| | *Note* | *HK$'000* | *HK$'000* |
| Net cash (used in) from operating activities | | (251,198) | 104,126 |
| Net cash used in investing activities | | (341,500) | (61,123) |
| Net cash from (used in) financing activities | | 945,921 | (11,188) |
| Net increase in cash and cash equivalents | | 353,223 | 31,815 |
| Cash and cash equivalents at 1 April | | 1,460,091 | 1,185,789 |
| Cash and cash equivalents at 30 September | | 1,813,314 | 1,217,604 |
| Analysis of the balances of cash and cash equivalents: | | | |
| Cash and bank balances | | 1,813,314 | 1,217,604 |

## Notes to Condensed Consolidated Interim Financial Information

### 1. Basis of preparation

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

### 2. Accounting policies

The accounting policies used in the condensed consolidated interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2007 except that the Group has changed certain of its accounting policies following its adoption of new Hong Kong Financial Reporting Standards ("**HKFRS**"), amendments to standards and interpretations (collectively referred to as the "**New HKFRSs**"), which have become effective for accounting periods beginning on or after 1 April 2007. The applicable New HKFRSs adopted in this condensed consolidated interim financial information are set out below.

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements: Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions |

The adoption of the above New HKFRSs did not result in substantial changes to the Group's balance sheet and income statement.

The following new standards, amendments to standards and interpretations, which are relevant to the Group, have been issued but are not effective for the year ending 31 March 2008 and have not been adopted early by the Group:

| | |
|---|---|
| HKAS 23 (Revised) | Borrowing Costs |
| HKFRS 8 | Operating Segments |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

### 3. Turnover and segmental information

Segment information is presented by way of geographical segments. As the Group's turnover and operating profit were contributed solely by manufacturing, trading, distributing and retailing and related service income of timepiece products, business segments are not presented.

In determining the Group's geographical segments, segment revenue and results are based on the final destination of goods sold as follows:

| | Turnover | | Segment results | |
|---|---|---|---|---|
| | Six months ended 30 September | | Six months ended 30 September | |
| | **2007** | **2006** | **2007** | **2006** |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| The Americas | 386,400 | 421,124 | 53,255 | 56,129 |
| Asia (excluding China) | 139,788 | 179,523 | 13,492 | 16,693 |
| Europe | 159,609 | 124,912 | 15,935 | 11,614 |
| China | 1,108,074 | 567,065 | 182,823 | 102,099 |
| | 1,793,871 | 1,292,624 | 265,505 | 186,535 |
| Unallocated expenses, net | | | (7,694) | (11,605) |
| Finance costs | | | (56,372) | (47,117) |
| Profit before taxation | | | 201,439 | 127,813 |

**4. Profit before taxation**

Profit before taxation is arrived at after charging (crediting):

| | Six months ended 30 September | |
|---|---|---|
| | **2007** | **2006** |
| | (Unaudited) | (Unaudited) |
| | *HK$'000* | *HK$'000* |
| Depreciation of property, plant and equipment | 41,077 | 31,303 |
| Net exchange loss | 12,837 | 244 |
| Staff costs, including Directors' emoluments | | |
| – Wages, salaries and benefits in kind | 105,835 | 82,316 |
| – Pension costs | 3,434 | 1,607 |
| – Share option expenses | 25,404 | 2,856 |
| Minimum lease payments in respect of properties under operating leases | 75,721 | 28,402 |
| Interest expenses | 56,372 | 47,117 |
| Interest income | (29,671) | (21,039) |
| Interest income from debt instruments | (14,820) | (15,795) |
| Net (gain) loss on derivative financial instruments | (3,679) | 1,852 |
| Net gain on other financial assets at fair value through profit or loss | (829) | (1,165) |

**5. Taxation**

Hong Kong profits tax has been provided at the rate of 17.5% (30 September 2006: 17.5%) on the estimated assessable profits. Taxation on other overseas profit 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.

| | **Six months ended 30 September** | |
|---|---|---|
| | **2007** | **2006** |
| | (Unaudited) | (Unaudited) |
| | *HK$'000* | *HK$'000* |
| Current period | | |
| Hong Kong profits tax | 10,013 | 6,202 |
| The People's Republic of China (the "**PRC**") | 9,874 | 760 |
| Overseas | 1,859 | 651 |
| Deferred taxation | | |
| Origination and reversal of temporary differences | (100) | (313) |
| | 21,646 | 7,300 |

**6. Interim dividend**

| | **Six months ended 30 September** | |
|---|---|---|
| | **2007** | **2006** |
| | (Unaudited) | (Unaudited) |
| | *HK$'000* | *HK$'000* |
| 2007 interim dividend declared of 5.0 HK cents (2006: 4.1 HK cents) per ordinary share | 52,115 | 40,704 |

This dividend declared after the balance sheet date has not been recognized as a liability at the balance sheet date.

**7. Earnings per share**

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

| | Six months ended 30 September 2007 (Unaudited) | Six months ended 30 September 2006 (Unaudited) |
|---|---|---|
| Profit attributable to equity holders of the Company *(in HK$'000)* | 172,505 | 119,395 |
| Weighted average number of shares for the purpose of basic earnings per share calculation *(in '000)* | 1,028,085 | 990,740 |
| Potential dilutive shares – share options *(in '000)* | 50,395 | 20,038 |
| Weighted average number of shares for the purpose of diluted earnings per share calculation *(in '000)* | 1,078,480 | 1,010,778 |
| Basic earnings per share *(HK cents)* | 16.78 | 12.05 |
| Diluted earnings per share *(HK cents)* | 16.00 | 11.81 |

**8. Trade receivables**

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.

An aging analysis of trade receivables is as follows:

| | As at 30 September 2007 (Unaudited) *HK$'000* | As at 31 March 2007 (Audited) *HK$'000* |
|---|---|---|
| Trade receivables: | | |
| Not yet due | 599,099 | 369,553 |
| Overdue within 90 days | 109,030 | 221,559 |
| Overdue between 91 to 180 days | 48,753 | 14,739 |
| Overdue over 180 days | 16,265 | 7,925 |
| | 773,147 | 613,776 |

**9. Trade and other payables**

An aging analysis of trade payables is as follows:

| | As at 30 September 2007 (Unaudited) *HK$'000* | As at 31 March 2007 (Audited) *HK$'000* |
|---|---|---|
| Trade payables: | | |
| Not yet due | 143,955 | 67,054 |
| Overdue within 90 days | 117,663 | 42,300 |
| Overdue between 91 to 180 days | 7,359 | 16,334 |
| Overdue over 180 days | 12,208 | 24,806 |
| | 281,185 | 150,494 |
| Accruals and other payables | 191,022 | 144,295 |
| | 472,207 | 294,789 |

**10. Interest-bearing borrowings**

| | As at 30 September 2007 (Unaudited) *HK$'000* | As at 31 March 2007 (Audited) *HK$'000* |
|---|---|---|
| Interest-bearing borrowings are repayable as follows: | | |
| – Not exceeding one year or upon demand | 817,812 | 988,231 |
| – More than one year, but not exceeding two years | 837,866 | 285,815 |
| – More than two years, but not exceeding five years | 1,176,002 | 791,912 |
| | 2,831,680 | 2,065,958 |
| Representing: | | |
| Current portion | 817,812 | 988,231 |
| Non-current portion | 2,013,868 | 1,077,727 |
| | 2,831,680 | 2,065,958 |
| Analyzed as: | | |
| – Secured | – | – |
| – Unsecured | 2,831,680 | 2,065,958 |
| | 2,831,680 | 2,065,958 |

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

**11. Operating Lease Arrangements**

As at 30 September 2007 the Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:

| | As at 30 September 2007 (Unaudited) *HK$'000* | As at 31 March 2007 (Audited) *HK$'000* |
|---|---|---|
| Within one year | 176,079 | 105,260 |
| More than one year but within five years | 416,039 | 226,110 |
| More than five years | 63,875 | 22,700 |
| | 655,993 | 354,070 |

**12. Contingent liabilities**

As at 30 September 2007, the Group had no material contingent liabilities. The Group has given corporate guarantees to banks in respect of general banking facilities and derivative facilities granted to associates amounting to approximately HK$171,750,000 (31 March 2007: HK$268,000,000).

As at 30 September 2007, there was no material capital commitment.

**13. Post balance sheet event**

On 7 December 2007, the Company's wholly owned subsidiary A-A United Limited (the "**Offeror**") entered into the Major Shareholder Irrevocable Undertaking with the major shareholder of Sincere Watch Limited ("**Sincere Watch**") pursuant to which the major shareholder has agreed to accept an offer (if made) from the Offeror in respect of the major shareholder's entire shareholding in Sincere Watch, representing, as at 6 December 2007, approximately 50.67% of the issued share capital of Sincere Watch. Further details are set out in the Company's announcement dated 7 December 2007.

## A AUDITED FINANCIAL STATEMENTS

### A-1. Summary of financial information of the Sincere Watch Group

*The following is a summary of the consolidated financial information for the three financial years ended 31 March 2007 extracted from the audited financial statements of the Sincere Watch Group for the years ended 31 March 2006 and 31 March 2007 which are not qualified.*

**Consolidated Balance Sheet**
*31 MARCH 2007*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and bank balances | 52,526 | 45,587 | 55,886 |
| Trade receivables | 29,594 | 32,753 | 24,858 |
| Other receivables and prepaid expenses | 6,781 | 8,953 | 4,301 |
| Derivative financial instruments | 32 | 26 | – |
| Inventories | 174,466 | 198,666 | 141,442 |
| Total current assets | 263,399 | 285,985 | 226,487 |
| **Non-current assets:** | | | |
| Property, plant and equipment | 18,743 | 18,304 | 18,017 |
| Investment property | 398 | 398 | 398 |
| Associates | 6,319 | 5,747 | 5,335 |
| Available-for-sale investments | 9,363 | 433 | 359 |
| Goodwill | 882 | 882 | 1,831 |
| Other intangible assets | 1,075 | 1,075 | 156 |
| Deferred tax assets | 4,047 | 4,677 | 4,346 |
| Total non-current assets | 40,827 | 31,516 | 30,442 |
| **Total assets** | 304,226 | 317,501 | 256,929 |

**Consolidated Balance Sheet (Continued)**
*31 MARCH 2007*

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities:** | | | |
| Bank borrowings | 18,521 | 17,254 | 20,114 |
| Trade payables | 108,919 | 134,892 | 116,560 |
| Other payables | 18,302 | 19,768 | 16,183 |
| Dividend payable | 14,480 | – | – |
| Derivative financial instruments | 111 | 28 | – |
| Current portion of long-term debt | 157 | 3,909 | 1,262 |
| Income tax payable | 4,490 | 6,354 | 6,275 |
| Total current liabilities | 164,980 | 182,205 | 160,394 |
| **Non-current liabilities:** | | | |
| Long-term debt | 3,000 | 3,000 | 3,750 |
| Finance leases | 446 | 604 | 756 |
| Total non-current liabilities | 3,446 | 3,604 | 4,506 |
| **Capital, reserves and minority interests:** | | | |
| Share capital | 19,620 | 19,620 | 19,620 |
| Currency translation reserve | (5,499) | (3,580) | (3,317) |
| Legal reserve | 314 | 210 | 109 |
| Investment revaluation reserve | 139 | 44 | – |
| Accumulated profits | 109,728 | 105,391 | 75,562 |
| Equity attributable to equity holders of the company | 124,302 | 121,685 | 91,974 |
| Minority interests | 11,498 | 10,007 | 55 |
| Total equity | 135,800 | 131,692 | 92,029 |
| **Total liabilities and equity** | 304,226 | 317,501 | 256,929 |

**Consolidated Profit and Loss Statement**

*YEAR ENDED 31 MARCH 2007*

| | **2007** | **2006** | **2005** |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **Revenue** | 359,249 | 318,178 | 324,261 |
| Other operating income | 826 | 7,052 | 690 |
| Changes in inventories of goods for resale | (24,200) | 56,693 | 37,197 |
| Purchases of goods for resale | (240,411) | (288,852) | (279,293) |
| Staff costs | (24,870) | (23,734) | (20,669) |
| Rental expense | (12,496) | (15,153) | (15,714) |
| Selling, advertising and promotional expense | (14,048) | (12,595) | (11,149) |
| Depreciation expense | (2,969) | (2,731) | (3,536) |
| Other operating expenses | (9,950) | (6,499) | (7,386) |
| Finance costs | (1,211) | (1,172) | (973) |
| Share of profits of associates | 348 | 457 | 275 |
| Gain on dilution of interest in subsidiary | 465 | 10,608 | - |
| Profit before income tax | 30,733 | 42,252 | 23,703 |
| Income tax | (5,348) | (7,156) | (4,941) |
| Profit for the year | 25,385 | 35,096 | 18,762 |
| **Attributable to:** | | | |
| Equity holders of the company | 23,080 | 34,070 | 19,126 |
| Minority interests | 2,305 | 1,026 | (364) |
| | 25,385 | 35,096 | 18,762 |
| Basic and fully diluted earnings per share*# (S cents) | 11.17 | 16.48 | 9.25 |

* *The fully diluted earnings per share is equal to the basic earnings per share as there is no dilution.*

\# *2007 basic earnings per share is calculated by dividing the Sincere Watch Group's 10,481,104 new Sincere Watch shares issued on 24 April 2007 to those Sincere Watch shareholders who elected to participate in the Sincere Watch scrip dividend scheme. For comparative purposes, the number of shares for both 2005 and 2006 are also adjusted retrospectively to 206,681,104 in the calculation of the 2005 and 2006 basic earnings per share.*

**A-2. Sincere Watch Group's audited financial statements for the year ended 31 March 2007**

*The following is the audited financial statements of the Sincere Watch Group for the financial year ended 31 March 2007 extracted from the Annual Report 2006/2007 of the Sincere Watch Group which is not qualified.*

**Balance Sheets**
*31 MARCH 2007*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2007** | **2006** | **2007** | **2006** |
| | *Note* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and bank balances | *7* | 52,526 | 45,587 | 18,843 | 7,547 |
| Trade receivables | *8* | 29,594 | 32,753 | 4,930 | 3,457 |
| Other receivables and prepaid expenses | *9* | 6,781 | 8,953 | 8,158 | 10,686 |
| Derivative financial instruments | *10* | 32 | 26 | 32 | 26 |
| Inventories | | 174,466 | 198,666 | 40,836 | 41,459 |
| Total current assets | | 263,399 | 285,985 | 72,799 | 63,175 |
| **Non-current assets:** | | | | | |
| Property, plant and equipment | *11* | 18,743 | 18,304 | 12,659 | 13,000 |
| Investment property | *12* | 398 | 398 | 398 | 398 |
| Subsidiaries | *13* | – | – | 40,914 | 42,843 |
| Associates | *14* | 6,319 | 5,747 | 3,102 | 3,102 |
| Available-for-sale investments | *15* | 9,363 | 433 | 9,277 | 369 |
| Goodwill | *16* | 882 | 882 | – | – |
| Other intangible assets | *17* | 1,075 | 1,075 | 219 | 219 |
| Deferred tax assets | *18* | 4,047 | 4,677 | 990 | 970 |
| Total non-current assets | | 40,827 | 31,516 | 67,559 | 60,901 |
| **Total assets** | | 304,226 | 317,501 | 140,358 | 124,076 |

**Balance Sheets (Continued)**
*31 MARCH 2007*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | *Note* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Bank borrowings | *19* | 18,521 | 17,254 | – | 2,000 |
| Trade payables | *20* | 108,919 | 134,892 | 40,157 | 20,145 |
| Other payables | *21* | 18,302 | 19,768 | 5,674 | 6,229 |
| Dividend payable | *42* | 14,480 | – | 14,480 | – |
| Derivative financial instruments | *10* | 111 | 28 | 101 | 20 |
| Current portion of long-term debt | *22* | 157 | 3,909 | 78 | 3,083 |
| Income tax payable | | 4,490 | 6,354 | 588 | 1,862 |
| Total current liabilities | | 164,980 | 182,205 | 61,078 | 33,339 |
| **Non-current liabilities:** | | | | | |
| Long-term debt | *23* | 3,000 | 3,000 | 3,000 | 3,000 |
| Finance leases | *24* | 446 | 604 | 153 | 232 |
| Total non-current liabilities | | 3,446 | 3,604 | 3,153 | 3,232 |
| **Capital, reserves and minority interests:** | | | | | |
| Share capital | *25* | 19,620 | 19,620 | 19,620 | 19,620 |
| Currency translation reserve | | (5,499) | (3,580) | – | – |
| Legal reserve | | 314 | 210 | – | – |
| Investment revaluation reserve | | 139 | 44 | 105 | 10 |
| Accumulated profits | | 109,728 | 105,391 | 56,402 | 67,875 |
| Equity attributable to equity holders of the company | | 124,302 | 121,685 | 76,127 | 87,505 |
| Minority interests | | 11,498 | 10,007 | – | – |
| Total equity | | 135,800 | 131,692 | 76,127 | 87,505 |
| **Total liabilities and equity** | | 304,226 | 317,501 | 140,358 | 124,076 |

**Consolidated Profit and Loss Statement**
*YEAR ENDED 31 MARCH 2007*

| | *Note* | Group 2007 *S$'000* | 2006 *S$'000* |
|---|---|---|---|
| **Revenue** | *26* | 359,249 | 318,178 |
| Other operating income | *27* | 826 | 7,052 |
| Changes in inventories of goods for resale | | (24,200) | 56,693 |
| Purchases of goods for resale | | (240,411) | (288,852) |
| Staff costs | *28* | (24,870) | (23,734) |
| Rental expense | | (12,496) | (15,153) |
| Selling, advertising and promotional expense | | (14,048) | (12,595) |
| Depreciation expense | | (2,969) | (2,731) |
| Other operating expenses | *29* | (9,950) | (6,499) |
| Finance costs | *30* | (1,211) | (1,172) |
| Share of profits of associates | | 348 | 457 |
| Gain on dilution of interest in subsidiary | *31* | 465 | 10,608 |
| Profit before income tax | *32* | 30,733 | 42,252 |
| Income tax | *33* | (5,348) | (7,156) |
| Profit for the year | | 25,385 | 35,096 |
| **Attributable to:** | | | |
| Equity holders of the company | | 23,080 | 34,070 |
| Minority interests | | 2,305 | 1,026 |
| | | 25,385 | 35,096 |
| Basic and fully diluted earnings per share (S cents) | *34* | 11.17 | 16.48 |

## Statement of Changes In Equity
*YEAR ENDED 31 MARCH 2007*

| | Note | Share capital S$'000 | Currency translation reserve S$'000 | Legal reserve[a] S$'000 | Investment revaluation reserve S$'000 | Accumulated profits S$'000 | Attributable to equity holders of the company S$'000 | Minority interests S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|---|---|---|
| **Group** | | | | | | | | | |
| Balance at 1 April 2005 | | 19,620 | (3,317) | 109 | – | 75,346 | 91,758 | 55 | 91,813 |
| Exchange differences arising on translation of foreign operations | | – | (263) | – | – | – | (263) | (907) | (1,170) |
| Fair value gain on available-for-sale investments | | – | – | – | 44 | – | 44 | – | 44 |
| Net income recognised directly in equity | | – | (263) | – | 44 | – | (219) | (907) | (1,126) |
| Profit for the year | | – | – | – | – | 34,070 | 34,070 | 1,026 | 35,096 |
| Total recognised income and expenses for the year | | – | (263) | – | 44 | 34,070 | 33,851 | 119 | 33,970 |
| Appropriation of legal reserve from accumulated profits | | – | – | 101 | – | (101) | – | – | – |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 20% paid in respect of previous financial year | | – | – | – | – | (3,924) | (3,924) | – | (3,924) |
| Contribution from minority interests | | – | – | – | – | – | – | 9,833 | 9,833 |
| Balance at 31 March 2006 | | 19,620 | (3,580) | 210 | 44 | 105,391 | 121,685 | 10,007 | 131,692 |
| Exchange differences arising on translation of foreign operations | | – | (1,919) | – | – | – | (1,919) | (669) | (2,588) |
| Fair value gain on available-for-sale investments | | – | – | – | 95 | – | 95 | – | 95 |
| Net income recognised directly in equity | | – | (1,919) | – | 95 | – | (1,824) | (669) | (2,493) |
| Profit for the year | | – | – | – | – | 23,080 | 23,080 | 2,305 | 25,385 |
| Total recognised income and expenses for the year | | – | (1,919) | – | 95 | 23,080 | 21,256 | 1,636 | 22,892 |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.0165 per ordinary share less tax of 20% paid in respect of previous financial year | 42 | – | – | – | – | (4,159) | (4,159) | – | (4,159) |
| Interim dividend of S$0.09 per ordinary share less tax of 18% declared and payable in respect of current financial year | 42 | – | – | – | – | (14,480) | (14,480) | – | (14,480) |
| Appropriation of legal reserve from accumulated profits | | – | – | 104 | – | (104) | – | – | – |
| Dividends paid to minority interests | | – | – | – | – | – | – | (1,453) | (1,453) |
| Contribution from minority interests | | – | – | – | – | – | – | 2,200 | 2,200 |
| Acquisition of additional interest in subsidiaries | | – | – | – | – | – | – | (427) | (427) |
| Dilution of interest in subsidiary | | – | – | – | – | – | – | (465) | (465) |
| Balance at 31 March 2007 | | 19,620 | (5,499) | 314 | 139 | 109,728 | 124,302 | 11,498 | 135,800 |

[a] *Legal reserve relates to Sincere Watch Co. Ltd, incorporated in the Republic of China (Taiwan). Legal reserve may be used to offset a deficit, if any, and, when the reserve amount exceeds or equals 50% of the capital stock, an amount up to 50% of such reserve may be transferred to capital stock.*

**Statement of Changes In Equity (Continued)**
*YEAR ENDED 31 MARCH 2007*

| | Note | Share capital S$'000 | Currency translation reserve S$'000 | Investment revaluation reserve S$'000 | Accumulated profits S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Balance at 1 April 2005 | | 19,620 | (185) | – | 48,864 | 68,299 |
| Exchange differences arising on translation of foreign operations | | – | 185 | – | – | 185 |
| Fair value gain on available-for-sale investments | | – | – | 10 | – | 10 |
| Net income recognised directly in equity | | – | 185 | 10 | – | 195 |
| Profit for the year | | – | – | – | 22,935 | 22,935 |
| Total recognised income and expenses for the year | | – | 185 | 10 | 22,935 | 23,130 |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 20% paid in respect of previous financial year | | – | – | – | (3,924) | (3,924) |
| Balance at 31 March 2006 | | 19,620 | – | 10 | 67,875 | 87,505 |
| Fair value gain on available-for-sale investments | | – | – | 95 | – | 95 |
| Net income recognised directly in equity | | – | – | 95 | – | 95 |
| Profit for the year | | – | – | – | 7,166 | 7,166 |
| Total recognised income and expenses for the year | | – | – | 95 | 7,166 | 7,261 |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.0165 per ordinary share less tax of 20% paid in respect of previous financial year | *42* | – | – | – | (4,159) | (4,159) |
| Interim dividend of S$0.09 per ordinary share less tax of 18% declared and payable in respect of current financial year | *42* | – | – | – | (14,480) | (14,480) |
| Balance at 31 March 2007 | | 19,620 | – | 105 | 56,402 | 76,127 |

**Consolidated Cash Flow Statement**
*YEAR ENDED 31 MARCH 2007*

| | 2007<br>*S$'000* | 2006<br>*S$'000* |
|---|---|---|
| **Operating activities:** | | |
| Profit before income tax | 30,733 | 42,252 |
| Adjustments for: | | |
| Share of profits of associates | (348) | (457) |
| Loss on disposal of available-for-sale investments | 6 | – |
| Impairment loss on goodwill | – | 2,621 |
| Depreciation expense | 2,969 | 2,731 |
| Property, plant and equipment written off | 22 | 125 |
| Gain on disposal of property, plant and equipment | (3) | (74) |
| Write-back of impairment loss on other intangible assets | – | (63) |
| Gain on dilution of interest in subsidiary | (465) | (10,608) |
| Net gain on fair value changes on foreign exchange contracts | 77 | (214) |
| Foreign exchange loss (gain) – unrealised | 29 | (2,518) |
| Interest expense | 1,211 | 1,172 |
| Interest income | (558) | (494) |
| Dividend income | (20) | (18) |
| Operating cash flow before movements in working capital | 33,653 | 34,455 |
| Trade receivables | 3,131 | (8,623) |
| Other receivables and prepaid expenses | 2,740 | (5,298) |
| Inventories | 24,200 | (56,693) |
| Trade payables | (26,037) | 20,086 |
| Other payables | 797 | 3,192 |
| Cash generated from (used in) operations | 38,484 | (12,881) |
| Interest paid | (1,211) | (1,172) |
| Interest received | 558 | 494 |
| Income tax paid | (7,319) | (7,387) |
| Net cash from (used in) operating activities | 30,512 | (20,946) |

| | 2007<br>*S$'000* | 2006<br>*S$'000* |
|---|---|---|
| **Investing activities:** | | |
| Purchase of property, plant and equipment *(Note A)* | (3,471) | (3,070) |
| Proceeds from disposal of property, plant and equipment | 20 | 145 |
| Acquisition of subsidiary *(Note 36)* | – | 29 |
| Acquisition of additional interest in subsidiaries | (427) | – |
| Purchase of available-for-sale investments | (8,861) | (29) |
| Dividends received | 20 | 18 |
| Proceeds on disposal of available-for-sale investments | 19 | – |
| Net cash used in investing activities | (12,700) | (2,907) |
| **Financing activities:** | | |
| Proceeds from issue of shares to minority shareholders of subsidiary | – | 20,441 |
| Increase (Decrease) in short-term bank borrowings | 48 | (64) |
| (Decrease) Increase in long-term debt | (3,910) | 1,603 |
| Dividends paid | (4,159) | (3,924) |
| Dividends paid to minority interests | (1,453) | – |
| Net cash (used in) from financing activities | (9,474) | 18,056 |
| Increase (Decrease) in cash and cash equivalents | 8,338 | (5,797) |
| Cash and cash equivalents at beginning of year | 42,823 | 50,326 |
| Effect of foreign exchange rate changes | (2,618) | (1,706) |
| Cash and cash equivalents at end of year *(Note 35)* | 48,543 | 42,823 |

**Notes to the consolidated cash flow statement:**

**A. Purchase of property, plant and equipment**

| | | |
|---|---|---|
| Cash purchase of property, plant and equipment | 3,471 | 3,070 |
| Purchase of property, plant and equipment under finance lease agreements | – | 142 |
| Total additions to property, plant and equipment *(Note 11)* | 3,471 | 3,212 |

## Notes to Financial Statements

*31 MARCH 2007*

These notes form an integral part of the financial statements.

**1 GENERAL**

The company (Registration Number 197700967C) is incorporated in Singapore with its registered office and principal place of business at 8 Temasek Boulevard, #23-03 Suntec Tower 3, Singapore 038988. The company is listed on the mainboard of the Singapore Exchange Securities Trading Limited. The financial statements are expressed in thousands of Singapore dollars.

The company is principally engaged in the business of watch and clock retailing and investment holding.

The principal activities of the subsidiaries and associates are disclosed in Notes 13 and 14 respectively.

The consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company for the financial year ended 31 March 2007 were authorised for issue by the Board of Directors on 19 June 2007.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING –** The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("**FRS**").

**Adoption of new and revised FRSs and Interpretations of FRS ("INT FRS")**

In the current financial year, the group has adopted all the new and revised FRSs and INT FRS issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after 1 January 2006. The adoption of these new/revised FRSs and INT FRSs has no material effect on the financial statements.

**New and revised FRSs and INT FRSs in effect at the date of authorisation of the financial statements but not yet effective**

At the date of authorisation of these financial statements, the following FRSs, INT FRSs and amendments to FRSs which are relevant to the group and the company were issued but not effective:

FRS 40 – Investment Property
FRS 107 – Financial Instruments: Disclosures
INT FRS 110 – Interim Financial Reporting and Impairment
Amendments to FRS 1 Presentation of Financial Statements on Capital Disclosures

Consequential amendments were also made to various standards as a result of the new/revised standards.

**FRS 40 – Investment Property**

FRS 40 will be effective for annual periods beginning 1 January 2007. The directors anticipate that the adoption of FRS 40 will have no material impact on the financial statements of the group and the company as the group will use the cost model on adoption of this FRS. Under the cost model, the investment property will be stated at cost less accumulated depreciation and accumulated impairment loss, if any.

**FRS 107 – Financial Instruments: Disclosures**

The application of FRS 107 and the consequential amendments to other FRS will not affect any of the amounts recognised in the financial statements, but will change the disclosures presently made in relation to the group's financial instruments and the objectives, policies and processes for managing capital.

The company is currently evaluating the provisions of the other FRSs and INT FRSs that were issued but not yet effective until future periods. Preliminary assessment by the company indicates that the adoption of these FRSs and INT FRSs will have no material financial impact on the consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company.

**BASIS OF CONSOLIDATION** – The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 March each year. Control is achieved when the company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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

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

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

In the financial statements of the company, investments in subsidiaries and associates are carried at cost less any impairment in net recoverable value that have been recognised in the profit and loss statement.

**BUSINESS COMBINATIONS –** The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations,* which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated profit and loss statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**FINANCIAL INSTRUMENT –** Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

**FINANCIAL ASSETS**

**Cash and cash equivalents**

Cash and bank balances comprise cash on hand, demand deposits and bank overdrafts that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Trade and other receivables**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**Investments**

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. Available-for-sale investments with a quoted price in active markets or whose fair value can be reliably measured are accounted for at fair value. Gains and losses arising from changes in fair value are recognised directly in the investment revaluation reserve in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Available-for-sale investments without a quoted market price or whose fair value cannot be reliably measured are accounted for at cost less allowance for impairment loss. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss, is recognised directly in equity.

**FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS**

**Classification as debt or equity**

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

**Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

**Financial liabilities**

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs (see below).

**Derivative financial instruments**

The group's activities expose it primarily to the financial risks of changes in foreign exchange rates.

The group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in profit or loss as they arise.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income or expense recognised on an effective interest rate basis for debt instruments other than those financial instruments "at fair value through profit or loss".

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

Assets held under finance leases are recognised as assets of the group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**INVENTORIES** – Inventories comprise merchandise held for resale. High-end inventories are stated at the lower of cost (specific identification method) and net realisable value. Low-end inventories are stated at the lower of cost (weighted average method) and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

**PROPERTY, PLANT AND EQUIPMENT** – Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Leasehold properties and improvements | – 2% to 50% |
| Plant and equipment | – 10% to 50% |

Depreciation is not provided on freehold property.

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Fully depreciated assets still in use are retained in the financial statements.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, if there is no certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the profit and loss statement.

**INVESTMENT PROPERTY –** Investment property held on a long-term basis for investment potential, is stated at cost, less any impairment in net recoverable value. No depreciation is provided on investment property.

**GOODWILL** – Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The group's policy for goodwill arising on acquisition of an associate is described under "ASSOCIATES" below.

**INTANGIBLE ASSET** – Intangible asset with indefinite useful life, is initially measured at cost and is subsequently measured at cost less any accumulated impairment losses.

**IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL** – At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement.

**ASSOCIATES –** An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are not recognised, unless the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated profit and loss statement.

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

**PROVISIONS –** Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**REVENUE RECOGNITION –** Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

Revenue from rendering of services that are of short duration is recognised when the service is completed.

**Interest income**

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

**Dividend income**

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

**BORROWING COSTS –** Borrowing costs are recognised in the profit and loss statement in the period in which they are incurred.

**RETIREMENT BENEFIT COSTS –** Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

**EMPLOYEE LEAVE ENTITLEMENT –** Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**INCOME TAX –** Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted in countries where the company and subsidiaries operate by the balance sheet date.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

**FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION –** The individual financial statements of each group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company are presented in Singapore dollars, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts and options (please see above for details of the group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

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

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

**Critical judgements in applying the entity's accounting policies**

In the application of the company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management is of the opinion that there are no critical judgements involved that have a significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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.

**Allowances for doubtful debts**

An allowance for doubtful debts accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historic bad debt, customer concentrations, customer credit worthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts.

**Allowances for inventories**

Management reviews the inventory ageing listing on a periodic basis. This review involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for slow-moving items. Management is satisfied that adequate allowance for inventories has been made in the financial statements.

**Impairment of unquoted available-for-sale investment**

During the financial year, the group made an investment in Chrono Star International Participations Groupe Franck Muller S.A ("**CSIPGFM**"). The investment, which is unquoted, is classified as an available-for-sale investment. Determining whether the investment is impaired requires management to exercise judgement in estimating the investment's fair value. Having reviewed the financial condition of CSIPGFM and the overall performance of the company in recent years, management is satisfied that there are no indications of impairment in the value of its investment.

**Impairment of investments in subsidiaries and advances to subsidiaries**

Determining whether investments in subsidiaries and advances to subsidiaries are impaired requires an estimation of the subsidiaries' value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the subsidiary and a suitable discount rate in order to calculate the net recoverable amount. Details of the impairment loss recognised with respect to investments in and advances to subsidiaries are provided in Note 13.

**Impairment of goodwill**

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate net recoverable amount. Details of the impairment loss recognised with respect to goodwill are provided in Note 16.

## 4 FINANCIAL RISKS AND MANAGEMENT

The group's activities expose it to a variety of financial risks, including the effects of: changes in foreign currency exchange rates and interest rates, credit risk and liquidity risk. The group uses derivative financial instruments such as foreign exchange forward contracts to hedge certain exposures. The group does not hold or issue derivative financial instruments for speculative purposes.

**Foreign exchange risk**

The group is exposed to foreign currency risk on its foreign currency denominated cash balances, trade receivables, available-for-sale investments and trade payables. The currencies giving rise to this risk are primarily Swiss Franc. The group ensures that the net exposure is kept to an acceptable level by entering into hedging activities such as forward foreign exchange contracts and options and also by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. The group's commitments on forward contracts at year end are disclosed in Note 10.

The group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries and associates. No hedge has been taken up for this exposure.

**Interest rate risk**

The group's primary interest rate risk relates to interest bearing debt. The group primarily raises long-term loans based on expectations of future interest rate movements. As at the balance sheet date, the average term to maturity of the group's long-term loans was approximately 21 months (2006: 20 months) and all the term loans have floating interest rate terms except for term loans of S$3,000,000 (2006: S$6,750,000) with a fixed interest rate of 4.60% (2006: 3.23% to 4.60%) per annum.

The group is also exposed to interest rate risk through the impact of rate changes on its short-term loans and bank overdrafts which bear interest at the rates disclosed in Note 19. Since these debts are short-term, with the current interest rate level, any future variations in interest rates are not expected to have a material impact on the group's results.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the group. The group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial losses from default and generally does not require collateral. The group places its cash and cash equivalents with creditworthy institutions and performs ongoing credit evaluations of its customers' financial condition.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

**Liquidity risk**

It is the group's policy for the raising of capital and placement of surplus fund to be managed centrally. The group has targets for available funds in the form of surplus liquidity and irrevocable credit facilities, which are available to the group at any given time.

**Fair value of financial assets and financial liabilities**

The carrying amount of cash and cash equivalents, trade and other current receivables and payables, provisions and other liabilities and amounts payable approximate their respective fair values due to the relatively short-term maturity of these financial instruments. Quoted available-for-sale investments and derivative financial instruments are measured at their fair value. The fair value of the unquoted available-for-sale investments cannot be measured and therefore these are carried at cost. The carrying amount of long-term debts approximates their fair values.

## 5 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The company is a subsidiary of TBJ Holdings Pte Ltd, a company incorporated in the Republic of Singapore which is also the ultimate holding company. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Transactions between the company and its subsidiaries, which are related companies of the company, have been eliminated on consolidation and are not disclosed in this note. The balances are unsecured, repayable on demand and interest-free, unless otherwise stated.

## 6 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors with that of the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, repayable on demand and interest-free, unless otherwise stated.

Other than the disclosure in Note 14, the group entities also entered into the following trading transactions with related parties:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| **With related parties** | | |
| Sales of goods | – | (1,743) |
| Purchases of goods | – | 31 |
| Interest income | – | (77) |
| Rental income | – | (59) |
| Delivery charges | – | 79 |

**Compensation of directors and key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Short-term benefits | 10,872 | 11,229 |
| Post-employment benefits | 248 | 205 |

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 7 CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash and bank balances | 38,553 | 30,318 | 16,976 | 7,547 |
| Fixed deposits | 13,973 | 15,269 | 1,867 | – |
| | 52,526 | 45,587 | 18,843 | 7,547 |

Bank balances and cash comprise cash held by the group and short-term bank deposits with an original maturity of three months or less.

Fixed deposits earn interest at a rate of 0.8% to 4.43% (2006: 0.8% to 4.3%) per annum and mature within 30 days (2006: 30 days) after the financial year end.

The group's and company's cash and cash equivalents that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Singapore dollar | 9 | 9 | – | – |
| United States dollar | 159 | 519 | 131 | 488 |
| Swiss franc | 6,202 | 9,542 | 3,030 | 684 |
| Malaysian ringgit | 3 | 7 | – | – |
| Euro | 111 | 30 | 54 | 11 |
| Hong Kong dollar | 110 | 119 | 110 | 119 |

**8 TRADE RECEIVABLES**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 29,582 | 31,305 | 4,838 | 3,205 |
| Subsidiaries *(Note 13)* | – | – | 89 | 86 |
| Associates *(Note 14)* | 493 | 1,922 | 3 | 166 |
| | 30,075 | 33,227 | 4,930 | 3,457 |
| Less: Allowance for doubtful debts | (481) | (474) | – | – |
| | 29,594 | 32,753 | 4,930 | 3,457 |

The average credit period on sale of goods for the group and the company is 30 to 90 days (2006: 30 to 90 days). No interest is charged on overdue trade receivables.

The group's and company's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Swiss franc | 4,181 | 5,698 | 1,335 | 2,097 |
| United States dollar | 727 | 461 | – | – |

**9 OTHER RECEIVABLES AND PREPAID EXPENSES**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Note13)* | – | – | 7,851 | 7,212 |
| Associates *(Note 14)* | 23 | 86 | 23 | 85 |
| Prepaid expenses | 1,645 | 852 | 438 | 170 |
| Deposits | 3,371 | 6,448 | 1,289 | 5,159 |
| Income tax recoverable | 568 | 1 | – | – |
| Others | 1,174 | 1,566 | 702 | 205 |
| | 6,781 | 8,953 | 10,303 | 12,831 |
| Less: Allowance for doubtful debts | – | – | (2,145) | (2,145) |
| | 6,781 | 8,953 | 8,158 | 10,686 |

An allowance has been made for estimated irrecoverable amounts from subsidiaries. This allowance has been determined based on the directors' assessment of the subsidiaries' financial position.

Advances to subsidiaries and associates of S$1.19 million (2006: S$4.66 million) bear interest at a rate of 4% (2006: 4%) per annum whilst other advances to subsidiaries and associates are interest-free. All advances to subsidiaries and associates are repayable on demand.

