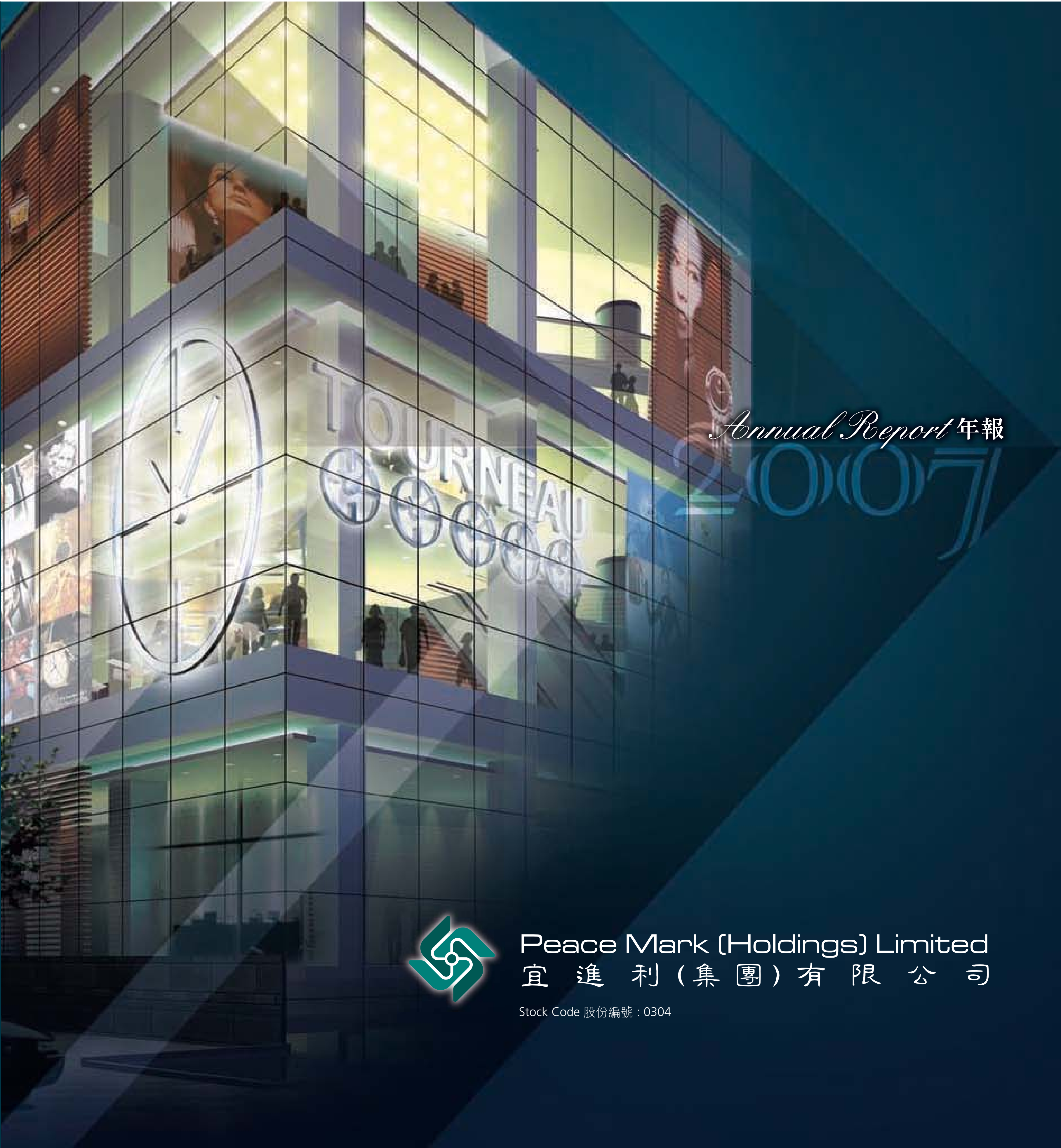
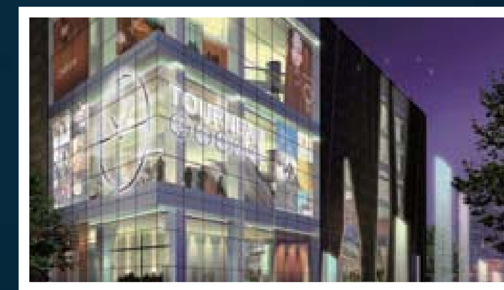


Annual Report 年報 2007



The Largest Luxury Watch Store in China

全中國最大的名表店

Premier location:
Housed in the most luxurious serviced apartment in Beijing at the centre of CBD, next to the six-star Kunlun Hotel and embassies.

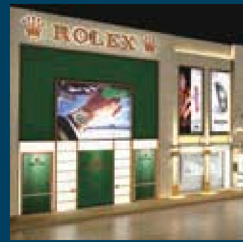
優越地理位置：
座落於北京CBD 中心區及全北京最高級的服務式住宅大廈，毗鄰著名六星級崑崙飯店及使館區

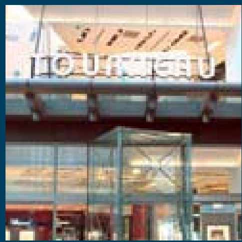
Kunlun Gallery, Beijing 北京崑崙滙店
No. A2, Xinyuan South Road, Chaoyang District, Beijing
北京市朝陽區新源南路甲二號一樓及二樓

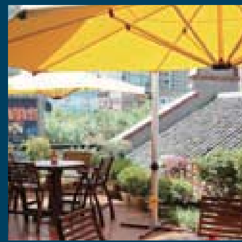
Peace Mark (Holdings) Limited
宜進利（集團）有限公司

Stock Code 股份編號：0304

Contents







PEACE MARK (HOLDINGS) LIMITED

A leading manufacturer, **distributor** and **retailer** in the timepiece industry

Peace Mark has expanded its business worldwide over the years since its founding in 1983. With strong design capability, the Group distributes and sells international brand name timepieces to major markets including the USA, China, Europe and other Asian countries, supported by superior after-sales services.

Headquartered in Hong Kong, Peace Mark boasts an extensive fashion watch retail network TimeZone for the mid-range market in the Greater China Region as well as with the premium joint-venture Peace Mark Tourneau and strategic partnerships with local players to lead its retailing business of luxury watches in the Chinese mainland. In a further diversification, the Group has expanded into the high-end jewellery market. Its advanced production facilities are located in Hong Kong, Shenzhen and Shanghai, China, and Bienne, Switzerland, employing more than 5,000 staff.

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

Business Model

Peace Mark (Holdings) Limited

RETAIL

Luxury

Tourneau

Joint Venture Stores

Mono-brand

Mid-Range

TimeZone

Mono-brand

SUPPLY CHAINS MANAGEMENT

Manufacturing

Complete Watches

Mechanical Movements

Distribution

United States

Europe

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-Executive Directors

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

COMPANY SECRETARY

Ms. Fong Ho Yan, FCCA, HKICPA

HEAD OFFICE

Hong Kong

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

PRODUCTION FACILITIES

China

107 Shui Ku Lu
Fenghuang Gang
Xixiang, Baoan
Shenzhen, PRC

Block 9 & Block 12
Tong Fu Cun Gong Ye Yuan
Da Lang Cun
Long Hua Zhen
Baoan
Shenzhen, PRC

Third Gong Ye Qu
Bitou Estate
Songgang Baoan
Shenzhen, PRC

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

32 Wudong Road
Yangpu District
Shanghai, PRC

Swiss

Route de Reuchenette 19
2502 Bienne
Switzerland

WEBSITE

http://www.peacemark.com

REGISTERED OFFICE

Clarendon House, Church Street
Hamilton HM 11
Bermuda

STOCK INFORMATION

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

STOCK CODE

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

INVESTOR RELATIONS

Corporate Communications Department
– General
Investor Relations Department
– Investor Relations
Peace Mark (Holdings) Limited
Unit 3, 12th Floor,
Cheung Fung Industrial Building
23-39 Pak Tin Par Street
Tsuen Wan, Hong Kong
Email: ccd@peacemark.com
ir@peacemark.com

Corporate Information

PRINCIPAL BANKERS

ABN AMRO Bank N.V.
Agricultural Bank of China
Bank of China
BNP Paribas
China Construction Bank
ING Bank N.V.
Hang Seng Bank
HSH Nordbank AG
HVB AG
Merrill Lynch
Standard Chartered Bank
Sumitomo Mitsui Banking Corporation

AUDITORS

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

LEGAL ADVISORS

Huen Wong & Co. in association with
Fried, Frank, Harris, Shriver & Jacobson LLP
9th Floor, Gloucestor Tower
The Landmark
15 Queen's Road Central
Hong Kong

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

SHARE REGISTRARS AND TRANSFER OFFICES

In Hong Kong:

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

In Bermuda:

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

65 LUXURY WATCH STORES

01 Urumqi
02 Xian
03 Chengdu
04 Chongqing
05 Kunming
06 Nanning
07 Zhangjiang
08 Haikou
09 Foshan
10 Beijing
11 Changsha
12 Guangzhou
13 Shenzhen
14 Hong Kong
15 Macau
(to be opened)
16 Shenyang
17 Qingdao
18 Shanghai
19 Ningbo

(as at 31 March 2007)


BOUCHERON
PARIS
VACHERON CONSTANTIN
PIAGET
OMEGA
ROLEX
Cartier
Glashütte
ORIGINAL
IWC
SCHAFFHAUSEN
万国表
MILUS
SWISS MADE SINCE 1919

Brands
Mid-range

850 POINT OF SALES

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

(as at 31 March 2007)

Expanding Horizons

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

389 5th Avenue
Suite 302
New York

Panama
Apartado 2034
Zona Libre de Colon
Republic of Panama

Switzerland
Route de Reuchenette 19
2502 Bienne

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

Italy
Via Colli, 3-10128 Toriono
Italy
C.F. – P. Iva 09532240018

Germany
Zahringerallee 25
DE 75177 Pforzheim

Schlop Street 23,
D-82031 Grunwald
Postfach 1341

China
Unit 1, 10/F, Silvercord Tower 1
30 Canton Road
Tsim Sha Tsui
Kowloon
Hong Kong

Suite 602B, West Wing
Tsim Sha Tsui Centre
66 Mody Road
Kowloon
Hong Kong

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

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

Unit 05 – 06, 19/F, Shenhua Tower
2018 Nanhu Road
Shenzhen

Flat F, 16/F, Shui Chan Building
3131 Ren Min North Road
Shenzhen

Room 1905
308 Da Tak Road
Guangzhou

Room 1501
15A Shuguang Building
189 Puan Road
Shanghai

Unit 08, 11/F, Metro Tower
30 Tian Yao Qiao Road
Xu Hui District
Shanghai

Unit 11, 5/F, Tower A
Fortune Plaza
7 Dong San Huan Zhong Road
Chaoyang District
Beijing

221 Pipashan Zhengjie
Yuzhong District
Chongqing

Room 12B10,
Donghai Shuguang Building
455 Zhongshan Road
Ningbo

65, Zhongshan Road
Heping District
Shenyang

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

Japan
Room 1122, Kasumigaseki Building
No. 3-2-5, Kasumigaseki
Chiyoda-Ku
100-6011 Tokyo

Events Calendar 2006

JULY

Hong Kong	Catwalk show of EEC TimeZone

AUGUST

▶ ***Shanghai***	Two new high-end luxury Tourneau stores in Xintiandi and Jinmao Tower
▶ ***Hong Kong***	Brands promotions in MTR stations
Shenzhen	The largest Omega boutique in Shenzhen and Solomon store in King Glory Plaza
▶ ***Hong Kong***	Opening ceremony of MILUS first-ever flagship store
▶ ***Shenzhen***	Opening ceremony of Tissot flagship store in Sun Plaza
Taipei	New TimeZone and EEC TimeZone stores in Taiwan

SEPTEMBER

Shanghai	MILUS as the strategic cooperative partner of the musical 'The Lion King'
Shanghai	The largest Rolex & Tudor store in China
▶ ***Hong Kong***	Participated in "Hong Kong Watch & Clock Fair 2006"
▶ ***Hong Kong***	Appointed Mr. Francis Gouten as Consultant of Luxury Watch Division
Shanghai	Participated in "International Top Marques Show Zhejiang"
Ningbo	Tissot Product Launch "T-Wave Collection"
Shanghai	MILUS Watch Show in Jinmao Tower

OCTOBER

Shenzhen New luxury stores in Coco Park

Shanghai Participated in "Top Marques in Shanghai 2006"

Shanghai Participated in "The 16th China International Watch Show"

Shanghai Antiquorum Watch Preview: Important Collectors' Wristwatches, Pocket Watches & Clock

NOVEMBER

Shanghai Breitling Emergency Misson party

DECEMBER

Shanghai MILUS Highly Personal party

Shanghai Van Cleef & Arpels VIP party

Beijing New Rolex boutique in The Place

Shenzhen Participated in "Shenzhen Top Show"

► ***Shanghai*** "The Red on Black & White Glamour" countdown party at Tourneau store

Events Calendar 2007

JANUARY

Chongqing Participated in "Chongqing China International Watch & Jewellery Show"

Beijing An exclusive preview to the Rolex "Crown Collection" of fine timepieces

FEBRUARY

Shanghai Brand Promotion: Porsche Design first-ever in Shanghai

▶ **Hong Kong** The first Rolex & Tudor store in Canton Road, Tsim Sha Tsui

MARCH

Hong Kong Participated in "Hong Kong International Jewellery Show 2007"

Beijing "IWC Watch Show" in Kunlun Gallery

APRIL

Switzerland Participated in "Baselworld 2007 - The Watch and Jewellery Show"

▶ **Switzerland** MILUS "Highly Personal Evening" A new star on the Basel Horizon – MEREA TRIRETROGRADE

Chongqing New Rolex boutique in Jiefangbei

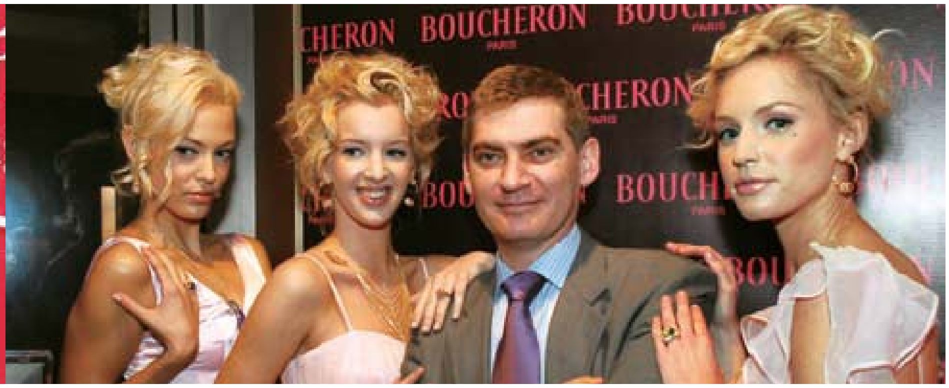
Beijing New Rolex boutique in Shin Kong Place

Beijing Cross cover event with Beijing property compnay

Shenzhen Participated in "18th China Watch Jewellery & Gift Fair"

Hong Kong Participated in "Hong Kong Gifts & Premium Fair"

▶ **Shenzhen** Opening Ceremony of Ernest Borel in Coco Park



MAY

Beijing	Cross over event with high-end luxury magazine
Beijing	Glashutte Event
Shanghai	Ulysse Nardin Watch Show in the yacht
Shanghai	Antiquorum Watch Preview: Important Collectors' Wristwatches, Pocket Watches & Clock

JUNE

Shanghai	Participated in "Shanghai Millionaire Fair"
Ningbo	Mido Watch Show
Beijing	Partipated in "Kunlun Galley" Opening Ceremony
Lanzhou	New Citizen in Lauzhou
Hong Kong	Participated in "Hong Kong Jewellery & Watch Fair"
Shanghai	Tommy Hilfiger "Colour Adventure" press conference
Shenzhen	Casio Watch Show
▶ ***Hong Kong***	Boucheron launched the distinctive "Exquises Confidences" collection
Hong Kong	New TimeZone in Mongkok

JULY

Hong Kong	Peace Mark and Boucheron announced agreement for development plans for China market

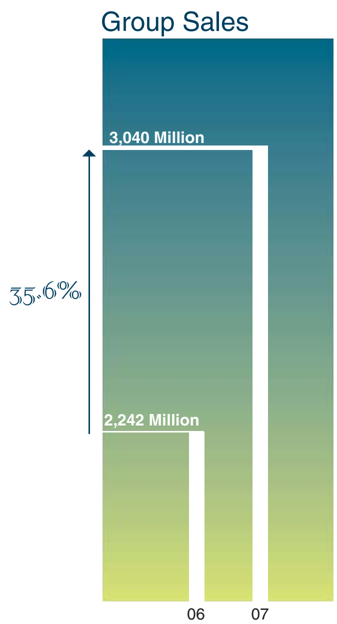
Dividends

+41%

Mr. CHAU Cham Wong, Patrick
CHAIRMAN

Chairman's Statement

Grasp the golden moment to tap the growing wealth and spending power of Chinese mainland consumers.



Dear Shareholders,

Both organic and acquisitive growth contributed strong operating results in 2007. Group sales increased significantly to HK$3,040 million, a gain of 35.6%. China mid-and luxury-markets are the key growth drivers. We achieved above-market growth rate.

Earnings per share recorded an increase of 37% to HK30.28 cents. The final dividend per share proposed by the Board is HK6.2 cents representing a payout ratio of 35%.

We are pursuing a distinctive strategy with a twin focus on both organic and acquisitive growths. Nevertheless, we strive to maintain a right balance between them. Peace Mark aspires to be distinctive in its ability to drive value creation through expanding in the China distribution and retailing. More specifically, Peace Mark is pursuing industry leadership in the form of vertical integrated watch company in China.

We have a dynamic organization structure. We adopt the strategy to form strategic alliances with various partners for accelerating the expansion plans. The business partners are experts in their field of expertise from brand management to network operation. Combined strengths of our partners and Peace Mark become our major competitive advantages in the market.

Evolving consumer needs and market dynamics are the key drivers of changes in market demand that is bound to grow as a result of increasing consumer spending per capita and increasing consumer sale of Mainland China.

Chairman's Statement

Tourneau, The Place, Beijing

TimeZone, Parkson, Tianjin

Achieving our ambitions will require us to continue to demonstrate strong financial commitment to investing in the capital expenditures, acquisition capex and working capital. A well-balanced capital structure is what we strive to achieve from time to time. In July 2007, we have successfully raised a HK$1.2 billion syndicated loan with evolving and 4-year term loan facilities at an interest rate spread of 46 basis-points over Hibor.

We are committed to maintaining investor relationship and promoting corporate governance. This is tribute to our continuous effort in improving the investor relationship. We are also very pleased that highly respected magazines, including "*Asiamoney*", have included us as the "Best managed mid-cap in Asia". We were selected as one of the "Best Investor Relations Officer" and "Most Progress in Investor Relations".

LOOKING FORWARD

We continue to anticipate market trends and adjust and refine our strategy.

We are in for a long boom in the fashion and luxury watch and jewellery markets in China. Wealth effect arising from booming stock and real estate markets has further stimulated the spending mood of the Chinese consumers. The Beijing Olympic Games in 2008 and the Shanghai 2010 Expo will definitely provide additional boosts to the retail market and be the solid growth drivers of the watch market in the medium term.

Given higher industry visibility in the luxury end, Peace Mark has been the candidate for partnering with various brands for expansion in China retail market.

Chairman's Statement

Growth momentum will sustain. Building on the momentum of profitable growth, we will continue to invest in promising partnerships. The acquisitions done in the past will pay off. Expanding into jewellery will be a logical extension given the strong growth in the spending of female population.

We continue to serve and expand the mid-market. We believe that a combination of mid– to high-end businesses make the business model more defensible to economic fluctuation.

Supply chain management is becoming more important than ever before. We are well positioned to serve the retailers all over the world as well as brand owners in the mid-market. Vertical integrated structure has distinguished Peace Mark from its competitors and is a business model shaped to meet the changing market need.

We are optimistic to achieve above market growth in 2008.

Sincerely

MILUS flagship store, Hong Kong

Boucheron boutique, Hong Kong

Turnover

+36%

Mr. LEUNG Yung
CHIEF EXECUTIVE OFFICER

Review of Operations

Embrace the challenges and opportunities of increasing retail sales with a strong portfolio of luxury brands and premium services.

CHINA RETAIL

The retail landscape in China, in particular the fashion and the luxury segments, has experienced significant changes in the past few years. China retail sales in the luxury and fashion segments have been rising at the fastest pace ever seen as increasing incomes of the newly wealthy and burgeoning middle class spur spending. Customers have been willing to spend on the fashion and luxury items to conform to international lifestyle standard.

LUXURY WATCH MARKET

Today the development of the luxury market in China is just at the beginning and China will be a significant market for luxury products in the coming years growing at a rate of at least 20% a year. Various sources have estimated that China will consume about 30% of the world's total luxury goods by 2015.

Brands have been rushing into the China market in the recent past. Those that have established the foothold continue to compete for a larger market share. Brands, other than building their brand equity, have demonstrated increasing involvement in the distribution and retailing. The global trend of brands controlling the distribution themselves leads Peace Mark to focus on developing the retail network instead of serving as a distributor in this sector.

With brands offering diverse product ranges in domestic market and actively promoting their brand awareness, consumers in China increasingly tend to buy luxury products in the local market instead of overseas. This phenomenon has been supported by findings of various market researches and the expansion in the size of the fashion and luxury markets. The direct import of Swiss watches posted an increase of 16% compared to last year. In April 2007, the Chinese authority has increased

Review of Operations

the tariff from 10% to 30% for overseas purchases of luxury watches. This acts as a deterrent of Mainland Chinese buying luxury watches overseas. Policy-wise, the Chinese government has been encouraging the domestic luxury purchases.

Since the Group started entering into the China luxury watch market last year, we have already established a sizable network with 65 points-of-sales at the year-end – a significant development within the space of just one and a half years.

The Group has adopted a multi-pronged strategy in expanding its network in China. We are operating in two retail formats, namely multi- or mono-brand stores, for greater market penetration. We also operate stores on our own or jointly with overseas/domestic partners to accelerate the expansion plan.