The group's and company's other receivables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| United States dollar | 175 | 234 | 175 | 187 |
| Malaysian ringgit | – | 274 | 3 | – |
| Indonesian rupiah | 7 | 7 | 7 | 7 |
| Indian rupee | 299 | – | 299 | – |
| Hong Kong dollar | 10 | 10 | – | – |
| Swiss franc | 58 | 4,463 | 58 | 4,463 |
| Singapore dollar | 15 | – | – | – |
| Renminbi | 94 | – | – | – |

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | | 2006 | | 2007 | | 2006 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Forward currency exchange contracts | 32 | 111 | 26 | 28 | 32 | 101 | 26 | 20 |

The group utilises currency derivatives to hedge significant future transactions and cash flows. The group is party to a variety of forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the group's principal markets.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the group is committed are as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *'000* | *'000* |
| Bought: | | |
| Swiss franc | 9,945 | 9,500 |
| Euro | 1,278 | 553 |
| United States dollar | 210 | 111 |
| Australian dollar | 12 | 334 |
| Singapore dollar | 639 | 335 |
| New Zealand dollar | 5 | 30 |
| Equivalent in Singapore dollar | 16,027 | 13,871 |

These arrangements are designed to address significant exchange exposures for the first half of 2008, and are renewed on a revolving basis as required.

At 31 March 2007, the negative fair value of the group's currency derivatives is estimated to be approximately S$79,000 (2006: negative fair value of S$2,000). These amounts are based on bank rates for equivalent instruments at the balance sheet date, comprising assets of S$32,000 (2006: S$26,000) and liabilities of S$111,000 (2006: S$28,000).

Changes in the fair value of currency derivatives which are not designated as accounting hedges amounting to a loss of S$77,000 (2006: gain of S$214,000) have been debited to the profit and loss statement in the year.

The group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

**11 PROPERTY, PLANT AND EQUIPMENT**

| | Freehold property S$'000 | Leasehold properties and improvements S$'000 | Plant and equipment S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Cost: | | | | |
| At 1 April 2005 | 3,254 | 12,645 | 14,023 | 29,922 |
| Additions | – | 168 | 3,044 | 3,212 |
| Disposals | – | – | (371) | (371) |
| Written off | – | – | (1,739) | (1,739) |
| Exchange differences | – | – | (31) | (31) |
| Arising on acquisition of a subsidiary | – | – | 59 | 59 |
| At 31 March 2006 | 3,254 | 12,813 | 14,985 | 31,052 |
| Additions | – | 122 | 3,349 | 3,471 |
| Disposals | – | – | (244) | (244) |
| Written off | – | (100) | (1,519) | (1,619) |
| Exchange differences | – | – | (155) | (155) |
| At 31 March 2007 | 3,254 | 12,835 | 16,416 | 32,505 |
| Accumulated depreciation: | | | | |
| At 1 April 2005 | – | 2,164 | 9,741 | 11,905 |
| Depreciation for the year | – | 432 | 2,299 | 2,731 |
| Disposals | – | – | (300) | (300) |
| Written off | – | – | (1,614) | (1,614) |
| Exchange differences | – | – | (29) | (29) |
| Arising on acquisition of a subsidiary | – | – | 55 | 55 |
| At 31 March 2006 | – | 2,596 | 10,152 | 12,748 |
| Depreciation for the year | – | 474 | 2,495 | 2,969 |
| Disposals | – | – | (227) | (227) |
| Written off | – | (100) | (1,497) | (1,597) |
| Exchange differences | – | – | (131) | (131) |
| At 31 March 2007 | – | 2,970 | 10,792 | 13,762 |
| Carrying amount: | | | | |
| At 31 March 2007 | 3,254 | 9,865 | 5,624 | 18,743 |
| At 31 March 2006 | 3,254 | 10,217 | 4,833 | 18,304 |

| | Freehold property *S$'000* | Leasehold properties and improvements *S$'000* | Plant and equipment *S$'000* | Total *S$'000* |
|---|---|---|---|---|
| **Company** | | | | |
| Cost: | | | | |
| At 1 April 2005 | 3,254 | 9,581 | 4,969 | 17,804 |
| Additions | – | 165 | 1,548 | 1,713 |
| Disposals | – | – | (159) | (159) |
| Written off | – | – | (13) | (13) |
| At 31 March 2006 | 3,254 | 9,746 | 6,345 | 19,345 |
| Additions | – | 122 | 1,063 | 1,185 |
| Written off | – | (100) | (630) | (730) |
| At 31 March 2007 | 3,254 | 9,768 | 6,778 | 19,800 |
| Accumulated depreciation: | | | | |
| At 1 April 2005 | – | 1,943 | 3,284 | 5,227 |
| Depreciation for the year | – | 253 | 1,003 | 1,256 |
| Disposals | – | – | (125) | (125) |
| Written off | – | – | (13) | (13) |
| At 31 March 2006 | – | 2,196 | 4,149 | 6,345 |
| Depreciation for the year | – | 293 | 1,224 | 1,517 |
| Written off | – | (100) | (621) | (721) |
| At 31 March 2007 | – | 2,389 | 4,752 | 7,141 |
| Carrying amount: | | | | |
| At 31 March 2007 | 3,254 | 7,379 | 2,026 | 12,659 |
| At 31 March 2006 | 3,254 | 7,550 | 2,196 | 13,000 |

Plant and equipment with a carrying amount of S$409,000 (2006: S$776,000) and S$101,000 (2006: S$338,000) for the group and company respectively were acquired under finance lease agreements (Note 24).

Group Properties in Singapore:

| Held by | Group's effective interest % | Location | Approximate floor area | Tenure | Usage |
|---|---|---|---|---|---|
| Sincere Watch Limited | 100 | 304 Orchard Road, Lucky Plaza | 36 sq m | Freehold | Shop for retailing of watches |
| Sincere Watch Limited | 100 | 150 Orchard Road, Orchard Plaza | 212 sq m | 103 years, 73 years unexpired | Office |
| Sincere Watch Limited | 100 | 8 Temasek Boulevard Suntec City | 325 sq m | 99 years, 81 years unexpired | Corporate Head office |
| Culina Holdings Pte Ltd | 100 | 24 Senoko Way | 6,928 sq m | 30 years, 15 years unexpired | Office and warehouse |

## 12 INVESTMENT PROPERTY

This consists of the freehold property located at 304 Orchard Road, #23-04 Lucky Plaza, Singapore 238863. As at 31 March 2007, the directors estimated the fair value of the investment property to be approximately S$600,000 (2006: S$600,000) based on recent transactions of similar properties. The valuation surplus of S$202,000 (2006: S$202,000) is not reflected in the financial statements. The investment property is currently vacant.

## 13 SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Quoted equity shares, at cost | 16,743 | 16,743 |
| Unquoted equity shares, at cost | 31,486 | 15,326 |
| Investment prepayment | – | 13,589 |
| Loans to subsidiaries | 1,828 | 4,028 |
| | 50,057 | 49,686 |
| Less: Allowance for doubtful debts | (1,678) | (1,678) |
| Impairment loss | (7,465) | (5,165) |
| Carrying amount | 40,914 | 42,843 |

The intercompany balances are unsecured, repayable on demand and interest-free except for loans to subsidiaries amounting to S$150,000 (2006: S$2,350,000) which are subordinated to bank overdrafts provided by a bank as part of the covenants covering the provision of overdraft facilities as disclosed in Note 19.

During the year, the company carried out a review of the recoverable amount of the investments in subsidiaries and subordinated loans to subsidiaries, having regard to the existing performance of the relevant subsidiaries. The review led to the recognition of an impairment loss of S$2.3 million (2006: S$4.97 million) that has been recognised in the profit and loss statement of the company.

The recoverable amount of the investments is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiaries. The growth rates are based on management's estimates and industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for financial year ending 2008 and extrapolates cash flows for the following four years based on estimated growth rates of 5% to 10% per annum.

The rate used to discount the forecast cash flows is 6% (2006: 7%) per annum based on the group's weighted average cost of capital.

The subsidiaries of the company are as follows:

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | | % | % | % | % |
| Avante Investment Pte Ltd<br>Investment holding company | Singapore | 100 | 100 | 100 | 100 |
| Avante Marketing Pte Ltd<br>Promoters, representatives and agents of fashion and luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Architects of Time (S) Pte Ltd<br>(formerly known as Britsh Master Time Pte Ltd)<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Culina Holdings Pte Ltd<br>Investment holding company | Singapore | 100 | 100 | 100 | 100 |
| Culina Pte Ltd [(a)]<br>Supply and distribution of gourmet food, fine wines and pastry products | Singapore | 100 | 100 | 100 | 100 |
| Emotus Pte Ltd<br>Retailing of watches and clocks | Singapore | 100 | 100 | 100 | 100 |
| Food Resources Pte Ltd [(a)]<br>Supply and distribution of gourmet food, fine wines and pastry products | Singapore | 100 | 100 | 100 | 100 |
| Franck Muller Pte Ltd<br>Marketing of Franck Muller time pieces | Singapore | 100 | 100 | 100 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest 2007 % | Proportion of ownership interest 2006 % | Effective equity interest 2007 % | Effective equity interest 2006 % |
|---|---|---|---|---|---|
| Heirloom Restoration Services Pte Ltd<br>Watch repair services | Singapore | 100 | 100 | 100 | 100 |
| Heritage Distribution Pte Ltd<br>Marketing and distribution of watches | Singapore | 100 | 100 | 100 | 100 |
| Parisian Time Pte Ltd<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Quantum Communications Pte Ltd<br>Marketing communications services | Singapore | 100 | 100 | 100 | 100 |
| Richburgh Holdings Pte Ltd [d]<br>Retailing of watches and clocks | Singapore | 100 | 50 | 100 | 50 |
| Sincere Watch Duty Free Pte Ltd [d]<br>Retailing of watches and clocks | Singapore | 100 | 50 | 100 | 50 |
| Swiss Master Time Pte Ltd<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Times Legend International Pte Ltd<br>Marketing and distribution of watches | Singapore | 100 | 100 | 100 | 100 |
| Kensley Vale Pte Ltd [b]<br>Dormant | Singapore | 100 | – | 100 | – |
| Leoco Enterprise Limited [1]<br>Investment holding company | Hong Kong SAR | 75 | 75 | 75 | 75 |
| Pendulum Limited [a] [2]<br>Dormant | Hong Kong SAR | 75 | 75 | 75 | 75 |
| Sincere Brand Management Limited [a] [2]<br>Marketing and distribution of watches | Hong Kong SAR | 75 | 75 | 75 | 75 |
| Avante Marketing (M) Sdn Bhd [3]<br>Investment holding company | Malaysia | 100 | 100 | 100 | 100 |
| Culina Products Sdn Bhd [a] [3]<br>Dormant | Malaysia | 100 | 100 | 100 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | | % | % | % | % |
| Emotus Sdn Bhd [(a)] [(4)]<br>Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | 100 | 100 | 100 | 100 |
| Sincere Watch Sdn Bhd [(e)] [(4)]<br>Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | 80 | 80 | 80 | 80 |
| Shanghai Sincere Watch Co. Ltd [(a)] [(5)]<br>Dormant | People's Republic of China | 75 | 75 | 75 | 75 |
| Sincere Watch Co. Ltd [(a)] [(2)]<br>Wholesale and retail of watches | Republic of China (Taiwan) | 75 | 100 | 75 | 100 |
| Sincere Watch (Hong Kong) Limited [(2)]<br>Investment holding | The Cayman Islands | 75 | 75 | 75 | 75 |
| Sincere Brand Holdings Limited [(a)] [(2)]<br>Investment holding | British Virgin Islands | 75 | 75 | 75 | 75 |
| Sincere Watch Pty Ltd [(c)] [(6)]<br>Dormant | Australia | 100 | – | 100 | – |

(a) *Held by subsidiaries.*

(b) *Acquired on 11 April 2006.*

(c) *Incorporated on 12 July 2006.*

(d) *These entities became wholly-owned subsidiaries on 31 January 2007 when the company acquired the remaining equity interest in these entities on that date based on the net asset value per share in these entities as at 30 September 2006. The consideration was satisfied in cash.*

(e) *15% interest in Sincere Watch Sdn Bhd is held through Avante Marketing (M) Sdn Bhd.*

(f) *Details on the dilution of the company's interest in this entity is disclosed in Note 31.*

All subsidiaries are audited by Deloitte & Touche, Singapore except for the subsidiaries that are indicated as follows:

(1) *Audited by Morison Heng, Hong Kong, SAR.*

(2) *Audited by overseas practices of Deloitte Touche Tohmatsu of which Deloitte & Touche – Singapore is a member.*

(3) *Audited by K.K. San, Lew & Loke, Malaysia.*

(4) *Audited by Ernst & Young, Malaysia.*

(5) *Not audited as not required in country of incorporation and not considered material.*

(6) *Auditor will be appointed in the next financial year.*

## 14 ASSOCIATES

| | Group 2007 | Group 2006 | Company 2007 | Company 2006 |
|---|---|---|---|---|
| | S$'000 | S$'000 | S$'000 | S$'000 |
| Unquoted equity shares at cost | 3,382 | 3,382 | 3,382 | 3,382 |
| Less: Impairment loss | – | – | (280) | (280) |
| | 3,382 | 3,382 | 3,102 | 3,102 |
| Share of post-acquisition reserves | 2,937 | 2,365 | – | – |
| | 6,319 | 5,747 | 3,102 | 3,102 |

The group's investment in associates comprises the following:

| Name of associate and country of incorporation/operation | Principal activities | Proportion of ownership interest 2007 | Proportion of ownership interest 2006 | Effective equity interest 2007 | Effective equity interest 2006 |
|---|---|---|---|---|---|
| | | % | % | % | % |
| Pendulum Ltd [a] Thailand | Retailing and distribution of watches and clocks | 49 | 49 | 49 | 49 |
| BVL Partner Co. Ltd [a] Thailand | Retailing and distribution of watches, clocks and jewellery | 49 | 49 | 49 | 49 |
| Unisky Limited [b] Hong Kong, SAR | Dormant | 33 | 33 | 33 | 33 |

The associates, whose net assets are less than 20% of the net assets of the group, are audited by:

(a) *SB Auditing Service Co. Ltd, Thailand.*

(b) *Vincent Kwok & Co., Hong Kong, SAR.*

Significant transactions with associates:

| | Group 2007 | Group 2006 |
|---|---|---|
| | S$'000 | S$'000 |
| Sales of goods | (5,333) | (7,957) |
| Purchase of goods | 90 | – |
| Management fee expense | 42 | 42 |

Summarised financial information in respect of the group's associates is set out below:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Total assets | 26,291 | 27,478 |
| Total liabilities | (13,679) | (15,750) |
| Net assets | 12,612 | 11,728 |
| Group's share of associates' net assets | 6,319 | 5,747 |
| Revenue | 35,935 | 34,718 |
| Profit for the year | 710 | 932 |
| Group's share of associates' profit for the year | 348 | 457 |

## 15 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Quoted equity shares, at fair value | 527 | 433 | 441 | 369 |
| Unquoted equity shares, at cost | 8,836 | – | 8,836 | – |
| | 9,363 | 433 | 9,277 | 369 |

The investments in quoted equity securities offer the group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities are based on the quoted closing market prices on the last market day of the financial year.

The investment in unquoted equity shares represents an investment in a company that is engaged in production and manufacturing of watches. Currently, the fair value of the unquoted securities cannot be measured.

The group's and company's available-for-sale investments that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Hong Kong dollar | 63 | 63 | – | – |
| Swiss franc | 8,836 | – | 8,836 | – |

**16 GOODWILL**

| | **Group** |
|---|---|
| | *S$'000* |
| Cost: | |
| At 1 April 2005 | 3,831 |
| Arising on acquisition of a subsidiary *(Note 36)* | 1,672 |
| At 31 March 2006 and 31 March 2007 | 5,503 |
| Impairment: | |
| At 1 April 2005 | 2,000 |
| Impairment loss for the year ended 31 March 2006 | 2,621 |
| At 31 March 2006 and 31 March 2007 | 4,621 |
| Carrying amount: | |
| At 31 March 2007 | 882 |
| At 31 March 2006 | 882 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Food Trading | | |
| Culina Pte Ltd | 3,607 | 3,607 |
| Food Resources Pte Ltd | 1,672 | 1,672 |
| Watch Retailing | | |
| Franck Muller Pte Ltd | 224 | 224 |
| | 5,503 | 5,503 |

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on management's estimates and industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the financial year ending 2008 and extrapolates cash flows for the following four years based on estimated growth rates of 5% to 10% per annum.

The rate used to discount the forecast cash flows is 6% (2006: 7%) per annum based on the group's weighted average cost of capital.

No impairment loss was recognised during the year (2006: S$2,621,000).

## 17 OTHER INTANGIBLE ASSETS

| | **Club memberships** | **Product listing fees** | **Total** |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **Group** | | | |
| Cost: | | | |
| At 1 April 2005 | 336 | – | 336 |
| Arising on acquisition of a subsidiary *(Note 36)* | – | 856 | 856 |
| At 31 March 2006 and 31 March 2007 | 336 | 856 | 1,192 |
| Impairment: | | | |
| At 1 April 2005 | 180 | – | 180 |
| Write-back of impairment loss for the year ended 31 March 2006 | (63) | – | (63) |
| At 31 March 2006 and 31 March 2007 | 117 | – | 117 |
| Carrying amount: | | | |
| At 31 March 2007 | 219 | 856 | 1,075 |
| At 31 March 2006 | 219 | 856 | 1,075 |

| | Club memberships |
|---|---|
| | *S$'000* |
| **Company** | |
| Cost: | |
| At 1 April 2005, 31 March 2006 and 31 March 2007 | 336 |
| Impairment: | |
| At 1 April 2005 | 180 |
| Write-back of impairment loss for the year ended 31 March 2006 | (63) |
| At 31 March 2006 and 31 March 2007 | 117 |
| Carrying amount: | |
| At 31 March 2007 | 219 |
| At 31 March 2006 | 219 |

The investments in club memberships represent investments in clubs to obtain the right to receive services and obtain usage of the facilities of the club.

The product listing fees included above arose on the acquisition of the subsidiary, Food Resources Pte Ltd, on 17 February 2006 (Note 36).

The club memberships and product listing fees have indefinite useful lives and are tested for impairment annually, or more frequently if there are indicators that the intangible assets might be impaired.

## 18 DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the group and the company:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Deferred tax assets** | | | | |
| Allowance for inventories | 3,829 | 4,564 | 1,040 | 1,058 |
| Difference between book depreciation and tax depreciation | 162 | 142 | (50) | (88) |
| Others | 56 | (29) | – | – |
| Total deferred tax assets | 4,047 | 4,677 | 990 | 970 |
| **Movement in deferred tax assets** | | | | |
| Balance at beginning of year | 4,677 | 4,346 | 970 | 350 |
| Tax effect due to changes in income tax rate *(Note 33)* | (176) | – | (91) | – |
| Amounts transferred to (from) profit and loss *(Note 33)* | (284) | 370 | 111 | 620 |
| Translation adjustment | (170) | (39) | – | – |
| Balance at end of year | 4,047 | 4,677 | 990 | 970 |

At the balance sheet date, the group and company have temporary differences of S$26.88 million and S$5.5 million (2006: S$29.45 million and S$4.85 million) respectively available for offset against future profits. The temporary differences mainly comprise of allowances for inventories and capital allowances. The group recognised a deferred tax asset of S$4,047,000 (2006: S$4,677,000) in respect of S$22.45 million (2006: S$25.18 million) of such temporary differences. Deferred tax asset has not been recognised by the group in respect of the remaining S$4.43 million (2006: S$4.27 million) due to the unpredictability of future profit streams. The company recognised a deferred tax asset of S$990,000 (2006: S$970,000) in respect of the entire S$5.5 million (2006: S$4.85 million) temporary differences.

Subject to the agreement by the tax authorities, at the balance sheet date, the group has unutilised tax losses of S$13.09 million (2006: S$12.74 million) available for offset against future profits. The unutilised tax losses include S$1.74 million relating to a subsidiary where there was a substantial change in the shareholders in prior financial year arising from the acquisition by the company of the equity interest in the subsidiary that it did not previously hold. As a result, the unutilised tax losses of the subsidiary brought forward from the previous years may not be available for offset against future taxable income under Sections 23(4) and 37(15) of the Singapore Income Tax Act unless the subsidiary successfully obtain a ministerial waiver of the shareholders test. The subsidiary is in the process of applying to the Minister of Finance for the waiver from application of these sections on the grounds that the change was not made for the purpose of obtaining a tax benefit or advantage.

These future income tax benefits in respect of unutilised tax losses are available for an unlimited future period only if the respective subsidiaries derive future assessable income of a similar nature and of sufficient amounts to enable the benefits to be realised and the conditions for deductibility imposed by law, including the retention of majority shareholders, as defined, are complied with.

No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams (2006: S$Nil).

## 19 BANK BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Bank overdrafts *(Note 35)* | 3,983 | 2,764 | – | – |
| Short-term bank loans | 8,073 | 7,757 | – | 2,000 |
| Bankers' acceptance | 6,465 | 6,247 | – | – |
| Due to a factoring company | – | 486 | – | – |
| | 18,521 | 17,254 | – | 2,000 |

Short-term bank loans of S$8.1 million (2006: S$7.8 million) are arranged at floating rates, and expose the group to cash flow interest rate risk. Other short-term bank loans and borrowings are arranged at fixed interest rates and expose the group to fair value interest rate risk.

(a) The group's and company's bank overdrafts bear effective interest at rates ranging from 3.23% to 8.75% (2006: 4.47% to 10.73%) per annum, are repayable on demand and are unsecured except for:

(i) Bank overdrafts and other credit facilities of subsidiaries amounting to S$1,471,000 (2006: S$1,505,000) which are guaranteed by the company. In accordance with the terms and conditions for the provision of the banking facilities, these overdrafts and credit facilities are ranked first over all present and future loans from the company; and

(ii) Bank overdrafts of S$2,512,000 (2006: S$1,259,000) of another three subsidiaries which are guaranteed by the company and secured by irrevocable standby letters of credit.

(b) The group's and company's short-term bank loans are unsecured and bear interest at rates ranging from 4.58% to 5.50% (2006: 2.85% to 5.15%) per annum and are repayable on demand.

(c) The group's bankers' acceptance is secured by a corporate guarantee given by the company and bears interest at rates ranging from 5.14% to 5.50% (2006: 3.89% to 4.70%) per annum.

(d) The directors deem the effect arising from the fair value adjustment of the guarantee provided by the company to be immaterial.

## 20 TRADE PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 108,919 | 134,892 | 3,123 | 1,505 |
| Subsidiaries *(Note 13)* | – | – | 37,034 | 18,640 |
| | 108,919 | 134,892 | 40,157 | 20,145 |

The group's and company's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Swiss franc | 106,599 | 127,592 | 14,777 | 8,782 |
| Singapore dollar | – | 343 | – | – |
| United States dollar | 367 | 209 | – | – |
| Euro | 1,146 | 882 | – | – |
| Australian dollar | 807 | 464 | – | – |

## 21 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Note 13)* | – | – | – | 43 |
| Associates *(Note 14)* | 78 | 105 | 50 | 105 |
| Directors | 2,756 | 3,884 | 1,212 | 3,593 |
| Minority shareholders of subsidiaries | – | 2,350 | – | – |
| Advances from customers | 1,615 | 1,394 | 1,154 | 926 |
| Accruals | 11,451 | 9,628 | 3,219 | 1,312 |
| Rental payable | 710 | 761 | – | – |
| Others | 1,692 | 1,646 | 39 | 250 |
| | 18,302 | 19,768 | 5,674 | 6,229 |

The other payables to directors are unsecured, repayable on demand and interest-free.

The group's and company's other payables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Singapore dollar | 2 | 6,006 | – | – |
| United States dollar | 452 | 2,093 | – | – |
| Malaysian ringgit | 726 | 761 | – | – |
| Thai baht | 104 | 158 | 104 | 158 |

**22 CURRENT PORTION OF LONG-TERM DEBT**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Term loans *(Note 23)* | – | 3,750 | – | 3,000 |
| Finance leases *(Note 24)* | 157 | 159 | 78 | 83 |
| | 157 | 3,909 | 78 | 3,083 |

**23 LONG-TERM DEBT**

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Term loans | 3,000 | 6,750 | 3,000 | 6,000 |
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | – | 3,750 | – | 3,000 |
| In the second year | 3,000 | – | 3,000 | – |
| In the third year | – | 3,000 | – | 3,000 |
| | 3,000 | 6,750 | 3,000 | 6,000 |
| Less: Amount due for settlement within 12 months *(Note 22)* | – | (3,750) | – | (3,000) |
| Amount due for settlement after 12 months | 3,000 | 3,000 | 3,000 | 3,000 |

The group's and company's term loans with banks are unsecured except for a term loan of S$Nil (2006: S$750,000) which is secured by a corporate guarantee from the company.

Details of the term loans are:

(a) Term loans of S$3,000,000 and S$750,000 which bore effective interest rate of 3.50% and 3.27% per annum respectively have been fully repaid during the financials years.

(b) Term loan of S$3,000,000 (2006: S$3,000,000) which bears effective interest rate of 4.60% (2006: 4.60%) per annum is repayable in full in January 2009.

## 24 FINANCE LEASES

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | | Minimum lease payments | | Present value of minimum lease payments | |
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Amounts payable under finance leases: | | | | | | | | |
| Within one year | 191 | 199 | 157 | 159 | 92 | 100 | 78 | 83 |
| In the second to fifth years inclusive | 473 | 641 | 425 | 556 | 173 | 257 | 153 | 218 |
| After five years | 22 | 44 | 21 | 48 | – | 7 | – | 14 |
| | 686 | 884 | 603 | 763 | 265 | 364 | 231 | 315 |
| Less: Future finance charges | (83) | (121) | | | (34) | (49) | | |
| | 603 | 763 | | | 231 | 315 | | |
| Less: Amount due for settlement within 12 months *(Note 22)* | | | (157) | (159) | | | (78) | (83) |
| Amount due for settlement after 12 months | | | 446 | 604 | | | 153 | 232 |

It is the group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 6 years. For the year ended 31 March 2007, the average effective borrowing rate was 4.40% (2006: 5.96%) per annum. Interest rates are fixed at the contract date, and thus expose the group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the group's lease obligations approximates their carrying amount.

The group's obligations under finance leases are secured by the lessors' title to the leased assets (Note 11).

**25 SHARE CAPITAL**

| | Group and Company | | | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *Number of ordinary shares of S$0.10 each ('000)* | | *S$'000* | *S$'000* |
| Issued and fully paid: | | | | |
| At beginning and end of year | 196,200 | 196,200 | 19,620 | 19,620 |

The company has one class of ordinary shares which carries no right to fixed income.

Subsequent to the balance sheet date on 24 April 2007, the capital structure of the company has changed to take into account the issue of 10,481,104 new shares to shareholders who had elected to participate in the Sincere Watch Limited Scrip Dividend Scheme ("**the Scheme**"). Following the issue of the new shares, the number of ordinary shares and share capital of the company increased to 206,681,104 ordinary shares and S$31,778,084, respectively.

**26 REVENUE**

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Sales of goods | 358,307 | 317,346 |
| Rendering of services | 942 | 832 |
| Total | 359,249 | 318,178 |

**27 OTHER OPERATING INCOME**

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Interest income | 558 | 494 |
| Dividend income from quoted investments | 20 | 18 |
| Net foreign exchange gain | – | 6,073 |
| Rental income | – | 59 |
| Others | 248 | 408 |
| Total | 826 | 7,052 |

## 28 STAFF COSTS

| | Group 2007 S$'000 | Group 2006 S$'000 |
|---|---|---|
| Employee benefits expense | 15,885 | 14,404 |
| Defined contribution plans | 1,216 | 1,145 |
| Directors' remuneration: | | |
| Company | 4,826 | 5,453 |
| Subsidiaries | 2,943 | 2,732 |
| Total | 24,870 | 23,734 |

## 29 OTHER OPERATING EXPENSES

| | Group 2007 S$'000 | Group 2006 S$'000 |
|---|---|---|
| Impairment of goodwill | – | 2,621 |
| Net foreign exchange loss | 2,516 | – |
| Allowance for (Write-back of) doubtful debts | 24 | (2,301) |
| Travelling and communication | 2,491 | 2,358 |
| Others | 4,919 | 3,821 |
| Total | 9,950 | 6,499 |

## 30 FINANCE COSTS

| | Group 2007 S$'000 | Group 2006 S$'000 |
|---|---|---|
| Interest expense on: | | |
| Bank borrowings | 1,172 | 1,108 |
| Finance leases | 39 | 64 |
| Total | 1,211 | 1,172 |

## 31 GAIN ON DILUTION OF INTEREST IN SUBSIDIARY

| | Group 2007 S$'000 | Group 2006 S$'000 |
|---|---|---|
| Gain on dilution of interest in subsidiary | 465 | 10,608 |

(a) Prior to 1 October 2006, the entire interest of Sincere Watch Co. Ltd ("**SWTW**"), a company incorporated in the Republic of China (Taiwan), was held by the company. On 1 October 2006, the company transferred its entire interest in SWTW to Sincere Brand Holdings Limited, a wholly-owned subsidiary of Sincere Watch (Hong Kong) Limited, a corporation in which the company has a 75% equity interest. The total consideration for the disposal amounted to S$5.5 million which was satisfied entirely in cash. Consequently, the company's interest in SWTW was diluted from 100% to 75%. The group recorded an exceptional gain of S$465,000 from this dilution.

(b) Prior to 19 September 2005, the entire interests of Sincere Watch (Hong Kong) Limited ("**SWHK**"), Sincere Brand Holdings Limited ("**SBHL**") and Sincere Brand Management Limited ("**SBML**") were separately held by the company. On 19 September 2005, the company transferred its entire interests in SBHL and SBML to SWHK as part of a group restructuring in connection with the public offer and listing of the shares of SWHK on the Main Board of The Stock Exchange of Hong Kong Limited. As part of the public offer, 102 million shares in SWHK were allotted and issued at an offer price of HK$1.08 per SWHK share. This resulted in a 25% dilution of the company's interest in SWHK. The group booked an exceptional gain of S$10.6 million from this dilution.

## 32 PROFIT BEFORE INCOME TAX

In addition to the charges and credits disclosed elsewhere in the financial statements, this item includes the following charges (credits):

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| (Write-back of) Allowance for inventories | (1,560) | 2,964 |
| Audit fees: | | |
| Paid to auditors of the company | 189 | 191 |
| Paid to other auditors | 132 | 146 |
| Non-audit fees: | | |
| Paid to auditors of the company | 8 | 79 |
| Paid to other auditors | 16 | 391 |
| Fees paid to a firm in which a director has an interest | 37 | 24 |
| Gain on disposal of property, plant and equipment | (3) | (74) |
| Property, plant and equipment written off | 22 | 125 |
| Rental received from a company in which a director has an interest | – | (16) |
| Write-back of bad debts | – | (32) |
| Net loss (gain) on fair value changes on foreign exchange contracts | 77 | (214) |
| Write-back of impairment loss on other intangible assets | – | (63) |
| Inventories written-off (write-back) | 535 | (350) |

## 33 INCOME TAX

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Current tax | 5,412 | 7,520 |
| Deferred tax *(Note 18)* | 456 | (383) |
| (Over) Under provision in prior years: | | |
| Current tax | (524) | 6 |
| Deferred tax *(Note 18)* | 4 | 13 |
| | 5,348 | 7,156 |

Domestic income tax is calculated at 18% (2006: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

| | **2007** | **2006** |
|---|---|---|
| | *S$'000* | *S$'000* |
| Profit before income tax | 30,733 | 42,252 |
| Tax at domestic rate | 5,532 | 8,450 |
| Tax effect of net expenses (income) that are not deductible (taxable) in determining taxable profit | 345 | (1,490) |
| (Over) Under provision in prior years: | | |
| Current tax | (524) | 6 |
| Deferred tax | 4 | 13 |
| Tax effect of utilisation of tax losses not previously recognized | (223) | (501) |
| Deferred tax benefit unrecorded | 160 | 802 |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | 194 | (206) |
| Tax exemption | (170) | (59) |
| Tax effect of changes in income tax rate | 176 | – |
| Other items | (146) | 141 |
| Tax expense for the year | 5,348 | 7,156 |

## 34 EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the company is based on the following data:

| | **2007** | **2006** |
|---|---|---|
| Profit for the year attributable to equity holders of the company *(S$'000)* | 23,080 | 34,070 |
| The weighted average number of fully paid ordinary shares in issue | 206,681,104 | 206,681,104 |
| Basic earnings per share *(S cents)* | 11.17 | 16.48 |

The fully diluted earnings per share is equal to the basic earnings per share as there is no dilution.

For compliance with FRS 33 – Earnings Per Share, basic earnings per share is calculated by dividing the group's 10,481,104 new shares subsequent to year end (and before the date of authorisation of these financial statements) to participating shareholders of the Sincere Watch Limited Scrip Dividend Scheme (Note 25). For comparative purposes, the number of shares for 2006 is also adjusted retrospectively to 206,681,104 in the calculation of the 2006 basic earnings per share.

## 35 CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED CASH FLOW STATEMENT

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Cash and bank balances *(Note 7)* | 52,526 | 45,587 |
| Bank overdrafts *(Note 19)* | (3,983) | (2,764) |
| | 48,543 | 42,823 |

## 36 ACQUISITION OF SUBSIDIARY

In the prior financial year on 17 February 2006, the group acquired 100% of the issued share capital of Food Resources Pte Ltd for cash consideration of S$3,000. This transaction was accounted for by the purchase method of accounting.

| | Acquiree's carrying amount before combination | Fair value adjustments | Fair value |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **Net liabilities assumed:** | | | |
| Intangible asset | – | 856 | 856 |
| Current assets | 2,727 | 99 | 2,826 |
| Current liabilities | (5,351) | – | (5,351) |
| | (2,624) | 955 | (1,669) |
| Goodwill | | | 1,672 |
| Total consideration, satisfied by cash | | | 3 |
| **Net cash arising on acquisition:** | | | |
| Cash consideration paid | | | (3) |
| Cash and cash equivalents acquired | | | 32 |
| | | | 29 |

The goodwill arising on the acquisition of Food Resources Pte Ltd is attributable to the anticipated profitability of the distribution of the group's products in the new markets and the anticipated future operating synergies from the combination.

Food Resources Pte Ltd contributed S$1.41 million revenue and S$39,000 loss to the group's profit before tax for the period between the date of acquisition and the balance sheet date as at 31 March 2006.

If the acquisition had been completed on 1 April 2005, the total group revenue for the year ended 31 March 2006 would have been S$320.58 million and the profit for that year would have been S$35.02 million.

## 37 OPERATING LEASE ARRANGEMENTS

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Minimum lease payments under operating leases recognised as an expense in the year | 12,496 | 15,198 |

At the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of office, shop space and land are as follows:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Within one year | 13,789 | 9,174 |
| In the second to fifth year inclusive | 17,042 | 5,546 |
| After five years | 1,357 | 1,501 |
| Total | 32,188 | 16,221 |

The group has various operating lease agreements for its store outlets. Most leases contain renewable options. Certain leases also provide for contingent rentals based on certain percentages of sales or/and the number of visitors compared against certain visitor statistics.

## 38 COMMITMENTS

Certain subsidiaries are committed to making minimum total purchases from their suppliers pursuant to contracts signed with them:

| | Group | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Within one year | – | 10,506 |

Certain suppliers have the right to terminate their exclusive distribution agreements if the respective subsidiary fails to meet the minimum purchase requirements pursuant to the terms and conditions of the agreements.

**39 CAPITAL EXPENDITURE COMMITMENTS**

| | Group and Company | |
|---|---|---|
| | **2007** | **2006** |
| | *S$'000* | *S$'000* |
| Amount committed for future capital expenditure but not provided for in the financial statements | 53 | 310 |

**40 CONTINGENT LIABILITIES**

(i) The group and the company have the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Guarantee of banking facilities provided to: | | | | |
| Subsidiaries | – | – | 37,203 | 25,266 |
| Associates [(a)] | 7,430 | 7,148 | 7,430 | 7,148 |
| Bankers' guarantee | – | – | 2,717 | 2,217 |

(a) *The guarantee of banking facilities provided to certain associates amounting to S$7.43 million (2006: S$7.15 million) was provided on the basis that the company is indemnified by the remaining shareholders of those associates for S$3.79 million (2006: S$3.65 million), being their share based on the proportionate shareholdings.*

(ii) The group terminated the co-operative joint venture agreement for its subsidiary, Shanghai Sincere Watch Co. Ltd in September 1999. The co-operative joint venture partner had indicated it may institute legal proceedings against the group for breach of contract for the recovery of approximately S$194,500 (2006: S$197,000).

(iii) As at 31 March 2007, the company has contingent liabilities in respect of letters of financial support provided to certain subsidiaries with capital deficiencies amounting to S$5.14 million (2006: S$9.09 million) to enable these subsidiaries to continue operating as going concerns. In addition, the company has contingent liabilities in respect of letters of financial support provided to certain subsidiaries with net current liabilities amounting to S$1.87 million (2006: S$4.64 million) to enable these subsidiaries to continue operating as going concerns.

(iv) The directors deem the effect arising from the fair value adjustment of the guarantees provided by the company to be immaterial.

**41 SEGMENT INFORMATION**

The group is operating mainly in the Asian region, namely Southeast and Northeast Asia. The primary segments of the group are by geographical locations of assets.

*Segment revenue and expense:* Segment revenue and expense are the operating revenue and expense reported in the group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

*Segment assets and liabilities:* Segment assets include all operating assets used by a segment and consist principally of operating receivables, cash and bank balances, intangibles, inventories and property, plant and equipment, net of allowances and provisions. Capital additions include the total cost incurred to acquire property, plant and equipment, and intangible assets directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accruals.

*Investments in associates:* Income from associates are allocated as they are specifically attributable to business segments, and correspondingly the investments in associates are included as segment assets of the group.

*Inter-segment transfers:* Segment revenue and expenses include transfers between business segments. Inter-segment sales are on terms agreed between the parties. These transfers are eliminated on consolidation.