Peace Mark has been operating 25 mono-brand corners and boutiques as well as 40 multi-brands store at the year end.

Luxury brands have been diversifying their sales channels. In addition to the traditional multi-brands stores, brands like to sell through mono-brand boutiques. This format, on one hand, serves as a sales channel offering full range of products and, on the other hand, due to its visibility acts as a point of advertising.

The market size will continue to mushroom with more second – to third-tier cities springing up and expanding in retail spending. Certain second-tier provinces and cities are emerging as new markets characterized by high disposal income, conspicuous consumption, advertising explosion as well as rapid opening of new stores. Consolidation of the regional networks is underway. Selling through a nationwide network is what the market wants. The way Peace Mark has done to achieve this end has been acquiring a majority stake of quality regional network operators. In 2006, we had formed three regional joint ventures namely in the areas of Chongqing, Shenzhen and Ningbo. This year, we formed another two joint ventures covering the cities like Shenyang, Chengdu, Xian and Qingdao. Given the high demand for working capital in luxury watch retailing, many regional networks are willing to partner with financially strong players in order to maintain their competitiveness.

DOMESTIC JOINT VENTURE

We also made significant progress on the merger and acquisition projects in China. We have and will continue to talk to other potential partners and this remains our main strategy for expansion in China.

City	No. of store
Chongqing	11
Ningbo	5
Shenzhen	4
Chengdu	6
Shenyang	6

CHONGQING

Peace Mark has totally 11 stores in operation. Chongqing is the youngest but the largest autonomous municipality after Beijing, Shanghai and Tianjin. It is the retail and wholesale center of southern and western China. A significant growth of retail sales of consumer goods was reported in the past two years.

Review of Operations

NINGBO

Peace Mark operates 5 stores there. Ningbo is Zhejiang province's second largest retail market after Shanghai only. Ningbo's GDP per capita is recorded at a high of USD5,389, compared to about USD1,700 for China as a whole in 2005.

SHENZHEN

Peace Mark runs 4 stores in the city. Shenzhen is the most prosperous city in Guangdong Province in the southern part of China. Shenzhen enjoyed a per capita GDP of RMB60,801, about 5 times higher than the national average.

CHENGDU

Peace Mark owns 6 stores there. Chengdu is the most important and largest consumer market in Sichuan Province, western part of China. Its total retail sales was RMB145 billion and the growth rate reached 25%, 2 times of the average of the nation in 2005.

By the end of 2005, 111 of the Fortune 500 companies have invested in Sichuan.

SHENYANG

Peace Mark has 6 stores in presence. Shenyang, together with Dalian, are the two major cities in the Liaoning Province, the northern China. The province's GDP ranked the eighth among all the provinces and municipalities in China. Liaoning's total retail sales was ranked the 6th in China. Liaoning has rich mineral resources with large deposits of coal and iron ore.

TOURNEAU

Currently, we have in total 4 Tourneau stores in operation with a total floor area of approximately 38,500 square feet. The retail concept is to house mini-boutiques within a mega multi-brands store format with upscale services. The store design is geared towards offering more entertaining experience like organizing promotional events and provision of clubhouse facilities to VIP customers. This retail format has been proven very successful as evidenced by the Shanghai Xintiandi Tourneau store which has over one year of financial performance.

Luxury Store, Chengdu

In July 2007, Peace Mark planned to pay USD1.5 million to acquire an additional 10% interest in Tourneau Peace Mark Joint Venture. After this acquisition, Peace Mark holds in aggregate 75% in the share capital of the Joint Venture. We believe that with the expertise and knowledge that Tourneau possesses the Joint Venture will speed up its development in China.

Review of Operations

Boucheron billboard, Hong Kong

MILUS event, Basel

EXPANDING PRODUCT RANGE

Luxury watches, the men's accessory by definition, have experienced changes in China. The new purchasing power from the mainland's female population has added a new source of demand. Given the rising consumption power of women in China, branded jewellers are paving the way for expansion into the China market. Recently, the Group has been operating 2 Boucheron stores, one in Shanghai and one in Hong Kong under franchise. Boucheron is a watch and jewellery brand originated from France since 1858 and is under Gucci group.

MILUS

In 2006, Peace Mark continues to invest in the development of MILUS globally with the focus in major markets like North America, the Middle East, the Netherlands, Germany, Russia and China. In March 2007, an investment division of Orix Corporation, an integrated financial services group listed in Japan, invested USD10 million for a 9.99% indirect holding in MILUS. The transaction serves to benchmark the valuation of MILUS business on a global basis at a fair value of USD100 million. At the balance sheet date, the carrying value of the MILUS brand is approximately HK$40 million.

We are operating an image shop in Hong Kong showcasing our products to the mainland Chinese. Recently, the Hong Kong shop has undergone a renovation work and is conveying a new message to the end consumers.

Distinctive design has been the competitive advantage of the brand. During the Basel Fair 2007, MILUS has launched a break-through lady model in design and technology, a triretrograde. This has been well received by distributors from all the major markets.

MIDDLE-RANGE MARKET

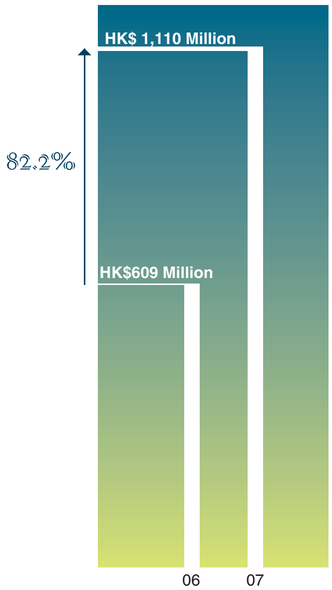
For the middle-range market, we reinforced our market leadership during the year with sales growth of 82.2% to HK$1,110 million. The EBITDA margin for this segment was 19.4%.

The division's operating profit margin also showed improvement, advancing from 17.3% to 17.9%.

Over the years, fashion brands have been flooding into the China market and are constantly looking for distribution channels for fashion accessories. We had made significant progress on brand stable and network expansion in the Greater China Region. At Peace

Review of Operations

Sales in
Mid-Range Market



Mark, we are seizing the opportunities this trend offers to grow the business. At present, Peace Mark possesses a nationwide network for fashion watches and continues to expand further this platform for selling a range of branded accessories. At the year-end, Peace Mark has over 850 points of sales set up across the country selling over 100 brands.

Shop level performance has been strong during the year. Most of the stores experienced same-store-sales have experienced above 30% growth year-on-year. There is a growth in demand of mid-priced imported products as the new middle class is emerging with higher disposable income and being more brand conscious than in the past. Young generation's affinity to branded goods has never been so high. Mid-range watches have also become popular gift items in China. These changes in consumer behaviors and increased consumer spending have been translating into demand for fashion watches.

We are well positioned in the mid-range sector as we have emerged from a manufacturing presence to distribution and retailing. The vertical integrated structure from manufacturing to retail enables us to fend off our competitors. Expanding downstream in China is not just strategically beneficial but also value adding to the business model.

There are over 35 regional offices with an established information system supporting the operation of the network. Our logistic and information system are the key drivers behind the significant growth in the network. Within the space of just three and a half years, we have made Peace Mark the leader in the mid-range foreign brands segment and we have reinforced this year with sales growth of 82.2%.

Vertical integrated structure, secure brand relationship, operational scale and experienced management make the barriers to entry in this industry high.

SUPPLY CHAIN MANAGEMENT

The net turnover after eliminating the inter-segment sales reported was HK$1,161 million, accounting for 38.2% of the group turnover. Before the inter-segment elimination, the manufacturing turnover was flat.

Review of Operations

Production facilities, Shenzhen

Mechanical movements

The Group has maintained the current level of production capacity with upgrades of its 8 production facilities in China, Hong Kong and Switzerland. The strategy continues to be moving towards producing high margin products with increasing outsourcing of affordable watch programme business. For the China market, Peace Mark has been offering design and manufacturing supports to fashion brands with a full range of services from design to retailing. This enabled us to capture the margin along the value chain.

Disintermediation continues along the supply chain. Peace Mark will further strengthen its US operation by building its own setup. Nevertheless, the stagnant US economy has made buyers more cautious in forecasting order level.

Other than the US market, Peace Mark's marketing offices in France and Germany are progressing as expected.

WATCH MOVEMENTS

As a key component of a watch, Peace Mark places emphasis on watch movement manufacturing.

Peace Mark has been managing Shanghai Golden Time Precision Instrument producing mechanical watch movements for domestic and overseas markets. The annual production is in the range of 50,000 pieces.

In July, Peace Mark has entered into a preliminary agreement to acquire 51% Tianjin Seagull Watch Company movement factory. This Tianjin watch movement has a capacity of producing 6 million pieces a year and currently the annual output is approximately 3 million pieces. With this newly acquired movement factory, Peace Mark has become the leader in the China mechanical watch movement market with a market share of approximately 40%. We are able to manufacture mechanical movements with complications such as minute repeater and tourbillion.

After the year end date, Peace Mark also signed an agreement with Swissebauches and become the sole distributor of analogue quartz movements produced by Swissebauches in China with an annual sales of over 50 million pieces a year.

Review of Operations

MANAGEMENT OF EXECUTION RISKS

Regarding the execution of acquisition strategy, we always choose the retailers of established track record in their region and will be staying on post the acquisition. This helps eliminating competition and building our own local management team at the same time. Deployment of management and financial resources is well thought out when scheduling the expansion plan in selected cities in a manageable manner. All these result in stronger position in direct purchasing from brands.

Working capital is another area that needs management attention. We strive to increase the turns of luxury business. The risk of luxury products become obsolete is rare given the long product life cycle. Fashion watches are of shorter life cycle and we are more flexible in pricing as a retailer. Variance in consumer preferences and trend as well as brand awareness in different cities enable us to take advantage of these for inventory clearance.

FINANCIAL

Interest Rate and Currency Exposure

The balance sheet has been further strengthened after the year end date by extending the maturity profile of the existing debt structure. We are able to further lowering the interest rate to demonstrate the continuous improving creditability of Peace Mark amongst the banking community in Hong Kong. A syndicated loan amounting to HK$1,200 million was completed in June 2007. This is a 4-year loan with the proceeds raised for the purposes of refinancing the then existing HK$630 million syndicated loan and for future working capital of the expansion plan. The grace period is 24 months and to be repaid by semi-annual installments. The term loan portion of the loan carries an interest rate of 46 basis points over the Hibor and the revolving portion is being charged at a rate of 52 basis points over the Hibor.

Syndicated Loan Signing Ceremony

Profit

+50%

Mr. TSANG Kwong Chiu, Kevin
CHIEF FINANCIAL OFFICER

Management Discussion and Analysis

We are gearing up to enhance strategic business expansion with a strong and secure financial position.

FINANCIAL REVIEWS

TURNOVER AND PROFITS

Group Results

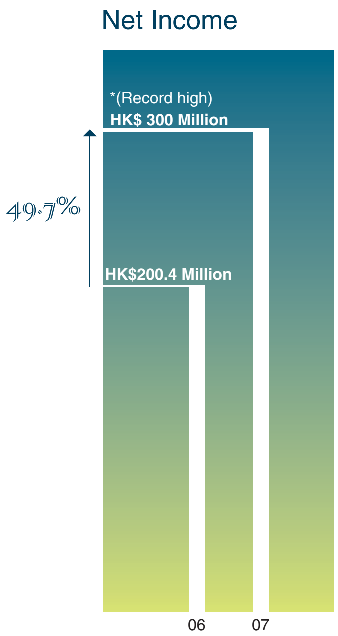
Operationally and financially the Group posted strong results, with substantial gains in market share and an improvement in operating profitability. Growth recorded across all the business lines from manufacturing, distribution to retailing.

2007 Group turnover increased by 35.6% to HK$3,040 million. Sales in China rose 143.2% and represented 50.8% of the Group turnover. The mid-range maintained its leadership position representing 36.5% of the total business and the luxury division accounted for 14.3%. Luxury sales were up 1,587.7% for the year, higher than the market growth rate.

Strong top-line growth positively impacted on the Group's earning performance and led to operational synergies. Overall EBITDA margin for 2007 was 15.3%, an increase of 39.1%, compared to 2006. High start-up costs of new store rollout and their non-fully fledged were the main reasons for the relatively low EBITDA margin in the luxury segment. In the manufacturing segment, intense competition resulted in a margin decline in percentage point to 9.9%.

Operating profit rose by 45.6% to HK$456 million and the corresponding operating profit margin improved to 15.0%. This primarily reflects the increased sales from new stores, newly acquired network and the same-store-sales growth.

Management Discussion and Analysis



Net income improved by 49.7% to a record high of HK$300 million. Success in executing the expansion plans of different business lines contributed to the improved margin. This strong earnings performance encourages us to continue expanding in China and accelerating the execution of potential acquisitions and joint ventures.

Earnings per share was HK30.3 cents, increase of 36.9% compared to 2006. The Board paid an interim dividend per share of HK4.1 cents and proposed a final dividend per share of HK6.2 cents representing a total payout ratio of 35%.

Selling, Distribution and Administration

Selling, Distribution and Administration expenses increased to a level of 21.8% of turnover. Selling and Distribution expenses were increased due to increased turnover of distribution and retailing businesses. Better operating efficiency has been achieved through larger scale of operations in both the middle and luxury ends. Management had focused on integrating various China businesses acquired last year and removed overlapping resources. This highly scalable platform enabled the Group to further control the level of operating expenses. Nevertheless, the new stores rolled out during the year incurred exceptionally high selling, distribution and administrative expenses compared to the initial stage of sales performance.

In the course of expanding the network in China, we have utilized internal funding and bank debts for financing the working capital needs and the associated capital expenditure plans. The overall financial strength remains health.

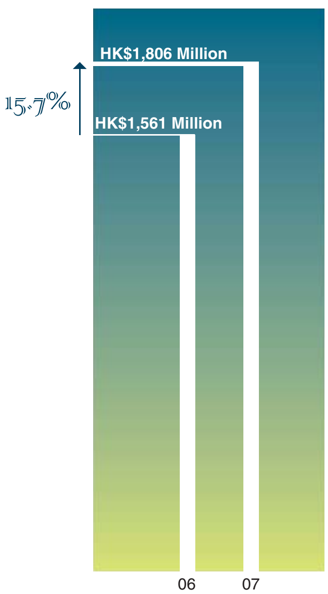
Return on capital has been increased to 17.8%. Given the pace of growth and non-full year contribution in terms of revenues and profits in an expanding mode, the return on capital could further be improved in the coming 24 months with fully fledged operation and operational synergies amongst various operations.

Peace Mark continued to grow strongly during 2007, with excellent performance from all core businesses.

Taxation

The effective tax rate before deferred tax for the year was 8.1%. There was an over-provision of HK$12 million last year and reverted this year. Unification of corporate income tax law in the China promulgated in March 2007 has no significant impact on the income tax payable by the Group in China. For the production, the (2+3) tax holiday available to the foreign invested

Shareholders' Funds



enterprises has no impact on the Group's manufacturing entities as most of them have operating history of over 5 years. For the retailing entities, the withdrawal of preferential tax rates of 15% to 25% available to foreign invested enterprises operating in special economic zones has no significant impact as most of the retailing entities are operating in the major or second-tiers cities.

LIQUIDITY AND FINANCIAL RESOURCES

Shareholders' Funds

Shareholders' Funds increased from HK$1,561 million to HK$1,806 million. No significant acquisitions were done during the year. Net Asset Value per share was HK$2.05.

Financial Position

In the course of expanding the network in China, we have utilized internal funding and bank debts for financing the working capital needs and the associated capital expenditure plans. The overall financial strength remains health.

At the year end date, the cash and bank balances stood at HK$1,460 million and the borrowings were at HK$2,066 million. The net gearing, expressed as a percentage of total net borrowings to equity attributable to shareholders, was 33.3%. The increased net gearing was a result of additional working capital requirements from operations and capital expenditures.

The year-end borrowings were split into 47.8% short-term and 52.2% long-term. The structures of the borrowings were mainly term and trade finance facilities. The Group continued to refinance the existing borrowings by cheaper financing. The major financings were: a 4-year syndicated term and revolving facility of HK$630 million completed in April 2005, a 3-year syndicated term loan facility of HK$600 million which is extendable to 7 years under certain conditions; and a 4-year loan of RMB380 million at an interest rate of 90% of PBOC rate.

Subsequent to the balance sheet date, a syndicated loan amounting to HK$1,200 million was completed in June 2007. This is a 4-year loan with the proceeds raised for the purposes of refinancing the then existing HK$630 million syndicated loan and for future working capital of the expansion plan. The grace period is 24 months and to be repaid by semi-annual installments. The term loan portion of the loan carries an interest rate of 46 basis points over the Hibor and the revolving portion is being charged at a rate of 52 basis points over the Hibor.

This demonstrates the continuous improving creditability of Peace Mark amongst the banking community in Hong Kong enabling us to further lowering the interest rate.

The purposes of the fund raising activities were to finance the China distribution and retail network expansion and acquisition plans; refinance part of the higher costs short term debts; and lengthen the maturity profile of the debts.

More than 80% of the carrying amounts of the year-end borrowings are denominated in Hong Kong dollar.

The interest coverage, expressed as a multiple of EBITDA over the interest expenses, was 4.16 which remained at a comfortable level.

Working Capital

The Group's current ratio was 2.5.

The management continued to focus on the working capital management.

Total trade and other receivables increased by HK$281 million to HK$880 million. This year, the increased trade receivables was mainly due to longer credit terms extended to the US retailers. The US distribution turnover were HK$336 million and HK$310 million from 2007 and 2006 respectively, the corresponding trade receivables were HK$190 million and HK$130 million at the year end. Excluding their US distribution turnover and trade receivables, the net trade receivables as a percentage of turnover was 16.5%.

Inventory level was at HK$1,016 million, increased by HK$362 million. As a percentage of revenue, it has been increased from 29.2% to 33.4% but if excluding the factors listed as follows the ratio has been maintained at a 27.8%. Initial inventory for the major new stores openings and late completion of JV in the second half were the causes of high inventory level as a percentage of sales. In February 2007, we opened a new Rolex store in Hong Kong and two Boucheron stores in Shanghai and Hong Kong as well as in March 2007, we completed a new joint venture in China, all these new businesses have a level of inventory of HK$170 million and have significant impact on balance sheet without corresponding full-year sales contributions. It is imperative to control the inventory level at lower turnover days given the fact that the business cycle of a vertical integrated manufacturer and distributor, in particular for the US market, have trended towards longer inventory days. The lower inventory turnover days of the China mid-range business attributed to the overall satisfactory improvements.

As part of the working capital management, the Group also utilized working capital loans for the financing of its purchases. The costs of trade financing have been much lower than the suppliers' credit in general resulting in improved gross profit margin from 31.1% to 32.4%.

CAPITAL EXPENDITURE AND ACQUISITION COSTS

Capital expenditure and acquisition costs for the year was HK$183 million and HK$85 million respectively. The capital expenditure for the year was mainly for the refurbishment of existing points of sales and renovation of new stores roll out plans and general maintenance capital expenditure.

CAPITAL COMMITMENT AND CONTINGENT LIABILITY

As at 31st March 2007, there were no material capital commitment and contingent liability.

FINANCIAL RISK MANAGEMENT

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

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

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

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

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

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

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

INTEREST RATE EXPOSURE

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

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

After taking into consideration of interest rate swap, the Group's fixed rate debt was at an effective interest rate of approximately 4.95-5.2%, and as a percentage of total debt was approximately 40%.

FOREIGN CURRENCY EXPOSURE

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

Currency transaction loss was HK$3.8 million and was expensed, while the currency translation charge of HK$4.7 million was reflected as reserve movement during the year.

CREDIT EXPOSURE

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

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

RISK FACTORS

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

INDUSTRY TRENDS

Intense Competition in the Watch Industry

China Retail

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

Manufacturing

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

Changes and Uncertainties in PRC Policies

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

Increase in Raw Materials Price

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

HUMAN RESOURCES

The Group employed over 5,000 employees mainly in China, Hong Kong, the USA and Europe. The total staff costs amounted to HK$196.6 million as compared to HK$141.9 million of last year.

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

Management Discussion and Analysis

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 installments. 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.

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.

Corporate Governance Report

Peace Mark (Holdings) Limited (the "Company") is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders' interest in general.

The Board of Directors (the "Board") and the senior management of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31 March, 2007 except the following deviations:

CODE PROVISION A.4.2 (FIRST SENTENCE)

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

The Bye-laws of the Company constitutes a deviation from the first sentence of the code provision A.4.2 of the Corporate Governance Code. To comply with the first sentence of the code provision A.4.2 of the Corporate Governance Code, amendment to the Bye-law 86(2) of the Bye-laws of the Company was proposed and approved by the shareholders at the annual general meeting held on 25 August, 2006.

DIRECTORS/SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the Company's code of conduct and rules governing dealings by all directors in the securities of the Company. Having made specific enquiry of all directors of the Company, they all confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 March, 2007.