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Revenue** | | | | | | | | |
| External sales | 260,463 | 230,871 | 98,786 | 87,307 | – | – | 359,249 | 318,178 |
| Inter-segment sales | 70,710 | 68,531 | 34 | 6,470 | (70,744) | (75,001) | – | – |
| Total revenue | 331,173 | 299,402 | 98,820 | 93,777 | (70,744) | (75,001) | 359,249 | 318,178 |
| **Result** | | | | | | | | |
| Segment result | 26,264 | 28,250 | 10,708 | 16,559 | (5,841) | (12,450) | 31,131 | 32,359 |
| Gain on dilution of interest in subsidiary | | | | | | | 465 | 10,608 |
| Finance costs | | | | | | | (1,211) | (1,172) |
| Profit before share of results of associates | | | | | | | 30,385 | 41,795 |
| Profit from associates | 348 | 457 | | | | | 348 | 457 |
| Profit before income tax | | | | | | | 30,733 | 42,252 |
| Income tax | | | | | | | (5,348) | (7,156) |
| Profit for the year | | | | | | | 25,385 | 35,096 |
| **Other information** | | | | | | | | |
| Segment assets | 193,263 | 177,106 | 100,597 | 129,971 | | | 293,860 | 307,077 |
| Investment in associates | 6,319 | 5,747 | – | – | | | 6,319 | 5,747 |
| Unallocated corporate assets | | | | | | | 4,047 | 4,677 |
| Consolidated total assets | | | | | | | 304,226 | 317,501 |

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Segment liabilities | 79,646 | 73,045 | 62,166 | 81,643 | | | 141,812 | 154,688 |
| Unallocated corporate liabilities | | | | | | | 26,614 | 31,121 |
| Consolidated total liabilities | | | | | | | 168,426 | 185,809 |
| Capital expenditure | 1,967 | 2,825 | 1,504 | 387 | | | 3,471 | 3,212 |
| Acquisition of goodwill and intangibles | – | 2,528 | – | – | | | – | 2,528 |
| Depreciation | 2,603 | 2,382 | 366 | 349 | | | 2,969 | 2,731 |
| Other non-cash expenses | 2,016 | 4,527 | 13 | 1,183 | | | 2,029 | 5,710 |

As the group is substantially in one business segment, namely the retailing and distribution of quality watches and clocks, no secondary segments have been disclosed.

**42 DIVIDENDS**

During the financial year, the company declared and paid a first and final dividend of S$0.01 per ordinary share less tax totalling S$1,569,600 and a special dividend of S$0.0165 per ordinary share less tax totalling S$2,589,840 in respect of the financial year ended 31 March 2006.

During the financial year ended 31 March 2007, the company declared an interim dividend of S$0.09 per ordinary share less tax totalling S$14,479,560 which was paid on 24 April 2007. The dividend obligation to the extent of S$12,158,084 was satisfied by the issue of 10,481,104 new shares under the Scrip Dividend Scheme which was approved by shareholders at the Extraordinary General Meeting on 8 January 2007, with the balance paid in cash.

Subsequent to the balance sheet date, the directors of the company proposed that a final dividend of S$0.01 per ordinary share less tax totalling S$1,694,785 and special dividends comprising of S$0.002 per ordinary share less tax and S$0.0125 per ordinary share (tax exempt – one tier) totalling S$2,922,471 be paid for the financial year just ended on the ordinary shares of the company. The proposed dividends are based on the share capital of 206,681,104 ordinary shares and are subject to approval by shareholders at the Annual General Meeting and have not been accrued as a liability in these financial statements.

## A-3. Sincere Watch Group's audited financial statements for the year ended 31 March 2006

*The following is the audited financial statements of the Sincere Watch Group for the financial year ended 31 March 2006 extracted from the Annual Report 2005/2006 of the Sincere Watch Group which is not qualified.*

**Balance Sheets**
*31 MARCH 2006*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | *Note* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and bank balances | *7* | 45,587 | 55,886 | 7,547 | 23,696 |
| Trade receivables | *8* | 32,753 | 24,858 | 3,457 | 1,167 |
| Other receivables and prepaid expenses | *9* | 8,953 | 4,301 | 10,686 | 25,086 |
| Derivative financial instruments | *10* | 26 | – | 26 | – |
| Inventories | | 198,666 | 141,442 | 41,459 | 32,722 |
| Total current assets | | 285,985 | 226,487 | 63,175 | 82,671 |
| **Non-current assets:** | | | | | |
| Property, plant and equipment | *11* | 18,304 | 18,017 | 13,000 | 12,577 |
| Investment property | *12* | 398 | 398 | 398 | 398 |
| Subsidiaries | *13* | – | – | 42,843 | 12,012 |
| Associates | *14* | 5,747 | 5,335 | 3,102 | 3,102 |
| Available-for-sale investments | *15* | 433 | 359 | 369 | 359 |
| Goodwill | *16* | 882 | 1,831 | – | – |
| Other intangible assets | *17* | 1,075 | 156 | 219 | 156 |
| Deferred tax assets | *18* | 4,677 | 4,346 | 970 | 350 |
| Total non-current assets | | 31,516 | 30,442 | 60,901 | 28,954 |
| **Total assets** | | 317,501 | 256,929 | 124,076 | 111,625 |

**Balance Sheets (Continued)**
*31 MARCH 2006*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | *Note* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Short-term bank loans, overdrafts, bankers' acceptance and other borrowings | *19* | 17,254 | 20,114 | 2,000 | 5,000 |
| Trade payables | *20* | 134,892 | 116,560 | 20,145 | 27,614 |
| Other payables | *21* | 19,768 | 16,183 | 6,229 | 5,221 |
| Derivative financial instruments | *10* | 28 | – | 20 | – |
| Current portion of long-term debt | *22* | 3,909 | 1,262 | 3,083 | 197 |
| Income tax payable | | 6,354 | 6,275 | 1,862 | 1,572 |
| Total current liabilities | | 182,205 | 160,394 | 33,339 | 39,604 |
| **Non-current liabilities:** | | | | | |
| Long-term debt | *23* | 3,000 | 3,750 | 3,000 | 3,000 |
| Finance leases | *24* | 604 | 756 | 232 | 509 |
| Total non-current liabilities | | 3,604 | 4,506 | 3,232 | 3,509 |
| **Capital, reserves and minority interests:** | | | | | |
| Share capital | *25* | 19,620 | 19,620 | 19,620 | 19,620 |
| Currency translation reserve | | (3,580) | (3,317) | – | (185) |
| Legal reserve | | 210 | 109 | – | – |
| Investment revaluation reserve | | 44 | – | 10 | – |
| Accumulated profits | | 105,391 | 75,562 | 67,875 | 49,077 |
| Equity attributable to equity holders of the company | | 121,685 | 91,974 | 87,505 | 68,512 |
| Minority interests | | 10,007 | 55 | – | – |
| Total equity | | 131,692 | 92,029 | 87,505 | 68,512 |
| **Total liabilities and equity** | | 317,501 | 256,929 | 124,076 | 111,625 |

**Consolidated Profit and Loss Statement**
*YEAR ENDED 31 MARCH 2006*

| | | Group | |
|---|---|---|---|
| | | **2006** | **2005** |
| | *Note* | *S$'000* | *S$'000* |
| **Revenue** | *26* | 318,178 | 324,261 |
| Other operating income | *27* | 7,052 | 690 |
| Changes in inventories of goods for resale | | 56,693 | 37,197 |
| Purchases of goods for resale | | (288,852) | (279,293) |
| Staff costs | *28* | (23,734) | (20,669) |
| Rental expense | | (15,153) | (15,714) |
| Selling, advertising and promotional expense | | (12,595) | (11,149) |
| Depreciation and amortisation expense | | (2,731) | (3,536) |
| Other operating expenses | *29* | (6,499) | (7,386) |
| Finance costs | *30* | (1,172) | (973) |
| Share of profits of associates | | 457 | 275 |
| Gain on dilution of interest in subsidiary | *31* | 10,608 | – |
| Profit before income tax | *32* | 42,252 | 23,703 |
| Income tax expense | *33* | (7,156) | (4,941) |
| Profit for the year | | 35,096 | 18,762 |
| **Attributable to:** | | | |
| Equity holders of the company | | 34,070 | 19,126 |
| Minority interests | | 1,026 | (364) |
| | | 35,096 | 18,762 |
| Basic and fully diluted earnings per share (S cents) | *34* | 17.36 | 9.75 |

## Statement of Changes in Equity

*YEAR ENDED 31 MARCH 2006*

| | Note | Share capital | Currency translation reserve | Legal reserve[a] | Investment revaluation reserve | Accumulated profits | Attributable to equity holders of the company | Minority interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 | S$'000 |
| **Group** | | | | | | | | | |
| Balance at 31 March 2004 | | 16,350 | (2,153) | – | – | 66,617 | 80,814 | 437 | 81,251 |
| Appropriation of legal reserve from accumulated profits | | – | – | 109 | – | (109) | – | – | – |
| Bonus share issue | | 3,270 | – | – | – | (3,270) | – | – | – |
| Exchange differences arising on translation of foreign operations | | – | (1,164) | – | – | – | (1,164) | (18) | (1,182) |
| Net profit for the year | | – | – | – | – | 19,126 | 19,126 | (364) | 18,762 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.11 per ordinary share less tax of 20% paid in respect of previous financial year | | – | – | – | – | (6,802) | (6,802) | – | (6,802) |
| Balance at 31 March 2005 | | 19,620 | (3,317) | 109 | – | 75,562 | 91,974 | 55 | 92,029 |
| Effect of adoption of FRS 39 | 2(a) | – | – | – | – | (216) | (216) | – | (216) |
| As restated | | 19,620 | (3,317) | 109 | – | 75,346 | 91,758 | 55 | 91,813 |
| Appropriation of legal reserve from accumulated profits | | – | – | 101 | – | (101) | – | – | – |
| Exchange differences arising on translation of foreign operations | | – | (263) | – | – | – | (263) | (907) | (1,170) |
| Net profit for the year | | – | – | – | – | 34,070 | 34,070 | 1,026 | 35,096 |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 20% paid in respect of previous financial year | 42 | – | – | – | – | (3,924) | (3,924) | – | (3,924) |
| Gain on available-for-sale investments | | – | – | – | 44 | – | 44 | – | 44 |
| Contribution from minority interests | | – | – | – | – | – | – | 9,833 | 9,833 |
| Balance at 31 March 2006 | | 19,620 | (3,580) | 210 | 44 | 105,391 | 121,685 | 10,007 | 131,692 |

[a] *Legal reserve relates to Sincere Watch Co. Ltd, incorporated in the Republic of China (Taiwan). Legal reserve may be used to offset a deficit, if any, and, when the reserve amount exceeds or equals 50% of the capital stock, an amount up to 50% of such reserve may be transferred to capital stock.*

**Statement of Changes in Equity (Continued)**
*YEAR ENDED 31 MARCH 2006*

| | Note | Share capital S$'000 | Currency translation reserve S$'000 | Investment revaluation reserve S$'000 | Accumulated profits S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| Balance at 31 March 2004 | | 16,350 | (136) | – | 36,268 | 52,482 |
| Bonus shares issue | | 3,270 | – | – | (3,270) | – |
| Exchange differences arising on translation of foreign operations | | – | (49) | – | – | (49) |
| Net profit for the year | | – | – | – | 22,881 | 22,881 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.11 per ordinary share less tax of 20% paid in respect of previous financial year | | – | – | – | (6,802) | (6,802) |
| Balance at 31 March 2005 | | 19,620 | (185) | – | 49,077 | 68,512 |
| Effect of adoption of FRS 39 | *2(a)* | – | – | – | (213) | (213) |
| As restated | | 19,620 | (185) | – | 48,864 | 68,299 |
| Exchange differences arising on translation of foreign operations | | – | 185 | – | – | 185 |
| Net profit for the year | | – | – | – | 22,935 | 22,935 |
| Final dividend of S$0.01 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 20% paid in respect of previous financial year | *42* | – | – | – | (3,924) | (3,924) |
| Gain on available-for-sale investments | | – | – | 10 | – | 10 |
| Balance at 31 March 2006 | | 19,620 | – | 10 | 67,875 | 87,505 |

**Consolidated Cash Flow Statement**
*YEAR ENDED 31 MARCH 2006*

| | 2006 | 2005 |
|---|---|---|
| | *S$'000* | *S$'000* |
| **Operating activities:** | | |
| Profit before income tax | 42,252 | 23,703 |
| Adjustments for: | | |
| Share of profits of associates | (457) | (275) |
| Amortisation of goodwill | – | 625 |
| Impairment loss on goodwill | 2,621 | – |
| Depreciation expense | 2,731 | 2,911 |
| Property, plant and equipment written off | 125 | 107 |
| Gain on disposal of property, plant and equipment | (74) | (219) |
| Write-back of impairment loss on other intangible assets | (63) | – |
| Write-back of impairment loss on other investments | – | (160) |
| Gain on dilution of interest in subsidiary | (10,608) | – |
| Net gain on fair value changes on foreign exchange contracts | (214) | – |
| Interest expense | 1,172 | 973 |
| Interest income | (494) | (176) |
| Dividend income | (18) | (10) |
| Operating cash flows before movements in working capital | 36,973 | 27,479 |
| Trade receivables | (8,553) | (11,214) |
| Other receivables and prepaid expenses | (5,298) | (390) |
| Inventories | (56,693) | (37,197) |
| Trade payables | 17,564 | 35,306 |
| Other payables | 3,126 | 4,034 |
| Cash (used in) generated from operations | (12,881) | 18,018 |
| Interest paid | (1,172) | (973) |
| Interest received | 494 | 176 |
| Dividends received | 18 | 10 |
| Dividends paid | (3,924) | (6,802) |
| Income tax paid | (7,387) | (5,116) |
| Net cash (used in) from operating activities | (24,852) | 5,313 |

**Consolidated Cash Flow Statement (Continued)**
*YEAR ENDED 31 MARCH 2006*

| | 2006<br>*S$'000* | 2005<br>*S$'000* |
|---|---|---|
| **Investing activities:** | | |
| Purchase of property, plant and equipment *(Note A)* | (3,070) | (2,342) |
| Proceeds from disposal of property, plant and equipment | 145 | 280 |
| Acquisition of subsidiary *(Note 36)* | 29 | – |
| Additional investment in associates | – | (1,082) |
| Purchase of available-for-sale investments | (29) | – |
| Proceeds on disposal of quoted investments | – | 25 |
| Net cash used in investing activities | (2,925) | (3,119) |
| **Financing activities:** | | |
| Proceeds from issue of shares to minority shareholders of subsidiary | 20,441 | – |
| (Decrease) Increase in bank loans | (64) | 7,806 |
| Increase (Decrease) in long-term debt | 1,603 | (5,021) |
| Net cash from financing activities | 21,980 | 2,785 |
| (Decrease) Increase in cash and cash equivalents | (5,797) | 4,979 |
| Cash and cash equivalents at beginning of year | 50,326 | 46,459 |
| Effect of foreign exchange rate changes | (1,706) | (1,112) |
| Cash and cash equivalents at end of year *(Note 35)* | 42,823 | 50,326 |

**Notes to the consolidated cash flow statement:**

**A. Purchase of property, plant and equipment**

| | | |
|---|---|---|
| Cash purchase of property, plant and equipment | 3,070 | 2,342 |
| Purchase of property, plant and equipment under finance lease agreements | 142 | 608 |
| Total additions to property, plant and equipment *(Note 11)* | 3,212 | 2,950 |

## Notes to Financial Statements

*31 MARCH 2006*

These notes form an integral part of the financial statements.

**1 GENERAL**

The company (Registration Number 197700967C) is incorporated in Singapore with its registered office and principal place of business at 8 Temasek Boulevard, #23-03 Suntec Tower 3, Singapore 038988. The company is listed on the mainboard of the Singapore Exchange Securities Trading Limited. The financial statements are expressed in thousands of Singapore dollars.

The company is principally engaged in the business of watch and clock retailing and investment holding.

The principal activities of the subsidiaries and associates are disclosed in Notes 13 and 14.

The consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company for the financial year ended 31 March 2006 were authorised for issue by the Board of Directors on 9 June 2006.

**2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**BASIS OF ACCOUNTING –** The financial statements are prepared in accordance with the historical cost convention, except as disclosed in the accounting policies below, and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("**FRS**").

**Adoption of new and revised FRSs and Interpretations of FRS ("INT FRS")**

In the current financial year, the group has adopted all the new and revised FRSs and INT FRSs issued by the Council on Corporate Disclosure and Governance that are relevant to its operations and effective for annual periods beginning on or after 1 January 2005. The adoption of these new/revised FRSs and INT FRSs has no material effect on the financial statements as disclosed below and in the notes to financial statements.

**(a) FRS 39 – Financial Instruments: Recognition and Measurement**

FRS 39 requires the recognition and measurement of financial assets and liabilities. The new accounting standard moves measurement from a cost base to a fair value base for certain categories of financial assets and liabilities. The change in accounting policy has been accounted for in accordance with the transitional provisions of FRS 39. The adoption of FRS 39 has resulted in certain investments being carried at their respective fair values with the corresponding adjustments being taken to the revaluation reserve or the profit and loss statement.

Derivative financial instruments relating to currency forward contracts of the group and company amounting to S$216,000 (liabilities) and S$213,000 (liabilities) respectively as at 1 April 2005 were recognised on the balance sheet and the corresponding adjustments resulted in a decrease in accumulated profits in equity of the group and company by the same amount.

Derivative financial instruments were carried at fair value at the balance sheet date. At 31 March 2006, the derivative financial instruments of the group and company were fair valued at S$26,000 (assets) and S$28,000 (liabilities), respectively. The fair value changes of hedging instruments which were not designated as accounting hedges were recognised in the profit and loss statement.

As the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods.

**(b) FRS 103 – Business Combinations**

*Goodwill*

FRS 103 has been adopted for financial years beginning 1 July 2004. The option of limited retrospective application of the accounting standard has not been taken up, thus avoiding the need to restate past business combinations.

After initial recognition, FRS 103 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under FRS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. FRS 103 prohibits the amortisation of goodwill. Previously, under FRS 22, the group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortisation was charged over the estimated useful life of the goodwill of 5 years.

In accordance with the transitional provisions of FRS 103, the group has applied the revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after 1 July 2004, to goodwill acquired in business combinations. Therefore, from 1 April 2005, the group has discontinued amortising such goodwill and has tested the goodwill for impairment in accordance with FRS 36. At 1 April 2005, the accumulated amortisation as at 31 March 2005 of S$1,607,000 has been eliminated, with a corresponding decrease in the gross carrying amount of goodwill leaving the net carrying amount of goodwill unchanged.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2005 or prior periods.

No amortisation has been charged in 2006. The charge in 2005 was S$625,000.

An impairment loss of S$2.62 million was recognised in the current year in accordance with FRS 36. Had the group's previous accounting policy been applied in the current year, this amount would have been split between an amortisation charge of S$1.14 million and an impairment loss of S$1.48 million, because the calculation of the recoverable amount of goodwill has not been affected by the 2004 amendments to FRS 36. Therefore, the change in accounting policy has had no impact on the profit for the year – although it has resulted in a re-analysis between amortisation charges and impairment losses recognised.

**New and revised FRSs and INT FRSs in effect at the date of authorisation of the financial statements but not yet effective**

The directors anticipate that the adoption of the FRSs, INT FRSs and consequential amendments to FRSs that were issued but not yet effective until future periods will have no material impact on the consolidated financial statements of the group.

**BASIS OF CONSOLIDATION –** The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 31 March each year. Control is achieved when the company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities.

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

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

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

Minority interests in the net assets of consolidated subsidiaries are identified separately from the group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

In the financial statements of the company, investments in subsidiaries and associates are carried at cost less any impairment in net recoverable value that have been recognised in the profit and loss statement.

**BUSINESS COMBINATIONS –** The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under FRS 103 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with FRS 105 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated profit and loss statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

**FINANCIAL INSTRUMENTS –** Financial assets and financial liabilities are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instrument.

**Cash and cash equivalents**

Cash and bank balances comprise cash on hand and demand deposits, bank overdrafts, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

**Trade and other receivables**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**Investments**

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by the group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

**Bank borrowings**

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

**Trade and other payables**

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

**Equity instruments**

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

**Derivative financial instruments**

The group's activities expose it primarily to the financial risks of changes in foreign exchange rates.

The group uses derivative financial instruments (primarily foreign currency forward contracts) to hedge its risks associated with foreign currency fluctuations relating to certain firm commitments and forecasted transactions.

The group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized in profit or loss as they arise.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss.

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

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

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

**INVENTORIES –** Inventories comprise merchandise held for resale. High-end inventories are stated at the lower of cost (specific identification method) and net realisable value. Low-end inventories are stated at the lower of cost (weighted average method) and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

**PROPERTY, PLANT AND EQUIPMENT –** Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

| | |
|---|---|
| Leasehold properties and improvements | – 2% to 50% |
| Plant and equipment | – 10% to 50% |

Depreciation is not provided on freehold property.

Fully depreciated assets still in use are retained in the financial statements.

Assets held under finance lease arrangements are depreciated over their expected useful lives on the same basis as the owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the profit and loss statement.

**INVESTMENT PROPERTY –** Investment property held on a long-term basis for investment potential, is stated at cost, less any impairment in net recoverable value. No depreciation is provided on investment property.

**GOODWILL –** Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The group's policy for goodwill arising on acquisition of an associate is described under "Associates" below.

**INTANGIBLE ASSET –** Intangible asset with indefinite useful life, is initially measured at cost and is subsequently measured at cost less any accumulated impairment losses.

**IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS EXCLUDING GOODWILL –** At each balance sheet date, the group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement.

**ASSOCIATES –** An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale in which case it is accounted for under FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are not recognised.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the consolidated profit and loss statement.

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

**PROVISIONS –** Provisions are recognised when the group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

**REVENUE RECOGNITION –** Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

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

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

**BORROWING COSTS –** Borrowing costs are recognised in the profit and loss statement in the period in which they are incurred.

**RETIREMENT BENEFIT COSTS –** Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes, such as the Singapore Central Provident Fund, are dealt with as payments to defined contribution plans where the group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

**EMPLOYEE LEAVE ENTITLEMENT –** Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**INCOME TAX –** Income tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the company and subsidiaries operate by the balance sheet date.

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

**FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION –** The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). The consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company are presented in Singapore dollars, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

In order to hedge its exposure to certain foreign exchange risks, the group enters into forward contracts and options (please see above for details of the group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the group's foreign operations (including comparatives) are expressed in Singapore dollars using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

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

## 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

**Critical judgements in applying the entity's accounting policies**

In the process of applying the group's accounting policies, which are described in Note 2, management is of the opinion that there are no critical judgements involved that have a significant effect on the amounts recognised in the financial statements (apart from those involving estimations which are dealt with below).

**Key sources of estimation uncertainty**

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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) Allowances for doubtful debts*

An allowance for doubtful debts accounts for estimated losses resulting from the subsequent inability of the customers to make required payments. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required in future periods. Management specifically analyses accounts receivables and analyses historic bad debt, customer concentrations, customer worthiness, current economic trends and changes in the customer payment terms when making a judgement to evaluate the adequacy of the allowance for doubtful debts.

*(b) Allowances for inventories*

Management reviews the inventory ageing listing on a periodic basis. This review involves comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for slow-moving items. Management is satisfied that adequate allowance for inventories has been made in the financial statements.

*(c) Impairment of investments in subsidiaries and subordinated loans to subsidiaries*

Determining whether investments in subsidiaries and subordinated loans to subsidiaries are impaired requires an estimation of the value in use of the investments and loans. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the subsidiary and a suitable discount rate in order to calculate the net recoverable amount. The carrying amount of investments in subsidiaries and subordinated loans to subsidiaries in the financial statements of the company at the balance sheet date was S$42.84 million after an impairment loss of S$4.97 million that was recognised during 2006. Details of the impairment loss calculation are provided in Note 13 to the financial statements.

*(d) Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate net recoverable amount. The carrying amount of goodwill at the balance sheet date was S$882,000 after an impairment loss of S$2,621,000 that was recognised during 2006. Details of the impairment loss calculation are provided in Note 16 to the financial statements.

### 4 FINANCIAL RISKS AND MANAGEMENT

The group's activities expose it to a variety of financial risks, including the effects of: changes in debt and equity market prices, foreign currency exchange rates and interest rates. The group uses derivative financial instruments such as foreign exchange forward contracts to hedge certain exposures. The group does not hold or issue derivative financial instruments for speculative purposes.

**Foreign exchange risk**

The group is exposed to foreign currency risk on its foreign currency denominated cash balances and trade payables. The currencies giving rise to this risk are primarily Swiss Franc. The group ensures that the net exposure is kept to an acceptable level by entering into hedging activities such as forward foreign exchange contracts and options and also by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The group is also exposed to foreign exchange movements on its net investments in foreign subsidiaries and associates. No hedge has been taken up for this exposure.

**Interest rate risk**

The group's primary interest rate risk relates to interest bearing debt. The group primarily raises long-term loans based on expectation of future interest rate movements. As at the balance sheet date, the average term to maturity of the group's loans was approximately 20 months (2005: 12 months) and all the term loans have floating interest rate terms except for term loans of $6,750,000 (2005: $1,750,000) with a fixed interest rate of 3.23% to 4.60% (2005: 3.23% to 3.50%) per annum.

The group is also exposed to interest rate risk through the impact of rate changes on its short-term loans and bank overdrafts which bear interest at the rates disclosed in Note 19. Since these debts are short-term, with the current interest rate level, any future variations in interest rates are not expected to have a material impact on the group's results.

**Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the group. The group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial losses from default and generally does not require collateral. The group places its cash and cash equivalents with creditworthy institutions and performs ongoing credit evaluations of its customers' financial condition.

The group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

**Liquidity risk**

It is the group's policy for the raising of capital and placement of surplus fund to be managed centrally. The group has targets for available funds in the form of surplus liquidity and irrevocable credit facilities, which are available to the group at any given time.

**Fair value of financial assets and financial liabilities**

The carrying amount of cash and cash equivalents, trade and other current receivables and payables, provisions and other liabilities and amounts payable approximate their respective fair values due to the relatively short-term maturity of these financial instruments. Available-for-sale investments and derivative financial instruments are measured at their fair value. The carrying amount of long-term debts approximate their fair values.

## 5 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The company is a subsidiary of TBJ Holdings Pte Ltd, a company incorporated in the Republic of Singapore which is also the ultimate holding company. Related companies in these financial statements refer to members of the ultimate holding company's group of companies.

Some of the company's transactions and arrangements are between members of the group and the effect of these on the basis determined between the parties are reflected in these financial statements.

Transactions between the company and its subsidiaries, which are related companies of the company, have been eliminated on consolidation and are not disclosed in this note.

## 6 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors with that of the company. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Some of the group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, repayable on demand and interest-free, unless otherwise stated.

During the year, group entities entered into the following trading transactions with related parties:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Sales of goods | (1,743) | (2,342) |
| Purchases of goods | 31 | 98 |
| Interest income | (77) | (105) |
| Rental income | (59) | (57) |
| Delivery charges | 79 | 105 |

**Compensation of directors and key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Short-term benefits | 11,229 | 8,826 |
| Post-employment benefits | 205 | 225 |

The remuneration of directors and key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 7 CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash and bank balances | 30,318 | 38,977 | 7,547 | 6,787 |
| Fixed deposits | 15,269 | 16,909 | – | 16,909 |
| | 45,587 | 55,886 | 7,547 | 23,696 |

Bank balances and cash comprise cash held by the group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate their fair values.

Fixed deposits earn interest at a rate of 0.8% to 4.3% (2005: 0.58%) per annum and mature 30 days (2005: 15 days) within the financial year end.

The group's and company's cash and cash equivalents that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Singapore dollar | 9 | 218 | – | – |
| United States dollar | 519 | 146 | 488 | 36 |
| Swiss franc | 9,542 | 27,526 | 684 | 18,470 |
| Malaysian ringgit | 7 | 4 | – | – |
| Euro | 30 | 19 | 11 | 12 |
| Hong Kong dollar | 119 | 102 | 119 | 102 |

## 8 TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 31,305 | 24,341 | 3,205 | 706 |
| Subsidiaries *(Note 13)* | – | – | 86 | 259 |
| Associates *(Note 14)* | 1,922 | 517 | 166 | 202 |
| Related party *(Note 6)* | – | 2,690 | – | – |
| | 33,227 | 27,548 | 3,457 | 1,167 |
| Less: Allowance for doubtful debts | (474) | (2,690) | – | – |
| | 32,753 | 24,858 | 3,457 | 1,167 |

In 2005, an allowance was made for estimated irrecoverable amounts from a related party relating to sale of goods. This allowance has been determined based on the directors' assessment of the related party's financial position.

The group's and company's trade receivables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Swiss franc | 5,698 | 2,262 | 2.097 | 287 |
| United States dollar | 461 | 148 | – | – |

**9 OTHER RECEIVABLES AND PREPAID EXPENSES**

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Note 13)* | – | – | 7,212 | 26,540 |
| Associates *(Note 14)* | 86 | 65 | 85 | – |
| Related party *(Note 6)* | – | 714 | – | – |
| Prepaid expenses | 852 | 1,300 | 170 | 113 |
| Deposits | 6,448 | 1,521 | 5,159 | 439 |
| Income tax recoverable | 1 | 21 | – | 17 |
| Others | 1,566 | 680 | 205 | 122 |
| | 8,953 | 4,301 | 12,831 | 27,231 |
| Less: Allowance for doubtful debts | – | – | (2,145) | (2,145) |
| | 8,953 | 4,301 | 10,686 | 25,086 |

An allowance has been made for estimated irrecoverable amounts from subsidiaries. This allowance has been determined based on the directors' assessment of the subsidiaries' financial positions.

Advances to subsidiaries and associates of S$4.66 million (2005: S$15.60 million) bear interest at a rate of 4% (2005: 4.00%) per annum whilst other advances to subsidiaries and associates are interest-free. All advances to subsidiaries and associates are repayable on demand.

The group's and company's other receivables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| United States dollar | 234 | – | 187 | – |
| Malaysian ringgit | 274 | 1,045 | – | 889 |
| Indonesian rupiah | 7 | – | 7 | – |
| Hong Kong dollar | 10 | 12 | – | – |
| Swiss franc | 4,463 | – | 4,463 | – |

## 10 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | | 2005 | | 2006 | | 2005 | |
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Forward currency exchange contracts | 26 | 28 | – | – | 26 | 20 | – | – |

The group utilises currency derivatives to hedge significant future transactions and cash flows. The group is party to a variety of forward foreign exchange contracts in the management of its exchange rate exposures. The instruments purchased are primarily denominated in the currencies of the group's principal markets.

At the balance sheet date, the total notional amount of outstanding forward foreign exchange contracts to which the group is committed are as follows:

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | *'000* | *'000* |
| Bought: | | |
| Swiss franc | 9,500 | 12,700 |
| Euro | 553 | 1,533 |
| United States dollar | 111 | 44 |
| Australian dollar | 334 | 110 |
| Singapore dollar | 355 | 133 |
| New Zealand dollar | 30 | 15 |
| Equivalent in Singapore dollar | 13,871 | 21,406 |

These arrangements are designed to address significant exchange exposures for the first half of 2007, and are renewed on a revolving basis as required.

At 31 March 2006, the negative fair value of the group's currency derivatives is estimated to be approximately S$2,000. These amounts are based on bank rates for equivalent instruments at the balance sheet date, comprising assets of S$26,000 and liabilities of S$28,000. As the group had not adopted FRS 39 for the preceding year, the negative fair value of the derivatives amounting to S$216,000 were not recognised on the balance sheet as at 31 March 2005. Adjustments were made to the opening balances in accordance with the transitional provisions of FRS 39.

Changes in the fair value of currency derivatives which are not designated as accounting hedges amounting to a gain of S$214,000 (2005: S$Nil) have been credited to the profit and loss statement in the year.

The group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

### 11 PROPERTY, PLANT AND EQUIPMENT

| | Freehold property S$'000 | Leasehold properties and improvements S$'000 | Plant and equipment S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Group** | | | | |
| Cost: | | | | |
| At 1 April 2004 | 3,254 | 12,607 | 14,499 | 30,360 |
| Additions | – | 130 | 2,820 | 2,950 |
| Disposals | – | – | (840) | (840) |
| Written off | – | (92) | (2,390) | (2,482) |
| Exchange differences | – | – | (66) | (66) |
| At 31 March 2005 | 3,254 | 12,645 | 14,023 | 29,922 |
| Additions | – | 168 | 3,044 | 3,212 |
| Disposals | – | – | (371) | (371) |
| Written off | – | – | (1,739) | (1,739) |
| Exchange differences | – | – | (31) | (31) |
| Arising on acquisition of a subsidiary | – | – | 59 | 59 |
| At 31 March 2006 | 3,254 | 12,813 | 14,985 | 31,052 |
| Accumulated depreciation: | | | | |
| At 1 April 2004 | – | 1,867 | 10,328 | 12,195 |
| Depreciation for the year | – | 389 | 2,522 | 2,911 |
| Disposals | – | – | (779) | (779) |
| Written off | – | (92) | (2,283) | (2,375) |
| Exchange differences | – | – | (47) | (47) |
| At 31 March 2005 | – | 2,164 | 9,741 | 11,905 |
| Depreciation for the year | – | 432 | 2,299 | 2,731 |
| Disposals | – | – | (300) | (300) |
| Written off | – | – | (1,614) | (1,614) |
| Exchange differences | – | – | (29) | (29) |
| Arising on acquisition of a subsidiary | – | – | 55 | 55 |
| At 31 March 2006 | – | 2,596 | 10,152 | 12,748 |
| Carrying amount: | | | | |
| At 31 March 2006 | 3,254 | 10,217 | 4,833 | 18,304 |
| At 31 March 2005 | 3,254 | 10,481 | 4,282 | 18,017 |

| | Freehold property S$'000 | Leasehold properties and improvements S$'000 | Plant and equipment S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Cost: | | | | |
| At 1 April 2004 | 3,254 | 9,607 | 5,861 | 18,722 |
| Additions | – | 66 | 1,177 | 1,243 |
| Disposals | – | – | (823) | (823) |
| Written off | – | (92) | (1,246) | (1,338) |
| At 31 March 2005 | 3,254 | 9,581 | 4,969 | 17,804 |
| Additions | – | 165 | 1,548 | 1,713 |
| Disposals | – | – | (159) | (159) |
| Written off | – | – | (13) | (13) |
| At 31 March 2006 | 3,254 | 9,746 | 6,345 | 19,345 |
| Accumulated depreciation: | | | | |
| At 1 April 2004 | – | 1,813 | 4,099 | 5,912 |
| Depreciation for the year | – | 222 | 1,125 | 1,347 |
| Disposals | – | – | (775) | (775) |
| Written off | – | (92) | (1,165) | (1,257) |
| At 31 March 2005 | – | 1,943 | 3,284 | 5,227 |
| Depreciation for the year | – | 253 | 1,003 | 1,256 |
| Disposals | – | – | (125) | (125) |
| Written off | – | – | (13) | (13) |
| At 31 March 2006 | – | 2,196 | 4,149 | 6,345 |
| Carrying amount: | | | | |
| At 31 March 2006 | 3,254 | 7,550 | 2,196 | 13,000 |
| At 31 March 2005 | 3,254 | 7,638 | 1,685 | 12,577 |

Plant and equipment with a carrying amount of S$776,000 (2005: S$1,243,000) and S$338,000 (2005: S$914,000) for the group and company respectively were acquired under finance lease agreements (Note 24).

Group Properties in Singapore:

| Held by | Group's effective interest % | Location | Approximate floor area | Tenure | Usage |
|---|---|---|---|---|---|
| Sincere Watch Limited | 100 | 304 Orchard Road, Lucky Plaza | 36 sq m | Freehold | Shop for retailing of watches |
| Sincere Watch Limited | 100 | 150 Orchard Road, Orchard Plaza | 212 sq m | 103 years, 74 years unexpired | Office |
| Sincere Watch Limited | 100 | 8 Temasek Boulevard Suntec City | 325 sq m | 99 years, 82 years unexpired | Corporate Head office |
| Culina Holdings Pte Ltd | 100 | 24 Senoko Way | 6,928 sq m | 30 years, 16 years unexpired | Office and warehouse |

## 12 INVESTMENT PROPERTY

This consists of the freehold property located at 304 Orchard Road, #23-04 Lucky Plaza, Singapore 238863. As at 31 March 2006, the directors estimated the fair value of the investment property to be approximately S$600,000 (2005: S$600,000) based on recent transactions of similar properties. The valuation surplus of S$202,000 (2005: S$202,000) is not reflected in the financial statements. The freehold property is currently vacant.

## 13 SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Quoted equity shares, at cost | 16,743 | – |
| Unquoted equity shares, at cost | 15,326 | 10,512 |
| Investments prepayment | 13,589 | – |
| Loans to subsidiaries | 4,028 | 3,378 |
| | 49,686 | 13,890 |
| Less: Allowance for doubtful debts | (1,678) | (1,678) |
| Impairment loss | (5,165) | (200) |
| Carrying amount | 42,843 | 12,012 |

The intercompany balances are unsecured, repayable on demand and interest-free except for loans to two subsidiaries amounting to S$2,350,000 (2005: S$1,700,000) which are subordinated to bank overdrafts provided by a bank as part of the covenants covering the provision of overdraft facilities as disclosed in Note 19.

During the year, the company carried out a review of the recoverable amount of the investments in subsidiaries and subordinated loans to subsidiaries, having regard to the existing performance of the relevant subsidiaries. The review led to the recognition of an impairment loss of S$4.97 million (2005: S$Nil) that has been recognised in the profit and loss statement of the company.

The recoverable amount of the investments is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the subsidiaries. The growth rates are based on management's estimates and industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the financial year ending 2007 and extrapolates cash flows for the following four years based on estimated growth rates of 5% to 10%. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 7% based on the group's weighted average cost of capital.

Investments prepayment comprises subscription monies which would be converted into investments for ordinary shares in subsidiaries within the next twelve months. In addition, loans to two subsidiaries amounting to S$2,350,000 will be converted into investments for ordinary shares in those subsidiaries within the next twelve months.