BOARD OF DIRECTORS

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

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

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

SEPARATION OF CHAIRMAN AND CHIEF EXECUTIVE OFFICE ("CEO")

The post of Chairman and Chief Executive Officer ("CEO") are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Chairman, Mr. Chau Cham Wong, Patrick, is responsible for overseeing the function of the Board and formulating overall strategies and policies of the Company. The CEO, Mr. Leung Yung, supported by other board members and the senior management, is responsible for managing the Group's responsibilities, the businesses, implementation major strategies, making day-to-day decision and coordinating overall business operations.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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

BOARD MEETINGS

The Board held a total of four board meetings during the year ended 31 March 2007. Of these, two meetings were held to approve the 2006 final results and 2007 interim results of the Company; the other two meetings were held to consider financial and operating performances of the Group. The Chief Financial Officer and Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

The attendance of individual directors during the year ended 31 March 2007 is set out in the table below. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

Director	No. of board meetings attended/ held in FY2007
Executive Directors	
Mr. Chau Cham Wong, Patrick	4/4
Mr. Leung Yung	4/4
Mr. Tsang Kwong Chiu, Kevin	4/4
Mr. Cheng Kwan Ling	4/4
Mr. Man Kwok Keung	4/4
Independent Non-executive Directors	
Mr. Kwok Ping Ki, Albert	3/4
Ms. Susan So	2/4
Mr. Tang Yat Kan	4/4
Mr. Wong Yee Sui, Andrew	4/4
Mr. Mak Siu Wing, Clifford	3/4

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

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

CHIEF FINANCIAL OFFICER ("CFO")

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

COMPANY SECRETARY

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

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

BOARD COMMITTEES

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

(1) Audit Committee

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

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

During the year ended 31 March 2007, the Audit Committee met three times during the year with the senior management and the internal and external auditors. The work performed by the Audit Committee during the financial year included the followings:

– reviewed the annual report and result announcement for the year ended 31 March 2007;

– reviewed the interim report and interim results announcement for the six months ended 30 September 2006;

– reviewed the accounting principles and practices adopted by the Group and other financial reporting matters;

– reviewed the results of external audit and discussion with external auditors on any significant findings and audit issues;

– reviewed the external auditors' independence and report and the re-appointment of the external auditors at the 2007 annual general meeting;

– reviewed the internal audit plan and the internal audit reports;

– discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management;

– considered and approved audit and non-audit services;

– reviewed all significant business affairs managed by the executive directors in particular on connected transactions.

Attendance of individual members at Audit Committee meetings:

Name of members	No. of meetings attended/held in FY2007
Mr. Wong Yee Sui, Andrew *(Chairman)*	2/2
Mr. Mak Siu Wing, Clifford	2/2
Mr. Kwok Ping Ki, Albert	2/2
Mr. Tang Yat Kan	2/2

(2) Risk Management Committee

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

Attendance of individual members at Risk Management Committee meetings:

Name of members	No. of meetings attended/held in FY2007
Mr. Mak Siu Wing, Clifford *(Chairman)*	2/2
Mr. Wong Yee Sui, Andrew	2/2
Mr. Tsang Kwong Chiu, Kevin	2/2

(3) Nomination Committee

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors. The committee is chaired by Mr. Kwok Ping Ki, Albert, an independent non-executive director of the Company and the other members are Ms. Susan So and Mr. Chau Cham Wong, Patrick. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

During the financial year ended 31 March 2007, the work performed by the committee includes the following:

– review of the adequacy of the size, structure and composition of the Board

– consideration of the independence of the independent non-executive directors

– recommendation to the Board on relevant matters relating to the appointment and re-appointment of directors

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

In August 2007, the Nomination Committee nominated and the Board recommended Mr. Mak Siu Wing, Clifford, Tang Yat Kan, Wong Yee Sui, Andrew and Tsang Kwong Chiu, Kevin to retire at the 2007 annual general meeting and stand for re-appointment.

Attendance of individual members at Nomination Committee meetings:

Name of members	No. of meetings attended/held in FY2007
Mr. Kwok Ping Ki, Albert *(Chairman)*	2/2
Ms. Susan So	2/2
Mr. Chau Cham Wong, Patrick	2/2

(4) Remuneration Committee

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

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

The Remuneration Committee met twice in FY2007. The following is a summary of work performed by the Remuneration Committee:

– grant of share options to directors, employees and other eligible persons

– recommendation for Independent non-executive directors' fee for FY2008 to the Board for approval

– review and approval of the remuneration packages and service contracts for executive directors

– administration of the share option scheme, share incentive scheme

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

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

Attendance of individual members at Remuneration Committee meetings:

Name of members	No. of meetings attended/held in FY2007
Mr. Tang Yat Kan *(Chairman)*	2/2
Ms. Susan So	2/2
Mr. Chau Cham Wong, Patrick	2/2

INTERNAL CONTROL AND INTERNAL AUDIT

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

The Group's internal control framework includes the following:

(1) To allow delegation of authority as well as to increase accountability, a clear organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual and interim results, annual budgets, distribution of dividends, Board structure, and the Board's composition and succession.

(2) Systems and procedures are set up to identify, measure, manage and control risks including but not limited to operational risk, accounting risk, interest rate risk and environmental risk and compliance risk that my have an impact on the business of the Group. The Risk Management Committee also evaluates whether the Group's risk management is in line with the established strategies, policies and procedures of the Company.

(3) In day-to-day income and expenditure arrangements, the Group has clear authority limits and has a sound system to ensure that its day-to-day operations meet the relevant regulations set by the Company.

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

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

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

The internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2007 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until appropriate corrective measures are implemented.

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

AUDITORS' REMUNERATION

For the year ended 31 March 2007, the auditor's remuneration paid or payable in respect of the audit and other non-audit service provided by the auditors to the Group were as follows:

Nature of service	2007 Amount HK'000
Audit service	3,000
Non-audit service	275

Investor Relations

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

Communication with Shareholders

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

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

Code of Conduct

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

Conclusion

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

Investor Relations

The Company has been professional and truthful in **maintaining optimum contact** and **all-round communication** with institutional and individual investors.

This serves to enhance the transparency and quality of information disclosure to ensure better understanding by investors of our management philosophy, business strategies and our perceptions of the industry.

During the year under review, we have developed an open and interactive way of communication with global investors and analysts through regular one-on-one meetings, analysts and press briefings, non-deal road shows as well as conferences.

The Company held a number of investor meetings and teleconferences with international investment institutions such as ABN AMRO, Credit Suisse, Daiwa, Deutsche Bank, HSBC, JP Morgan, Macquarie, Morgan Stanley, UBS and UOB Kay Hian, etc. in Hong Kong, Beijing, Shanghai, Taiwan, Singapore, Japan, United States and Europe.

From 1 April 2006 and up to the date of this report, we attended 19 road shows and 12 corporate days / conferences as well as over 100 one-on-one meetings. Moreover, we have arranged more than 400 international investors to visit our stores and point-of-sales as well as the factories in China.

INVESTOR RELATIONS RECOGNITIONS

The Company's enhancement of investor relations and corporate governance enabled the Company to receive high recognition from investors. In *Asiamoney's* 2006 investor poll, Peace Mark was voted "Best Mid-Cap Corporate of the Year in Hong Kong". In the same year's *IR Magazine* annual awards held in December, Peace Mark was also ranked second runner-up in the "Best Investor Relations Officer" and "Most Progress in Investor Relations" categories. In July 2007, the Company got "The Best Investor Relations" from *CEO Capital*. All these complement the business awards received by the Company over the year.

Investor Relations

SHARE PRICE PERFORMANCE

The price of the Company's shares has outperformed the market during the year. For the year ended 30 March 2007, our share price had increased dramatically by 161% while the Hang Seng Index ("HSI") had increased by 25.3%.

EARNINGS AND DIVIDEND PER SHARE

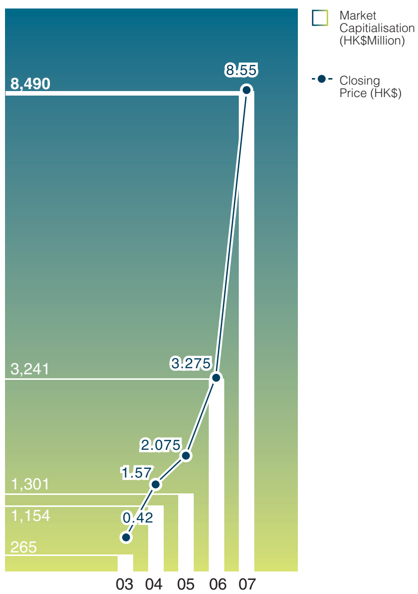
Earnings per share increased from HK22.1 cents to HK30.3 cents, while the dividend per share rose from HK7.3 cents to HK10.3 cents. This was in line with the Company's stable dividend policy, which has maintained the dividend payout at around 35%. This year, in line with our dividend policy, the Board has recommended a final dividend payable on 28 September, 2007 of HK6.2 cents. Together with the interim dividend of HK4.1 cents per share, the total dividend amounted to HK10.3 cents.

Apart from meetings with investors, the Company's annual reports, interim reports and announcements are also available on its website. Investors thus have full access to the latest information of the Company on the website which is an effective channel of communication with the investor community. The Company website address is http://www.peacemark.com.

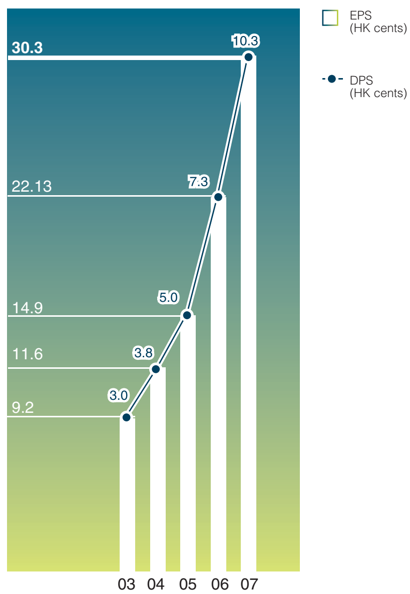
The Company greatly appreciates the positive feedback on its investor relations work. In the future, we will continue to seek out new ways to enhance investors' understanding of the Group's business, operations, and its corporate culture.

Enquiries from individuals on matters relating to the shareholdings and the business of the Company are welcomed and are dealt with an informative and timely manner.

Market Capitalisation



Earnings and Dividend per Share



Investor Relations

AWARDS & RECOGNITIONS

Asiamoney

Asia's Best Managed Companies 2006

• Mid-Cap Corporate of the Year, Hong Kong

IR Magazine Hong Kong and Taiwan Awards 2006

IR Magazine

Highly Commended (Second Runner-up)

• Best Investor Relations Officer
• Most Progress in Investor Relations

Honourable Mention

• Best Investor Relations by a Chairman or a CEO (Hong Kong Company)
• Grand Prix for Best Overall Investor Relations (Small & Mid Cap)

CEO Capital

CEO Capital

• The Best Investor Relations

Corporate Culture 2006/2007

A **strong corporate culture** is **a key success factor** of **an enterprise**

Communication

Enhancing adequate dialogue and understanding through different levels of communication is cornerstone of the Company's culture that helps strengthen investors' and customers' confidence and builds employees' loyalty.

Competence

A clear use of available resources with competence-based management to realize goals and objectives, create customer value and develop competitive advantage.

Continuous Improvement

Complacency is no way to stay at the top. Always pursue further development with regard to organizational quality, productivity and performance.

Commitment

Hard work and dedication are values deeply rooted in our culture. A firm commitment to premium products and customer-oriented services.

With a strong corporate culture, Peace Mark **strives to bring value** to **customers** and **stakeholders** with a people-oriented management strategy

We value highly staff contribution and take initiatives to enhance mutual communication and a balanced work life. As a responsible player in the business field and the community, the Company has also established a culture of caring for society and industry development.

EFFICIENT COMMUNICATION

The Company makes proactive efforts continuously to promote and enhance communication between employees and the management. Adequate and efficient communication is conducive to a healthy workplace and productivity. As the latest initiative, the Company launched an e-newsletter "PMG" ("Peace Mark Group") in June 2007 to strengthen further internal communication. The publication serves as another official channel to promote dialogue and understanding between employees and the Company.

CARING COMPANY

In recognition of our commitment to corporate citizenship, Peace Mark is named by the Hong Kong Council of Social Service as "Caring Company 2006/07" for outstanding achievements in "Family Friendly" and " Giving".