The subsidiaries of the company are as follows:

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | % | % | % | % |
| Avante Investment Pte Ltd<br>Investment holding company | Singapore | 100 | 100 | 100 | 100 |
| Avante Marketing Pte Ltd<br>Promoters, representatives and agents of fashion and luxury goods | Singapore | 100 | 100 | 100 | 100 |
| British Master Time Pte Ltd<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Culina Holdings Pte Ltd<br>Investment holding company | Singapore | 100 | 100 | 100 | 100 |
| Culina Pte Ltd [(a)]<br>Supply and distribution of gourmet food, fine wines and pastry products | Singapore | 100 | 100 | 100 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | % | % | % | % |
| Emotus Pte Ltd<br>Retailing of watches and clocks | Singapore | 100 | 100 | 100 | 100 |
| Food Resources Pte Ltd [a] [b]<br>Supply and distribution of gourmet food, fine wines and pastry products | Singapore | 100 | – | 100 | – |
| Franck Muller Pte Ltd<br>Marketing of Franck Muller time pieces | Singapore | 100 | 100 | 100 | 100 |
| Heirloom Restoration Services Pte Ltd<br>Watch repair services | Singapore | 100 | 100 | 100 | 100 |
| Heritage Distribution Pte Ltd<br>Marketing and distribution of watches | Singapore | 100 | 100 | 100 | 100 |
| Parisian Time Pte Ltd<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Quantum Communications Pte Ltd [c]<br>Marketing communications services | Singapore | 100 | – | 100 | – |
| Richburgh Holdings Pte Ltd [d]<br>Retailing of watches and clocks | Singapore | 50 | 50 | 50 | 50 |
| Sincere Watch Duty Free Pte Ltd [d]<br>Retailing of watches and clocks | Singapore | 50 | 50 | 50 | 50 |
| Swiss Master Time Pte Ltd<br>Marketing of luxury goods | Singapore | 100 | 100 | 100 | 100 |
| Times Legend International Pte Ltd<br>Marketing and distribution of watches | Singapore | 100 | 100 | 100 | 100 |
| Leoco Enterprise Limited [1]<br>Investment holding company | Hong Kong SAR | 75 | 75 | 75 | 75 |
| Pendulum Limited [a] [2]<br>Dormant | Hong Kong SAR | 100 | 100 | 100 | 100 |
| Sincere Brand Management Limited [a] [e] [2]<br>Marketing and distribution of watches | Hong Kong SAR | 75 | 100 | 75 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | | % | % | % | % |
| Avante Marketing (M) Sdn Bhd [3]<br>Investment holding company | Malaysia | 100 | 100 | 100 | 100 |
| Culina Products Sdn Bhd [a] [3]<br>Dormant | Malaysia | 100 | 100 | 100 | 100 |
| Emotus Sdn Bhd [a] [4]<br>Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | 100 | 100 | 100 | 100 |
| Sincere Watch Sdn Bhd [f] [4]<br>Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | 80 | 80 | 80 | 80 |
| Shanghai Sincere Watch Co. Ltd [a] [5]<br>Dormant | People's Republic of China | 75 | 75 | 75 | 75 |
| Sincere Watch Co. Ltd [2]<br>Wholesale and retail of watches | Republic of China (Taiwan) | 100 | 100 | 100 | 100 |
| Sincere Watch (Hong Kong) Limited [e] [2]<br>Investment holding | The Cayman Islands | 75 | 100 | 75 | 100 |
| Sincere Brand Holdings Limited [a] [e] [2]<br>Investment holding | British Virgin Islands | 75 | 100 | 75 | 100 |

(a) *Held by subsidiaries.*

(b) *Acquired on 17 February 2006 by Culina Holdings Pte Ltd.*

(c) *Incorporated on 13 December 2005.*

(d) *Considered as subsidiaries by virtue of control by the group over their financial and operating policies.*

(e) *Interest in the subsidiary was reduced to 75% via group restructuring and public share offer as further described in Note 31.*

(f) *15% interest in Sincere Watch Sdn Bhd is held through Avante Marketing (M) Sdn Bhd.*

All subsidiaries are audited by Deloitte & Touche, Singapore except for the subsidiaries that are indicated as follows:

(1) *Audited by Morison Heng, Hong Kong, SAR.*

(2) *Audited by overseas practices of Deloitte Touche Tohmatsu of which Deloitte & Touche – Singapore is a member.*

(3) *Audited by K. K. San, Lew & Loke, Malaysia.*

(4) *Audited by Ernst & Young, Malaysia.*

(5) *Not audited as not required in country of incorporation and not considered material.*

## 14 ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Unquoted equity shares at cost | 3,382 | 3,382 | 3,382 | 3,382 |
| Less: Impairment loss | – | – | (280) | (280) |
| | 3,382 | 3,382 | 3,102 | 3,102 |
| Share of post-acquisition reserves | 2,365 | 1,953 | – | – |
| | 5,747 | 5,335 | 3,102 | 3,102 |

The group's investment in associates comprises the following:

| Name of associate and country of incorporation/operation | Principal activities | Proportion of ownership interest | | Effective equity interest | |
|---|---|---|---|---|---|
| | | **2006** | **2005** | **2006** | **2005** |
| | | % | % | % | % |
| Pendulum Ltd [a] Thailand | Retailing and distribution of watches and clocks | 49 | 49 | 49 | 49 |
| BVL Partner Co. Ltd [a] Thailand | Retailing and distribution of watches, clocks and jewellery | 49 | 49 | 49 | 49 |
| Unisky Limited [b] Hong Kong, SAR | Dormant | 33 | 33 | 33 | 33 |

The associates, whose net assets are less than 20% of the net assets of the group, are audited by:

(a) *SB Auditing Service Co. Ltd, Thailand.*

(b) *Vincent Kwok & Co., Hong Kong, SAR.*

Significant transactions with associates:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Sales of goods | (7,957) | (6,488) |
| Management fee expense | 42 | 42 |

Summarised financial information in respect of the group's associates is set out below:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Total assets | 27,478 | 17,885 |
| Total liabilities | (15,750) | (6,997) |
| Net assets | 11,728 | 10,888 |
| Group's share of associates' net assets | 5,747 | 5,335 |
| Revenue | 34,718 | 29,642 |
| Profit for the year | 932 | 561 |
| Group's share of associates' profit for the year | 457 | 275 |

## 15 AVAILABLE-FOR-SALE INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Quoted equity shares, at fair value | 433 | 359 | 369 | 359 |

The investments in quoted equity securities offer the group the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair value of these securities are based on the quoted closing market prices on the last market day of the financial year.

The group's and company's available-for-sale investments that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Hong Kong dollar | 63 | – | – | – |

## 16 GOODWILL

| | Group |
|---|---|
| | *S$'000* |
| Cost: | |
| At 1 April 2004 and 1 April 2005 | 5,438 |
| Elimination of amortisation accumulated prior to the adoption of FRS 103 *(Note 2)* | (1,607) |
| Arising on acquisition of a subsidiary *(Note 36)* | 1,672 |
| At 31 March 2006 | 5,503 |
| Amortisation: | |
| At 1 April 2004 | 982 |
| Amortisation for the year | 625 |
| At 1 April 2005 | 1,607 |
| Elimination of amortisation accumulated prior to the adoption of FRS 103 *(Note 2)* | (1,607) |
| At 31 March 2006 | – |
| Impairment: | |
| At 1 April 2004 and 1 April 2005 | 2,000 |
| Impairment loss in the year | 2,621 |
| At 31 March 2006 | 4,621 |
| Carrying amount: | |
| At 31 March 2006 | 882 |
| At 1 April 2005 | 1,831 |

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Before recognition of impairment losses, the carrying amount of goodwill had been allocated as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Food Trading | | |
| Culina Pte Ltd | 3,607 | 3,607 |
| Food Resources Pte Ltd | 1,672 | – |
| Watch Retailing | | |
| Franck Muller Pte Ltd | 224 | 224 |
| | 5,503 | 3,831 |

The group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGU is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on management's estimates and industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the financial year ending 2007 and extrapolates cash flows for the following four years based on estimated growth rates of 5% to 8%. These rates do not exceed the average long-term growth rate for the relevant markets.

The rate used to discount the forecast cash flows is 7% based on the group's weighted average cost of capital.

At 31 March 2006, before impairment testing, goodwill of S$5.3 million was allocated to the food trading segment. Due to increased competition in the market, the group has revised its cash flow forecasts for this CGU. The food trading CGU has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of S$2.62 million.

## 17 OTHER INTANGIBLE ASSETS

| | **Club memberships** | **Product listing fees** | **Total** |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **Group** | | | |
| Cost: | | | |
| At 1 April 2004 and 1 April 2005 | 336 | – | 336 |
| Arising on acquisition of a subsidiary *(Note 36)* | – | 856 | 856 |
| At 31 March 2006 | 336 | 856 | 1,192 |
| Impairment: | | | |
| At 1 April 2004 and 1 April 2005 | 180 | – | 180 |
| Write-back of impairment loss during the year | (63) | – | (63) |
| At 31 March 2006 | 117 | – | 117 |
| Carrying amount: | | | |
| At 31 March 2006 | 219 | 856 | 1,075 |
| At 1 April 2005 | 156 | – | 156 |

| | Club memberships |
|---|---|
| | *S$'000* |
| **Company** | |
| Cost: | |
| At 1 April 2004, 1 April 2005 and 31 March 2006 | 336 |
| Impairment: | |
| At 1 April 2004 and 1 April 2005 | 180 |
| Write-back of impairment loss during the year | (63) |
| At 31 March 2006 | 117 |
| Carrying amount: | |
| At 31 March 2006 | 219 |
| At 1 April 2005 | 156 |

The investments in club memberships represent investments in clubs to obtain the right to receive services and obtain usage of the facilities of the club.

The product listing fees included above arose on the acquisition of the subsidiary, Food Resources Pte Ltd, on 17 February 2006 (Notes 13 and 36).

The group tests the other intangible assets annually for impairment, or more frequently if there are indicators that the intangible assets might be impaired.

## 18 DEFERRED TAX ASSETS

The following are the major deferred tax assets recognised by the group and the company:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Deferred tax assets** | | | | |
| Allowance for inventories | 4,564 | 3,735 | 1,058 | 424 |
| Allowance for doubtful debts | – | 427 | – | – |
| Excess of book depreciation over tax depreciation | 142 | 184 | (88) | (74) |
| Others | (29) | – | – | – |
| Total deferred tax assets | 4,677 | 4,346 | 970 | 350 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Movement in deferred tax assets** | | | | |
| Balance at beginning of year | 4,346 | 2,899 | 350 | (213) |
| Amounts transferred to profit and loss *(Note 33)* | 370 | 1,502 | 620 | 563 |
| Translation adjustment | (39) | (55) | – | – |
| Balance at end of year | 4,677 | 4,346 | 970 | 350 |

At the balance sheet date, the group and company have temporary differences mainly from allowances for inventories, allowance for doubtful debts and capital allowances of S$29.45 million and S$4.85 million (2005: S$29.87 million and S$1.75 million), respectively available for offset against future profits. A deferred tax asset has been recognised in respect of S$25.18 million (2005: S$24.35 million) of such temporary differences of the group. No deferred tax asset has been recognised in respect of the remaining S$4.27 million (2005: S$5.52 million) of the group due to the unpredictability of future profit streams. A deferred tax asset has been recognised in respect of the S$4.85 million (2005: S$1.75 million) temporary differences of the company.

At the balance sheet date, the group has unutilised losses of S$12.74 million (2005: S$10.14 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams (2005: S$Nil).

During the year, there was a substantial change in the shareholders arising from the acquisition of a subsidiary (Note 36). As a result, the unutilised tax losses of the subsidiary brought forward from the previous years totalling approximately S$1.74 million may not be available for offset against future taxable income under Sections 23(2) and 37(5) of the Singapore Income Tax Act unless the subsidiary successfully obtains a ministerial waiver of the shareholders test. The subsidiary is in the process of applying to the Minister of Finance for waiver from application of these sections on the grounds that the change was not made for the purpose of obtaining a tax benefit or advantage. The directors are of the view that the waiver will be obtained and have thus included these unutilised tax losses in their group unutilised tax losses above.

These future income tax benefits in respect of unutilised tax losses are available for an unlimited future period only if the respective subsidiaries derive future assessable income of a similar nature and of sufficient amounts to enable the benefits to be realised and the conditions for deductibility imposed by law, including the retention of majority shareholders, as defined, are complied with.

## 19 SHORT-TERM BANK LOANS, OVERDRAFTS, BANKERS' ACCEPTANCE AND OTHER BORROWINGS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Bank overdrafts *(Note 35)* | 2,764 | 5,560 | – | – |
| Short-term bank loans | 7,757 | 10,875 | 2,000 | 5,000 |
| Bankers' acceptance | 6,247 | 3,679 | – | – |
| Due to a factoring company | 486 | – | – | – |
| | 17,254 | 20,114 | 2,000 | 5,000 |

Short-term bank loans of S$7.8 million (2005: S$10.9 million) are arranged at floating rates, and expose the group to cash flow interest rate risk. Other short-term bank loans and borrowings are arranged at fixed interest rates and expose the group to fair value interest rate risk.

(a) The group's and company's bank overdrafts bear effective interest at rates ranging from 4.47% to 10.73% (2005: 5.25% to 8.00%) per annum, are repayable on demand and are unsecured except for:

(i) Bank overdrafts and other credit facilities of two subsidiaries amounting to S$1,505,000 (2005: S$3,456,000) which are guaranteed by the company and the minority shareholder of those subsidiaries. In accordance with the terms and conditions for the provision of the banking facilities, these overdrafts and credit facilities are ranked first over all present and future loans from the company and the minority shareholder; and

(ii) Bank overdrafts of S$1,259,000 (2005: S$2,104,000) of another subsidiary which are guaranteed by the company and secured by irrevocable standby letters of credit.

(b) The group's and company's short-term bank loans are unsecured and bear interest at rates ranging from 2.85% to 5.15% (2005: 2.73% to 5.05%) per annum and are repayable on demand.

(c) The group's bankers' acceptance is secured by a corporate guarantee given by the company and bears interest at rates ranging from 3.89% to 4.70% (2005: 3.87% to 4.20%) per annum.

(d) The group's amounts due to a factoring company are secured by a joint and several guarantee from two directors and bear average effective interest rate of 6.25% (2005: Nil%) per annum and are due 75 days within the financial year end.

**20 TRADE PAYABLES**

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 134,892 | 116,490 | 1,505 | 5,307 |
| Subsidiaries *(Note 13)* | – | – | 18,640 | 22,307 |
| Related party *(Note 6)* | – | 70 | – | – |
| | 134,892 | 116,560 | 20,145 | 27,614 |

The group's and company's trade payables that are not denominated in the functional currencies of the respective entities are as follows:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *'000* | *'000* | *'000* | *'000* |
| Swiss franc | 127,592 | 103,146 | 8,782 | 532 |
| Singapore dollar | 343 | 116 | – | – |
| United States dollar | 209 | 471 | – | – |
| Euro | 882 | 629 | – | – |
| Australian dollar | 464 | – | – | – |
| Thai baht | – | 394 | – | – |

## 21 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Note 13)* | – | – | 43 | 168 |
| Associates *(Note 14)* | 105 | 279 | 105 | 279 |
| Directors | 3,884 | 2,249 | 3,593 | 2,249 |
| Minority shareholders of subsidiaries | 2,350 | 1,700 | – | – |
| Advances from customers | 1,394 | 961 | 926 | 803 |
| Accruals | 9,628 | 8,997 | 1,312 | 1,615 |
| Rental payable | 761 | 775 | – | – |
| Others | 1,646 | 1,222 | 250 | 107 |
| | 19,768 | 16,183 | 6,229 | 5,221 |

The other payables to directors are unsecured, repayable on demand and interest-free.

The group's and company's other payables that are not denominated in the functional currencies of the respective entities are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Singapore dollar | 6,006 | 493 | – | – |
| United States dollar | 2,093 | 2,122 | – | – |
| Malaysian ringgit | 761 | 772 | – | – |
| Thai baht | 158 | 322 | 158 | 322 |

## 22 CURRENT PORTION OF LONG-TERM DEBT

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Term loans *(Note 23)* | 3,750 | 1,000 | 3,000 | – |
| Finance leases *(Note 24)* | 159 | 262 | 83 | 197 |
| | 3,909 | 1,262 | 3,083 | 197 |

## 23 LONG-TERM DEBT

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Term loans | 6,750 | 4,750 | 6,000 | 3,000 |
| The borrowings are repayable as follows: | | | | |
| On demand or within one year | 3,750 | 1,000 | 3,000 | – |
| In the second year | – | 3,750 | – | 3,000 |
| In the third year | 3,000 | – | 3,000 | – |
| | 6,750 | 4,750 | 6,000 | 3,000 |
| Less: Amount due for settlement within 12 months *(Note 22)* | (3,750) | (1,000) | (3,000) | – |
| Amount due for settlement after 12 months | 3,000 | 3,750 | 3,000 | 3,000 |

The group's and company's term loans with banks are unsecured except for a term loan of S$750,000 (2005: S$1,750,000) which is secured by a corporate guarantee from the company.

Details of the term loans are:

(a) Term loan of S$1,000,000 which bore effective interest rate of 3.23% per annum has been fully repaid during the financial year.

(b) Term loan of S$3,000,000 (2005: S$3,000,000) which bears effective interest rate of 3.50% (2005: 3.50%) per annum is repayable in full in August 2006.

(c) Term loan of S$3,000,000 (2005: S$Nil) which bears effective interest rate of 4.60% (2005: Nil%) per annum is repayable in full in January 2009.

(d) Term loan of S$750,000 (2005: S$1,750,000) which bears effective interest rate of 3.27% (2005: 3.23%) per annum is repayable over the next 3 quarters in the financial year 2007 in equal instalments.

## 24 FINANCE LEASES

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | | Minimum lease payments | | Present value of minimum lease payments | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Amounts payable under finance leases: | | | | | | | | |
| Within one year | 199 | 300 | 159 | 262 | 100 | 232 | 83 | 197 |
| In the second to fifth years inclusive | 641 | 822 | 556 | 685 | 257 | 511 | 218 | 438 |
| After five years | 44 | 71 | 48 | 71 | 7 | 71 | 14 | 71 |
| | 884 | 1,193 | 763 | 1,018 | 364 | 814 | 315 | 706 |
| Less: Future finance charges | (121) | (175) | | | (49) | (108) | | |
| | 763 | 1,018 | | | 315 | 706 | | |
| Less: Amount due for settlement within 12 months *(Note 22)* | | | (159) | (262) | | | (83) | (197) |
| Amount due for settlement after 12 months | | | 604 | 756 | | | 232 | 509 |

It is the group's policy to lease certain of its plant and equipment under finance leases. The average lease term is 6 years. For the year ended 31 March 2006, the average effective borrowing rate was 5.96% (2005: 6.70%). Interest rates are fixed at the contract date, and thus expose the group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The fair value of the group's lease obligations approximates their carrying amount.

The group's obligations under finance leases are secured by the lessors' title to the leased assets (Note 11).

### 25 SHARE CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | *Number of ordinary shares of S$0.10 each ('000)* | | *S$'000* | *S$'000* |
| Authorised | 500,000 | 500,000 | 50,000 | 50,000 |
| Issued and fully paid: | | | | |
| At beginning of year | 196,200 | 163,500 | 19,620 | 16,350 |
| Bonus shares issue | – | 32,700 | – | 3,270 |
| At end of year | 196,200 | 196,200 | 19,620 | 19,620 |

During the previous financial year, the capital structure of the company had been changed as follows:

(a) Consolidation of every 2 ordinary shares in the existing authorised and issued paid-up share capital of par value S$0.25 each into 1 ordinary share of par value of S$0.50 each;

(b) Subdivision of every 1 ordinary share of par value S$0.50 into 5 ordinary shares of par value S$0.10 each; and

(c) Post split 1-for-5 bonus issue of ordinary shares of par value S$0.10 each.

As a result, the number of ordinary shares presented at the beginning and end of the financial year have been adjusted to reflect the revised shareholdings.

The company has one class of ordinary shares which carries no right to fixed income.

### 26 REVENUE

| | Group | |
|---|---|---|
| | 2006 | 2005 |
| | *S$'000* | *S$'000* |
| Sales of goods | 317,346 | 323,697 |
| Rendering of services | 832 | 564 |
| Total | 318,178 | 324,261 |

**27 OTHER OPERATING INCOME**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Interest income | 494 | 176 |
| Dividend income from quoted investments | 18 | 10 |
| Net foreign exchange gain | 6,073 | – |
| Rental income | 59 | 72 |
| Others | 408 | 432 |
| Total | 7,052 | 690 |

**28 STAFF COSTS**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Employee benefits expense | 14,404 | 13,782 |
| Defined contribution plans | 1,145 | 1,093 |
| Directors' remuneration: | | |
| Company | 5,453 | 3,562 |
| Subsidiaries | 2,732 | 2,232 |
| Total | 23,734 | 20,669 |

**29 OTHER OPERATING EXPENSES**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Impairment of goodwill | 2,621 | – |
| Net foreign exchange loss | – | 237 |
| Write-back of impairment loss on other investments | – | (160) |
| (Write-back of) Allowance for doubtful debts | (2,301) | 1,632 |
| Travelling and communication | 2,358 | 1,920 |
| Others | 3,821 | 3,757 |
| Total | 6,499 | 7,386 |

## 30 FINANCE COSTS

| | Group 2006 S$'000 | Group 2005 S$'000 |
|---|---|---|
| Interest expense on: | | |
| Bank borrowings | 1,108 | 925 |
| Finance leases | 64 | 48 |
| Total | 1,172 | 973 |

## 31 GAIN ON DILUTION OF INTEREST IN SUBSIDIARY

Prior to 19 September 2005, the entire interests of Sincere Watch (Hong Kong) Limited ("**SWHK**"), Sincere Brand Holdings Limited ("**SBHL**") and Sincere Brand Management Limited ("**SBML**") were separately held by the company. On 19 September 2005, the company transferred the entire interests in SBHL and SBML to SWHK as part of a group restructuring in connection with the public offer and listing of the shares of SWHK on the Main Board of The Stock Exchange of Hong Kong Limited. As part of the public offer, 102 million shares in SWHK were allotted and issued at an offer price of HK$1.08 per SWHK share. This resulted in a 25% dilution of the company's interest in SWHK. The group booked an exceptional gain of S$10.6 million from this dilution.

## 32 PROFIT BEFORE INCOME TAX

In addition to the charges and credits disclosed elsewhere in the financial statements, this item includes the following charges (credits):

| | Group 2006 S$'000 | Group 2005 S$'000 |
|---|---|---|
| Allowance for inventories | 2,964 | 5,866 |
| Amortisation of intangible asset | – | 625 |
| Audit fees: | | |
| Paid to auditors of the company | 191 | 152 |
| Paid to other auditors | 146 | 70 |
| Non-audit fees: | | |
| Paid to auditors of the company | 79 | 24 |
| Paid to other auditors | 391 | 204 |
| Fees paid to a firm in which a director has an interest | 24 | 15 |
| Gain on disposal of property, plant and equipment | (74) | (219) |
| Property, plant and equipment written off | 125 | 107 |
| Rental received from a company in which a director has an interest | (16) | (15) |
| Write-back of bad debts | (32) | (12) |
| Net gain on fair value changes on foreign exchange contracts | (214) | – |
| Write-back of impairment loss on other intangible assets | (63) | – |
| (Write-back) Write off of inventories | (350) | 3 |

## 33 INCOME TAX EXPENSE

| | Group 2006 S$'000 | Group 2005 S$'000 |
|---|---|---|
| Current tax | 7,520 | 7,030 |
| Deferred tax *(Note 18)* | (383) | (1,246) |
| (Over) Under provision in prior years: | | |
| Current tax | 6 | (587) |
| Deferred tax *(Note 18)* | 13 | (256) |
| | 7,156 | 4,941 |

Domestic income tax is calculated at 20% (2005: 20%) of the estimated assessable profit for the year. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

| | Group 2006 S$'000 | Group 2005 S$'000 |
|---|---|---|
| Tax at domestic rate | 8,450 | 4,741 |
| Tax effect of expenses that are not (taxable) deductible in determining taxable profit | (1,490) | 842 |
| Under (Over) provision in prior years: | | |
| Current tax | 6 | (587) |
| Deferred tax | 13 | (256) |
| Tax effect of utilisation of tax losses not previously recognized | (501) | (120) |
| Deferred tax benefit unrecorded | 802 | 722 |
| Tax effect of different tax rates of subsidiaries operating in other jurisdictions | (206) | (137) |
| Tax exemption | (59) | (53) |
| Other items | 141 | (211) |
| Tax expense for the year | 7,156 | 4,941 |

## 34 EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the company is based on the following data:

| | 2006 S$'000 | 2005 S$'000 |
|---|---|---|
| Profit for the year attributable to equity holders of the company | 34,070 | 19,126 |
| The existing number of fully paid ordinary shares in issue during the year *(in '000)* | 196,200 | 196,200 |

The fully diluted earnings per share is equal to the basic earnings per share as there is no dilution.

## 35 CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED CASH FLOW STATEMENT

| | Group 2006 | 2005 |
|---|---|---|
| | *S$'000* | *S$'000* |
| Cash and bank balances *(Note 7)* | 45,587 | 55,886 |
| Bank overdrafts *(Note 19)* | (2,764) | (5,560) |
| | 42,823 | 50,326 |

## 36 ACQUISITION OF SUBSIDIARY

On 17 February 2006, the group acquired 100% of the issued share capital of Food Resources Pte Ltd for cash consideration of S$3,000. This transaction has been accounted for by the purchase method of accounting.

| | Acquiree's carrying amount before combination | Fair value adjustments | Fair value |
|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* |
| **Net liabilities assumed:** | | | |
| Intangible asset | – | 856 | 856 |
| Current assets | 2,727 | 99 | 2,826 |
| Current liabilities | (5,351) | – | (5,351) |
| | (2,624) | 955 | (1,669) |
| Goodwill | | | 1,672 |
| Total consideration, satisfied by cash | | | 3 |
| **Net cash arising on acquisition:** | | | |
| Cash consideration paid | | | (3) |
| Cash and cash equivalents acquired | | | 32 |
| | | | 29 |

The goodwill arising on the acquisition of Food Resources Pte Ltd is attributable to the anticipated profitability of the distribution of the group's products in the new markets and the anticipated future operating synergies from the combination.

Food Resources Pte Ltd contributed S$1.41 million revenue and S$39,000 loss to the group's profit before tax for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2005, total group revenue for the year would have been S$320.58 million, and profit for the year would have been S$35.02 million.

**37 OPERATING LEASE ARRANGEMENTS**

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Minimum lease payments under operating leases recognised as an expense in the year | 15,198 | 14,648 |

At the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of office, shop space and land are as follows:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Within one year | 9,174 | 11,065 |
| In the second to fifth year inclusive | 5,546 | 8,478 |
| After five years | 1,501 | 1,026 |
| Total | 16,221 | 20,569 |

The group has various operating lease agreements for its store outlets. Most leases contain renewable options. Certain leases also provide for contingent rentals based on certain percentages of sales or/and the number of visitors compared against certain visitor statistics.

**38 COMMITMENTS**

i) Certain subsidiaries are committed to making minimum total purchases from their suppliers pursuant to contracts signed with them:

| | Group | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Within one year | 10,506 | 10,195 |
| In the second to fifth years inclusive | – | 11,409 |
| Total | 10,506 | 21,604 |

Certain suppliers have the right to terminate their exclusive distribution agreements if the respective subsidiary fails to meet the minimum purchase requirements pursuant to the terms and conditions of the agreements.

There was a shortfall of S$5,044,000 (CHF 4,022,000) 2005: S$1,341,000 (CHF 975,000) from the required purchase amount of S$8,668,000 (CHF 6,912,000) 2005: S$7,923,000 (CHF 5,760,000) as stipulated in the distribution agreement. The supplier has not exercised its right to terminate the exclusive distribution agreement. The directors are of the view that the group has no further commitment in respect of the shortfall.

ii) During the year, the company entered into a sale and purchase agreement to acquire 175,000 shares in Chrono Star International Participations Groupe Franck Muller S.A. ("**CSIPGFM**"), a private limited company incorporated in Luxembourg. CSIPGFM is the parent company for the "Groupe Franck Muller", which owns and operates the "Franck Muller Geneve" brand, a principal supplier of the group.

The purchase consideration of the acquisition was approximately S$8.93 million for an interest in CSIPGFM. The first tranche was paid in January 2006 and is recorded in the accounts as a deposit, whilst the second tranche of S$4.4 million was paid in April 2006.

## 39 CAPITAL EXPENDITURE COMMITMENTS

| | **Group and Company** | |
|---|---|---|
| | **2006** | **2005** |
| | *S$'000* | *S$'000* |
| Amount committed for future capital expenditure but not provided for in the financial statements | 310 | 394 |

## 40 CONTINGENT LIABILITIES, UNSECURED

(i) The group and the company have the following:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | **2005** | **2006** | **2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Guarantee of banking facilities provided to: | | | | |
| Subsidiaries | – | – | 25,266 | 22,942 |
| Associates [a] | 7,148 | 4,005 | 7,148 | 4,005 |
| Bankers' guarantee | – | – | 2,217 | 4,300 |

[a] *The guarantee of banking facilities provided to certain associates amounting to S$7.15 million (2005: S$4.01 million) was provided on the basis that the company is indemnified by the remaining shareholders of those associates for S$3.65 million (2005: S$2.05 million), being their share based on the proportionate shareholdings.*

(ii) The group terminated the co-operative joint venture agreement for its subsidiary, Shanghai Sincere Watch Co. Ltd in September 1999. The co-operative joint venture partner had indicated it may institute legal proceedings against the group for breach of contract for the recovery of approximately S$197,000 (2005: S$200,000).

(iii) As at 31 March 2006, the company has contingent liabilities in respect of letters of financial support provided to certain subsidiaries with capital deficiencies amounting to S$9.09 million (2005: S$13.01 million) to enable these subsidiaries to continue operating as going concerns. In addition, the company has contingent liabilities in respect of letters of financial support provided to certain subsidiaries with net current liabilities amounting to S$4.64 million (2005: S$4.62 million) to enable these subsidiaries to continue operating as going concerns.

## 41 SEGMENT INFORMATION

The group is operating mainly in the Asian region, namely Southeast and Northeast Asia. The primary segments of the group are by geographical locations of assets.

*Segment revenue and expense:* Segment revenue and expense are the operating revenue and expense reported in the group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

*Segment assets and liabilities:* Segment assets include all operating assets used by a segment and consist principally of operating receivables, cash and bank balances, intangibles, inventories and property, plant and equipment, net of allowances and provisions. Capital additions include the total cost incurred to acquire property, plant and equipment, and intangible assets directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of accounts payable and accruals.

*Investments in associates:* Income from associates are allocated as they are specifically attributable to business segments, and correspondingly the investments in associates are included as segment assets of the group.

*Inter-segment transfers:* Segment revenue and expenses include transfers between business segments. Inter-segment sales are on terms agreed between the parties. These transfers are eliminated on consolidation.

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Revenue** | | | | | | | | |
| External sales | 230,871 | 218,793 | 87,307 | 105,468 | – | – | 318,178 | 324,261 |
| Inter-segment sales | 68,531 | 51,851 | 6,470 | 13,683 | (75,001) | (65,534) | – | – |
| Total revenue | 299,402 | 270,644 | 93,777 | 119,151 | (75,001) | (65,534) | 318,178 | 324,261 |
| **Result** | | | | | | | | |
| Segment result | 28,250 | 32,341 | 16,559 | 13,385 | (12,450) | (21,325) | 32,359 | 24,401 |
| Gain on dilution of interest in subsidiary | | | | | | | 10,608 | – |
| Finance costs | | | | | | | (1,172) | (973) |
| Profit before share of results of associates | | | | | | | 41,795 | 23,428 |
| Profit from associates | 457 | 275 | | | | | 457 | 275 |
| Profit before income tax | | | | | | | 42,252 | 23,703 |
| Income tax expense | | | | | | | (7,156) | (4,941) |
| Profit for the year | | | | | | | 35,096 | 18,762 |

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Other information** | | | | | | | | |
| Segment assets | 177,106 | 157,111 | 129,971 | 90,116 | | | 307,077 | 247,227 |
| Investment in associates | 5,747 | 5,335 | – | – | | | 5,747 | 5,335 |
| Unallocated corporate assets | | | | | | | 4,677 | 4,367 |
| Consolidated total assets | | | | | | | 317,501 | 256,929 |
| Segment liabilities | 73,045 | 57,499 | 81,643 | 75,244 | | | 154,688 | 132,743 |
| Unallocated corporate liabilities | | | | | | | 31,121 | 32,157 |
| Consolidated total liabilities | | | | | | | 185,809 | 164,900 |
| Capital expenditure | 2,825 | 2,840 | 387 | 110 | | | 3,212 | 2,950 |
| Acquisition of goodwill and intangibles | 2,528 | – | – | | | | 2,528 | – |
| Depreciation and amortisation | 2,382 | 2,994 | 349 | 542 | | | 2,731 | 3,536 |
| Other non-cash expenses | 4,527 | 3,778 | 1,183 | 4,822 | | | 5,710 | 8,600 |

As the group is substantially in one business segment, namely the retailing and distribution of quality watches and clocks, no secondary segments have been disclosed.

**42 DIVIDENDS**

During the financial year, the company declared and paid a first and final dividend of S$0.01 per ordinary share less tax totalling S$1,569,600 and a special dividend of S$0.015 per ordinary share less tax totalling S$2,354,400 in respect of the financial year ended 31 March 2005.

Subsequent to the balance sheet date, the directors of the company proposed that a first and final dividend of S$0.01 per ordinary share less tax totalling S$1,569,600 and a special dividend of S$0.0165 per ordinary share less tax totalling S$2,589,840 be paid for the financial year just ended on the ordinary shares of the company. The proposed dividends are subject to approval by shareholders at the Annual General Meeting and have not been accrued as a liability in these financial statements.

**43 RECLASSIFICATIONS AND COMPARATIVE FIGURES**

Certain reclassifications have been made to the prior year's financial statements following the group's and company's adoption of FRS 39 that became effective during the year. As a result, certain line items have been amended on the face of the balance sheet and the related notes to the financial statements. Comparative figures have been adjusted to conform with the current year's presentation.

The items were reclassified as follows:

| | Group and Company | |
|---|---|---|
| | Previously reported | After reclassification |
| | 2005 | 2005 |
| | *S$'000* | *S$'000* |
| Balance Sheets | | |
| Non-current assets: | | |
| Other investments | 515 | – |
| Available-for-sale investments | – | 359 |
| Other intangible assets | – | 156 |
| Total | 515 | 515 |

**A-4. Sincere Watch Group's audited financial statements for the year ended 31 March 2005**

*The following is the audited financial statements of the Sincere Watch Group for the financial year ended 31 March 2005 extracted from the Annual Report 2004/2005 of the Sincere Watch Group which is not qualified.*

**Balance Sheets**
*31 MARCH 2005*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | *Note* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | | |
| **Current assets:** | | | | | |
| Cash and bank balances | | 38,977 | 41,860 | 6,787 | 9,212 |
| Fixed deposits | *6* | 16,909 | 9,549 | 16,909 | 9,549 |
| Trade receivables | *7* | 24,858 | 13,644 | 1,167 | 1,867 |
| Other receivables and prepaid expenses | *8* | 4,301 | 3,987 | 25,086 | 24,564 |
| Inventories | *9* | 141,442 | 104,245 | 32,722 | 21,564 |
| Total current assets | | 226,487 | 173,285 | 82,671 | 66,756 |
| **Non-current assets:** | | | | | |
| Property, plant and equipment | *10* | 18,017 | 18,165 | 12,577 | 12,810 |
| Investment property | *11* | 398 | 398 | 398 | 398 |
| Investment in subsidiaries | *12* | – | – | 12,012 | 11,212 |
| Investment in associates | *13* | 5,335 | 4,029 | 3,102 | 2,020 |
| Other investments | *14* | 515 | 380 | 515 | 380 |
| Intangible asset | *15* | 1,831 | 2,456 | – | – |
| Deferred tax assets | *22* | 4,346 | 3,128 | 350 | – |
| Total non-current assets | | 30,442 | 28,556 | 28,954 | 26,820 |
| **Total assets** | | 256,929 | 201,841 | 111,625 | 93,576 |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities:** | | | | | |
| Bank loans, overdrafts and bankers' acceptance | *16* | 20,114 | 11,698 | 5,000 | 524 |
| Trade payables | *17* | 116,560 | 81,254 | 27,614 | 20,677 |
| Other payables | *18* | 16,183 | 12,149 | 5,221 | 11,089 |
| Income tax payable | | 6,275 | 5,079 | 1,572 | 1,364 |
| Current portion of long-term debt | *19* | 1,262 | 3,937 | 197 | 2,898 |
| Total current liabilities | | 160,394 | 114,117 | 39,604 | 36,552 |

**Balance Sheets (Continued)**
*31 MARCH 2005*

| | Note | Group 2005 S$'000 | Group 2004 S$'000 | Company 2005 S$'000 | Company 2004 S$'000 |
|---|---|---|---|---|---|
| **Non-current liabilities:** | | | | | |
| Long-term debt | 20 | 4,506 | 6,244 | 3,509 | 4,329 |
| Deferred tax liabilities | 22 | – | 229 | – | 213 |
| Total non-current liabilities | | 4,506 | 6,473 | 3,509 | 4,542 |
| **Minority interests** | | 55 | 437 | – | – |
| **Capital and reserves:** | | | | | |
| Issued capital | 23 | 19,620 | 16,350 | 19,620 | 16,350 |
| Currency translation reserves | | (3,317) | (2,153) | (185) | (136) |
| Legal reserve | | 109 | – | – | – |
| Accumulated profits | | 75,562 | 66,617 | 49,077 | 36,268 |
| Total equity | | 91,974 | 80,814 | 68,512 | 52,482 |
| **Total liabilities and equity** | | 256,929 | 201,841 | 111,625 | 93,576 |

**Consolidated Profit and Loss Statement**
*YEAR ENDED 31 MARCH 2005*

| | | Group | |
|---|---|---|---|
| | | **2005** | **2004** |
| | *Note* | *S$'000* | *S$'000* |
| **Revenue** | *24* | 324,261 | 257,656 |
| Other operating income | *25* | 690 | 2,909 |
| Changes in inventories of goods for resale | | 37,197 | (19,143) |
| Purchases of goods for resale | | (279,293) | (172,299) |
| Staff costs | *26* | (20,669) | (16,160) |
| Rental expense | | (15,714) | (11,946) |
| Selling, advertising and promotional expense | | (11,149) | (8,721) |
| Depreciation and amortisation expense | | (3,536) | (2,564) |
| Other operating expenses | *27* | (7,386) | (6,908) |
| **Profit from operations** | | 24,401 | 22,824 |
| Finance costs | *28* | (973) | (879) |
| **Profit before share of results of associates** | | 23,428 | 21,945 |
| Share of profits of associates | | 393 | 502 |
| **Profit before income tax and minority interests** | *29* | 23,821 | 22,447 |
| Income tax expense | *30* | (5,059) | (3,839) |
| **Profit before minority interests** | | 18,762 | 18,608 |
| Minority interests | | 364 | (79) |
| **Net profit for the year** | | 19,126 | 18,529 |
| Basic and fully diluted earnings per share (S cents) | *31* | 9.75 | 9.44 |

**Statement of Changes In Equity**
*YEAR ENDED 31 MARCH 2005*

| | Note | Issued capital | Currency translation reserves | Legal reserve[a] | Accumulated profits | Total |
|---|---|---|---|---|---|---|
| | | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Group** | | | | | | |
| **Balance at 31 March 2003** | | 16,350 | (761) | – | 49,874 | 65,463 |
| Currency translation differences | | – | (1,392) | – | – | (1,392) |
| Net profit for the year | | – | – | – | 18,529 | 18,529 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 22% paid in respect of previous financial year | | – | – | – | (1,786) | (1,786) |
| **Balance at 31 March 2004** | | 16,350 | (2,153) | – | 66,617 | 80,814 |
| Appropriation of legal reserve from accumulated profits | | – | – | 109 | (109) | – |
| Bonus shares issue | | 3,270 | – | – | (3,270) | – |
| Currency translation differences | | – | (1,164) | – | – | (1,164) |
| Net profit for the year | | – | – | – | 19,126 | 19,126 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.11 per ordinary share less tax of 20% paid in respect of previous financial year | *39* | – | – | – | (6,802) | (6,802) |
| **Balance at 31 March 2005** | | 19,620 | (3,317) | 109 | 75,562 | 91,974 |

**Statement of Changes In Equity (Continued)**

*YEAR ENDED 31 MARCH 2005*

| | Note | Issued capital S$'000 | Currency translation reserves S$'000 | Legal reserve[a] S$'000 | Accumulated profits S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **Company** | | | | | | |
| **Balance at 31 March 2003** | | 16,350 | (37) | – | 28,019 | 44,332 |
| Currency translation differences | | – | (99) | – | – | (99) |
| Net profit for the year | | – | – | – | 10,035 | 10,035 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.015 per ordinary share less tax of 22% paid in respect of previous financial year | | – | – | – | (1,786) | (1,786) |
| **Balance at 31 March 2004** | | 16,350 | (136) | – | 36,268 | 52,482 |
| Bonus shares issue | | 3,270 | – | – | (3,270) | – |
| Currency translation differences | | – | (49) | – | – | (49) |
| Net profit for the year | | – | – | – | 22,881 | 22,881 |
| Final dividend of S$0.02 per ordinary share and special dividend of S$0.11 per ordinary share less tax of 20% paid in respect of previous financial year | 39 | – | – | – | (6,802) | (6,802) |
| **Balance at 31 March 2005** | | 19,620 | (185) | – | 49,077 | 68,512 |

[a] *Legal reserve relates to Sincere Watch Co. Ltd, incorporated in the Republic of China (Taiwan). Legal reserve may be used to offset a deficit, if any, and, when the reserve amount exceeds or equals 50% of the capital stock, an amount up to 50% of such reserve may be transferred to capital stock.*

**Consolidated Cash Flow Statement**
*YEAR ENDED 31 MARCH 2005*

| | 2005 | 2004 |
|---|---|---|
| | *S$'000* | *S$'000* |
| **Cash flows from operating activities:** | | |
| Profit before share of results of associates and income tax | 23,428 | 21,945 |
| Adjustments for: | | |
| Amortisation of intangible asset | 625 | 224 |
| Depreciation expense | 2,911 | 2,340 |
| (Gain) Loss on disposal of property, plant and equipment | (219) | 18 |
| Property, plant and equipment written off | 107 | 91 |
| (Write-back of) impairment loss on other investments | (160) | 369 |
| Impairment loss on intangible asset | – | 2,000 |
| Interest expense | 973 | 879 |
| Interest income | (176) | (138) |
| Dividend income | (10) | (8) |
| Operating profit before working capital changes | 27,479 | 27,720 |
| Trade receivables | (11,214) | 3,768 |
| Other receivables and prepaid expenses | (390) | 4,083 |
| Inventories | (37,197) | 19,143 |
| Trade payables | 35,306 | 709 |
| Other payables | 4,034 | (3,142) |
| Cash generated from operations | 18,018 | 52,281 |
| Interest paid | (973) | (879) |
| Interest received | 176 | 138 |
| Dividends received | 10 | 8 |
| Dividends paid | (6,802) | (1,786) |
| Income tax paid | (5,116) | (3,784) |
| Net cash from operating activities | 5,313 | 45,978 |

**Consolidated Cash Flow Statement (Continued)**
*YEAR ENDED 31 MARCH 2005*

| | 2005 | 2004 |
|---|---|---|
| | *S$'000* | *S$'000* |
| **Cash flows from investing activities:** | | |
| Purchase of property, plant and equipment *(Note A)* | (2,342) | (5,157) |
| Proceeds from disposal of property, plant and equipment | 280 | 223 |
| Acquisition of subsidiary *(Note B)* | – | (1,946) |
| Additional investment in associates | (1,082) | – |
| Proceeds from sale of quoted investments | 25 | – |
| Net cash used in investing activities | (3,119) | (6,880) |
| **Cash flows from financing activities:** | | |
| Increase in bank loans | 7,806 | 642 |
| (Decrease) Increase in long-term debt | (5,021) | 461 |
| Net cash from financing activities | 2,785 | 1,103 |
| **Net effects of exchange rate changes in consolidating subsidiaries** | (1,112) | (1,229) |
| Increase in cash and cash equivalents | 3,867 | 38,972 |
| Cash and cash equivalents at beginning of year | 46,459 | 7,487 |
| **Cash and cash equivalents at end of year** *(Note 32)* | 50,326 | 46,459 |

**Consolidated Cash Flow Statement (Continued)**
*YEAR ENDED 31 MARCH 2005*

**Notes to the consolidated cash flow statement:**

| | 2005 | 2004 |
|---|---|---|
| | *S$'000* | *S$'000* |
| **A. Purchase of property, plant and equipment** | | |
| Cash purchase of property, plant and equipment | 2,342 | 5,157 |
| Purchase of property, plant and equipment under finance lease agreements | 608 | 286 |
| Total additions to property, plant and equipment *(Note 10)* | 2,950 | 5,443 |
| **B. Summary of the effects of acquisition of subsidiary** | | |
| Net liabilities acquired: | | |
| Current assets | – | 9,320 |
| Non-current assets | – | 114 |
| Current liabilities | – | (10,686) |
| | | (1,252) |
| Add: Reclassification of provision for associate's loss | – | 626 |
| Goodwill on acquisition of subsidiary | – | 4,009 |
| Total purchase consideration | – | 3,383 |
| Less: Non-cash consideration | – | (2,683) |
| Add: Bank overdraft assumed on acquisition of subsidiary | – | 1,246 |
| Net cash flow on acquisition of subsidiary | – | 1,946 |

## Notes to Financial Statements
*31 March 2005*

These notes form an integral part of the financial statements.

### 1 GENERAL

The company (Registration No. 197700967C) is incorporated in the Republic of Singapore with its registered office and principal place of business at 8 Temasek Boulevard, #23-03 Suntec Tower 3, Singapore 038988. During the financial year, the company received an approval to transfer the listing and quotation of its securities from the official list of the Singapore Exchange Securities Trading Limited ("**SGX-ST**") Dealing and Automated Quotation System ("**SGX-SESDAQ**") to the Official List of the SGX-ST Mainboard. The financial statements are expressed in thousands of Singapore dollars.

The company is principally engaged in the business of watch and clock retailing.

The principal activities of the subsidiaries and associates are disclosed in Notes 12 and 13.

The consolidated financial statements of the group and the balance sheet and statement of changes in equity of the company for the financial year ended 31 March 2005 were authorised for issue by the Board of Directors on 17 May 2005.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF ACCOUNTING –** The financial statements are prepared in accordance with the historical cost convention and are drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("**FRS**").

**BASIS OF CONSOLIDATION –** The consolidated financial statements incorporate the financial statements of the company and enterprises controlled by the company (its subsidiaries) made up to March 31 each year. Control is achieved when the company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefit from its activities. On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition or to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the group. All significant intercompany transactions and balances between group enterprises are eliminated on consolidation. Where a group transacts with an associate of the group, unrealised profits and losses are eliminated to the extent of the group's interest in the relevant associate.

Associates are entities over which the group exercises significant influence, through participation in the financial and operating policy decisions of the investee. The equity method of accounting is used.

In the financial statements of the company, investments in subsidiaries and associates are carried at cost less any impairment in net recoverable value that have been recognised in the profit and loss statement.

**FINANCIAL ASSETS –** Financial assets include cash and bank balances, fixed deposits, trade and other receivables and investments. Trade and other receivables are stated at their nominal value as reduced by an appropriate allowance for estimated irrecoverable amounts.

Long-term investments, where the group is not in a position to exercise control or significant influence, are stated at cost less impairment losses recognised when the investment's carrying amount exceeds its estimated recoverable amount.

**FINANCIAL LIABILITIES AND EQUITY –** Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Financial liabilities include trade and other payables, bank loans, overdrafts and bankers' acceptance, finance lease obligations and term loans. Trade and other payables are stated at their nominal value. Bank loans, overdrafts and bankers' acceptance, and term loans are recorded at the proceeds received, net of direct issue costs. Finance lease obligations are stated in accordance with the accounting policy denoted below. Finance charges are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Equity instruments are recorded at the fair value of the consideration received, net of direct issue costs.

Dividends on ordinary shares are recognised in shareholders' equity in the year in which they are declared.

**INVENTORIES –** High-end inventories comprising goods for resale are stated at the lower of cost (specific identification method) and net realisable value. Low-end inventories comprising goods for resale are stated at the lower of cost (weighted average method) and net realisable value. Net realisable value represents the estimated selling price less all estimated costs to be incurred in marketing, selling and distribution.

**PROPERTY, PLANT AND EQUIPMENT –** Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

Depreciation is charged so as to write off the cost of assets over their estimated useful lives, using the straight-line method, on the following bases:

| | | |
|---|---|---|
| Leasehold properties and improvements | – | 2% to 50% |
| Plant and equipment | – | 10% to 50% |

Depreciation is not provided on freehold property.

Fully depreciated assets still in use are retained in the financial statements.

Assets held under finance lease arrangements are depreciated over their expected useful lives on the same basis as the owned assets or, where shorter, the term of the relevant lease.

**INVESTMENT PROPERTY –** Investment property held on a long-term basis for investment potential, is stated at cost, less any impairment in net recoverable value. No depreciation is provided on investment property.

**GOODWILL –** Goodwill arising on consolidation represents the excess of the cost of an acquisition over the group's interest in the fair value of the net identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is recognised as an asset and amortised on a straight-line basis over its estimated useful life of 5 years.

On disposal of a subsidiary or associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising from an acquisition of an associate is included within the carrying value of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

**IMPAIRMENT OF ASSETS** – At each balance sheet date, the group and company review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

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

**PROVISIONS –** Provisions are recognised when the group has a present obligation as a result of a past event where it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

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

Assets held under finance lease are recognised as assets of the group and company at their fair values at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the profit and loss statement over the term of the relevant lease using the effective interest rate method.

Rentals payable under operating leases are charged to profit and loss on a straight-line basis over the term of the relevant lease.

**MINORITY INTEREST –** Minority interest is stated at the appropriate proportion of the pre-acquisition carrying amounts of the net assets of the subsidiaries adjusted for the appropriate share of post-acquisition profit and loss.

**REVENUE RECOGNITION –** Revenue from sale of goods is recognised when significant risks and rewards of ownership are transferred to the buyer and the amount of revenue and the costs of the transaction can be measured reliably. Revenue from rendering of services that are of short duration is recognised when the services are completed.

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

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

**RETIREMENT BENEFIT COSTS –** Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes, such as the Singapore Central Provident Fund) are charged as an expense when incurred.

**EMPLOYEE LEAVE ENTITLEMENT –** Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

**INCOME TAX –** Tax expense is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit except that a debit to the deferred tax balance is not carried forward unless there is reasonable expectation of realisation in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit and loss statement. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority.

**FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION –** Transactions in foreign currencies are recorded using the rates ruling on the dates of the transactions. At each balance sheet date, recorded monetary balances and balances carried at fair value that are denominated in foreign currencies are reported at the rates ruling at the balance sheet date. All realised and unrealised exchange adjustment profits and losses are dealt with in the profit and loss statement.

For inclusion in the consolidated financial statements, assets and liabilities of the foreign entities are translated at the rates of exchange approximating those ruling at the balance sheet date. The profit and loss statements are translated at the average rates of exchange for the year, and the opening net investment in the foreign entities is translated at the historical rates. The resulting currency translation differences are taken to the currency translation reserves. On disposal of a foreign entity, the accumulated currency translation differences are recognised in the profit and loss statement as part of the profit or loss on disposal.

**FOREIGN CURRENCY FORWARD CONTRACTS –** The group enters into foreign currency forward contracts to hedge its currency exposure. The contract gains and losses are recognised in the profit and loss statement upon the maturity of the contract which would normally coincide with the date of settlement of the underlying financial instrument being hedged.

**CASH –** Cash for the cash flow statement includes cash and bank balances, fixed deposits less bank overdrafts.

**3 FINANCIAL RISKS AND MANAGEMENT**

**(i) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the group. The group has adopted the policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial losses from default and generally does not require collateral. The group places its cash and cash equivalents with creditworthy institutions and performs ongoing credit evaluation of its customers' financial condition.

The group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at the end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

**(ii) Interest rate risk**

The group's primary interest rate risk relates to interest bearing debt. The group primarily raises long-term loans based on expectation of future interest rate movements. As at the balance sheet date, the average term to maturity of the group's loans was approximately 12 months (2004: 24 months) and all the term loans have floating interest rate terms except for a term loan of S$1,750,000 with a fixed interest rate of 3.23% per annum.

The group is also exposed to interest rate risk through the impact of rate changes on its short-term loans and bank overdrafts which bear interest at the rates disclosed in Note 16. 54% (2004: 28%) of the short-term debts have fixed interest rate terms. Since these debts are short-term, with the current interest rate level, any future variations in interest rates is not expected to have a material impact on the group's results.

**(iii) Foreign exchange risk**

The group is exposed to foreign currency risk on its foreign currency denominated cash balances and trade payables. The currencies giving rise to this risk are primarily Swiss Franc and Euro. The group ensures that the net exposure is kept to an acceptable level by entering into hedging activities such as forward foreign exchange contracts and options and also by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

The group is also exposed to foreign exchange movement on its net investments in subsidiaries and associates in Malaysia, Hong Kong, Taiwan and Thailand. No hedge has been taken up for this exposure.

**(iv) Liquidity risk**

It is group policy for the raising of capital and placement of surplus fund to be managed centrally. The group has targets for available funds in the form of surplus liquidity and irrevocable credit facilities, which are available to the group at any given time.

**(v) Fair value of financial assets and financial liabilities**

The carrying amount of financial assets and financial liabilities reported in the balance sheet approximates the fair value of those assets and liabilities except for unquoted investments. It is not practicable within the constraint of cost to reliably determine the fair value of unquoted investments. These investments are shown at cost less any impairment in value.

The fair values in respect of foreign currency contracts are disclosed in Note 36.

## 4 HOLDING COMPANY AND RELATED COMPANY TRANSACTIONS

The company is a subsidiary of TBJ Holdings Pte Ltd, a company incorporated in Singapore which is also the group's ultimate holding company.

Related companies in these financial statements refer to members of the holding company's group of companies. Some of the company's transactions and arrangements are between members of the group and the effect of these on the basis determined between the parties are reflected in these financial statements. The intercompany balances are unsecured, without fixed repayment terms and interest-free unless stated otherwise.

## 5 RELATED PARTY TRANSACTIONS

Related parties are entities with common direct or indirect shareholders and/or directors with that of the company.

Some of the group's transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, without fixed repayment terms and interest-free.

Significant related party transactions:

| | **Group** | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Sales of goods | (2,342) | (1,388) |
| Purchases of goods | 98 | 50 |
| Interest income | (105) | (52) |
| Rental income | (57) | (19) |
| Delivery charges | 105 | 37 |
| Management fee expense | – | 488 |

Management fee expense of the group in year 2004 was for fees paid to a firm in which a director of a subsidiary has an interest.

## 6 FIXED DEPOSITS

| | Group and Company | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Fixed deposits in foreign currency | 16,909 | 7,548 |
| Fixed deposits in Singapore dollars | – | 2,001 |
| | 16,909 | 9,549 |

Fixed deposits earn interest at a rate of 0.58% (2004: 0.30% to 0.56%) per annum and mature 15 days (2004: 29 days) within the financial year end.

## 7 TRADE RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 24,341 | 11,758 | 706 | 1,092 |
| Subsidiaries *(Notes 4 and 12)* | – | – | 259 | 662 |
| Associates *(Note 13)* | 517 | 534 | 202 | 113 |
| Related party *(Note 5)* | 2,690 | 2,572 | – | – |
| | 27,548 | 14,864 | 1,167 | 1,867 |
| Less: Allowance for doubtful debts | (2,690) | (1,220) | – | – |
| | 24,858 | 13,644 | 1,167 | 1,867 |

## 8 OTHER RECEIVABLES AND PREPAID EXPENSES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Notes 4 and 12)* | – | – | 26,540 | 24,725 |
| Associates *(Note 13)* | 65 | 65 | – | – |
| Related party *(Note 5)* | 714 | 433 | – | – |
| Prepaid expenses | 1,300 | 1,044 | 113 | 102 |
| Deposits | 1,521 | 1,890 | 439 | 641 |
| Income tax recoverable | 21 | 97 | 17 | 93 |
| Others | 680 | 458 | 122 | 192 |
| | 4,301 | 3,987 | 27,231 | 25,753 |
| Less: Allowance for doubtful debts | – | – | (2,145) | (1,189) |
| | 4,301 | 3,987 | 25,086 | 24,564 |

Certain advances to subsidiaries and associates bear interest at a rate of 4.00% (2004: 4.00% to 6.00%) per annum whilst other advances to subsidiaries and associates are interest-free. All advances to subsidiaries and associates are without fixed terms of repayment.

**9 INVENTORIES**

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Goods for resale at cost | 133,823 | 95,131 | 30,397 | 17,302 |
| Goods for resale at net realisable value | 7,619 | 9,114 | 2,325 | 4,262 |
| | 141,442 | 104,245 | 32,722 | 21,564 |

**10 PROPERTY, PLANT AND EQUIPMENT**

| | Freehold property | Leasehold properties and improvements | Plant and equipment | Total |
|---|---|---|---|---|
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Group** | | | | |
| Cost: | | | | |
| At beginning of year | 3,254 | 12,607 | 14,499 | 30,360 |
| Additions | – | 130 | 2,820 | 2,950 |
| Disposals | – | – | (840) | (840) |
| Written off | – | (92) | (2,390) | (2,482) |
| Translation adjustment | – | – | (66) | (66) |
| At end of year | 3,254 | 12,645 | 14,023 | 29,922 |
| Accumulated depreciation: | | | | |
| At beginning of year | – | 1,867 | 10,328 | 12,195 |
| Depreciation for the year | – | 389 | 2,522 | 2,911 |
| Disposals | – | – | (779) | (779) |
| Written off | – | (92) | (2,283) | (2,375) |
| Translation adjustment | – | – | (47) | (47) |
| At end of year | – | 2,164 | 9,741 | 11,905 |
| Depreciation for last year | – | 270 | 2,070 | 2,340 |
| Carrying value: | | | | |
| At beginning of year | 3,254 | 10,740 | 4,171 | 18,165 |
| At end of year | 3,254 | 10,481 | 4,282 | 18,017 |

| | Freehold property S$'000 | Leasehold properties and improvements S$'000 | Plant and equipment S$'000 | Total S$'000 |
|---|---|---|---|---|
| **Company** | | | | |
| Cost: | | | | |
| At beginning of year | 3,254 | 9,607 | 5,861 | 18,722 |
| Additions | – | 66 | 1,177 | 1,243 |
| Disposals | – | – | (823) | (823) |
| Written off | – | (92) | (1,246) | (1,338) |
| At end of year | 3,254 | 9,581 | 4,969 | 17,804 |
| Accumulated depreciation: | | | | |
| At beginning of year | – | 1,813 | 4,099 | 5,912 |
| Depreciation for the year | – | 222 | 1,125 | 1,347 |
| Disposals | – | – | (775) | (775) |
| Written off | – | (92) | (1,165) | (1,257) |
| At end of year | – | 1,943 | 3,284 | 5,227 |
| Depreciation for last year | – | 215 | 722 | 937 |
| Carrying amount: | | | | |
| At beginning of year | 3,254 | 7,794 | 1,762 | 12,810 |
| At end of year | 3,254 | 7,638 | 1,685 | 12,577 |

Plant and equipment with a carrying amount of S$1,243,000 (2004: S$924,000) and S$914,000 (2004: S$702,000) for the group and company respectively were acquired under finance lease agreements (Note 21).

Group Properties in Singapore:

| Held by | Group's effective interest % | Location | Approximate floor area | Tenure | Usage |
|---|---|---|---|---|---|
| Sincere Watch Limited | 100 | 304 Orchard Road, Lucky Plaza | 36 sq m | Freehold | Shop for retailing of watches |
| Sincere Watch Limited | 100 | 150 Orchard Road, Orchard Plaza | 212 sq m | 103 years, 75 years unexpired | Office |
| Sincere Watch Limited | 100 | 8 Temasek Boulevard Suntec City | 325 sq m | 99 years, 83 years unexpired | Corporate head office |
| Culina Holdings Pte Ltd | 100 | 24 Senoko Way | 6,928 sq m | 30 years, 17 years unexpired | Office and warehouse |

**11 INVESTMENT PROPERTY**

This consists of the freehold property located at 304 Orchard Road, #23-04 Lucky Plaza, Singapore 238863. As at 31 March 2005, the directors estimated the fair value of the investment property to be approximately S$600,000 based on recent transactions of similar properties. The valuation surplus of S$202,000 is not reflected in the financial statements. The freehold property is currently vacant.

**12 INVESTMENT IN SUBSIDIARIES**

| | Company | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Unquoted equity shares, at cost | 10,512 | 10,512 |
| Loans to subsidiaries *(Note 4)* | 3,378 | 2,578 |
| | 13,890 | 13,090 |
| Less allowance for: | | |
| Doubtful debts | (1,678) | (1,678) |
| Impairment loss | (200) | (200) |
| | 12,012 | 11,212 |

Loans to two subsidiaries amounting to S$1,700,000 (2004: S$900,000) are subordinated to bank overdrafts provided by a bank as part of the covenants covering the provision of overdraft facilities as disclosed in Note 16.

The subsidiaries of the company are as follows:

| Name of subsidiary and principal activities | Country of incorporation and operation | Cost of investment | | Effective interest held by the group | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | | *S$'000* | *S$'000* | *%* | *%* |
| Avante Investment Pte Ltd[(1)]<br>Investment holding company | Singapore | – | – | 100 | 100 |
| Avante Marketing Pte Ltd[(1)]<br>Promoters, representatives and agents of fashion and luxury goods | Singapore | – | – | 100 | 100 |
| British Master Time Pte Ltd[(1)]<br>Marketing of luxury goods | Singapore | – | – | 100 | 100 |
| Culina Holdings Pte Ltd<br>Investment holding company | Singapore | 2,000 | 2,000 | 100 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Cost of investment | | Effective interest held by the group | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | *S$'000* | *S$'000* | *%* | *%* |
| Culina Pte Ltd (5)<br>Supply and distribution of gourmet food, fine wines and pastry products | Singapore | – | – | 100 | 100 |
| Emotus Pte Ltd<br>Retailing of watches and clocks | Singapore | 500 | 500 | 100 | 100 |
| Franck Muller Pte Ltd<br>Marketing of Franck Muller time pieces | Singapore | 3,713 | 3,713 | 100 | 100 |
| Heirloom Restoration Services Pte Ltd<br>Watch repair services | Singapore | 500 | 500 | 100 | 100 |
| Heritage Distribution Pte Ltd<br>Marketing and distribution of watches | Singapore | 500 | 500 | 100 | 100 |
| Parisian Time Pte Ltd(1)<br>Marketing of luxury goods | Singapore | – | – | 100 | 100 |
| Richburgh Holdings Pte Ltd (2)<br>Retailing of watches and clocks | Singapore | 200 | 200 | 50 | 50 |
| Sincere Watch Duty Free Pte Ltd (2)<br>Retailing of watches and clocks | Singapore | 50 | 50 | 50 | 50 |
| Swiss Master Time Pte Ltd(1)<br>Marketing of luxury goods | Singapore | – | – | 100 | 100 |
| Times Legend International Pte Ltd(1)<br>Marketing and distribution of watches | Singapore | – | – | 100 | 100 |
| Leoco Enterprise Limited (3)<br>Investment holding company | Hong Kong SAR | – | – | 75 | 75 |
| Pendulum Limited (4) (5)<br>Dormant | Hong Kong SAR | – | – | 100 | 100 |
| Sincere Brand Management Limited (formerly known as Times Legend (Asia Pacific) Limited) (4)<br>Marketing and distribution of watches | Hong Kong SAR | 186 | 186 | 100 | 100 |
| Avante Marketing (M) Sdn Bhd (1) (6)<br>Investment holding company | Malaysia | – | – | 100 | 100 |
| Culina Products Sdn Bhd (4) (5)<br>Dormant | Malaysia | – | – | 100 | 100 |

| Name of subsidiary and principal activities | Country of incorporation and operation | Cost of investment 2005 S$'000 | Cost of investment 2004 S$'000 | Effective interest held by the group 2005 % | Effective interest held by the group 2004 % |
|---|---|---|---|---|---|
| Emotus Sdn Bhd [5] [7] Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | – | – | 100 | 100 |
| Sincere Watch Sdn Bhd [7] [8] Retailing of watches, clocks, pens and related accessories and servicing of watches | Malaysia | 2,806 | 2,806 | 80 | 80 |
| Shanghai Sincere Watch Co. Ltd [5] [9] Dormant | People's Republic of China | – | – | 75 | 75 |
| Sincere Watch Co. Ltd [4] Wholesale and retail of watches | Republic of China (Taiwan) | 57 | 57 | 100 | 100 |
| Sincere Watch (Hong Kong) Limited Investment holding [1] [9] [10] | The Cayman Islands | – | – | 100 | – |
| Sincere Brand Holdings Limited Investment holding [1] [9] [10] | British Virgin Islands | – | – | 100 | – |
| | | 10,512 | 10,512 | | |

All subsidiaries are audited by Deloitte & Touche, Singapore except for the subsidiaries that are indicated as follows:

(1) *Cost of investment is below S$1,000.*

(2) *Considered as subsidiaries by virtue of control by the group over their financial and operating policies.*

(3) *Audited by Morison Heng, Hong Kong, SAR. Investment of S$215,702 written off in year 2000.*

(4) *Audited by overseas practices of Deloitte Touche Tohmatsu of which Deloitte & Touche – Singapore is a member.*

(5) *Held by subsidiaries.*

(6) *Audited by K. K. San, Lew & Loke, Malaysia.*

(7) *Audited by Ernst & Young, Malaysia.*

(8) *15% interest in Sincere Watch Sdn Bhd is held through Avante Marketing (M) Sdn Bhd.*

(9) *Not audited as not required in country of incorporation and not considered material.*

(10) *Incorporated on August 18, 2004.*

## 13 INVESTMENT IN ASSOCIATES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Unquoted equity shares at cost | 3,382 | 2,300 | 3,382 | 2,300 |
| Less: Impairment loss | – | – | (280) | (280) |
| | 3,382 | 2,300 | 3,102 | 2,020 |
| Share of post-acquisition reserves | 1,953 | 1,729 | – | – |
| | 5,335 | 4,029 | 3,102 | 2,020 |

The group's investment in associates comprises the following:

| **Name of associate and country of incorporation/operation** | **Principal activities** | **Cost of investment held by the group** | | **Interest held by the group** | |
|---|---|---|---|---|---|
| | | **2005** | **2004** | **2005** | **2004** |
| | | *S$'000* | *S$'000* | *%* | *%* |
| Pendulum Ltd [a] Thailand | Retailing and distribution of watches and clocks | 2,744 | 1,966 | 49 | 49 |
| BVL Partner Co. Ltd [a] Thailand | Retailing and distribution of watches, clocks and jewellery | 638 | 334 | 49 | 49 |
| Unisky Limited [b] Hong Kong, SAR | Dormant | – | – | 33 | 33 |
| | | 3,382 | 2,300 | | |

The associates, whose net assets are less than 20% of the net assets of the group, are audited by:

[a] *SB Auditing Service Co. Ltd, Thailand.*

[b] *Vincent Kwok & Co., Hong Kong, SAR.*

Significant transactions with associates:

| | Group 2005 S$'000 | Group 2004 S$'000 |
|---|---|---|
| Sales of goods | (6,488) | (5,721) |
| Interest income | – | (120) |
| Management fee expense | 42 | 42 |

## 14 OTHER INVESTMENTS

| | Group and Company 2005 S$'000 | Group and Company 2004 S$'000 |
|---|---|---|
| Quoted equity shares, at cost | 501 | 540 |
| Club memberships at cost | 336 | 336 |
| Others – unquoted | 368 | 368 |
| | 1,205 | 1,244 |
| Less: Allowance for impairment loss | (690) | (864) |
| | 515 | 380 |
| Market value of quoted equity shares | 359 | 339 |
| Market value of club memberships | 173 | 184 |

It is not practicable within the constraint of cost to reliably determine the fair value of unquoted investments. These investments are shown at cost less any impairment in value.

## 15 INTANGIBLE ASSET

| | Group S$'000 |
|---|---|
| Cost at beginning and end of year | 5,438 |
| Accumulated amortisation: | |
| At beginning of year | 982 |
| Amortisation for the year | 625 |
| At end of year | 1,607 |
| Impairment loss at beginning and end of year | 2,000 |
| Amortisation for last year | 224 |
| Carrying amount: | |
| At beginning of year | 2,456 |
| At end of year | 1,831 |

The intangible asset represents goodwill on consolidation arising from acquisition of subsidiaries.

Goodwill amortization has been included under depreciation and amortisation expense.

## 16 BANK LOANS, OVERDRAFTS AND BANKERS' ACCEPTANCE

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Bank overdrafts *(Note 32)* | 5,560 | 4,950 | – | 524 |
| Bank loans | 10,875 | 3,323 | 5,000 | – |
| Bankers' acceptance | 3,679 | 3,425 | – | – |
| | 20,114 | 11,698 | 5,000 | 524 |

The group's and company's bank overdrafts bear interest at rates ranging from 5.25% to 8.00% (2004: 5.00% to 8.00%) per annum and are unsecured except for:

(a) Bank overdrafts and other credit facilities of two subsidiaries amounting to S$3,456,000 (2004: S$2,535,000) which are guaranteed by the company and a minority shareholder of those subsidiaries. In accordance to the terms and conditions for the provision of the banking facilities, these overdrafts and credit facilities are ranked first over all present and future loans from the company and the minority shareholder; and

(b) Bank overdrafts of S$2,104,000 (2004: S$1,891,000) of another two subsidiaries which are guaranteed by the company and secured by irrevocable standby letters of credit.

The group's and company's bank loans are unsecured and bear interest at rates ranging from 2.73% to 5.05% (2004: 4.80% to 5.05%) per annum.

The group's bankers' acceptance is secured by a corporate guarantee given by the company and bears interest at rates ranging from 3.87% to 4.20% (2004: 3.98% to 4.20%) per annum.

## 17 TRADE PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Outside parties | 116,490 | 81,254 | 5,307 | 2,588 |
| Subsidiaries *(Notes 4 and 12)* | – | – | 22,307 | 18,089 |
| Related party *(Note 5)* | 70 | – | – | – |
| | 116,560 | 81,254 | 27,614 | 20,677 |

## 18 OTHER PAYABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Subsidiaries *(Notes 4 and 12)* | – | – | 168 | 7,003 |
| Associates *(Note 13)* | 279 | 193 | 279 | 193 |
| Directors | 2,249 | 2,091 | 2,249 | 2,091 |
| Minority shareholders of subsidiaries | 1,700 | 900 | – | – |
| Advances from customers | 961 | 496 | 803 | 360 |
| Accruals | 8,997 | 6,654 | 1,615 | 1,368 |
| Rental payable | 775 | 790 | – | – |
| Others | 1,222 | 1,025 | 107 | 74 |
| | 16,183 | 12,149 | 5,221 | 11,089 |

The other payables to directors are unsecured, without fixed repayment terms and interest-free.

## 19 CURRENT PORTION OF LONG-TERM DEBT

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Term loans *(Note 20)* | 1,000 | 3,740 | – | 2,740 |
| Finance leases *(Note 21)* | 262 | 197 | 197 | 158 |
| | 1,262 | 3,937 | 197 | 2,898 |

## 20 LONG-TERM DEBT

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Finance leases *(Note 21)* | 756 | 529 | 509 | 364 |
| Term loans | 4,750 | 9,455 | 3,000 | 6,705 |
| | 5,506 | 9,984 | 3,509 | 7,069 |
| Term loans due within 12 months *(Note 19)* | (1,000) | (3,740) | – | (2,740) |
| Net | 4,506 | 6,244 | 3,509 | 4,329 |

The group's and company's term loans are unsecured except for a term loan of S$1,750,000 (2004: S$2,750,000) which is secured by a corporate guarantee from the company.

Details of the term loans are:

(a) Term loans of S$3,705,000 which bore interest at rates ranging from 1.85% to 3.98% per annum have been fully repaid during the financial year.

(b) Term loan of S$3,000,000 (2004: S$3,000,000) which bears interest at a rate of 3.50% (2004: 3.50%) per annum and is repayable in August 2006.

(c) Term loan of S$1,750,000 (2004: S$2,750,000) which bears interest at a rate of 3.23% (2004: 3.23%) per annum and is repayable over one to two years by equal instalments.

## 21 FINANCE LEASE OBLIGATIONS

| | Group | | | | Company | | | |
|---|---|---|---|---|---|---|---|---|
| | Minimum lease payments | | Present value of minimum lease payments | | Minimum lease payments | | Present value of minimum lease payments | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Amounts payable under finance leases: | | | | | | | | |
| Within one year | 300 | 233 | 262 | 197 | 232 | 180 | 197 | 158 |
| In the second to fifth years inclusive | 822 | 604 | 685 | 508 | 511 | 399 | 438 | 343 |
| After five years | 71 | 25 | 71 | 21 | 71 | 25 | 71 | 21 |
| | 1,193 | 862 | 1,018 | 726 | 814 | 604 | 706 | 522 |
| Less: Future finance charges | (175) | (136) | – | – | (108) | (82) | – | – |
| | 1,018 | 726 | 1,018 | 726 | 706 | 522 | 706 | 522 |

The finance lease obligations of the group and company are secured against certain plant and equipment and bear interest at rates ranging from 3.63% to 5.10% (2004: 2.20% to 5.00%) per annum.

## 22 DEFERRED TAX ASSETS (LIABILITIES)

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Deferred tax assets** | | | | |
| Allowance for inventories | 3,735 | 2,850 | 424 | – |
| Allowance for doubtful debts | 427 | 151 | – | – |
| Excess of book depreciation over tax depreciation | 184 | 127 | (74) | – |
| Total deferred tax assets | 4,346 | 3,128 | 350 | – |
| **Deferred tax liabilities** | | | | |
| Accelerated tax depreciation | – | (229) | – | (213) |
| Net deferred tax position | 4,346 | 2,899 | 350 | (213) |
| **Movement in deferred tax assets (liabilities)** | | | | |
| Balance at beginning of year | 2,899 | 850 | (213) | (213) |
| Write-back due to change in income tax rate | – | (67) | – | – |
| Amounts transferred to profit and loss *(Note 30)* | 1,502 | 2,049 | 563 | – |
| Translation adjustment | (55) | 67 | – | – |
| Balance at end of year | 4,346 | 2,899 | 350 | (213) |

## 23 ISSUED CAPITAL

| | Group and Company | | | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *Number of ordinary shares of S$0.10 each ('000)* | | *$'000* | *$'000* |
| Authorised | 500,000 | 500,000 | 50,000 | 50,000 |
| Issued and fully paid: | | | | |
| At beginning of year | 163,500 | 163,500 | 16,350 | 16,350 |
| Bonus shares issue | 32,700 | – | 3,270 | – |
| At end of year | 196,200 | 163,500 | 19,620 | 16,350 |

During the financial year, the capital structure of the company had been changed as follows:

(a) Consolidation of every 2 ordinary shares in the existing authorised and issued paid-up share capital of par value S$0.25 each into 1 ordinary share of par value of S$0.50 each;

(b) Subdivision of every 1 ordinary share of par value S$0.50 into 5 ordinary shares of par value S$0.10 each; and

(c) Post split 1-for-5 bonus issue of ordinary shares of par value S$0.10 each.

As a result, the number of ordinary shares presented at the beginning and end of the financial year have been adjusted to reflect the revised shareholdings.

**24 REVENUE**

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Sales of goods | 323,697 | 257,139 |
| Rendering of services | 564 | 517 |
| | 324,261 | 257,656 |

**25 OTHER OPERATING INCOME**

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Interest income | 176 | 138 |
| Dividend income from quoted investments | 10 | 8 |
| Net foreign exchange gain | – | 2,052 |
| Rental income | 72 | 19 |
| Others | 432 | 692 |
| | 690 | 2,909 |

**26 STAFF COSTS**

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Salaries and wages | 20,669 | 16,160 |
| Defined contribution plans included in salaries and wages | 1,093 | 1,064 |

| | **2005** | **2004** |
|---|---|---|
| Number of employees at end of year | 298 | 267 |

## 27 OTHER OPERATING EXPENSES

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Net foreign exchange loss | 237 | – |
| Impairment (Write-back) of loss on: | | |
| Intangible asset | – | 2,000 |
| Other investments | (160) | 369 |
| Allowance for (Write-back of) doubtful debts | 1,632 | (300) |
| Donations | 455 | 62 |
| Legal and professional fees | 486 | 265 |
| Travelling and communication | 1,920 | 1,467 |
| Others | 2,816 | 3,045 |
| | 7,386 | 6,908 |

## 28 FINANCE COSTS

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Interest expense on: | | |
| Bank borrowings | 925 | 853 |
| Finance leases | 48 | 26 |
| | 973 | 879 |

## 29 PROFIT BEFORE INCOME TAX AND MINORITY INTERESTS

In addition to the charges and credits disclosed elsewhere in the financial statements, this item includes the following charges (credits):

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Allowance for inventories | 5,866 | 3,300 |
| Amortisation of intangible asset | 625 | 224 |
| Audit fees paid to auditors: | | |
| Auditors of the company | 152 | 131 |
| Other auditors | 70 | 65 |
| Non-audit fees paid to auditors: | | |
| Auditors of the company | 24 | 23 |
| Other auditors | 204 | – |
| Directors' remuneration: | | |
| Company | 3,562 | 3,193 |
| Subsidiaries | 2,232 | 1,286 |
| Fees paid to a firm in which a director has an interest | 15 | 15 |
| (Gain) Loss on disposal of property, plant and equipment | (219) | 18 |
| Management fees paid to a firm in which a director of a subsidiary has an interest | – | 488 |
| Property, plant and equipment written off | 107 | 91 |
| Rental paid by a company in which a director has an interest | (15) | – |
| (Write-back) Write-off of bad debts | (12) | 13 |
| Write-off (Write-back) of inventories | 3 | (140) |

## 30 INCOME TAX EXPENSE

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Current tax | 7,030 | 5,486 |
| Deferred *(Note 22)* | (1,246) | (2,049) |
| Associates | 118 | 342 |
| (Over) Under provision in prior years: | | |
| Current | (587) | 60 |
| Deferred *(Note 22)* | (256) | – |
| | 5,059 | 3,839 |

The income tax expense varied from the amount of income tax determined by applying the Singapore income tax rate of 20% (2004: 20%) to profit before share of results of associates and income tax as a result of the following:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Income tax expense at statutory rate | 4,686 | 4,389 |
| Non-allowable (taxable) items | 842 | (759) |
| (Over) Under provision in prior years: | | |
| Current | (587) | 60 |
| Deferred | (256) | – |
| Utilisation of deferred tax benefit previously unrecorded | (120) | (318) |
| Deferred tax benefit unrecorded, net | 722 | 212 |
| Share of associates' income tax | 118 | 342 |
| Effect of different income tax rates of overseas subsidiaries | (137) | (190) |
| Tax exemption | (53) | (70) |
| Other items | (156) | 106 |
| Effect of change in income tax rate | – | 67 |
| | 5,059 | 3,839 |

The group has tax loss carryforwards available for offsetting against future taxable income as follows:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Amount at beginning of year | 7,480 | 3,864 |
| Adjustments | 271 | 445 |
| Arising from acquisition of subsidiary | – | 1,587 |
| Amount in current year | 2,398 | 2,025 |
| Amount utilised in current year | (13) | (441) |
| Amount at end of year | 10,136 | 7,480 |
| Deferred tax benefit | 2,101 | 1,569 |

The group and company have temporary differences mainly from allowance for inventories, allowance for doubtful debts and capital allowances available for offsetting against future taxable income as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Amount at beginning of year | 21,632 | 19,436 | 1,053 | 2,255 |
| Adjustments | (197) | (541) | (195) | (314) |
| Arising from acquisition of subsidiary | – | 289 | – | – |
| Amount in current year | 8,909 | 4,256 | 1,064 | – |
| Amount utilised in current year | (478) | (1,808) | (172) | (888) |
| Amount at end of year | 29,866 | 21,632 | 1,750 | 1,053 |
| Deferred tax benefit | 5,615 | 4,029 | 350 | 206 |
| Deferred tax benefits on above | 7,716 | 5,598 | 350 | 206 |
| Deferred tax benefits not recognised | (3,370) | (2,470) | – | (206) |
| Deferred tax benefits recognised *(Note 22)* | 4,346 | 3,128 | 350 | – |

These future income tax benefits in respect of unutilised tax losses are available for an unlimited future period only if the respective subsidiaries derive future assessable income of a nature and of sufficient amounts to enable the benefits to be realised and the conditions for deductibility imposed by law, including the retention of majority shareholders, as defined, are complied with.