DRIVING INDUSTRY DEVELOPMENT

Through various efforts and participation, Peace Mark is a staunch supporter of the timepiece industry development. For instance, the Company donated HK$100,000 to The Hong Kong Polytechnic University's PolyU Development Foundation to nurture the new generation with value-added programs for technology applications. The Group also supported the Watch and Clock Designer Nurturing Program, co-organized by Hong Kong Watch Manufacturers Association, Federation of Hong Kong Watch Trades and Industries and Hong Kong PolyU, to honour outstanding timepiece designers. Four outstanding designers would work with Swiss design masters for 3 months. In addition, Mr. Tommy Leung, on behalf of President of The Hong Kong Watch Manufacturers Association and Peace Mark (Holdings) Limited, earlier led a fact-finding tour to Guizhou, Chinese mainland to promote industry development.


This Certificate is presented to

Peace Mark (Holdings) Limited

Founding Life Member

PolyU Development Foundation

on 4 July 2006

Victor Lo Chung-wing
Council Chairman

Poon Chung-kwong
President

A leader in the timepiece industry, we have received many business awards for its great achievements over the year. Peace Mark is the only player in the local watch and clock industry named as a Business Superbrand for its stature, quality and excellence. The Company was also voted the Business Development Managements Award by Capital Entrepreneur, and Outstanding Enterprise in China by Economic Digest.

CONTRIBUTION TO SOCIETY

Peace Mark has a strong commitment to social responsibility and employees are encouraged to participate in social activities and fundraising campaigns to help the needy and the underprivileged. The group and its staff have supported numerous community programs such as participation in charity walk and Oxfam Trailwalker. In April 2007, the Company played a key part in organizing a major carnival, led by 50 local business organizations, in celebration of the 10th anniversary of Hong Kong's sovereignty return to the Chinese mainland.

Directors and Senior Management Profiles

Board of Directors

MR. CHAU Cham Wong, Patrick

Chairman (Peace Mark (Holdings) Limited)

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 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 advisor and the committee member of the Hong Kong Watch and Clock Trade Advisory Council to the Hong Kong Trade Development Council.

MR. LEUNG Yung

Chief Executive Officer (Peace Mark (Holdings) Limited)

59, is responsible for the Group strategic planning, business development, marketing and product research and development, as well as coordinating overall business operations. He joined the Group since it was founded and has over 40 years experience in the timepiece industry. He is the President of the Hong Kong Watch Manufacturers Association.

MR. TSANG Kwong Chiu, Kevin

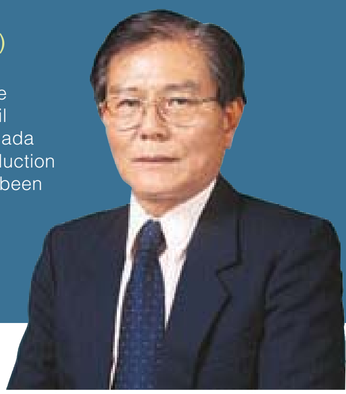
Chief Financial Officer (Peace Mark (Holdings) Limited)

40, is responsible for the accounting and overall financial management, corporate finance, investor relations function of the Group. Mr. Tsang holds a Master of Business Administration degree from the University of Hull and a Master degree in Electronic Commerce and Internet Computing from the University of Hong Kong. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He is also a member of the Hong Kong Institute of Directors. Mr. Tsang has more than 18 years experience in accounting and finance.

MR. MAN Kwok Keung

Technical Director (Peace Mark (Holdings) Limited)

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 Group since it was founded.



MR. CHENG Kwan Ling

Director (Peace Mark (Holdings) Limited)

56, is responsible for the general management and finance of the Group's operations in the PRC. Mr. Cheng holds a diploma in Management Association and is a member of the British Institute of Management. He has over 32 years experience in accountancy and general management and has been with the Group for over 18 years.

Directors and Senior Management Profiles

Independent Non-executive Directors

MS. SO, Susan

Independent Non-executive Director (Peace Mark (Holdings) Limited)

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

MR. KWOK Ping Ki, Albert

Independent Non-executive Director (Peace Mark (Holdings) Limited)

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

MR. TANG, Yat Kan

Independent Non-executive Director (Peace Mark (Holdings) Limited)

57, is a partner of Messrs. King & Co., a firm of Solicitors & Notaries in Hong Kong and has been a Notary Public since 1991. He is a Solicitor of the Supreme Court of England and Wales, the Supreme Court of Hong Kong and the Supreme Court of Singapore. He has been in general legal practice for over 22 years and is experienced in the fields of conveyancing and civil litigation.

MR. WONG Yee Sui, Andrew

Independent Non-executive Director (Peace Mark (Holdings) Limited)

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 Hong Kong Institute of Certified Public Accountants. Mr. Wong has extensive experience in the auditing and finance field in Hong Kong and overseas. He is also an independent non-executive director and chairman of the audit committee of Lai Fung Holdings Limited, a company listed in Hong Kong.

MR. MAK Siu Wing, Clifford

Independent Non-executive Director (Peace Mark (Holdings) Limited)

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 advisor to SG Asset Management (Hong Kong) Limited, the asset management arm of the Societe Generale.

Corporate Support

MR. CHANG, Eddy

Financial Controller (Peace Mark (Holdings) Limited)

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

MS. LEE, Jessica

Vice President, Corporate Planning & Investor Relations (Peace Mark (Holdings) Limited)

32, is responsible for the Group's investor relations and overall corporate planning strategies. She graduated with a Bachelor's degree majoring in Economics and Philosophy in The University of Hong Kong. She has extensive experience in financial services industry over 9 years.

MS. FONG, Sams

Company Secretary and Executive Assistant to CFO (Peace Mark (Holdings) Limited)

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

MR. KWEE, Raymond

Financial Controller, China Division (Peace Mark Limited)

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

MR. AU-YEUNG, Billy

Internal Auditor (Peace Mark (Holdings) Limited)

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

MS. LAI, Cherry

Corporate Communications Manager (Peace Mark (Holdings) Limited)

33, is responsible for media relations activities, corporate events as well as managing the Group's corporate communications campaigns. She holds a Master degree in Marketing from The Chinese University of Hong Kong and Master degree in Marketing from Stirling University.

MR. TRIEBOLD, Oliver

Director (MILUS International S.A.)

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

Directors and Senior Management Profiles

Marketing, Retail & Distribution The Greater China

MR. GOUTEN, Francis

Consultant of Luxury Watch Division (Peace Mark (Holdings) Limited)

66, is responsible to provide the strategic advice to the Group on development of its luxury watch business in the Greater China Region. Mr. Gouten has extensive experience in brand development for luxury goods, watches and jewellery. He worked for Richemont Luxury Group S.A., for 33 years and was Chief Executive Officer of Richemont Group Asia Pacific Limited. He also held other senior management positions including Chief Executive Officer of world-renowned prestigious brands including *Cartier and Piaget.* Mr. Gouten was also President of The Hong Kong Watch Importers' Association between 2004 and 2006.

MR. LI, Jimmy

President of Luxury Watch Operation (Solomon Watch & Jewllery Co., Limited)

55, is responsible for the luxury watch development. He served as the director of the Hong Kong Watch Manufacturers Association from 2000 to 2003. Mr. Li holds a Master Degree in Marketing Research from the University of Japan Waseda and Bachelor's degree in Business Administration from the Taiwan University. He has over 30 years experience in the timepiece industry.

MR. LEVITT, Howard

Director (Peace Mark Tourneau (Holdings) Limited)

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

MR. CHAU, Quinton

Managing Director (MILUS (Far East) Limited)

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

MR. HO, Curtis

General Manager (Mega Chains (China) Limited)

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

MR. HSIEH, Stephen

Chief Executive Officer (Mega Chains (Taiwan) Limited)

49, is responsible for the brand name and retail outlets development of the Taiwanese subsidiary. He has 23 years experience in brand development and wholesale distribution. He also has over 8 years experience in developing retail outlets.

MR. MA, Shaodi

Chief Executive Officer (Chongqing Meida Enterprise Co., Limited)

56, is responsible for managing the Group's retail operations within the western China markets. He is a member of the 14th, 15th and 16th National People's Congress representative in the Yu Chong District of Chongqing City and also serves in numerous business and government related councils and organizations in the Yu Chong District.

MR. CHEN, Wei

General Manager (Ningbo Meihe Timepieces Co., Limited)

38, is responsible for managing and developing the timepiece and jewellery retailing network in Zhejiang province. He has more than 11 years experience in jewellery and timepiece retail and wholesale management.

MR. LIN, Shaowei

General Manager (Shenzhen Modern Watch Showpiece Co., Limited)

43, is responsible for business development of the timepiece retail market network in Guangdong province. Mr. Lin has extensive experience and exposure in retailing management of high-end watches.

MR. WANG, Kelong

General Manager (Flamingo Watches (Shenzhen) Co., Limited)

43, is responsible for developing the retail business network of watches within Mainland China. He is the vice president of the China Watch and Clock Commercial Association of China General Chamber of Commerce. He has extensive experience and exposure in developing and managing the retailing of watches.

MR. ZHANG, Shuhua

General Manager (Shenyang Dagong Watches Co., Limited)

47, is responsible for developing the retail business network within the northeastern regions. Mr. Zheng has extensive experience and exposure in the retailing management of high-end watches.

Directors and Senior Management Profiles

MS. FENG, Hailey

Assistant General Manager, China Division
(Peace Mark Timepiece (Shenzhen) Limited)

35, is responsible for the developing and managing the retail business of second tier cities with great growth potential for the Group in China. Ms. Feng holds a certificate as a certified public accountant in China and as a Chinese certified tax agent.

MR. KACZOROWSKI, Dimitri

Chief Executive Officer (Haussman Group Co., Limited)

36, is French and in charge of Haussman Group, which is the distributor of Boucheron for Hong Kong, Macau and China. He graduated from a French business school. Mr. Kaczorowski worked for 10 years for Cartier in Asia, and has held positions of Marketing Manager of Cartier Asia-Pacific, and Cartier General Manager for China, and started the cooperation with Boucheron in 2005.

Europe

MR. EDÖCS, Jan

President, Chief Executive Officer (MILUS International S.A.)

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

MR. DE JAILLON, Hugues

Chief Executive Officer (Peace Mark Holdings SAS)

51, is responsible for developing and managing new businesses within the EU region as well as other new markets. He holds a Bachelor's degree in Commerce and Law and has over 25 years experience in China trade, and headed numerous operations related to import, export and manufacturing.

MR. BOETTO, Marcello

Chief Executive Officer (Peace Mark Italia srl)

46, is responsible for developing, managing, and marketing the OEM business in Italy, Greece, Spain and Portugal. He is also in-charge of the connection operations between the European watch brands and Peace Mark distribution network in Asia. Prior to joining the Group, he was marketing and product consultant for several Italian watch companies interacting with the brand customers and suppliers in Asia and Switzerland. He has over 21 years experience in the timepiece industry.

MRS. NIEDERLEITNER, Ulrike

General Manager (Mandison N.Y. Limited)

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

Sales & Marketing and Designer

MR. SCHNECK, Robert

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

59, is responsible for the overall business development for the U.S. subsidiary. Mr. Schneck has over 38 years experience in the timepiece importing and distribution industry and was the recipient of several "Vendor of the Year Awards". He also serves as the Chairman of the United States Watch Council Membership Committee.

MR. CHAN, Gary

Head of Marketing (Peace Mark Limited)

38, is responsible for the timepiece marketing function, in particular the US market of the Group. He has over 16 years experience in the timepiece industry. He has been with the Group for over 12 years.

MS. SHING, Money

Marketing Manager (Peace Mark Limited)

34, is responsible for the timepiece marketing function, in particular the US market. She has been with the Group for over 9 years.

MR. LEUNG, Richard

Brand Name Division Manager (Peace Mark Limited)

24, is responsible for the business development and marketing of brand name division of the Group. Mr Leung holds a Bachelor's degree in Accounting and Marketing from Charles Sturt University. He is the son of the CEO.

Mr. HECK, Hardy

Consultant of Business Development (Peace Mark Limited)

63, graduated from the Academy of Business in Duesseldorf, Germany. He is an advisor to the board of directors for business development and marketing in Central Europe. He has 36 years experience in the timepiece industry.

MR. JUNOD, Paul

Independent Design Consultant (MILUS International S.A.)

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

www.peacemark.com

2007

Designed and Printed by HeterMedia Services Limited

Peace Mark (Holdings) Limited
宜進利(集團)有限公司

Stock Code : 0304

Financial Statements **2007**

Contents

Directors' Report

The directors of the Company are pleased to present their report and the audited consolidated financial statements of Peace Mark (Holdings) Limited (the "Company") and its subsidiaries (together with the Company hereinafter referred to as the "Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the Group's principal subsidiaries are set out in note 19 to the financial statements.

SEGMENT INFORMATION

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

RESULTS AND APPROPRIATION

Details of the results of the Group for the year ended 31 March 2007 are set out in the consolidated income statement on page 14 of this report and the accompanying notes to the financial statements.

The directors declared an interim dividend of HK4.1 cents per share, totaling HK$40,704,000, which was paid on 2 February 2007.

The directors recommend the payment of a final dividend of HK6.2 cents per share, totaling HK$62,023,000, payable on or before 28 September 2007.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results of the Group for the last five financial years and the assets and liabilities of the Group as at the end of the last five financial years is set out on pages 87 to 88 of this report.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 19 of this report.

Movements in the reserves of the Company during the year are set out in note 33 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 March 2007, the reserves of the Company available for distribution, calculated in accordance with the Bermuda Companies Act, amounted to approximately HK$456.9 million. In addition, the share premium of the Company, in the amount of approximately HK$634.6 million, may be distributed in the form of fully paid bonus shares.

PROPERTY, PLANT AND EQUIPMENT

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

Directors' Report

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

BORROWINGS

Details of the Group's and the Company's borrowings and obligations under finance leases are set out in note 29 and note 30 to the financial statements respectively.

RETIREMENT BENEFIT SCHEME

Details of retirement benefit scheme are set out in note 39 to the financial statements.

POST BALANCE SHEET EVENT

Details of the post balance sheet event of the Group which took place subsequent to 31 March 2007 and up to the date of the report are set out in note 42 to the financial statements.

DIRECTORS

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

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

Independent Non-Executive Directors
Ms. Susan So
Mr. Kwok Ping Ki, Albert
Mr. Tang Yat Kan
Mr. Wong Yee Sui, Andrew
Mr. Mak Siu Wing, Clifford

Pursuant to articles 87(1) and 87(2) of the Company's Bye-laws, Mr. Mak Siu Wing, Clifford, Mr. Tang Yat Kan, Mr. Wong Yee Sui, Andrew and Mr. Tsang Kwong Chiu, Kevin shall retire and being eligible to offer themselves for re-election at the forthcoming annual general meeting.

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

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and of the senior management of the Group are set out on pages 47 to 50 of the annual report.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 21 August 2007 to 23 August 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrars in Hong Kong, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Monday, 20 August 2007.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS' INTERESTS IN SECURITIES

As at 31 March 2007, the interests or short positions of the directors of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for the Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Directors' Report

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

Name of director	Personal interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total interests	Percentage of total issued share capital (%)
Chau Cham Wong, Patrick	65,631,077	298,660,459	28,416,795 (Note 1)	39,600,000 (Note 3)	432,308,331	44.54
Leung Yung	–	327,077,254	65,631,077 (Note 2)	39,600,000 (Note 3)	432,308,331	44.54
Tsang Kwong Chiu, Kevin	98,353	–	–	3,100,000 (Note 3)	3,198,353	0.32
Cheng Kwan Ling	293,904	–	–	850,000 (Note 3)	1,143,904	0.12
Man Kwok Keung	–	–	–	850,000 (Note 3)	850,000	0.09
Tang Yat Kan	125,000	–	–	475,000 (Note 3)	600,000	0.06
Kwok Ping Ki, Albert	125,000	–	–	475,000 (Note 3)	600,000	0.06
Mak Siu Wing, Clifford	–	–	–	600,000 (Note 3)	600,000	0.06
Wong Yee Sui, Andrew	–	–	–	600,000 (Note 3)	600,000	0.06
Susan So	–	–	–	600,000 (Note 3)	600,000	0.06

Notes:

1. Mr. Chau Cham Wong, Patrick was deemed to be interested in 28,416,795 shares for the purposes of section 317 of the SFO, representing the deemed interests in United Success Enterprises Limited ("United Success") in respect of its holdings pursuant to a placing and subscription completed in April 2004 (the "Placing and Top Up"). As a result of the foregoing, Mr. Chau Cham Wong, Patrick was deemed to be interested in a total of 432,308,331 shares of the Company.

2. Mr. Leung Yung has 49.55% voting control of A-One Investments Limited ("A-ONE") and 100% voting control of United Success, both of which are vendors acting in concert with him in the Placing and Top Up. He was deemed to be interested in 65,631,077 shares of the Company for the purposes of section 317 of the SFO. Consequently, Mr. Leung Yung was deemed to be interested in a total of 432,308,331 shares of the Company.

3. These interest represented the interest in underlying shares of the Company in respect of share options granted by the Company to these directors as beneficial owners.

Directors' Report

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company being held by the Directors in trust for the Company, as at 31 March 2007, none of the directors of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

Share options are granted to the Directors, employees and other eligible persons under the Share Option Scheme of the Company (the "Scheme") adopted on 24 January 2002. Details of the Scheme are set out in note 34 to the financial statements.

SHARE INCENTIVE SCHEME

The Company adopted a share incentive scheme on 31 March 2006 which the details are set out in note 35 to the financial statements.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, the following persons (other than directors of the Company) were substantial shareholders of the Company or had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of substantial shareholder	Number of shares in which interested	Percentage of issued share capital
United Success	432,308,331 (Note 1)	44.54
A-ONE	432,308,331 (Note 2)	44.54
Lloyd George Investment Management Limited ("Lloyd George")	49,710,000 (Note 3)	5.02

Notes:

1. United Success was wholly-owned by Mr. Leung Yung. United Success was one of the parties acting in concert under the Placing and Top Up, and so was deemed to be interested in 432,308,331 shares of the Company pursuant to section 317 of the SFO.

2. Mr. Chau Cham Wong, Patrick controlled 50.45% and Mr. Leung Yung controlled 49.55% of A-ONE respectively. A-ONE was one of the parties acting in concert under the Placing and Top Up, and was deemed to be interested in 432,308,331 shares of the Company pursuant to section 317 of the SFO.

3. Lloyd George was interested in 49,710,000 shares of the Company as investment manager.

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company did not redeem any of its shares. Neither the Company nor any of its subsidiaries purchased or sold any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

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

MANAGEMENT CONTRACTS

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

Directors' Report

DISCLOSURE UNDER RULE 13.18 OF CHAPTER 13 OF THE LISTING RULES

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

The Facility Agreement contains certain events of default including:

(a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and

(b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 35% of the voting share capital of the Company; or no longer control the board of directors of the Company.

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

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

The Facility Agreement contains certain events of default including:

(a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and

(b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 30% of the voting share capital of the Company; or no longer have management control of the Company.

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

Directors' Report

(3) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 20 December 2006 relating to a term loan facility in an aggregate amount of RMB380,000,000 (the "Facility") made available to a subsidiary (the "Facility Agreement").

The Guarantee contains certain undertakings, which when breached will constitute an event of default under the Facility Agreement. One of the undertakings is for the Company to ensure that, unless and until the Borrower and the Guarantors have fully discharged their respective obligations under the Finance Documents:

(a) Mr. Chau Cham Wong, Patrick will serve as the chairman of the board of directors of the Company; and

(b) Mr. Chau Cham Wong, Patrick and Mr. Leung Yung will collectively remain as the single largest shareholder of the Company and its subsidiaries (the "Group"), and will directly and indirectly hold more than 35% of the equity interests in the Borrower and maintain control of the board of directors of the Borrower.

On and at any time after the occurrence of an event of default under the Facility Agreement, Oversea-Chinese Banking Corporations Limited, Hong Kong Branch (the "Agent") may, and shall if so directed by the majority lenders declare that all or part of the loan made under the Facility, together with accrued interest, and all other amounts accrued or outstanding under the Facility Agreement be immediately due and payable.

(4) In compliance with the Rule 13.18 of the Listing Rules, the following disclosures are included in respect of a facility agreement dated 22 June 2007 relating to a term loan and revolving credit facility in an aggregate amount of HK$1,200,000,000 (the "Facility") made available to the Company (the "Facility Agreement").

The Facility Agreement contains certain events of default including:

(a) if Mr. Chau Cham Wong, Patrick ceases at any time during the subsistence of the Facility Agreement to be the Chairman of the Company and the Group; and

(b) if Mr. Chau Cham Wong, Patrick and Mr. Leung Yung collectively are no longer the single largest shareholder of the Company, holding beneficially (directly or indirectly) more than 30% of the voting share capital of the Company; or no longer control the board of directors of the Company.

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

CONNECTED TRANSACTIONS

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

Directors' Report

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

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

The annual cap and the actual figure for the year ended 31 March 2007 was US$5 million (HK$39 million) and US$70,000 (HK$546,000) respectively.

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

For further information relating to the above transaction, please refer to the Company's announcement dated 31 March 2006.

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

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

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

(b) either (i) on normal commercial terms; or (ii) where there is re-available comparison, on terms that were fair and reasonable so far as the shareholders of the Company are concerned; and

(c) either (i) in accordance with the terms of the agreements; or (ii) where there are no such agreements, on terms no less favourable than those available to or from independent third parties;

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

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2007, the five largest ultimate customers to whom the goods were exported by the Group together accounted for not more than 40% of the Group's turnover for which the largest ultimate customer accounting for not more than 10%, and the five largest suppliers of the Group accounted for not more than 60% of the Group's purchases for which the largest supplier accounting for approximately 20%.

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

BOARD COMMITTEES

The Company has established a risk management committee, an audit committee, a remuneration committee and a nomination committee. For details regarding the other board committees, please see the relevant section in the Corporate Governance Report on pages 34 to 40 of the annual report.