## 31 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the group's net profit for the financial year by the existing number of shares in issue at the end of the year as follows:

| | Group | |
|---|---|---|
| | 2005 | 2004 |
| Basic earnings per share *(S cents)* | 9.75 | 9.44 |

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

| | 2005 | 2004 |
|---|---|---|
| Profit attributable to shareholders *(in S$'000)* | 19,126 | 18,529 |
| The existing number of fully paid shares of S$0.10 each in issue at end of year *(in '000)* | 196,200 | 196,200 |

The fully diluted earnings per share is equal to the basic earnings per share as there is no dilution. For compliance with FRS 33 – Earnings Per Share, basic earnings per share is calculated by dividing the group's net profit attributable to shareholders by an adjusted 196,200,000 ordinary shares in issue during the year, after taking into account the effect of consolidation and subdivision of the par value from S$0.25 to S$0.10 each and the 1-for-5 bonus issue (Note 23). For comparative purposes, the number of shares for 2004 is also adjusted retrospectively to 196,200,000.

## 32 CASH AND CASH EQUIVALENTS IN THE CONSOLIDATED CASH FLOW STATEMENT

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Cash and bank balances | 38,977 | 41,860 |
| Fixed deposits *(Note 6)* | 16,909 | 9,549 |
| Bank overdrafts *(Note 16)* | (5,560) | (4,950) |
| | 50,326 | 46,459 |

## 33 OPERATING LEASE COMMITMENTS

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Minimum lease payments under operating leases included in the profit and loss statement | 14,648 | 11,943 |

At the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of office, shop space and land with a term of more than one year are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Within one year | 11,065 | 12,644 | 1,346 | 1,547 |
| In the second to fifth years inclusive | 8,478 | 15,181 | 1,310 | 1,284 |
| After five years | 1,026 | – | – | – |
| Total | 20,569 | 27,825 | 2,656 | 2,831 |

The group has various operating lease agreements for its store outlets. Most leases contain renewable options and certain leases contain escalation clauses. Certain leases also provide for contingent rentals based on certain percentages of sales or/and the number of passengers compared against certain passenger statistics.

## 34 COMMITMENTS

Certain subsidiaries are committed to making minimum total purchases from their suppliers pursuant to contracts signed with them:

| | Group | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Within one year | 10,195 | 8,570 |
| In the second to fifth years inclusive | 11,409 | 20,599 |
| Total | 21,604 | 29,169 |

Certain suppliers have the right to terminate their exclusive distribution agreements if the respective subsidiary fails to meet the minimum purchase requirements pursuant to the terms and conditions of the agreements.

There was a shortfall of S$1,341,000 (CHF 975,000) 2004: S$1,627,000 (CHF 1,241,000) from the required purchase amount of S$7,923,000 (CHF 5,760,000) 2004: S$6,295,200 (CHF 4,800,000) as stipulated in the distribution agreement. The supplier has not exercised its right to terminate the exclusive distribution agreement. The group has no further commitment in respect of the shortfall.

**35 CAPITAL EXPENDITURE COMMITMENTS**

| | Group and Company | |
|---|---|---|
| | **2005** | **2004** |
| | *S$'000* | *S$'000* |
| Amount committed for future capital expenditure but not provided for in the financial statements | 394 | 322 |

**36 FOREIGN CURRENCY CONTRACTS**

As at the end of the financial year, the nominal value of foreign currency contracts translated at rates prevailing as at year end are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *'000* | *'000* | *'000* | *'000* |
| Principal/Notional amount | | | | |
| Bought: | | | | |
| Swiss Francs | 12,700 | 5,512 | 12,700 | 5,512 |
| Euros | 1,533 | 133 | 1,376 | 3 |
| United States Dollars | 44 | 53 | – | – |
| Australian Dollars | 110 | 287 | – | – |
| Singapore Dollars | 133 | 303 | – | – |
| New Zealand Dollars | 15 | – | – | – |
| Equivalent in Singapore Dollars | 21,406 | 8,368 | 20,707 | 7,344 |
| Fair values, net | (216) | (86) | (213) | (84) |
| Term to maturity | April to July 2005 | April to June 2004 | April to July 2005 | April to May 2004 |

**37 CONTINGENT LIABILITIES, UNSECURED**

(i) The group and the company have the following:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Guarantee of banking facilities provided to the subsidiaries and associates | 4,005 | 4,047 | 26,947 | 29,869 |
| Bankers' guarantee | 4,626 | 5,476 | 4,300 | 5,306 |

(ii) The group terminated the co-operative joint venture agreement for its subsidiary, Shanghai Sincere Watch Co. Ltd in September 1999. The co-operative joint venture partner had indicated it may institute legal proceedings against the group for breach of contract for the recovery of approximately S$200,000 (2004: S$201,000).

(iii) The company filed a writ of summons against Bakery Mart Pte Ltd on September 5, 2002 for an amount of S$2,179,500 for the repayment of loans and advances. Bakery Mart Pte Ltd has counterclaimed general damages and special damages in the sum of S$2,125,000 on the basis of an alleged restructuring agreement. This action has stayed. The company has been advised by its lawyers in relation to this matter that there is no merit in the claims made by Bakery Mart Pte Ltd. Accordingly, no provision has been made for this claim.

**38 SEGMENT INFORMATION**

The group is operating mainly in the Asian region, namely Southeast and Northeast Asia. The primary segments of the group are by geographical locations of assets.

Inter-segment pricing is on terms agreed between the parties.

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** | **2005** | **2004** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Revenue** | | | | | | | | |
| External sales | 218,793 | 172,668 | 105,468 | 84,988 | – | – | 324,261 | 257,656 |
| Inter-segment sales | 51,851 | 46,599 | 13,683 | 9,350 | (65,534) | (55,949) | – | – |
| Total revenue | 270,644 | 219,267 | 119,151 | 94,338 | (65,534) | (55,949) | 324,261 | 257,656 |

| | Southeast Asia | | Northeast Asia | | Elimination | | Group | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **Result** | | | | | | | | |
| Segment result | 32,341 | 20,422 | 13,385 | 13,004 | (21,325) | (10,602) | 24,401 | 22,824 |
| Finance costs | | | | | | | (973) | (879) |
| Profit before share of results of associates | | | | | | | 23,428 | 21,945 |
| Profit from associates | | | | | | | 393 | 502 |
| Profit before income tax and minority interest | | | | | | | 23,821 | 22,447 |
| Income tax expense | | | | | | | (5,059) | (3,839) |
| Profit before minority interest | | | | | | | 18,762 | 18,608 |
| **Other information** | | | | | | | | |
| Segment assets | 157,111 | 123,239 | 90,116 | 71,347 | | | 247,227 | 194,586 |
| Investment in associates | 5,335 | 4,029 | – | – | | | 5,335 | 4,029 |
| Unallocated corporate assets | | | | | | | 4,367 | 3,226 |
| Consolidated total assets | | | | | | | 256,929 | 201,841 |
| Segment liabilities | 57,499 | 44,348 | 75,244 | 49,055 | | | 132,743 | 93,403 |
| Unallocated corporate liabilities | | | | | | | 32,157 | 27,187 |
| Consolidated total liabilities | | | | | | | 164,900 | 120,590 |
| Capital expenditure | 2,840 | 4,776 | 110 | 667 | | | 2,950 | 5,443 |
| Acquisition of intangible asset | – | 4,009 | – | – | | | – | 4,009 |
| Depreciation and amortisation | 2,994 | 1,964 | 542 | 600 | | | 3,536 | 2,564 |
| Other non-cash expenses | 3,778 | 3,694 | 4,822 | 2,829 | | | 8,600 | 6,523 |

As the group is substantially in one business segment, namely the retailing and distribution of quality watches and clocks, no secondary segments have been disclosed.

**39 DIVIDEND**

During the financial year, the company declared and paid a first and final dividend of S$0.02 per ordinary share less tax totalling S$1,046,400 and a special dividend of S$0.11 per ordinary share less tax totalling S$5,755,200 in respect of the financial year ended March 31, 2004.

Subsequent to the balance sheet date, the directors of the company recommended that a first and final dividend of S$0.01 per ordinary share less tax totalling S$1,569,600 and a special dividend of S$0.015 per ordinary share less tax totalling S$2,354,400 be paid for the financial year just ended on the ordinary shares of the company. The proposed dividends have not been accrued as a liability for the current financial year in accordance with FRS 10 – Events After the Balance Sheet Date.

**40 SIGNIFICANT EVENT**

The company announced on August 18, 2004 that an application had been submitted to the Stock Exchange of Hong Kong Limited (the "**HKE**") for the proposed listing of the group's operations in Hong Kong, currently carried out through Sincere Brand Management Limited ("**SBML**") (formerly known as Times Legend (Asia Pacific) Limited), on the Main Board of the HKE ("**Proposed Listing**") pursuant to an initial public offering ("**IPO**") exercise. The Proposed Listing will result in a material dilution of at least 25% in the company's shareholding interest in SBML, which is a principal subsidiary of the company.

In connection with the Proposed Listing, a group reorganisation exercise ("**Proposed Reorganisation**") will be undertaken, and Sincere Watch (Hong Kong) Limited ("**SWHK**") will be the designated listing vehicle for the Proposed Listing.

The Proposed Listing will consist entirely of an issue by SWHK of new shares in its capital ("**IPO Shares**"). The structure of the Proposed Listing, including the issue price of the IPO Shares, the size of the IPO and the underwriting arrangements, will be determined at a later date. SWHK will remain a subsidiary of the company after the Proposed Listing.

The Proposed Listing is conditional upon, inter alia, the following:

(i) the approval of Shareholders for the Proposed Listing and the resulting dilution of the group's shareholding interest in SWHK being obtained at an extraordinary general meeting to be convened;

(ii) the approval of the HKE for the listing of, and permission to deal in, the shares of SWHK on the Main Board of the HKE;

(iii) SWHK and the underwriters to the Proposed Listing entering into an agreement whereby the latter will place and underwrite the IPO Shares at an issue price to be determined; and

(iv) the underwriting agreement in (iii) above becoming unconditional and not being terminated on or before the date on which dealings in the shares of SWHK are expected to commence on the Main Board of the HKE.

As at 31 March 2005, the Proposed Listing is still in progress and no further development has been announced.

**A-5. Management discussion and analysis of the Sincere Watch Group for each of the last three financial years ended 31 March 2007**

**A-5-1. Financial year ended 31 March 2007**

*The following is the management discussion and analysis of the Sincere Watch Group for the financial year ended 31 March 2007 extracted from the Annual Report 2006/2007 of the Sincere Watch Group.*

**Overview**

*The Year in Review*

With Sincere's standing in the burgeoning luxury watch industry, the financial year has once again proven to be a much-celebrated one. The Group saw a 12.9% surge in the total revenue to a record S$359.2 million from S$318.2 million the previous year.

The Group also clocked in an after tax profit of S$25.4 million. The decrease from the previous year's S$35.1 million was substantially due to the one-time gain of S$10.6 million realised last year from the listing of the Group's subsidiary, Sincere Watch (Hong Kong) Limited on the Stock Exchange of Hong Kong. In view of this, this year's result was as equally robust and healthy as before.

There was growth in most business segments with Southeast Asia contributing a lion's share of 73% of total group revenue. Northeast Asia continued to do well and made up the remainder.

The Group's financial position remained strong and continued to be in a net cash position that saw increases in cash holdings with decreases in bank borrowings and trade payables. In particular, inventories were brought down significantly to S$174.5 million from S$224.3 million and S$198.7 million at the end of Q3/FY07 and FY06 respectively.

Rationalizing its operations, the Company transferred its 100% shareholding in its Taiwan subsidiary, Sincere Watch Co Ltd, to its 75% owned Hong Kong subsidiary during the year. This resulted in a one-off gain on dilution of interest in a subsidiary of S$465,000. The Group's Northeast Asian operations were considerably strengthened with the completion of this exercise.

Earnings per share (EPS) for the year was S11.17 cents and its Net Asset Value (NAV) rose to S60.14 cents from S58.88 cents.

*Rewarding Shareholders*

During the year, the Company implemented the Sincere Watch Limited Scrip Dividend Scheme and declared an interim dividend of S9 cents per share less tax. The scrip dividend that was paid on 24 April 2007 enabled shareholders of the Company to utilize Section 44 balances for their tax franking purposes.

In addition, given the Group's robust performance, the Board has proposed a final dividend of S1 cent per share less tax together with a Special Dividend I of S0.2 cents per share less tax and a Special Dividend II of S1.25 cents per share (tax exempt – one tier) for the year. Including the scrip dividend of S9 cents per share declared earlier, the total dividends for the year would amount to S11.45 cents per share. This is one of the highest dividends proposed for shareholders in the last 5 years.

*New Stores*

As part of the Group's on-going expansion plan to capture market share and take advantage of the rise in luxury demand, five major stores were opened during the year – a Sincere Fine Watches store in VivoCity, an Emotus Time Culture store and a Longines mono-brand store all in Singapore as well as a Franck Muller (FM) boutique in Ocean Terminal in Kowloon, Hong Kong and Macau. In addition, the existing FM boutique in Central, Hong Kong was extensively renovated and enlarged.

With all these new outlets, the Group has established a retail network of 36 owned boutiques and 41 dealer-operated retail outlets in the region – a formidable total of 77 point-of-sales worldwide.

*Events Highlights*

Sincere has set another benchmark in watch retailing with the launch of the "World Exclusive Collection" – a collaboration with 13 of the world's most-renowned watch making houses to create exclusive timepieces for Sincere. Supported by the Singapore Tourism Board, the S$45-million-dollar collection is available only in Sincere Haute Horlogerie in the Hilton Shopping Gallery. The ability to work with these renowned watch making houses is testimony to Sincere's premier position in the industry.

In November 2006, Sincere staged a very successful "Conquest of Time" watch exhibition in Kuala Lumpur. The massive 25,000 square-foot event at the Kuala Lumpur Convention Centre was the largest watch exhibition in Malaysia. It showcased more than 20 of the top watch making brands and included an educational series of classes, guided tours and workshops presented by the Sincere Watch Academy.

*Going Forward*

The Group has major expansion plans for the new year.

It will be opening its first store in the Indian market in May 2007 with a Duty Free outlet at the Indira Gandhi International Airport in New Delhi. This marks a very important step for the Group as this maiden entry will set the foothold for its future plans in the Indian sub-continent.

In addition, another FM boutique at the Venetian in Macau will open by September 2007. Macau has recently overtaken Las Vegas in the gaming industry, and much is expected of the Franck Muller boutique there.

In China, the first FM boutique was established in Beijing and the Shanghai unit is scheduled to open before the end of 2007.

In Singapore, the first mono-brand Omega boutique at Raffles City Shopping Centre started operation in May 2007 and a FM flagship boutique at Delphi Orchard, Singapore, is slated to open by the end of the first quarter of this financial year. Further afield, the Group's largest multi-brand store will be launched at The Pavilion in Kuala Lumpur, Malaysia, in September.

The Group is optimistic that the expansion plans for the new year will bring tremendous benefits in the years to come.

The Sincere Watch Academy will continue to step up its activities in the new year.

Launched in 2006, the aim of the Sincere Watch Academy is to nurture the culture of horology and cultivate the appreciation of fine watch making among the public. It has since taken the role of the educator of horology with various horology talks and workshops.

With the public showing much interest and positive response in this new initiative, the academy will be situated in a new physical location mid 2007. The Sincere Watch Academy will serve to be a one-stop resource centre for watch collectors and budding enthusiasts alike.

*Awards and Recognition*

The Group is pleased to report that on top of its commercial success, the Sincere Haute Horlogerie won the "Best New Retail Concept" Award of the Year 2006 given by the Singapore Tourism Board – a testament to our dedication of pushing the boundary in the watch retailing landscape.

On the business front, Sincere was also ranked by global consulting group, LEK Consulting, as one of the top 10 performers in terms of Total Shareholder Return (TSR) across a one-, three-, five– and 10-year time period with an average return of 58.9% over five years.

**A-5-2. Financial year ended 31 March 2006**

*The following is the management discussion and analysis of the Sincere Watch Group for the financial year ended 31 March 2006 extracted from the Annual Report 2005/2006 of the Sincere Watch Group.*

**Overview**

The past year has been landmarked with major milestone achievements for Sincere and our earnings are at an all time high. Resonating with the up trend for tourism, luxury and retail vibrancy in Singapore and the region, the Group is committed to contribute to the Singapore tourism industry and strengthen its rising position in the world of horology. Customers, stakeholders and shareholders alike will be promised a top quality investment.

*Sterling Financial Results*

Once again, the Group achieved another year of record profit. Group profit increased 78% from S$19.1 million to S$34.1 million, the highest ever in the Group's history.

The profit included a one-time gain of S$10.6 million as a result of the listing of the Group's subsidiary, Sincere Watch (Hong Kong) Limited, on the Hong Kong Stock Exchange. However, even without taking this one-time gain into account, the adjusted pre-tax profit of S$31.7 million is still 33.8% higher than the previous year.

This remarkable achievement enabled the Group to improve on its average gross margin although the year saw a slight drop in revenue of 1.9% from S$324.3 million to S$318.2 million. The improvement in the average margin mitigated the decline in revenue. Reasons for this decline were principally due to refurbishment of key shops that led to the temporary discontinuance of sale as well as the cessation of one of the Group's travel retail concessions in Singapore Changi Airport. In addition, sales in Hong Kong were slightly slower for the first half of the year.

Group performance remained robust with the Southeast Asian business segment contributing 73% of total Group revenue. The Northeast Asian market accounted for the remaining 27%.

Given this year's sterling performance, Earnings per Share for the Group was S17.36 cents compared with S9.75 cents recorded in the previous year. Group Net Asset Value also rose to S62.02 cents, up from S46.88 cents.

**Highlights for the year**

*Listing of Sincere Watch (Hong Kong) Limited*

Seizing the opportunity to capitalize on the strong economic growth and to enhance its presence in the region, the Group listed its subsidiary, Sincere Watch (Hong Kong) Limited in October 2005 on the Hong Kong Stock Exchange. The IPO formed part of the Group's strategic re-structuring process where Hong Kong is established as the operational base for the Group's further penetration into the Northeast Asian market.

Listing in Hong Kong will enable the Group to leverage on Hong Kong's trend-setting advantage in the region and capitalize on its position as a gateway to China for our unique watch brands. The funds raised will be used for its business expansion in the region where the luxury, retail and tourism industries are all experiencing robust growth.

*Rewarding Shareholders*

In view of the Group's outstanding performance, the Board has proposed a total dividend of S2.65 cents a share, comprising a first and final dividend of S1 cent per share less tax and a special dividend of S1.65 cents per share less tax for the year.

Going forward, the Group will review its financial needs and performance of the Company after the next six months with a view to recommending additional dividends for the purpose of discharging the Section 44 tax credit balance of approximately S$5 million.

*Strengthening of Management Team*

The Group prides itself on being innovative and dynamic. This winning characteristic of the Group is well aligned with the Corporate and Business Divisions. The management team was restructured for future growth. Our key management appointments will stand us in good stead, giving us the competitive edge for progress.

*Launch of Innovative Retail Concepts*

The Group continued to reach out to its many important market segments with innovative new retail concepts. The Group's key boutiques were refurbished to give a new contemporary look in order to provide constant vibrancy for clients. The Group continued working closely with the various strategic partners and principals, which led to many successful joint marketing efforts and collaboration for the retail boutiques. Sincere Haute Horlogerie at the Hilton performed well and appealed to a loyal following of discerning customers and watch connoisseurs. Together with the Sincere Fine Watches and emotus Time Culture boutiques, Sincere was able to penetrate a wider segment of the market.

*Expansion of Brand Management Division*

With the 10 brands and 2 exclusive retail brands that Sincere holds exclusive distribution rights to, the Brand Management Division was expanded so that each individual brand will be assured dedicated attention. In Northeast Asia, apart from the 3 boutiques owned by Sincere Watch (Hong Kong) Limited, the Group has 10 independent dealers covering 29 locations to ensure accessibility to its discerning customers. The team also achieved a new milestone with Sincere's first major Shanghai event in September 2005 and the opening of the first Franck Muller boutique in Taipei as the Taiwan market grew in importance. In Southeast Asia, brand management activities were stepped up with the acquisition of more distribution brands.

*Launch of Sincere Watch Academy*

To strengthen its market leadership position, Sincere has continued to introduce new initiatives in the industry. As reported previously, the Group officially announced the launch of the Sincere Watch Academy in the last quarter of our financial year 2005/2006. The Sincere Watch Academy, which is the first of its kind in the world, aims to promote the culture of horology to the general public, watch enthusiasts and members of the media. Through the cultivation of watch appreciation by the Sincere Watch Academy, the Group will be able to contribute and strengthen Singapore's rising position on the global watch map.

*Awards and Recognition*

As a testament to our record achievements, Sincere's top executives received two national accolades last year. Group Managing Director, Mr Tay Liam Wee was conferred the "Tourism Entrepreneur of the Year" by the Singapore Tourism Board. Chief Financial Officer, Mr Soh Gim Teik was honoured with the "Chief Financial Officer of the Year" at the inaugural Singapore Corporate Awards.

The awards reflect their determination in working towards the vision of excellence that repeatedly brought outstanding results for the Group.

In addition, we are proud to make it into Forbes' "Best Under a Billion" list of companies in the Asia-Pacific for 2005 and we are the only local company to do so for the second consecutive year.

*The Road Ahead: Prospects and Future Plans*

Going forward, the Group will persist with its pace of innovation and expansion to bring further growth for Sincere. Given its close relationship with all the major principals and coupled with the positive economic prospects in the region, the Group is confident of enlarging its presence in the various markets where it operates.

New markets, distribution brands and retail locations will be pursued to reinforce Sincere's leading position. In Singapore, two new emotus Time Culture shops at Tampines Mall and Marina Square have recently opened and two new Sincere Fine Watches boutiques are planned for the coming financial year.

The opening of our Franck Muller boutique in Macau is strategic and timely as Macau announced major plans for their integrated resorts, the first of which is expected to open before the end of 2006. The experience will be invaluable to the Group as it acclimatizes itself readily for opportunities arising from the upcoming establishment of Singapore's own Integrated Resorts (IR) at Marina Bay and Sentosa. Together with Singapore's IR projects and Singapore Tourism Board's drive to develop the retail landscape and boost tourism arrivals, the Group is well poised to capitalize on this tremendous potential in the years to come.

In the light of these positive developments, we are optimistic that the Group will remain profitable for the year and will continue to reward our shareholders and stakeholders.

**A-5-3. Financial year ended 31 March 2005**

*The following is the management discussion and analysis of the Sincere Watch Group for the financial year ended 31 March 2005 extracted from the Annual Report 2004/2005 of the Sincere Watch Group.*

**Overview**

*A Year of Record Achievements*

The past year had been a momentous one for us and we are delighted to be able to share the joy of Sincere's Golden Jubilee celebrations with our business partners, customers, the public community at large and of course, you – our loyal shareholder.

We are very pleased to report another year of record achievements for the financial year ended 31 March 2005.

In terms of financial performance, Group revenue and profit rose to record levels. Group revenue rose 25.9% to an all-time high of S$324.3 million against the previous year's record of S$257.7 million. Net Profit also grew 3.2% to S$19.1 million from S$18.5 million recorded last year. Group Earnings per Share (EPS) was S9.75 cents compared with S9.44 cents for the last financial year as Net Asset Value (NAV) rose to S46.88 cents, up from S41.19 cents.

Growth was robust in almost all sectors. Northeast Asia contributed 33% of the Group's revenue and 57% of its profits whereas Southeast Asia accounted for the rest.

The Group's sterling performance was due to increased tourist arrivals in the region and an upsurge in demand for luxury goods fuelled by strong economic growth and lifestyle changes.

In conjunction with our Golden Jubilee celebration, we held "A Celebration of Time" exhibition in Singapore that was very well received by the general public. This first-of-its-kind public exhibition reinforced our brand name and leadership position in the horology industry.

In addition to the spectacular display of innovative and unique timepieces, we were also able to draw upon our principals' and valuable partners' support to develop and create a collection of limited edition timepieces to commemorate our 50th year in the business. We are thankful for the unwavering support of the 26 renowned global brands who committed to this partnership.

**Highlights for the year**

*Main Board Upgrade*

Beyond the good results, we were promoted to the Main Board of the SGX on 1 February 2005. This will further enhance our visibility among investors.

*Rewarding Shareholders*

Furthermore, in order to reward our shareholders for their continuous support as well as to improve the market liquidity of our shares, the Company completed a share re-structuring exercise via a stock split followed by a post-split 1-for-5 bonus issue during the year. The net result of this exercise: every 1,000 shares each of S$0.25 par value previously owned by shareholders have since been converted into 3,000 new shares each of S$0.10 par value.

*Current Year Dividends*

In line with the positive results, the Board of Directors has proposed a First and Final dividend of S1 cent a share plus a Special Dividend of S1.5 cents a share, giving a total of S$3.9 million (net of tax) dividend payout for the year. As the share price at the date of the announcement of our full year's results on 17 May 2005 was S$0.78, the gross dividend yield for the Group was therefore 3.2%.

*Contributing Back to the Community*

In addition to rewarding shareholders, the Group has also made exceptional efforts to contribute to the community during our Golden Jubilee year. We are most pleased to have raised S$1.05 million for our adopted charities – The Tent and The Straits Times School Pocket Money Fund. This gesture is in line with our corporate philosophy to provide support to underprivileged youths to create a better future for them.

*Awards and Recognition*

Our record achievements have not gone unnoticed. We are proud to be one of the six Singapore companies to make it into Forbes' "Best Under a Billion" list of companies in the Asia-Pacific for 2004.

This award is a reflection of the hard work, impeccable customer service, constant innovation and determination of our people in working towards the achievement of a common vision of excellence, which have time and again brought outstanding results.

*Going Forward: Prospects and Future Plans*

Riding on the retail boom in the Asia Pacific, the Group will continue to enhance its brand equity and maintain its position as one of the leading global players in the luxury watch industry. The Group currently has 31 outlets in the region and as it increases its product range, it will continue to seek new locations and other opportunities for growth.

In our Fine Watch division, we have created a new retail concept – Sincere Haute Horlogerie ("**SHH**") – to penetrate the top-end of the watch market. The first SHH shop is slated to open at the beginning of the fiscal second quarter and this new retail concept is expected to elevate Fine Watch retailing to an even higher level. As part of our multifaceted retail strategy, Sincere Watch will be partnering international watch brands to operate mono-brand boutiques to further enhance the retail landscape in this region. Our first collaboration will be with the Richemont Group for a Vacheron Constantin boutique in both Singapore and Kuala Lumpur, targeting to open by the end of our fiscal first quarter.

In line with our aim to promote the culture of horology and to develop an appreciation for the art of watch making among consumers and the media, we plan to set up a Watch Academy. We believe that this proposed Watch Academy, which is the first-of-its-kind in the world, will reinforce Singapore's leading position in the global watch industry and provide an engine of growth in the coming years.

While competition in the industry is expected to be stiff, the Group will remain profitable in the new financial year.

## B UNAUDITED FINANCIAL STATEMENTS

### B-1. Summary of financial information of the Sincere Watch Group

*The following is a summary of the consolidated financial information for the six month periods ended 30 September 2006 and 2007 extracted from the unaudited second quarter financial statements of the Sincere Watch Group for the six month periods ended 30 September 2006 and 2007.*

**Consolidated Balance Sheet**
*30 SEPTEMBER 2007*

| | **2007** | **2006** |
|---|---|---|
| | *S$'000* | *S$'000* |
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and bank balances | 50,784 | 33,417 |
| Trade receivables | 31,497 | 34,257 |
| Other receivables and prepaid expenses | 7,200 | 5,274 |
| Derivative financial instruments | 44 | 8 |
| Inventories | 215,526 | 222,922 |
| Total current assets | 305,051 | 295,878 |
| **Non-current assets:** | | |
| Property, plant and equipment | 21,443 | 17,964 |
| Investment property | 398 | 398 |
| Associates | 6,143 | 5,985 |
| Available-for-sale investments | 9,363 | 9,244 |
| Goodwill | 882 | 882 |
| Other intangible assets | 1,075 | 1,075 |
| Deferred tax assets | 4,469 | 5,196 |
| Total non-current assets | 43,773 | 40,744 |
| **Total assets** | 348,824 | 336,622 |

**Consolidated Balance Sheet (Continued)**
*30 SEPTEMBER 2007*

| | 2007 | 2006 |
|---|---|---|
| | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | |
| **Current liabilities:** | | |
| Bank borrowings | 21,281 | 19,413 |
| Trade payables | 145,910 | 155,471 |
| Other payables | 21,606 | 19,791 |
| Derivative financial instruments | 95 | 193 |
| Current portion of long-term debt | 152 | 402 |
| Income tax payable | 3,883 | 4,893 |
| Total current liabilities | 192,927 | 200,163 |
| **Non-current liabilities:** | | |
| Long-term debt | 3,000 | 3,000 |
| Finance leases | 415 | 527 |
| Total non-current liabilities | 3,415 | 3,527 |
| **Capital, reserves and minority interests:** | | |
| Share capital | 31,778 | 19,620 |
| Currency translation reserve | (5,782) | (4,487) |
| Legal reserve | 314 | 210 |
| Investment revaluation reserve | 139 | 44 |
| Accumulated profits | 114,424 | 106,451 |
| Equity attributable to equity holders of the company | 140,873 | 121,838 |
| Minority interests | 11,609 | 11,094 |
| Total equity | 152,482 | 132,932 |
| **Total liabilities and equity** | 348,824 | 336,622 |

**Consolidated Profit and Loss Statement**
*SIX MONTH PERIOD ENDED 30 SEPTEMBER 2007*

| | **2007** | **2006** |
|---|---|---|
| | *S$'000* | *S$'000* |
| **Revenue** | 195,780 | 158,074 |
| Other operating income | 775 | 456 |
| Changes in inventories of goods for resale | 41,060 | 24,256 |
| Purchases of goods for resale | (187,299) | (144,357) |
| Staff costs | (13,385) | (11,332) |
| Rental expense | (7,404) | (5,867) |
| Selling, advertising and promotional expense | (7,606) | (5,107) |
| Depreciation expense | (1,935) | (1,281) |
| Other operating expenses | (6,276) | (6,676) |
| Finance costs | (550) | (639) |
| Share of profits of associates | 216 | 157 |
| Profit before income tax | 13,376 | 7,684 |
| Income tax | (2,660) | (1,846) |
| Profit for the period | 10,716 | 5,838 |
| **Attributable to:** | | |
| Equity holders of the company | 9,313 | 5,219 |
| Minority interests | 1,403 | 619 |
| | 10,716 | 5,838 |
| Basic earnings per share *# (S cents) | 4.51 | 2.53 |

* *The Sincere Watch Group does not have equity instruments which are dilutive in nature. Accordingly, fully diluted earnings per share is equal to basic earnings per share.*

\# *Basic earnings per share is calculated by dividing the Sincere Watch Group's net profit attributable to shareholders by 206,681,104 ordinary shares in issue during the six month period ended 30 September 2007. For comparative purposes, the number of shares used in calculation of the earnings per share is adjusted to 206,681,104 for the six month period ended 30 September 2006.*

*Set out below are the published unaudited financial statements of the Sincere Watch Group for each of the six months ended 30 September 2006 and 30 September 2007.*

**B-2. Sincere Watch Group's unaudited financial statements for the six months ended 30 September 2007**

*The following are the unaudited financial statements of the Sincere Watch Group for the six months ended 30 September 2007 extracted from the second quarter financial statement of the Sincere Watch Group for the period ended 30 September 2007.*

**1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.**

Unaudited consolidated financial results for the second quarter (Q2/FY08) and half year ended 30 September 2007.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Increase/ (Decrease) | Apr to Sep 2007 | Apr to Sep 2006 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Revenue | 100,710 | 78,675 | 28.01 | 195,780 | 158,074 | 23.85 |
| Other operating income – see *note 1(a)(1)* | 450 | 178 | 152.81 | 775 | 456 | 69.96 |
| Changes in inventories of goods for resale | 29,747 | 10,250 | 190.21 | 41,060 | 24,256 | 69.28 |
| Purchases of goods for resale | (103,094) | (71,811) | 43.56 | (187,299) | (144,357) | 29.75 |
| Staff cost | (6,990) | (5,782) | 20.89 | (13,385) | (11,332) | 18.12 |
| Rental expense | (3,780) | (2,943) | 28.44 | (7,404) | (5,867) | 26.20 |
| Selling, advertising and promotional expense | (4,703) | (2,994) | 57.08 | (7,606) | (5,107) | 48.93 |
| Depreciation expense | (1,087) | (664) | 63.70 | (1,935) | (1,281) | 51.05 |
| Other operating expenses | (4,727) | 27 | NM | (6,276) | (6,676) | (5.99) |
| Finance costs | (285) | (320) | (10.94) | (550) | (639) | (13.93) |
| Share of profits of associates | 82 | 275 | (70.18) | 216 | 157 | 37.58 |
| **Profit before income tax** | 6,323 | 4,891 | 29.28 | 13,376 | 7,684 | 74.08 |
| Income tax | (1,275) | (1,062) | 20.06 | (2,660) | (1,846) | 44.10 |
| **Profit for the period** | 5,048 | 3,829 | 31.84 | 10,716 | 5,838 | 83.56 |
| Attributable to: | | | | | | |
| **Equity holders of the company** | 4,397 | 3,226 | 36.30 | 9,313 | 5,219 | 78.44 |
| **Minority interests** | 651 | 603 | 7.96 | 1,403 | 619 | 126.66 |
| | 5,048 | 3,829 | 31.84 | 10,716 | 5,838 | 83.56 |

*Note: NM – Not Meaningful*

**Additional information for the income statement**

(1) Other operating income comprises the following:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Increase/ (Decrease) | Apr to Sep 2007 | Apr to Sep 2006 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Dividend income | 21 | 14 | 50.00 | 21 | 14 | 50.00 |
| Interest income | 188 | 131 | 43.51 | 355 | 282 | 25.89 |
| Gain on disposal of plant and equipment | 155 | – | NM | 155 | – | NM |
| Others | 86 | 33 | 160.61 | 244 | 160 | 52.50 |
| | 450 | 178 | 152.81 | 775 | 456 | 69.96 |

(2) Profit is arrived at after charging/(crediting) the following:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Increase/ (Decrease) | Apr to Sep 2007 | Apr to Sep 2006 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Interest on borrowings | 285 | 320 | (10.94) | 550 | 639 | (13.93) |
| Allowance for inventories | 1,285 | 1,984 | (35.23) | 3,269 | 3,549 | (7.89) |
| Inventories written off | 58 | – | NM | 88 | – | NM |
| Property, plant and equipment written off | – | – | – | 1 | – | NM |
| Loss (Gain) on disposal of plant and equipment | – | (3) | NM | – | 6 | NM |
| Loss on disposal of available-for-sale investments | – | 6 | NM | – | 6 | NM |
| Foreign exchange (gain) loss – realised | (226) | 886 | NM | (192) | 1,282 | NM |
| Foreign exchange loss (gain) – unrealised | 2,946 | (2,618) | NM | 2,403 | 1,930 | 24.51 |

(3) Adjustments for over provision of tax in respect of prior years:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | **Jul to Sep 2007** | **Jul to Sep 2006** | **Increase/ (Decrease)** | **Apr to Sep 2007** | **Apr to Sep 2006** | **Increase/ (Decrease)** |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Over provision of tax in prior years – current | 4 | – | NM | 4 | – | NM |

*Note: NM – Not Meaningful*

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | **30 Sep 2007** | **31 Mar 2007** | **30 Sep 2007** | **31 Mar 2007** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and bank balances | 50,784 | 52,526 | 19,958 | 18,843 |
| Trade receivables | 31,497 | 29,594 | 4,028 | 4,930 |
| Other receivables and prepaid expenses | 7,200 | 6,781 | 6,841 | 8,158 |
| Derivative financial instruments | 44 | 32 | – | 32 |
| Inventories | 215,526 | 174,466 | 46,679 | 40,836 |
| **Total current assets** | 305,051 | 263,399 | 77,506 | 72,799 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 21,443 | 18,743 | 13,124 | 12,659 |
| Investment property | 398 | 398 | 398 | 398 |
| Subsidiaries | – | – | 41,821 | 40,914 |
| Associates | 6,143 | 6,319 | 3,102 | 3,102 |
| Available-for-sale investments | 9,363 | 9,363 | 9,277 | 9,277 |
| Goodwill | 882 | 882 | – | – |
| Other intangible assets | 1,075 | 1,075 | 219 | 219 |
| Deferred tax assets | 4,469 | 4,047 | 1,177 | 990 |
| **Total non-current assets** | 43,773 | 40,827 | 69,118 | 67,559 |
| **Total assets** | 348,824 | 304,226 | 146,624 | 140,358 |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 Sep 2007 | 31 Mar 2007 | 30 Sep 2007 | 31 Mar 2007 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Bank borrowings | 21,281 | 18,521 | – | – |
| Trade payables | 145,910 | 108,919 | 49,918 | 40,157 |
| Other payables | 21,606 | 18,302 | 5,789 | 5,674 |
| Dividend payables | – | 14,480 | – | 14,480 |
| Derivative financial instruments | 95 | 111 | 81 | 101 |
| Current portion of long-term debt | 152 | 157 | 76 | 78 |
| Income tax payable | 3,883 | 4,490 | 605 | 588 |
| **Total current liabilities** | 192,927 | 164,980 | 56,469 | 61,078 |
| **Non-current liabilities:** | | | | |
| Long-term debt | 3,000 | 3,000 | 3,000 | 3,000 |
| Finance leases | 415 | 446 | 159 | 153 |
| **Total non-current liabilities** | 3,415 | 3,446 | 3,159 | 3,153 |
| **Capital, reserves and minority interests:** | | | | |
| Share capital | 31,778 | 19,620 | 31,778 | 19,620 |
| Currency translation reserve | (5,782) | (5,499) | – | – |
| Legal reserve | 314 | 314 | – | – |
| Investment revaluation reserve | 139 | 139 | 105 | 105 |
| Accumulated profits | 114,424 | 109,728 | 55,113 | 56,402 |
| Equity attributable to equity holders of the company | 140,873 | 124,302 | 86,996 | 76,127 |
| Minority interests | 11,609 | 11,498 | – | – |
| **Total equity** | 152,482 | 135,800 | 86,996 | 76,127 |
| **Total liabilities and equity** | 348,824 | 304,226 | 146,624 | 140,358 |

**1(b)(ii) Aggregate amount of group's borrowings and debt securities.**

**Amount repayable in one year or less, or on demand**

| As at 30/09/07 | | As at 31/03/07 | |
|---|---|---|---|
| **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| S$152,000 | S$21,281,000 | S$157,000 | S$18,521,000 |

**Amount repayable after one year**

| | As at 30/09/07 | | As at 31/03/07 | |
|---|---|---|---|---|
| | **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| | S$415,000 | S$3,000,000 | S$446,000 | S$3,000,000 |

**Details of any collateral**

*Secured*

The secured borrowings relate to the finance lease obligations of the Group which are secured against the respective assets under the finance lease arrangement.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Apr to Sep 2007 | Apr to Sep 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash flow from operating activities: | | | | |
| Profit before income tax | 6,323 | 4,891 | 13,376 | 7,684 |
| Adjustments for: | | | | |
| Share of profits of associates | (82) | (275) | (216) | (157) |
| Depreciation expense | 1,087 | 664 | 1,935 | 1,281 |
| Property, plant and equipment written off | – | – | 1 | – |
| (Gain) Loss on disposal of property, plant and equipment | (155) | (3) | (155) | 6 |
| Loss on disposal of available-for-sale investments | – | 6 | – | 6 |
| Net (gain) loss on fair value changes on foreign exchange contracts | (139) | 250 | (28) | 183 |
| Foreign exchange loss (gain) – unrealised | 3,085 | (2,868) | 2,431 | 1,747 |

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | **Jul to Sep 2007** | **Jul to Sep 2006** | **Apr to Sep 2007** | **Apr to Sep 2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Interest expense | 285 | 320 | 550 | 639 |
| Interest income | (188) | (131) | (355) | (282) |
| Dividend income | (21) | (14) | (21) | (14) |
| **Operating cash flow before working capital changes** | 10,195 | 2,840 | 17,518 | 11,093 |
| Trade receivables | 5,394 | (4,598) | (1,584) | (1,485) |
| Other receivables and prepaid expenses | (868) | (406) | (862) | 3,698 |
| Inventories | (29,747) | (10,250) | (41,060) | (24,256) |
| Trade payables | 19,032 | 4,969 | 34,302 | 18,813 |
| Other payables | 391 | 426 | 3,244 | 4 |
| **Cash generated from (used in) operations** | 4,397 | (7,019) | 11,558 | 7,867 |
| Interest paid | (285) | (320) | (550) | (639) |
| Interest received | 188 | 131 | 355 | 282 |
| Income tax paid | (2,498) | (3,085) | (3,247) | (3,826) |
| **Net cash from (used in) operating activities** | 1,802 | (10,293) | 8,116 | 3,684 |
| Cash flow from investing activities: | | | | |
| Purchase of property, plant and equipment *(Note A)* | (2,490) | (285) | (4,647) | (987) |
| Proceeds from disposal of property, plant and equipment | 155 | 3 | 155 | 6 |
| Dividends received | 21 | 14 | 21 | 14 |
| Proceeds from sale of available-for-sale investments | – | 19 | – | 19 |
| Purchase of available-for-sale investments | – | – | – | (8,836) |
| **Net cash used in investing activities** | (2,314) | (249) | (4,471) | (9,784) |

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Apr to Sep 2007 | Apr to Sep 2006 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash flow from financing activities: | | | | |
| Increase in short-term bank borrowings | 3,488 | 1,783 | 3,250 | 886 |
| Decrease in long-term debt | (98) | (3,289) | (135) | (3,584) |
| Dividends paid | (4,617) | (4,159) | (6,939) | (4,159) |
| Dividends paid to minority interests | (1,178) | – | (1,178) | – |
| **Net cash used in financing activities** | (2,405) | (5,665) | (5,002) | (6,857) |
| Decrease in cash and cash equivalents | (2,917) | (16,207) | (1,357) | (12,957) |
| Cash and cash equivalents at beginning of period | 50,652 | 45,112 | 48,543 | 42,823 |
| Effect of foreign exchange rate changes | (444) | 475 | 105 | (486) |
| **Cash and cash equivalents at end of period** | 47,291 | 29,380 | 47,291 | 29,380 |
| Cash and cash equivalents comprise: | | | | |
| Cash and bank balances | 36,781 | 21,656 | 36,781 | 21,656 |
| Fixed deposits | 14,003 | 11,761 | 14,003 | 11,761 |
| Bank overdrafts | (3,493) | (4,037) | (3,493) | (4,037) |
| | 47,291 | 29,380 | 47,291 | 29,380 |
| **Notes to the consolidated cash flow statement** | | | | |
| Note A: Cash purchase of property, plant and equipment | 2,391 | 285 | 4,548 | 987 |
| Purchase of property, plant and equipment under finance lease agreement | 99 | – | 99 | – |
| Total additions to property, plant and equipment | 2,490 | 285 | 4,647 | 987 |

**1(d)(i) A statement (for the issuer and group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | Currency translation reserve | Legal* reserve | Investment revaluation reserve | Accumulated profits | Total | Minority interests | Total equity |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **GROUP-Statement of changes in equity for 6 months ended 30 September 2006** | | | | | | | | |
| **Balance as at 1 April 2006** | 19,620 | (3,580) | 210 | 44 | 105,391 | 121,685 | 10,007 | 131,692 |
| Exchange differences arising on translation of foreign operations | – | (796) | – | – | – | (796) | (222) | (1,018) |
| Net income recognised directly in equity | – | (796) | – | – | – | (796) | (222) | (1,018) |
| Net profit for the period | – | – | – | – | 1,993 | 1,993 | 16 | 2,009 |
| Total recognised income and expenses for the period | – | (796) | – | – | 1,993 | 1,197 | (206) | 991 |
| **Balance as at 30 June 2006** | 19,620 | (4,376) | 210 | 44 | 107,384 | 122,882 | 9,801 | 132,683 |
| **Balance as at 30 June 2006** | 19,620 | (4,376) | 210 | 44 | 107,384 | 122,882 | 9,801 | 132,683 |
| Exchange differences arising on translation of foreign operations | – | (111) | – | – | – | (111) | 690 | 579 |
| Net income recognised directly in equity | – | (111) | – | – | – | (111) | 690 | 579 |
| Net profit for the period | – | – | – | – | 3,226 | 3,226 | 603 | 3,829 |
| Total recognised income and expenses for the period | – | (111) | – | – | 3,226 | 3,115 | 1,293 | 4,408 |
| Final dividend of S$0.01 per share less tax of 20% and special dividend of S$0.0165 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (4,159) | (4,159) | – | (4,159) |
| **Balance as at 30 September 2006** | 19,620 | (4,487) | 210 | 44 | 106,451 | 121,838 | 11,094 | 132,932 |

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | Currency translation reserve | Legal* reserve | Investment revaluation reserve | Accumulated profits | Total | Minority interests | Total equity |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **GROUP-Statement of changes in equity for 6 months ended 30 September 2007** | | | | | | | | |
| **Balance as at 1 April 2007** | 19,620 | (5,499) | 314 | 139 | 109,728 | 124,302 | 11,498 | 135,800 |
| Exchange differences arising on translation of foreign operations | – | 596 | – | – | – | 596 | 136 | 732 |
| Net income recognised directly in equity | – | 596 | – | – | – | 596 | 136 | 732 |
| Net profit for the period | – | – | – | – | 4,916 | 4,916 | 752 | 5,668 |
| Total recognised income and expenses for the period | – | 596 | – | – | 4,916 | 5,512 | 888 | 6,400 |
| Share issue in relation to interim dividend of S$0.09 per share less tax of 18% paid in respect of previous financial year under the Scrip Dividend Scheme | 12,158 | – | – | – | – | 12,158 | – | 12,158 |
| **Balance as at 30 June 2007** | 31,778 | (4,903) | 314 | 139 | 114,644 | 141,972 | 12,386 | 154,358 |
| **Balance as at 30 June 2007** | 31,778 | (4,903) | 314 | 139 | 114,644 | 141,972 | 12,386 | 154,358 |
| Exchange differences arising on translation of foreign operations | – | (879) | – | – | – | (879) | (250) | (1,129) |
| Net income recognised directly in equity | – | (879) | – | – | – | (879) | (250) | (1,129) |
| Net profit for the period | – | – | – | – | 4,397 | 4,397 | 651 | 5,048 |
| Total recognised income and expenses for the period | – | (879) | – | – | 4,397 | 3,518 | 401 | 3,919 |
| Final dividend of S$0.01 per share less tax of 18% and special dividend of S$0.002 per share less tax of 18% and special dividend II of S$0.0125 per share (tax exempt) paid in respect of previous financial year | – | – | – | – | (4,617) | (4,617) | – | (4,617) |
| Dividend paid to minority interests | – | – | – | – | – | – | (1,178) | (1,178) |
| **Balance as at 30 September 2007** | 31,778 | (5,782) | 314 | 139 | 114,424 | 140,873 | 11,609 | 152,482 |

| | Issued capital S$'000 | Currency translation reserve S$'000 | Legal# reserve S$'000 | Investment revaluation reserve S$'000 | Accumulated profits S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **COMPANY-Statement of changes in equity for 6 months ended 30 September 2006** | | | | | | |
| **Balance as at 1 April 2006** | 19,620 | – | – | 10 | 67,875 | 87,505 |
| Net loss for the period | – | – | – | – | (353) | (353) |
| Total recognised income and expenses for the period | – | – | – | – | (353) | (353) |
| **Balance as at 30 June 2006** | 19,620 | – | – | 10 | 67,522 | 87,152 |
| **Balance as at 30 June 2006** | 19,620 | – | – | 10 | 67,522 | 87,152 |
| Net profit for the period | – | – | – | – | 3,315 | 3,315 |
| Total recognised income and expenses for the period | – | – | – | – | 3,315 | 3,315 |
| Final dividend of S$0.01 per share less tax of 20% and special dividend of S$0.0165 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (4,159) | (4,159) |
| **Balance as at 30 September 2006** | 19,620 | – | – | 10 | 66,678 | 86,308 |
| **COMPANY-Statement of changes in equity for 6 months ended 30 September 2007** | | | | | | |
| **Balance as at 1 April 2007** | 19,620 | – | – | 105 | 56,402 | 76,127 |
| Net loss for the period | – | – | – | – | (306) | (306) |
| Total recognised income and expenses for the period | – | – | – | – | (306) | (306) |
| Share issue in relation to interim dividend of S$0.09 per share less tax of 18% paid in respect of previous financial year under the Scrip Dividend Scheme | 12,158 | – | – | – | – | 12,158 |
| **Balance as at 30 June 2007** | 31,778 | – | – | 105 | 56,096 | 87,979 |
| **Balance as at 30 June 2007** | 31,778 | – | – | 105 | 56,096 | 87,979 |
| Net profit for the period | – | – | – | – | 3,634 | 3,634 |
| Total recognised income and expenses for the period | – | – | – | – | 3,634 | 3,634 |
| Final dividend of S$0.01 per share less tax of 18% and special dividend I of S$0.002 per share less tax of 18% and special dividend II of S$0.0125 per share (tax exempt) paid in respect of previous financial year | – | – | – | – | (4,617) | (4,617) |
| **Balance as at 30 September 2007** | 31,778 | – | – | 105 | 55,113 | 86,996 |

* *Relates to Sincere Watch Co. Ltd, incorporated in the Republic of China (Taiwan). Legal reserve may be used to offset deficit, if any, and, when the reserve amount exceeds or equals 50% of the capital stock, an amount up to 50% of such reserve may be transferred to capital stock.*

**1(d)(ii) Details of any changes in the company's share capital arising from rights issues, bonus issues, share buy-backs, exercises of share options or warrants, conversions of other issues of equity securities, issues of shares for cash or as consideration for acquisitions or for any other purpose since the end of the pervious period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Since the end of the previous financial period, there have been no changes in the Company's issued share capital.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The same accounting policies and methods of computation as in the most recently audited financial statements have been applied.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | Jul to Sep 2007 | Jul to Sep 2006 | Apr to Sep 2007 | Apr to Sep 2006 |
| Basic earnings per share | S2.13 cents | S1.56 cents | S4.51 cents | S2.53 cents |

Basic earnings per share is calculated by dividing the Group's net profit attributable to shareholders by 206,681,104 ordinary shares in issue during the financial period. For comparative purposes, the number of shares in FY2007 is adjusted retrospectively to 206,681,104.

The Group does not have equity instruments which are dilutive in nature. Accordingly, fully diluted earnings per share is equal to basic earnings per share.

**7. Net asset value (for the issuer and the group) per ordinary share based on the issued share capital of the issuer at the end of the:**

**(a) current financial period reported on; and**

**(b) immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | 30 Sep 2007 | 31 Mar 2007 | 30 Sep 2007 | 31 Mar 2007 |
| Net asset value per ordinary share based on the issued share capital at the date of the announcement | S68.16 cents | S60.14 cents | S42.09 cents | S36.83 cents |

The net asset value per ordinary share is calculated based on 206,681,104 ordinary shares in issue on 30 September 2007. For comparative purposes, the number of shares in FY2007 is adjusted retrospectively to 206,281,104.

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**

**(a) any significant factors that affected the turnover, costs and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**

**(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

The Group achieved very strong performance in H1/FY08 as the growth momentum from Q1/FY08 continued into Q2/FY08.

2ND QUARTER (Q2/FY08)

Group revenue for Q2/FY08 was S$100.7 million. This was an increase of 28% when compared to S$78.7 million that was recorded in Q2/FY07. In addition to this revenue growth, average gross margins also improved. As a result, net profit rose 32% to S$5.0 million Q2/FY08, up from Q2/FY07's S$3.8 million.

HALF YEAR (H1/FY08)

In H1/FY08, Group revenue was S$195.8 million as compared to S$158.1 million recorded in the previous corresponding period H1/FY07. This represented an increase of 24% in revenue over the two half-years and, in view of this, net profit for H1/FY08 grew 84% to S$10.7 million, up from S$5.8 million in H1/FY07.

Although competition remained intense, the Group was able to achieve improved overall performance. To capitalise on the region's strong economic growth, increased tourist traffic and demand for luxury timepieces, the Group added more points-of-sale and undertook major refurbishments of its stores during the period.

In comparison with the previous half year, new Sincere Fine Watches ("**SFW**") stores were opened and extensively renovated in Singapore's Vivocity and Suntec City respectively. Mono brand shops like the new concept Franck Muller ("**FM**") boutique at Delfi Orchard and the Omega boutique at Raffles City were also introduced. In North Asia, new FM boutiques were opened in Ocean Terminal in Kowloon, Shin Kong Place in Beijing and at the Venetian Casino and Resort in Macao. The existing flagship FM boutique in Central Hong Kong was also considerably refurbished and enlarged. In India, the duty-free travel retail outlet at the Indira Gandhi International Airport in New Delhi commenced its operations in the first quarter.

To complement the expansion of its sales and distribution points, innovative and sustained marketing efforts were stepped up throughout the period. Advertising and promotional, rental, depreciation and staff expenses therefore grew. In addition, the renewal of leases for some of the shop units also contributed to the increase in rentals for the period.

The Balance Sheet remained strong. Although inventories and trade payables grew as a result of the increased level of business, the Group maintained its net cash position at the end of H1/FY08.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The Group's second quarter results are consistent with the commentary issued in the announcement of its results for the previous quarter.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

Q3/FY08 is the high season for the industry. Even as the Group gears up its marketing activities for the period, new shops will be opened to cater to the growing demand for the Group's timepieces.

In Malaysia, the Group's largest Sincere Fine Watches store of 3,500 sq ft has commenced operations at the Pavilion in Kuala Lumpur, Malaysia in October. In the PRC, the Group will re-open its first FM boutique in Shanghai in November at Plaza 66, Nanjing Xi Lu. The Group has already appointed FM dealerships in Dalian, Hangzhou and Shanghai and is exploring opportunities to form strategic alliances with more dealers. The stronger presence in Beijing and Shanghai will enable the Group to capitalise on the tourism boom that is expected during the upcoming Olympics to be held in China in 2008.

In Singapore, with rising income and the government's continuous efforts to attract more visitors, business will continue to be robust.

The Group will be profitable in the third quarter.

**11. Dividend**

**(a) Current Financial Period Reported On**

Any dividend recommended for the current financial period reported on? None

**(b) Corresponding Period of the Immediately Preceding Financial Year**

Any dividend declared for the corresponding period of the immediately preceding financial year? None

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect.**

During the current financial period, no dividend has been declared or recommended.

A final dividend of S$0.01 per ordinary share less 18% tax and special dividends comprising S$0.002 per ordinary shares less 18% tax and S$0.0125 per ordinary share (tax exempt) in respect of the year ended 31 March 2007 was paid on 22 August 2007.

**13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable.

**14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable.

**15. A breakdown of sales.**

Not applicable.

**16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Total Annual Dividend:

| | Latest Full Year *(S$'000)* | Previous Full Year *(S$'000)* |
|---|---|---|
| Ordinary | 0 | 0 |
| Preference | 0 | 0 |
| Total: | 0 | 0 |

BY ORDER OF THE BOARD
**Soh Gim Teik**
*Company Secretary*

12 November 2007

### B-3. Sincere Watch Group's unaudited financial statements for the six months ended 30 September 2006

*The following are the unaudited financial statements of the Sincere Watch Group for the six months ended 30 September 2006 extracted from the second quarter financial statements of the Sincere Watch Group for the period ended 30 September 2006.*

#### 1(a) An income statement (for the group) together with a comparative statement for the corresponding period of the immediately preceding financial year.

Unaudited consolidated financial results for the second quarter (Q2/FY07) and half year ended 30 September 2006.

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2006 | Jul to Sep 2005 | Increase/ (Decrease) | Apr to Sep 2006 | Apr to Sep 2005 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Revenue | 78,675 | 72,271 | 8.86 | 158,074 | 140,356 | 12.62 |
| Other operating income – see *note 1(a)(1)* | 178 | 343 | (48.10) | 456 | 4,390 | (89.61) |
| Changes in inventories of goods for resale | 10,250 | (2,826) | NM | 24,256 | 8,789 | 175.98 |
| Purchases of goods for resale | (71,811) | (50,340) | 42.65 | (144,357) | (114,896) | 25.64 |
| Staff cost | (5,782) | (5,292) | 9.26 | (11,332) | (11,120) | 1.91 |
| Rental expense | (2,943) | (4,143) | (28.96) | (5,867) | (8,263) | (29.00) |
| Selling, advertising and promotional expense | (2,994) | (3,068) | (2.41) | (5,107) | (4,693) | 8.82 |
| Depreciation expense | (664) | (524) | 26.72 | (1,281) | (1,081) | 18.50 |
| Other operating expenses | 27 | (1,484) | NM | (6,676) | (1,470) | 354.15 |
| Finance costs | (320) | (310) | 3.23 | (639) | (569) | 12.30 |
| Share of profits (losses) of associates | 275 | (5) | NM | 157 | 225 | (30.22) |
| **Profit before income tax** | 4,891 | 4,622 | 5.82 | 7,684 | 11,668 | (34.14) |
| Income tax expense | (1,062) | (1,025) | 3.61 | (1,846) | (2,783) | (33.67) |
| **Profit after tax** | 3,829 | 3,597 | 6.45 | 5,838 | 8,885 | (34.29) |
| Attributable to: | | | | | | |
| **Equity holders of the company** | 3,226 | 3,822 | (15.59) | 5,219 | 9,347 | (44.16) |
| **Minority interests** | 603 | (225) | NM | 619 | (462) | NM |
| | 3,829 | 3,597 | 6.45 | 5,838 | 8,885 | (34.29) |

*Note: NM – Not Meaningful*

**Additional information for the income statement**

(1) Other operating income comprises the following:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2006 | Jul to Sep 2005 | Increase/ (Decrease) | Apr to Sep 2006 | Apr to Sep 2005 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Dividend income | 14 | 18 | (22.22) | 14 | 18 | (22.22) |
| Interest income | 131 | 56 | 133.93 | 282 | 110 | 156.36 |
| Gain on disposal of property, plant and equipment | – | 10 | NM | – | 10 | NM |
| Foreign exchange loss – realised | – | (29) | NM | – | (737) | NM |
| Foreign exchange gain – unrealised | – | 154 | NM | – | 4,664 | NM |
| Others | 33 | 134 | (75.37) | 160 | 325 | (50.77) |
| | 178 | 343 | (48.10) | 456 | 4,390 | (89.61) |

(2) Profit is arrived at after charging/(crediting) the following:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2006 | Jul to Sep 2005 | Increase/ (Decrease) | Apr to Sep 2006 | Apr to Sep 2005 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Interest on borrowings | 320 | 310 | 3.23 | 639 | 569 | 12.30 |
| Write back of doubtful debts | – | – | – | – | (1,629) | NM |
| Allowance for inventories | 1,984 | 25 | 7,836.00 | 3,549 | 3,442 | 3.11 |
| Property, plant and equipment written off | – | 7 | NM | – | 99 | NM |
| (Gain) Loss on disposal of plant and equipment | (3) | – | NM | 6 | – | NM |
| Loss on disposal of available-for-sale investments | 6 | – | NM | 6 | – | NM |
| Foreign exchange loss – realised | 886 | – | NM | 1,282 | – | NM |
| Foreign exchange (gain) loss – unrealised | (2,618) | – | NM | 1,930 | – | NM |

(3) Adjustments for under provision of tax in respect of prior years:

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Q2 | | | Half Year | | |
| | Jul to Sep 2006 | Jul to Sep 2005 | Increase/ (Decrease) | Apr to Sep 2006 | Apr to Sep 2005 | Increase/ (Decrease) |
| | *S$'000* | *S$'000* | *%* | *S$'000* | *S$'000* | *%* |
| Under provision of tax in prior years | – | 24 | NM | – | 24 | NM |

*Note: NM – Not Meaningful*

**1(b)(i) A balance sheet (for the issuer and group), together with a comparative statement as at the end of the immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | **30 Sep 2006** | **31 Mar 2006** | **30 Sep 2006** | **31 Mar 2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and bank balances | 33,417 | 45,587 | 6,209 | 7,547 |
| Trade receivables | 34,257 | 32,753 | 4,884 | 3,457 |
| Other receivables and prepaid expenses | 5,274 | 8,953 | 8,154 | 10,686 |
| Derivative financial instruments | 8 | 26 | – | 26 |
| Inventories | 222,922 | 198,666 | 48,631 | 41,459 |
| **Total current assets** | 295,878 | 285,985 | 67,878 | 63,175 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 17,964 | 18,304 | 12,913 | 13,000 |
| Investment property | 398 | 398 | 398 | 398 |
| Subsidiaries | – | – | 42,843 | 42,843 |
| Associates | 5,985 | 5,747 | 3,102 | 3,102 |
| Available-for-sale investments | 9,244 | 433 | 9,182 | 369 |
| Goodwill | 882 | 882 | – | – |
| Other intangible assets | 1,075 | 1,075 | 219 | 219 |
| Deferred tax assets | 5,196 | 4,677 | 1,100 | 970 |
| **Total non-current assets** | 40,744 | 31,516 | 69,757 | 60,901 |
| **Total assets** | 336,622 | 317,501 | 137,635 | 124,076 |

| | Group | | Company | |
|---|---|---|---|---|
| | **30 Sep 2006** | **31 Mar 2006** | **30 Sep 2006** | **31 Mar 2006** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Short-term bank loans, overdrafts, bankers' acceptances and other borrowings | 19,413 | 17,254 | 2,000 | 2,000 |
| Trade payables | 155,471 | 134,892 | 33,546 | 20,145 |
| Other payables | 19,791 | 19,768 | 11,168 | 6,229 |
| Derivative financial instruments | 193 | 28 | 66 | 20 |
| Current portion of long-term debt | 402 | 3,909 | 77 | 3,083 |
| Income tax payable | 4,893 | 6,354 | 1,278 | 1,862 |
| **Total current liabilities** | 200,163 | 182,205 | 48,135 | 33,339 |
| **Non-current liabilities:** | | | | |
| Long-term debt | 3,000 | 3,000 | 3,000 | 3,000 |
| Finance leases | 527 | 604 | 192 | 232 |
| **Total non-current liabilities** | 3,527 | 3,604 | 3,192 | 3,232 |
| **Capital, reserves and minority interests:** | | | | |
| Share capital | 19,620 | 19,620 | 19,620 | 19,620 |
| Currency translation reserve | (4,487) | (3,580) | – | – |
| Legal reserve | 210 | 210 | – | – |
| Investment revaluation reserve | 44 | 44 | 10 | 10 |
| Accumulated profits | 106,451 | 105,391 | 66,678 | 67,875 |
| Equity attributable to equity holders of the company | 121,838 | 121,685 | 86,308 | 87,505 |
| Minority interests | 11,094 | 10,007 | – | – |
| **Total equity** | 132,932 | 131,692 | 86,308 | 87,505 |
| **Total liabilities and equity** | 336,622 | 317,501 | 137,635 | 124,076 |

**1(b)(ii) Aggregate amount of group's borrowings and debt securities.**

**Amount repayable in one year or less, or on demand**

| As at 30/09/06 | | As at 31/03/06 | |
|---|---|---|---|
| **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| S$152,000 | S$19,663,000 | S$159,000 | S$21,004,000 |

**Amount repayable after one year**

| As at 30/09/06 | | As at 31/03/06 | |
|---|---|---|---|
| **Secured** | **Unsecured** | **Secured** | **Unsecured** |
| S$527,000 | S$3,000,000 | S$604,000 | S$3,000,000 |

**Details of any collateral**

*Secured*

The secured borrowings relate to the finance lease obligations of the Group which are secured against the respective assets under the finance lease arrangement.

**1(c) A cash flow statement (for the group), together with a comparative statement for the corresponding period of the immediately preceding financial year.**

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | **Jul to Sep 2006** | **Jul to Sep 2005** | **Apr to Sep 2006** | **Apr to Sep 2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash flow from operating activities: | | | | |
| Profit before income tax | 4,891 | 4,622 | 7,684 | 11,668 |
| Adjustments for: | | | | |
| Share of (profits) losses of associates | (275) | 5 | (157) | (225) |
| Depreciation expense | 664 | 524 | 1,281 | 1,081 |
| Property, plant and equipment written off | – | 7 | – | 99 |
| (Gain) Loss on disposal of property, plant and equipment | (3) | (10) | 6 | (10) |
| Loss on disposal of available-for-sale investments | 6 | – | 6 | – |
| Foreign exchange (gain) loss – unrealized | (2,618) | (154) | 1,930 | (4,664) |
| Interest expense | 320 | 310 | 639 | 569 |
| Interest income | (131) | (56) | (282) | (110) |
| Dividend income | (14) | (18) | (14) | (18) |
| **Operating profit before working capital changes** | 2,840 | 5,230 | 11,093 | 8,390 |
| Trade receivables | (4,598) | 767 | (1,485) | 3,597 |
| Other receivables and prepaid expenses | (406) | 145 | 3,698 | (732) |
| Inventories | (10,250) | 2,826 | (24,256) | (8,789) |
| Trade payables | 4,969 | (14,211) | 18,813 | (3,510) |
| Other payables | 426 | 3,195 | 4 | 3,765 |
| **Cash (used in) generated from operations** | (7,019) | (2,048) | 7,867 | 2,721 |
| Interest paid | (320) | (310) | (639) | (569) |
| Interest received | 131 | 56 | 282 | 110 |
| Dividends received | 14 | 18 | 14 | 18 |
| Dividends paid | (4,159) | (3,924) | (4,159) | (3,924) |
| Income tax paid | (3,085) | (2,640) | (3,826) | (3,289) |
| **Net cash used in operating activities** | (14,438) | (8,848) | (461) | (4,933) |

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | **Jul to Sep 2006** | **Jul to Sep 2005** | **Apr to Sep 2006** | **Apr to Sep 2005** |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| Cash flow from investing activities: | | | | |
| Purchase of property, plant and equipment *(Note A)* | (285) | (457) | (987) | (819) |
| Proceeds from disposal of property, plant and equipment | 3 | 48 | 6 | 48 |
| Proceeds from sale of available-for-sale investments | 19 | – | 19 | – |
| Purchase of available-for-sale investments | – | (29) | (8,836) | (29) |
| **Net cash used in investing activities** | (263) | (438) | (9,798) | (800) |
| Cash flow from financing activities: | | | | |
| Increase in bank loans | 1,783 | 1,434 | 886 | 3,096 |
| Decrease in long-term debt | (3,289) | (311) | (3,584) | (622) |
| **Net cash (used in) generated from financing activities** | (1,506) | 1,123 | (2,698) | 2,474 |
| Decrease in cash and cash equivalents | (16,207) | (8,163) | (12,957) | (3,259) |
| Cash and cash equivalents at beginning of period | 45,112 | 55,740 | 42,823 | 50,326 |
| Effect of foreign exchange rate changes | 475 | (19) | (486) | 491 |
| **Cash and cash equivalents at end of period** | 29,380 | 47,558 | 29,380 | 47,558 |
| Cash and cash equivalents comprise: | | | | |
| Cash and bank balances | 21,656 | 36,136 | 21,656 | 36,136 |
| Fixed deposits | 11,761 | 16,903 | 11,761 | 16,903 |
| Bank overdrafts | (4,037) | (5,481) | (4,037) | (5,481) |
| | 29,380 | 47,558 | 29,380 | 47,558 |
| ***Notes to the consolidated cash flow statement*** | | | | |
| Note A: Cash purchase of property, plant and equipment | 285 | 457 | 987 | 819 |
| Purchase of property, plant and equipment under finance lease agreement | – | – | – | – |
| Total additions to property, plant and equipment | 285 | 457 | 987 | 819 |

**1(d)(i) A statement (for the issuer and the group) showing either (i) all changes in equity or (ii) changes in equity other than those arising from capitalisation issues and distributions to shareholders, together with a comparative statement for the corresponding period of the immediately preceding financial year.**

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | Currency translation reserves | Legal* reserve | Investment revaluation reserve | Accumulated profits | Total | Minority interests | Total equity |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **GROUP-Statement of changes in equity for 6 months ended 30 September 2005** | | | | | | | | |
| **Balance as at 31 March 2005** | 19,620 | (3,317) | 109 | – | 75,562 | 91,974 | 55 | 92,029 |
| – Effect of adopting FRS 39 | – | – | – | – | (216) | (216) | – | (216) |
| As restated | 19,620 | (3,317) | 109 | – | 75,346 | 91,758 | 55 | 91,813 |
| Exchange differences arising on translation of foreign operations | – | 580 | – | – | – | 580 | 26 | 606 |
| Net profit for the period | – | – | – | – | 5,525 | 5,525 | (237) | 5,288 |
| **Balance as at 30 June 2005** | 19,620 | (2,737) | 109 | – | 80,871 | 97,863 | (156) | 97,707 |
| **Balance as at 30 June 2005** | 19,620 | (2,737) | 109 | – | 80,871 | 97,863 | (156) | 97,707 |
| Exchange differences arising on translation of foreign operations | – | 17 | – | – | – | 17 | 12 | 29 |
| Net profit for the period | – | – | – | – | 3,822 | 3,822 | (225) | 3,597 |
| Final dividend of S$0.01 per share and special dividend of S$0.015 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (3,924) | (3,924) | – | (3,924) |
| **Balance as at 30 September 2005** | 19,620 | (2,720) | 109 | – | 80,769 | 97,778 | (369) | 97,409 |

| | Attributable to equity holders of the parent | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Issued capital | Currency translation reserves | Legal* reserve | Investment revaluation reserve | Accumulated profits | Total | Minority interests | Total equity |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **GROUP-Statement of changes in equity for 6 months ended 30 September 2006** | | | | | | | | |
| **Balance as at 31 March 2006** | 19,620 | (3,580) | 210 | 44 | 105,391 | 121,685 | 10,007 | 131,692 |
| Exchange differences arising on translation of foreign operations | – | (796) | – | – | – | (796) | (222) | (1,018) |
| Net profit for the period | – | – | – | – | 1,993 | 1,993 | 16 | 2,009 |
| **Balance as at 30 June 2006** | 19,620 | (4,376) | 210 | 44 | 107,384 | 122,882 | 9,801 | 132,683 |
| **Balance as at 30 June 2006** | 19,620 | (4,376) | 210 | 44 | 107,384 | 122,882 | 9,801 | 132,683 |
| Exchange differences arising on translation of foreign operations | – | (111) | – | – | – | (111) | 690 | 579 |
| Net profit for the period | – | – | – | – | 3,226 | 3,226 | 603 | 3,829 |
| Final dividend of S$0.01 per share and special dividend of S$0.0165 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (4,159) | (4,159) | – | (4,159) |
| **Balance as at 30 September 2006** | 19,620 | (4,487) | 210 | 44 | 106,451 | 121,838 | 11,094 | 132,932 |

| | Issued capital S$'000 | Currency translation reserves S$'000 | Legal* reserve S$'000 | Investment revaluation reserve S$'000 | Accumulated profits S$'000 | Total S$'000 |
|---|---|---|---|---|---|---|
| **COMPANY-Statement of changes in equity for 6 months ended 30 September 2005** | | | | | | |
| **Balance as at 31 March 2005** | 19,620 | (185) | – | – | 49,077 | 68,512 |
| – Effect of adopting FRS 39 | – | – | – | – | (213) | (213) |
| As restated | 19,620 | (185) | – | – | 48,864 | 68,299 |
| Exchange differences arising on translation of foreign operations | – | 185 | – | – | – | 185 |
| Net loss for the period | – | – | – | – | (1,861) | (1,861) |
| **Balance as at 30 June 2005** | 19,620 | – | – | – | 47,003 | 66,623 |
| **Balance as at 30 June 2005** | 19,620 | – | – | – | 47,003 | 66,623 |
| Net profit for the period | – | – | – | – | 6,765 | 6,765 |
| Final dividend of S$0.01 per share and special dividend of S$0.015 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (3,924) | (3,924) |
| **Balance as at 30 September 2005** | 19,620 | – | – | – | 49,844 | 69,464 |
| **COMPANY-Statement of changes in equity for 6 months ended 30 September 2006** | | | | | | |
| **Balance as at 31 March 2006** | 19,620 | – | – | 10 | 67,875 | 87,505 |
| Net loss for the period | – | – | – | – | (353) | (353) |
| **Balance as at 30 June 2006** | 19,620 | – | – | 10 | 67,522 | 87,152 |
| **Balance as at 30 June 2006** | 19,620 | – | – | 10 | 67,522 | 87,152 |
| Net profit for the period | – | – | – | – | 3,315 | 3,315 |
| Final dividend of S$0.01 per share and special dividend of S$0.0165 per share less tax of 20% paid in respect of previous financial year | – | – | – | – | (4,159) | (4,159) |
| **Balance as at 30 September 2006** | 19,620 | – | – | 10 | 66,678 | 86,308 |

* *Relates to Sincere Watch Co. Ltd, incorporated in the Republic of China (Taiwan). Legal reserve may be used to offset a deficit, if any, and, when the reserve amount exceeds or equals 50% of the capital stock, an amount up to 50% of such reserve may be transferred to capital stock.*

**1(d)(ii) Details of any changes in the company's share capital arising from rights issue, bonus issue, share buy-backs, exercise of share options or warrants, conversion of other issues of equity securities, issue of shares for cash or as consideration for acquisition or for any other purpose since the end of the previous period reported on. State also the number of shares that may be issued on conversion of all the outstanding convertibles as at the end of the current financial period reported on and as at the end of the corresponding period of the immediately preceding financial year.**

Since the end of the previous financial period, there have been no changes in the Company's issued share capital.

**2. Whether the figures have been audited or reviewed and in accordance with which auditing standard or practice.**

The figures have not been audited or reviewed.

**3. Where the figures have been audited or reviewed, the auditors' report (including any qualifications or emphasis of a matter).**

Not applicable.

**4. Whether the same accounting policies and methods of computation as in the issuer's most recently audited annual financial statements have been applied.**

The same accounting policies and methods of computation as in the most recently audited financial statements have been applied.

**5. If there are any changes in the accounting policies and methods of computation, including any required by an accounting standard, what has changed, as well as the reasons for, and the effect of, the change.**

Not applicable.

**6. Earnings per ordinary share of the group for the current financial period reported on and the corresponding period of the immediately preceding financial year, after deducting any provision for preference dividends.**

| | Group | | | |
|---|---|---|---|---|
| | Q2 | | Half Year | |
| | **Jul to Sep 2006** | **Jul to Sep 2005** | **Apr to Sep 2006** | **Apr to Sep 2005** |
| Basic earnings per share | S1.64 cents | S1.95 cents | S2.66 cents | S4.76 cents |

Basic earnings per share is calculated by dividing the Group's net profit attributable to shareholders by 196,200,000 ordinary shares in issue during the financial period.

The Group does not have equity instruments which are dilutive in nature. Accordingly, fully diluted earnings per share equals to basic earnings per share.

**7. Net asset value (for the issuer and group) per ordinary share based on issued share capital of the issuer at the end of the:–**

**(a) current financial period reported on; and**

**(b) immediately preceding financial year.**

| | Group | | Company | |
|---|---|---|---|---|
| | **30 Sep 2006** | **31 Mar 2006** | **30 Sep 2006** | **31 Mar 2006** |
| Net assets value per ordinary share based on the issued share capital at the end of the financial period | S62.10 cents | S62.02 cents | S43.99 cents | S44.60 cents |

The net asset per ordinary share is calculated based on 196,200,000 ordinary shares in issue at 30 September 2006 (31 March 2006: 196,200,000).

**8. A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:**

**(a) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors; and**

**(b) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on.**

With continuous strong demand for the group's luxury timepieces in the region, group revenue rose 12.6% to S$158.1 million for the half year ended 30 September 2006 (H1/FY07). The growth in revenue from the previous corresponding half year (H1/FY06) of S$140.4 million was achieved despite the increased competition in the region even as Asia continues to register strong economic growth.

Overall operating costs for H1/FY07 were maintained at a consistent level in relation to the size of the business although rental expenses declined between the comparative half years. The decrease in rental expenses was mainly due to the cessation of one of the travel retail concessions in Singapore Changi Airport and although the group opened more shops during this period, it incurred higher average rental rates.

For H1/FY07, the group has an unrealised foreign exchange loss of S$1.9 million whereas an unrealised foreign exchange gain of S$4.7 million was recorded for H1/FY06. (Refer to note 1(a)(2) & 1(a)(1)). The unrealised foreign exchange gains/losses at the balance sheet date were due to the application of Financial Reporting Standards FRS 21 "The Effects of Changes in Foreign Exchange Rates" where, in the group's case, trade payables denominated in foreign currencies were translated at the exchange rates prevailing at the balance sheet dates and any differences in valuation were then recognised in the income statement as unrealised gains or losses.

In view of the above, net profit attributable to equity holders of the company for H1/FY07 was S$5.2 million, compared to S$9.3 million for H1/FY06.

At the balance sheet date, the group remained in a net cash position even though the group paid off long term debts of S$3.6 million and dividends of S$4.2 million during the period. In addition, in April, the group completed its final payment of its strategic acquisition of shares in Chrono Star International Participations Groupe Franck Muller S.A., the parent company for the "Groupe Franck Muller" which owns and operates the "Franck Muller Geneve" brand. This investment totalling S$8.8 million, resulted in the increase in available-for-sale investments in the balance sheet. Details of this acquisition were previously reported via the SGXnet on 23 December 2005.

As at balance sheet date, trade payables and inventories grew as a result of purchases made and received prior to the opening of the group's store in Vivocity in Singapore in October.

*Proposed Scrip Dividend*

The Company had applied for and obtained approval in-principle from SGX-ST for the listing and quotation of new shares to be issued pursuant to its proposed scrip dividend scheme. The approval in-principle is subject to approval being obtained from the shareholders of the Company. As the Company is currently seeking confirmation from the Inland Revenue Authority of Singapore that it may utilize its Section 44A credit balance to frank the payment of scrip dividends, the Company will convene an extraordinary general meeting to seek shareholders' approval once the confirmation is obtained. The details of this were previously reported via SGXnet on 27 September 2006.

**9. Where a forecast, or a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.**

The Group's second quarter results are consistent with the commentary issued in the announcement of its results for the previous quarter.

**10. A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.**

The next quarter will be the high season for the industry and business is expected to be robust. Sincere's new multi-brand shop in Singapore's newest and largest shopping centre, Vivocity, has commenced operation. With the anticipated development in the area around Vivocity like the St James Power Station and the eventual establishment of the Integrated Resort in Sentosa, the group is confident of this outlet's success.

In Kuala Lumpur, the group will be launching its "Conquest of Time" event in November. This is the largest sales and marketing event of its kind ever held in Malaysia and is geared towards increasing its market share there. In the run up to the event, the response from business partners has been excellent.

The Hong Kong and other North Asian economies and consumer sentiment continue to be strong. The group has stepped up its brand management activities for all its luxury brands, namely Franck Muller ("**FM**"), de Grisogono, European Watch Company, Pierre Kunz and Cvstos. The FM flagship boutique in Hong Kong Island will be enlarged and a new FM boutique in Ocean Terminal Mall in Kowloon will be opened before the end of 2006. The group also operates the de Grisogono boutique in the IFC Building in Hong Kong Island and has a FM boutique in Taipei to support its network of dealers in Taiwan.

In Macau, the group has established a FM boutique at the Landmark Hotel Macau and with the booming gaming and hospitality sector the group is well positioned to capitalise on the increasing number of visitor arrivals from the PRC.

The group continues to focus on the FM brand position in the luxury segment in the PRC. It will step up its market presence through various brand management activities to increase the awareness of the brand amongst the growing upper and middle class. It intends to relocate its FM boutique in Shanghai and is scouting for new locations in Beijing.

The group will be profitable in the third quarter.

**11. Dividend**

**(a) Current financial period reported on**

Any dividend recommended for the current financial period reported on? None

**(b) Corresponding period of the immediately preceding financial year**

Any dividend declared for the corresponding period of the immediately preceding financial year? None

**(c) Date payable**

Not applicable.

**(d) Books closure date**

Not applicable.

**12. If no dividend has been declared/recommended, a statement to that effect.**

During the current financial period, no dividend has been declared or recommended.

A final dividend and special dividend of S$0.01 (10%) and S$0.0165 (16.5%) respectively per ordinary share less tax of 20% in respect of the year ended 31 March 2006 was paid on 22 August 2006.

**13. Segmented revenue and results for business or geographical segments (of the group) in the form presented in the issuer's most recently audited annual financial statements, with comparative information for the immediately preceding year.**

Not applicable.

**14. In the review of performance, the factors leading to any material changes in contributions to turnover and earnings by the business or geographical segments.**

Not applicable.

**15. A breakdown of sales.**

Not applicable.

**16. A breakdown of the total annual dividend (in dollar value) for the issuer's latest full year and its previous full year.**

Total Annual Dividend

| | **Latest Full Year** *(S$'000)* | **Previous Full Year** *(S$'000)* |
|---|---|---|
| Ordinary | 0 | 0 |
| Preference | 0 | 0 |
| Total: | 0 | 0 |

BY ORDER OF THE BOARD
**Lim Gwee Koon**
*Company Secretary*

7 November 2006

## C STATEMENT OF ASSETS AND LIABILITIES

*The following is the statement of assets and liabilities of the Sincere Watch Group as at 30 September 2007 extracted from the unaudited second quarter financial statements of the Sincere Watch Group for the period ended 30 September 2007.*

| | Group | | Company | |
|---|---|---|---|---|
| | 30 Sep 2007 | 31 Mar 2007 | 30 Sep 2007 | 31 Mar 2007 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and bank balances | 50,784 | 52,526 | 19,958 | 18,843 |
| Trade receivables | 31,497 | 29,594 | 4,028 | 4,930 |
| Other receivables and prepaid expenses | 7,200 | 6,781 | 6,841 | 8,158 |
| Derivative financial instruments | 44 | 32 | – | 32 |
| Inventories | 215,526 | 174,466 | 46,679 | 40,836 |
| **Total current assets** | 305,051 | 263,399 | 77,506 | 72,799 |
| **Non-current assets:** | | | | |
| Property, plant and equipment | 21,443 | 18,743 | 13,124 | 12,659 |
| Investment property | 398 | 398 | 398 | 398 |
| Subsidiaries | – | – | 41,821 | 40,914 |
| Associates | 6,143 | 6,319 | 3,102 | 3,102 |
| Available-for-sale investments | 9,363 | 9,363 | 9,277 | 9,277 |
| Goodwill | 882 | 882 | – | – |
| Other intangible assets | 1,075 | 1,075 | 219 | 219 |
| Deferred tax assets | 4,469 | 4,047 | 1,177 | 990 |
| **Total non-current assets** | 43,773 | 40,827 | 69,118 | 67,559 |
| **Total assets** | 348,824 | 304,226 | 146,624 | 140,358 |

| | Group | | Company | |
|---|---|---|---|---|
| | 30 Sep 2007 | 31 Mar 2007 | 30 Sep 2007 | 31 Mar 2007 |
| | *S$'000* | *S$'000* | *S$'000* | *S$'000* |
| **LIABILITIES AND EQUITY** | | | | |
| Current liabilities: | | | | |
| Bank borrowings | 21,281 | 18,521 | – | – |
| Trade payables | 145,910 | 108,919 | 49,918 | 40,157 |
| Other payables | 21,606 | 18,302 | 5,789 | 5,674 |
| Dividend payables | – | 14,480 | – | 14,480 |
| Derivative financial instruments | 95 | 111 | 81 | 101 |
| Current portion of long-term debt | 152 | 157 | 76 | 78 |
| Income tax payable | 3,883 | 4,490 | 605 | 588 |
| **Total current liabilities** | 192,927 | 164,980 | 56,469 | 61,078 |
| **Non-current liabilities:** | | | | |
| Long-term debt | 3,000 | 3,000 | 3,000 | 3,000 |
| Finance leases | 415 | 446 | 159 | 153 |
| **Total non-current liabilities** | 3,415 | 3,446 | 3,159 | 3,153 |
| **Capital, reserves and minority interests:** | | | | |
| Share capital | 31,778 | 19,620 | 31,778 | 19,620 |
| Currency translation reserve | (5,782) | (5,499) | – | – |
| Legal reserve | 314 | 314 | – | – |
| Investment revaluation reserve | 139 | 139 | 105 | 105 |
| Accumulated profits | 114,424 | 109,728 | 55,113 | 56,402 |
| Equity attributable to equity holders of the company | 140,873 | 124,302 | 86,996 | 76,127 |
| Minority interests | 11,609 | 11,498 | – | – |
| **Total equity** | 152,482 | 135,800 | 86,996 | 76,127 |
| **Total liabilities and equity** | 348,824 | 304,226 | 146,624 | 140,358 |

*The following are the statements of assets and liabilities of the Peace Mark Group and the Sincere Watch Group for the six months ended 30 September 2007 extracted from the unaudited interim report 2007 of the Peace Mark Group prepared under HKFRS and the unaudited second quarter financial statement of the Sincere Watch Group for the period ended 30 September 2007 prepared under SFRS, respectively.*

**UNAUDITED CONSOLIDATED BALANCE SHEETS**
*As at 30 September 2007*

| | The Sincere Watch Group | | The Peace Mark Group |
|---|---|---|---|
| | **SFRS** | **SFRS** | **HKFRS** |
| | | *Equivalent** | |
| | *S$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | |
| Property, plant and equipment | 21,443 | 112,426 | 677,435 |
| Investment property | 398 | 2,087 | – |
| Freehold land and interest in leasehold land | – | – | 7,877 |
| Intangible assets | 1,957 | 10,260 | 251,452 |
| Interest in associates | 6,143 | 32,208 | 130,324 |
| Interest in a jointly controlled entity | – | – | 16,298 |
| Other financial assets | 9,363 | 49,090 | 269,171 |
| Deferred tax assets | 4,469 | 23,431 | 9,131 |
| | 43,773 | 229,502 | 1,361,688 |
| **Current assets** | | | |
| Inventories | 215,526 | 1,130,003 | 1,450,596 |
| Derivative financial instruments | 44 | 230 | 51,903 |
| Other financial assets at fair value through profit or loss | – | – | 29,938 |
| Trade receivables | 31,497 | 165,139 | 773,147 |
| Trade deposits and other receivables | 7,200 | 37,750 | 435,942 |
| Cash and bank balances | 50,784 | 266,260 | 1,813,314 |
| | 305,051 | 1,599,382 | 4,554,840 |
| **Current liabilities** | | | |
| Trade and other payables | 167,516 | 878,286 | 472,207 |
| Derivative financial instruments | 95 | 498 | 57,592 |
| Interest-bearing borrowings | 21,281 | 111,576 | 817,812 |
| Obligations under finance leases | 152 | 797 | 146 |
| Tax payable | 3,883 | 20,359 | 49,192 |
| | 192,927 | 1,011,516 | 1,396,949 |

**UNAUDITED CONSOLIDATED BALANCE SHEETS**

*As at 30 September 2007*

| | The Sincere Watch Group | | The Peace Mark Group |
|---|---|---|---|
| | **SFRS** | **SFRS** | **HKFRS** |
| | | *Equivalent** | |
| | *S$'000* | *HK$'000* | *HK$'000* |
| **Net current assets** | 112,124 | 587,866 | 3,157,891 |
| **Total assets less current liabilities** | 155,897 | 817,368 | 4,519,579 |
| **Non-current liabilities** | | | |
| Interest-bearing borrowings | 3,000 | 15,729 | 2,013,868 |
| Obligations under finance leases | 415 | 2,176 | 82 |
| Deferred tax liabilities | – | – | 12,729 |
| | 3,415 | 17,905 | 2,026,679 |
| **Net assets** | 152,482 | 799,463 | 2,492,900 |
| **Capital and reserves** | | | |
| Share capital | 31,778 | 166,612 | 104,153 |
| Reserves | 109,095 | 571,985 | 2,144,907 |
| **Equity attributable to equity holders of the company** | 140,873 | 738,597 | 2,249,060 |
| **Minority interests** | 11,609 | 60,866 | 243,840 |
| **Total equity** | 152,482 | 799,463 | 2,492,900 |

* *As at 30 September 2007: S$1 = HK$5.243*

## A EFFECT OF THE OFFER ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE ENLARGED GROUP

**Nothing in this section is, is intended to be or should be construed as, a profit forecast.**

**Net assets**

As at 31 March 2007, the audited net assets and total assets of the Peace Mark Group were approximately HK$2,036.5 million and HK$4,468.6 million, respectively. As at 31 March 2007, the audited net assets and total assets of the Sincere Watch Group were approximately S$135.8 million (HK$701.8 million) and S$304.2 million (HK$1,572.1 million) respectively. Given the Peace Mark Group's track record, its earnings ability and the synergies that may be realised by the Peace Mark Group as a result of the Offer, the Offer could improve the net assets of the Enlarged Group.

**Earnings**

The Peace Mark Group recorded an audited consolidated net profit after tax of approximately HK$304.6 million for the year ended 31 March 2007. The Sincere Watch Group recorded an audited net profit after tax of approximately S$25.4 million (HK$131.3 million) for the year ended 31 March 2007. Given the track record, earnings ability, distribution network and customer bases of the Sincere Watch Group, and the synergies that may be realised by the Peace Mark Group from the Offer, the Offer could improve the earnings of the Enlarged Group.

**Liabilities**

As at 31 March 2007, the audited cash and bank balances, and borrowings of the Peace Mark Group were approximately HK$1,460.1 million and HK$2,066.3 million respectively. As at 31 March 2007, the audited cash and bank balances and borrowings of the Sincere Watch Group were approximately S$52.5 million (HK$271.3 million) and S$22.1 million (HK$114.2 million), respectively. Given the net cash position of the Peace Mark Group and the synergies that may be realised by the Peace Mark Group as a result of the Offer, the Offer could decrease the net borrowing of the Enlarged Group, except for the external debt borrowing which is being arranged in connection with the financing of the Offer.

(As at 31 March 2007: S$1 = HK$5.168)

## B FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

**Nothing in this section is, is intended to be or should be construed as, a profit forecast.**

The proposed acquisition of a controlling shareholding in Sincere Watch will allow Peace Mark to substantially increase the scale of its operations in the luxury watch retail segment.

In particular, with the acquisition of a controlling stake in Sincere Watch, the Enlarged Group's luxury watch retail business will span a substantially greater number of stores, brands and countries and enjoy other potential benefits which are set out below.

One of the primary benefits of the possible major transaction is expected to be the ability of the Enlarged Group to enjoy better trade terms with its suppliers, in particular, potentially more favourable payment terms. This is expected to result from the Enlarged Group's increased significance amongst its suppliers and a deepening of existing relationships by combining Peace Mark's and Sincere Watch's points of contact with key suppliers.

Furthermore, the existing geographic coverage of Peace Mark is complementary to Sincere Watch's geographic coverage with minimal overlap between the two groups. The Enlarged Group is expected to become one of the largest luxury timepiece retailers in the south-east Asian region.

This in turn means that the Enlarged Group will have a geographically wide and well-diversified customer base. Revenues will also be diversified rather than being concentrated in certain locations.

The experience and expertise of Sincere Watch's key management in the building of the retail brands, particularly in the luxury segment, will be beneficial to Peace Mark. By working together and implementing complementary and effective business models and systems, it is expected that the management teams of Peace Mark and Sincere Watch will improve the performance of the business and derive synergies from combining two companies.

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND SFRS

The audited consolidated financial statements of the Sincere Watch Group for each of the three years ended 31 March 2005, 2006 and 2007 and the unaudited consolidated financial statements of the Sincere Watch Group for the six months ended 30 September 2006 and 2007 (together, the "**Sincere Watch Group Financial Information**") set forth herein have been prepared in accordance with SFRS, which differ in certain respects from HKFRS. Such differences include the methods for measuring amounts shown in the Singapore Financial Statements, as well as certain additional disclosures. For the benefit of the Shareholders, the Peace Mark Group has summarised below the differences of accounting practice between SFRS and HKFRS which may have a material impact on the financial statements of the Sincere Watch Group. No attempt has been made to quantify the impact of the differences.

### Income taxes

Under SFRS, no deferred tax is accounted for a temporary difference arising from foreign income not yet remitted to Singapore if: (a) the entity is able to control the timing of the reversal of the temporary difference; and (b) it is probable that the temporary difference will not be reversed in the foreseeable future. Under HKFRS, deferred tax is required to be accounted for a temporary difference arising from unremitted foreign income.

### Leases

SFRS allows leasehold land to be treated as finance leases and leased assets to be recorded as an item of property, plant and equipment or investment property, which can be carried using the cost or revaluation/fair value model. Under HKFRS, such leasehold land, other than leasehold land held by a lessor as investment property which can be stated at cost or at valuation, is treated as a prepaid lease payment which cannot subsequently be re-measured and carried at the revaluation/fair value model.

### Revenue

Under SFRS, the equity interest on an uncompleted property is considered to have passed to the buyer of the property upon entry into the sale and purchase agreement. Accordingly, revenue and cost of sales on such a property is recognised on a percentage of completion basis. Under HKFRS, such revenue is recognised upon completion of the relevant sale and purchase agreement, that is when the relevant property has been completed and delivered to the purchaser pursuant to the relevant sale and purchase agreement.

### Financial Instruments: Presentation

SFRS allows certain costs incurred in an initial public offering to be deducted against equity under Recommended Accounting Practice 9. Under HKFRS, these costs may be required to be included in the income statement.

**Employee Benefits**

SFRS 19 "Employee Benefits" is consistent with HKFRS in all material aspects except for HK(IFRIC)-Int 14 "Defined Benefit Assets and Minimum Funding Requirements".

**Consolidated and Separate Financial Statements**

SFRS requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements that are available for public use. These consolidated financial statements need not comply with any specific accounting framework.

HKFRS requires the ultimate holding company or any intermediate parent of a company that seeks exemption from consolidation to produce consolidated financial statements available for public use that comply with International Financial Reporting Standards or HKFRS.

**Investments in Associates**

SFRS 28 "Investments in Associates" is consistent with HKFRS in all material aspects, except in one of the conditions for exemption from equity accounting. The dissimilarity is as identified in SFRS 27 "Consolidated and Separate Financial Statements".

**Interests in Joint Ventures**

SFRS 31 "Interests in Joint Ventures" is consistent with HKFRS in all material aspects, except in one of the conditions for exemption from proportionate consolidation or equity accounting. The dissimilarity is as identified in SFRS 27 "Consolidated and Separate Financial Statements".

The following SFRS are consistent with HKFRS in all material aspects except for the transitional arrangements and effective dates:

- Property, Plant and Equipment
- Impairment of Assets
- Intangible Assets
- Financial Instruments: Recognition and Measurement
- Financial Instruments: Disclosures
- Investment Property

- Share-based Payments
- Business Combinations

The following interpretations of SFRS are consistent with HKFRS in all material aspects except for the transitional arrangements and effective dates:

- Introduction of the Euro
- Government Assistance – No Specific Relation to Operating Activities
- Consolidation – Special Purpose Entities
- Jointly Controlled Entities – Non-Monetary Contribution by Ventures
- Operating Leases – Incentives
- Income Taxes – Recovery of Revalued Non-Depreciable Assets
- Income Taxes – Changes in the Tax Status of an Entity or its Shareholders
- Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- Disclosure: Service Concession Arrangements
- Service Concession Arrangements: Disclosures
- Revenue – Barter Transactions Involving Advertising Services
- Intangible Assets – Web Site Costs
- Changes in Existing Decommissioning, Restoration and Similar Liabilities

The following interpretations were issued under HKFRS but have not yet been adopted in Singapore:

- Members' Shares in Co-operative Entities and Similar Instruments
- Customer Loyalty Programmes
- Defined Benefit Assets and Minimum Funding Requirements

## 1 RESPONSIBILITY STATEMENT

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

## 2 PEACE MARK DIRECTORS AND SENIOR MANAGEMENT PROFILES

### 2.1 Board of Directors

**Mr. CHAU Cham Wong, Patrick**, Chairman, 58, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. Mr. Chau has been with the Peace Mark Group for over 15 years, bringing with him over 33 years' experience in the timepiece industry. He served as the director of the Hong Kong Watch Manufacturers Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He was also the former adviser 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, 60, is responsible for the Peace Mark Group strategic planning business development, marketing and product research and development, as well as coordinating overall business operations. He has been with the Peace Mark Group since it was founded and has over 40 years' experience in the timepiece industry. He is the President of the Hong Kong Watch Manufacturers Association.

**Mr. TSANG Kwong Chiu, Kevin**, Chief Financial Officer, 40, is responsible for the accounting and overall financial management, corporate finance and investor relations function of the Peace Mark Group. Mr. Tsang holds a Master of Business Administration degree from the University of Hull and a Masters 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 18 years' experience in accounting and finance.

**Mr. MAN Kwok Keung**, Technical Director, 60, 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 24 years' experience in production management in the timepiece industry. He has been with the Peace Mark Group since it was founded.

**Mr. CHENG Kwan Ling**, Director, 57, is responsible for the general management and finance of Peace Mark 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 32 years' experience in accountancy and general management and has been with the Peace Mark Group for about 20 years.

### 2.2 Independent Non-executive Directors

**Ms. SO Susan**, Independent Non-executive Director, 54, is the Managing Director of Guo Ye Holdings Co., Limited, the principal activities of which are investment holding and the provision of investment consultancy services covering, among others, telecommunications, media and 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 the United States of America and the PRC.

**Mr. KWOK Ping Ki, Albert**, Independent Non-executive Director, 73, is a former Director of the Electrical and Mechanical Services of the Hong Kong Government and retired from the position in 1993. Mr. Kwok served as the Secretary and Director General of the Hong Kong Institution of Engineers until February 2002. He holds a Master of Business Administration degree. He has extensive experience in business administration and in professional engineering practice.

**Mr. TANG Yat Kan**, Independent Non-executive Director, 57, is a partner of Hastings & 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 25 years and is experienced in the fields of conveyancing and civil litigation.

**Mr. WONG Yee Sui, Andrew**, Independent Non-executive Director, 58, 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 the 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, 65, 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 adviser to SG Asset Management (Hong Kong) Limited, the asset management arm of Société Générale.

## 3 DISCLOSURE OF INTERESTS

### (a) Interests of Directors in the Company and its associated corporations

As at the Latest Practicable Date, the following Directors, including Mr. Leung Yung, the Chief Executive Officer of the Company, were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares of equity derivatives and debentures of Peace Mark or any associated corporation (within the meaning of the SFO) which: (a) were required to be notified to Peace Mark and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to Peace Mark and the Stock Exchange:

Long positions in shares of Peace Mark:

| 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 | 298,660,459 | 28,416,795 *(Note 1)* | 39,600,000 *(Note 3)* | 432,308,331 | 41.51 |
| Leung Yung | – | 327,077,254 | 65,631,077 *(Note 2)* | 39,600,000 *(Note 3)* | 432,308,331 | 41.51 |
| Tsang Kwong Chiu, Kevin | 1,598,353 | – | – | 1,600,000 *(Note 3)* | 3,198,353 | 0.31 |
| Cheng Kwan Ling | 593,904 | – | – | 550,000 *(Note 3)* | 1,093,904 | 0.11 |
| Man Kwok Keung | 300,000 | – | – | 550,000 *(Note 3)* | 850,000 | 0.08 |
| Tang Yat Kan | 350,000 | – | 10,000 *(Note 4)* | 300,000 *(Note 3)* | 660,000 | 0.06 |
| Kwok Ping Ki, Albert | 300,000 | – | – | 300,000 *(Note 3)* | 600,000 | 0.06 |
| Mak Siu Wing, Clifford | 250,000 | – | – | 350,000 *(Note 3)* | 600,000 | 0.06 |
| Wong Yee Sui, Andrew | 50,000 | – | – | 475,000 *(Note 3)* | 480,000 | 0.05 |
| Susan So | – | – | – | 350,000 *(Note 3)* | 350,000 | 0.03 |

*Notes:*

1. Mr. Chau Cham Wong, Patrick, the Chairman, 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 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 432,308,331 shares of the Company.

2. Mr. Leung Yung, the Chief Executive Officer, has 49.55% voting control of A-One Investments Limited and 100% voting control of United Success Enterprises Limited, both of which were 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 432,308,331 shares of the Company.

3. These interests represent the interests in underlying shares of the Company in respect of share options granted by the Company to these Directors as beneficial owners.

4 Mr. Tang Yat Kan was deemed to be interested in 10,000 shares of the Company as these shares are held by his spouse (who is not a Director of the Company).

Save as disclosed in this Circular, as at the Latest Practicable Date, none of the Directors of Peace Mark including Mr. Leung Yung, the Chief Executive Officer, were interested, or were deemed to be interested in any long and short positions in the shares, underlying shares of equity derivatives and debentures of Peace Mark or any associated corporation (within the meaning of the SFO) which: (a) were required to be notified to Peace Mark and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to Peace Mark and the Stock Exchange.

**(b) Interests in Peace Mark Options**

As at the Latest Practicable Date, the interests in Peace Mark Options held by the Directors of Peace Mark are set out below:

| Name | Number of Peace Mark Options |
|---|---|
| Chau Cham Wong, Patrick | 19,800,000 |
| Leung Yung | 19,800,000 |
| Tsang Kwong Chiu, Kevin | 1,600,000 |
| Man Kwok Keung | 550,000 |
| Cheng Kwan Ling | 550,000 |
| Susan So | 350,000 |
| Kwok Ping Ki, Albert | 300,000 |
| Wong Yee Sui, Andrew | 475,000 |
| Tang Yat Kan | 300,000 |
| Mak Siu Wing, Clifford | 350,000 |

**(c) Dealings in Peace Mark Shares and Peace Mark Options**

(i) The dealings in Peace Mark Shares by the Directors of Peace Mark during the Reference Period are set out below:

| Name | Date | Number of Peace Mark Shares Acquired | Number of Peace Mark Shares Sold | Average Transaction Price per Peace Mark Share *(HK$)* |
|---|---|---|---|---|
| Wong Yee Sui, Andrew | 26 October 2007 | – | 20,000 | 12.4 |
| Wong Yee Sui, Andrew | 25 October 2007 | – | 50,000 | 12.3 |
| Susan So | 24 October 2007 | – | 250,000 | 12.2 |

(ii) The dealings in Peace Mark Options by the Directors of Peace Mark during the Reference Period are set out below:

| Name | Date of Grant/ Exercise of Peace Mark Options | Number of Peace Mark Options Granted/ Exercised | Exercise Price of Peace Mark Options | Holdings in Peace Mark Options after the Dealing |
|---|---|---|---|---|
| Tsang Kwong Chiu, Kevin | 28 September 2007 | 750,000 Peace Mark Options exercised | 2.175 | 1,600,000 |
| Cheng Kwan Ling | 28 September 2007 | 50,000 Peace Mark Options exercised | 7.55 | 550,000 |
| Man Kwok Keung | 14 September 2007 | 50,000 Peace Mark Options exercised | 7.55 | 550,000 |

**(d)** The Directors of the Offeror comprise Mr. Chau Cham Wong, Patrick, Mr. Leung Yung and Mr. Tsang Kwong Chiu, Kevin, who are also Directors of Peace Mark. Details of their interests in Peace Mark Shares and Peace Mark Options are set out above.

**(e) Interests of Substantial Shareholders in the Company**

The register of interests in shares and short positions of substantial shareholders maintained under Section 336 of the SFO shows that, as at the Latest Practicable Date, the Company had been notified that the following persons were interested in five per cent. or more of the Company's issued share capital:

(i) United Success Enterprises Limited;

(ii) A-One Investments Limited; and

(iii) Lloyd George Investment Management (Bermuda) Ltd.

Other than as disclosed in this Circular, the Directors of the Company are not aware of any person as at the Latest Practicable Date who had an interest or short position in the shares or underlying shares of equity derivatives of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was interested, directly or indirectly, in five per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Peace Mark Group.

**(f)** As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been acquired, disposed of by, or leased to, or are proposed to be acquired or disposed of by, or leased to Peace Mark or any of its subsidiaries since 31 March 2007 (the date to which the latest published audited consolidated financial statements of the Peace Mark Group were drawn up).

**(g)** Save as disclosed herein, there is no contract or arrangement subsisting at the Latest Practicable Date in which any of the Directors is materially interested and which is significant in relation to the business of the Peace Mark Group.

**(h) Shareholdings and Dealings in Sincere Watch Shares**

(i) As at the Latest Practicable Date, none of Peace Mark, the Offeror and their Concert Parties owns, controls, or has agreed to acquire any (a) Sincere Watch Shares, (b) securities which carry voting rights in Sincere Watch, (c) securities which are convertible into Sincere Watch Shares, or (d) rights to subscribe for, or options in respect of, such Sincere Watch Shares or securities.

(ii) As at the Latest Practicable Date, none of Peace Mark, the Offeror and their Concert Parties has dealt for value in any (a) Sincere Watch Shares, (b) securities which carry voting rights in Sincere Watch, (c) securities which are convertible into Sincere Watch Shares, or (d) rights to subscribe for, or options in respect of, such Sincere Watch Shares or securities during the Reference Period.

**(i) Shareholdings of the Major Shareholder**

As at the Latest Practicable Date, the Major Shareholder was interested in 104,719,307 Sincere Watch Shares, and had no interest in any Peace Mark Shares.

## 4 SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with Peace Mark, or any of its subsidiaries, which is not expiring or determinable within one year without payment of compensation (other than statutory compensation).

## 5 MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Peace Mark Group within the two years preceding the date of this Circular which are or may be material:

(a) the Major Shareholder Irrevocable Undertaking;

(b) the Controlling Shareholders Irrevocable Undertaking;

(c) the Break Fee Agreement; and

(d) a term loan agreement: on 22 June 2007, Peace Mark (Holdings) Limited entered into a facility agreement with ABN AMRO Bank N.V., Hong Kong Branch, ING Bank N.V. and other international banks and financial institutions as lenders in relation to a term loan in an aggregate amount of HK$1,200,000,000. The term loan is for a term of 48 months.

## 6 LITIGATION

As at the Latest Practicable Date, no material litigation or claims are threatened or pending against the Peace Mark Group, and the Directors, having made all reasonable enquiries, are not aware that any such material litigation or claims are pending or threatened against the Peace Mark Group.

As at the Latest Practicable Date, the directors, having made all reasonable enquiries by carrying out a search of the public records of Lawnet Service Bureau (in Singapore) for the years 2005, 2006, 2007 and 2008 up to the Latest Practicable Date (where such information has not been verified by Sincere Watch) are not aware of any material litigation or claims that are threatened or pending against the Sincere Watch Group in Singapore.

## 7 MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Peace Mark Group since 31 March 2007 (being the date to which the latest audited financial statements of the Peace Mark Group were drawn up).

## 8 INFORMATION ON PEACE MARK SECURITIES

(a) As at the Latest Practicable Date, the authorised share capital of Peace Mark is HK$600,000,000 comprising 6,000,000,000 ordinary shares of HK$0.10 each and the issued share capital of Peace Mark is HK$104,248,428, comprising 1,042,484,280 ordinary shares of HK$0.10 each.

(b) As at 31 March 2007, being the end of Peace Mark's last financial year, Peace Mark had issued 993,080,780 Peace Mark Shares. Since 31 March 2007, Peace Mark has issued a further 49,403,500 Peace Mark Shares.

(c) As at the Latest Practicable Date, there are 90,951,500 Peace Mark Options in issue in respect of 90,951,500 Peace Mark Shares and the outstanding Peace Mark Options which were granted, the exercise prices at which such Peace Mark Options may be exercised and the periods during which such Peace Mark Options are exercisable are set out below:

| Number of Peace Mark Options | Exercise Price per Peace Mark Option *(HK$)* | Exercise Period |
|---|---|---|
| 28,153,500 | 2.175 | 19 June 2006 – 19 June 2010 |
| 2,000,000 | 4.760 | 1 September 2007 – 31 August 2010 |
| 39,600,000 | 5.370 | 1 September 2007 – 31 March 2012 |
| 600,000 | 7.550 | 19 September 2007 – 19 March 2009 |
| 20,498,000 | 7.060 | 8 September 2007 – 8 March 2009 |
| 100,000 | 9.580 | 22 February 2008 – 22 August 2009 |

Save as disclosed in this Circular, as at the Latest Practicable Date, there are no outstanding instruments convertible into rights to subscribe for, and options in respect of, Peace mark Shares which carry voting rights affecting Peace Mark Shares.

(d) During the three years prior to the date of the Pre-conditional Offer Announcement, Peace Mark has not undergone any re-organisation of capital.

## 9 MARKET PRICES

(i) The table below sets out the closing prices of Sincere Watch Shares as quoted on SGX-ST on (a) the last trading day of each of the calendar months during the period commencing six months preceding the date of the Pre-conditional Offer Announcement, being 7 December 2007, and ending on the Latest Practicable Date, (b) 6 December 2007, being the latest business day immediately preceding the date of the Pre-conditional Offer Announcement, and (c) 11 January 2008, being the Latest Practicable Date:

| | **Closing price** *(S$)* |
|---|---|
| 29 June 2007 | 1.45 |
| 31 July 2007 | 1.81 |
| 31 August 2007 | 1.80 |
| 28 September 2007 | 1.79 |
| 31 October 2007 | 1.94 |
| 30 November 2007 | 2.20 |
| 6 December 2007 | 2.32 |
| 31 December 2007 | 2.50 |
| 11 January 2008 | 2.50 |

The highest and lowest closing prices at which Sincere Watch Shares were traded on the Stock Exchange in the six-month period immediately prior to the date of the Pre-conditional Offer Announcement (that is, starting from 7 June 2007) and up to and including the Latest Practicable Date were S$2.51 on 27 December 2007 and 28 December 2007 and S$1.28 on 12 June 2007 and 14 June 2007, respectively.

(ii) The table below sets out the closing prices of Peace Mark Shares as quoted on the Stock, Exchange on (a) the last trading day of each of the calendar months during the period commencing six months preceding the date of the Pre-conditional Offer Announcement, being 7 December 2007, and ending on the Latest Practicable Date, (b) 6 December 2007, being the latest business day immediately preceding the date of the Pre-conditional Offer Announcement, and (c) 11 January 2008, being the Latest Practicable Date:

| | **Closing price** *(HK$)* |
|---|---|
| 29 June 2007 | 10.68 |
| 31 July 2007 | 12.30 |
| 31 August 2007 | 11.60 |
| 28 September 2007 | 11.58 |
| 31 October 2007 | 12.66 |
| 30 November 2007 | 11.52 |
| 6 December 2007 | 13.02 |
| 31 December 2007 | 12.56 |
| 11 January 2008 | 12.76 |

The highest and lowest closing prices at which Peace Mark Shares were traded on the Stock Exchange in the six-month period immediately prior to the date of the Pre-conditional Offer Announcement (that is, starting from 7 June 2007) and up to and including the Latest Practicable Date were HK$13.84 on 23 July 2007 and HK$8.80 on 17 August 2007, respectively.

## 10 OTHER MATERIAL INFORMATION

There is no other material information relating to Sincere Watch of which the Company is aware of and free to disclose.

## 11 PROCEDURES TO DEMAND A POLL AT THE SPECIAL GENERAL MEETING

Subject to and in accordance with Bye-law 66 of the Company's Bye-laws, every resolution put to the vote at a Shareholders' meeting shall be decided on a show of hands unless voting by way of a poll is required by the Listing Rules or (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll), a poll is demanded:

(i) by the chairman of the meeting; or

(ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(iv) by a member or members present in person or by proxy and holding shares conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right; or

(v) by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. or more of the total voting rights at such meeting.

If a poll is demanded in the manner aforesaid, it shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time, not more than 30 days from the date of demand, and place as the chairman directs. The results of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

## 12 MISCELLANEOUS

(a) As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates has any interest in any business which competes or is likely to compete with the business of the Peace Mark Group.

(b) The Company Secretary of Peace Mark is Ms. Fong Ho Yan.

(c) The Qualified Accountant of Peace Mark is Mr. Tsang Kwong Chiu, Kevin.

(d) The registered office of Peace Mark is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda, and the head office is at Unit 3, 12/F, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong.

(e) The Principal Share Registrar and Transfer Office is The Bank of Bermuda Limited, Bank of Bermuda Building, 6 Front Street, Hamilton HM11, Bermuda.

(f) The Share Registrar and Transfer Office (Hong Kong Branch) is Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(g) The English text of this Circular shall prevail over the Chinese text in case of any inconsistency.

## 13 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office in Hong Kong of Peace Mark on any week day (except public holidays) up to and including 1 February 2008:

(a) the Announcement and the Pre-conditional Offer Announcement;

(b) the memorandum of association and Bye-laws of Peace Mark;

(c) the annual reports of Peace Mark for the years ended 31 March 2006 and 31 March 2007;

(d) the interim reports of Peace Mark for the six months ended 30 September 2006 and 30 September 2007;

(e) the material contracts referred to in paragraph 5 above; and

(f) this Circular.

# Peace Mark (Holdings) Limited

*(Incorporated in Bermuda with limited liability)*
Stock Code: 0304

**NOTICE IS HEREBY GIVEN** that a special general meeting of Peace Mark (Holdings) Limited ("**Peace Mark**" or the "**Company**") will be held at The President and Chairman room, World Trade Centre Club, 38th Floor, World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong on Friday, 1 February 2008 at 10:00 a.m. for the purpose of considering and, if thought fit, passing (with or without modification) the following resolutions as Ordinary Resolutions:

"**THAT**:

1. the making of the voluntary pre-conditional general offer by A-A United Limited, an indirect wholly-owned subsidiary of the Company (the "**Offeror**"), under the Singapore Code on Take-overs and Mergers (the "**Singapore Takeovers Code**"), for all the issued shares of Sincere Watch Limited ("**Sincere Watch**") other than those shares of Sincere Watch (if any) already owned, controlled or agreed to be acquired by the Offeror or any party acting or presumed to be acting in concert with it (within the meaning ascribed to that term under the Singapore Takeovers Code), subject to the satisfaction of the pre-conditions as set out in paragraph 3.2 of the Letter from the Company in the Circular issued by the Company to its shareholders dated 16 January 2008 and on the terms outlined in the Circular (the "**Offer**") be and is hereby authorised and approved;

2. the participation by the Company in the Offer be and is hereby approved;

3. any Director be and is hereby authorised to take any action on behalf of the Company he considers necessary, desirable or expedient in connection with the Offer, including without limitation (i) directing the Offeror in connection with the Offer, (ii) taking any action in connection with the listing of new ordinary shares of HK$0.10 each in the Company on the Stock Exchange of Hong Kong Ltd., and (iii) taking any action in connection with the matters contemplated by these resolutions, including executing and delivering such agreements, documents and instruments (including witnessing the affixing of the Company's seal thereto) in such forms and containing such terms as such person executing the same may think fit; and

4. any and all past actions by the Directors of the Company which they may deem or have deemed in their sole discretion to be useful, necessary or conducive with respect to any of the matters contemplated by these resolutions be and are hereby authorised, approved and, to the extent necessary, ratified and confirmed."

By order of the Board
**Peace Mark (Holdings) Limited**
**Ms. Fong Ho Yan**
*Company Secretary*

Dated: 16 January 2008

*Notes:*

1. Any shareholder entitled to attend and vote at the special general meeting convened by the above notice is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of Peace Mark.

2. A form of proxy for the special general meeting is enclosed. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of the power of attorney or other authority must be deposited at Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the special general meeting or any adjourned meeting should they so wish.

3. Any shareholder entitled to attend and vote at the special general meeting convened by the above notice who has a material interest in the proposed Offer and his associates must abstain from voting on the resolutions set out in the above notice to approve the proposed Offer.