CORPORATE GOVERNANCE

The Company is committed to fulfilling its responsibilities to shareholders by ensuring that the proper processes for oversight and management of its businesses are in place, in operation and are regularly reviewed. For details, please refer to the relevant section in the Corporate Governance Report on pages 34 to 40 of the annual report.

AUDITORS

The financial statements for the year ended 31 March 2007 were audited by Messrs. Chu and Chu, Certified Public Accountants. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to reappoint them as auditors.

On behalf of the Board

Chau Cham Wong, Patrick
Chairman

Hong Kong
12 July 2007

Independent Auditor's Report

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

A Member of AGN International

AGN INTERNATIONAL

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

We have audited the consolidated financial statements of Peace Mark (Holdings) Limited (the ''Company'') and its subsidiaries (collectively referred to as the ''Group'') set out on pages 14 to 85, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Chu and Chu
Certified Public Accountants

Hong Kong
12 July 2007

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

The notes on pages 23 to 85 form part of these financial statements.

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

Consolidated Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
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

The notes on pages 23 to 85 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 12 July 2007,

Chau Cham Wong, Patrick
Chairman

Leung Yung
Chief Executive Officer

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

Balance Sheet

As at 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
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

The notes on pages 23 to 85 form part of these financial statements.

Approved and authorized for issue by the Board of Directors on 12 July 2007,

Chau Cham Wong, Patrick
Chairman

Leung Yung
Chief Executive Officer

Consolidated Statement of Changes in Equity

For the Year Ended 31 March 2007

		Attributable to equity holders of the Company			
	Note	Share capital HK$'000	Reserves HK$'000	Minority interests HK$'000	Total HK$'000
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 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**
		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
Share 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

The notes on pages 23 to 85 form part of these financial statements.

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 written 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

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

The notes on pages 23 to 85 form part of these financial statements.

Notes to the Financial Statements

For the Year Ended 31 March 2007

1. GENERAL

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

2. BASIS OF PREPARATION *(Continued)*

(b) Standards, amendment to standards and interpretations that are not yet effective and have not been early adopted 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 been early adopted:

- 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

(b) Associates and jointly controlled entities

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

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

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

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

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

(c) Goodwill

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

(d) Investments

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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(d) Investments *(Continued)*

(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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(h) Intangible assets (other than goodwill) *(Continued)*

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.

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

(k) Taxation

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

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

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

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

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

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

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(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;

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(l) Foreign currency translation *(Continued)*

(iii) Group companies (Continued)

– 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.

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

(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 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(u) Segments

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

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

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

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

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

(v) Borrowings

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

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

(w) Derivative financial instruments

Derivative financial instruments are 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(x) Share capital

Ordinary share are classified as equity.

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

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

4. FINANCIAL RISK MANAGEMENT

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

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

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

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

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

3. To the extent possible the financing and cash management of the subsidiaries have been 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 maturities profile, if necessary, to meet business requirements.

Notes to the Financial Statements

For the Year Ended 31 March 2007

4. FINANCIAL RISK MANAGEMENT *(Continued)*

(a) Interest Rate Risk

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

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

After taking into consideration of interest rate swap, the Group's fixed rate debt was at an effective interest rate ranging from 4.95%-5.20% as a percentage of total debt 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 movement will be closely monitored. Currency derivatives (e.g. EUR, GBP and CHF) will be entered into to hedge the change of expected cash flows arising from an unexpected change in exchange rates. For RMB, the Company tends to naturally hedge its RMB denominated liabilities and expenses by the RMB denominated assets and revenue.

Currency transaction loss was HK$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 are based on the credit analysis provided by credit agencies and trade intelligence sourced through industry participants.

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

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

The Group completed its annual impairment test for goodwill related to the various cash generating units ("CGUs") 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

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

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

The recoverable amount of the CGUs are determined based on a value-in-use calculation. These calculations uses cashflow projections based on financial forecasts covering a five to ten-year periods with cashflows beyond that periods are extrapolated using an estimated growth rate of 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 in CGUs operate.

(e) Taxation

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

(f) Share option benefit expenses

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

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

(g) Fair value of derivative financial instruments

The fair value of derivative financial instruments is based on 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 incorporate market data, discount rates and other assumptions. Should these assumptions be changed, there would be material changes to the carrying amount of the derivative financial instruments.

6. SEGMENT INFORMATION

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

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

6. SEGMENT INFORMATION *(Continued)*

	2007			
	Turnover HK$'000	Segment results HK$'000	Segment assets HK$'000	Capital expenditure HK$'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	

Notes to the Financial Statements

For the Year Ended 31 March 2007

6. SEGMENT INFORMATION *(Continued)*

	2006			
	Turnover HK$'000	Segment results HK$'000 (Restated)	Segment assets HK$'000	Capital expenditure HK$'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	

Notes to the Financial Statements

For the Year Ended 31 March 2007

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 HK$'000	2006 HK$'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

Notes to the Financial Statements

For the Year Ended 31 March 2007

8. PROFIT BEFORE TAXATION

	2007 HK$'000	2006 HK$'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

Notes to the Financial Statements

For the Year Ended 31 March 2007

9. FINANCE COSTS

	2007 HK$'000	2006 HK$'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 HK$'000	Salary HK$'000	Other benefits (Note i) HK$'000	Employer's contribution to pension scheme HK$'000	Share-based payments (Note ii) HK$'000	Total HK$'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

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

(a) Directors' emoluments *(Continued)*

For the year ended 31 March 2006

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

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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

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

The emoluments of the one (2006: three) individuals 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 of the 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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
Over provision 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 has 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

11. TAXATION *(Continued)*

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

	2007 HK$'000	2006 HK$'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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

13. DIVIDENDS

	2007 HK$'000	2006 HK$'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

Notes to the Financial Statements

For the Year Ended 31 March 2007

15. RELATED PARTY TRANSACTIONS

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

	Note	2007 HK$'000	2006 HK$'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 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

15. RELATED PARTY TRANSACTIONS *(Continued)*

Notes: *(Continued)*

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

	2007 HK$'000	2006 HK$'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 HK$'000	2006 HK$'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 represent prepaid operating lease premium payments.

Notes to the Financial Statements

For the Year Ended 31 March 2007

17. PROPERTY, PLANT AND EQUIPMENT

	Group					
	Plant and machinery under installation HK$'000	**Buildings for own use** HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Other assets** HK$'000	**Total** HK$'000
COST						
At 1 April 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

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

	Group					
	Plant and machinery under installation HK$'000	**Buildings for own use** HK$'000	**Leasehold improvements** HK$'000	**Plant and machinery** HK$'000	**Other assets** HK$'000	**Total** HK$'000
COST						
At 1 April 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).

Notes to the Financial Statements

For the Year Ended 31 March 2007

18. INTANGIBLE ASSETS

	Group		
	Goodwill	**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 cashflow projections based on financial forecasts covering a five to ten-year periods with cashflows beyond that periods are extrapolated using an estimated growth rate of 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: nil) respectively.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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 interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Aerostar Timewear International Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Bensonic International Limited	British Virgin Islands	US$100 Ordinary	–	51	The Americas	Timepiece distribution, trading and marketing
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

Notes to the Financial Statements

For the Year Ended 31 March 2007

19. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Easy Winner Development Limited	Hong Kong	HK$1 Ordinary	–	100	Hong Kong	Timepiece retail
Ever Precision Corporation	British Virgin Islands	US$1 Ordinary	–	100	The People's Republic of China	Trademark holding
Epoch World Company Limited[4]	Taiwan	NTD19,000,000	–	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

Notes to the Financial Statements

For the Year Ended 31 March 2007

19. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Omni Watch & Clock Co., LLC.[4]	State of New York, United States	US$8,698,090	–	51	United States	Timepiece distribution, trading and marketing
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	British Virgin Islands	Investment holding
Peace Mark Distribution & Marketing Limited	British Virgin Islands	US$10 Ordinary	–	100	British Virgin Islands	Investment holding
Peace Mark Limited	Hong Kong	HK$110,000 Ordinary HK$10,000 Non-voting deferred[3]	–	100	Hong Kong	Timepiece trading, marketing and manufacturing
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 750,000 Preference Shares of US$0.8 each	–	65	Hong Kong	Timepiece distribution, trading and marketing
PM License Management Limited	British Virgin Islands	US$100 Ordinary	–	100	British Virgin Islands	License holding
Pure Riches Industries Limited	Hong Kong	HK$2,760,000 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
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

Notes to the Financial Statements

For the Year Ended 31 March 2007

19. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
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	Timepieces 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	Timepieces 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[1] (Transliteration: Shenzhen Modern Watch Showpiece Co. Ltd.)	The People's Republic of China	RMB1,000,000	–	51	The People's Republic of China	Timepiece retail
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

Notes to the Financial Statements

For the Year Ended 31 March 2007

19. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
重慶美達實業有限公司 (Transliteration: Chongqing Meida Enterprise Co., Limited)	The People's Republic of China	RMB10,000,000	–	51	The People's Republic of China	Timepiece retail
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: Ningbo 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 a wholly foreign owned enterprise.

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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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
Amount due from associates (Note a)	**173,378**	70,406
Amount 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 is 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

Notes to the Financial Statements

For the Year Ended 31 March 2007

20. INTEREST IN ASSOCIATES *(Continued)*

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

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

Summary of financial information of associates:

	Assets HK$'000	Liabilities HK$'000	Equity HK$'000	Revenue HK$'000	Profit (Loss) for the year HK$'000
2007					
100 percent	**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 percent	365,866	(287,243)	78,623	69,045	7,145
Group's effective interest	167,034	(132,500)	34,534	29,423	2,974

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2007 HK$'000	2006 HK$'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 is 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.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

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 percent	**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 percent	1,757	40,891	(5,740)	(33,618)	3,290	41,076	(4,355)
Group's effective interest	861	20,037	(2,813)	(16,473)	1,612	20,127	(2,134)

Notes to the Financial Statements

For the Year Ended 31 March 2007

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-ordinating with PRC manufacturers, distribution partners and acquisition targets. It also assists the Group to serve its Japanese customers. They are measured at cost less impairment at each balance sheet date because the directors of the Company are of the opinion that their fair value at balance sheet date cannot be measured reliably.

(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 **HK$'000**	2006 HK$'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 expense and included in cost of sales amount to HK$1,797,255,000 (2006: HK$1,333,661,000).

Notes to the Financial Statements

For the Year Ended 31 March 2007

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

25. TRADE DEPOSITS AND OTHER RECEIVABLES *(Continued)*

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 proportion of 65%, 25% and 10%, respectively. The Group has placed HK$75,660,000 as deposit for such investment. In current year, Peace Mark Tourneau has been set up which the details 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 HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'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 HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'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 HK$'000	2006 HK$'000
Listed Securities:		
– Equity securities – Hong Kong	**4,696**	9,364
– Bond – Oversea	**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 HK$'000	2006 HK$'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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

29. INTEREST-BEARING BORROWINGS

	Group	
	2007	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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

29. INTEREST-BEARING BORROWINGS *(Continued)*

	The Company	
	2007	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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

31. DEFERRED TAXATION

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

	Group				
	Accelerated tax depreciation HK$'000	**Tax losses** HK$'000	**Unrealized profits on inventories** HK$'000	**Revaluation of properties** HK$'000	**Total** 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.

31. DEFERRED TAXATION *(Continued)*

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**	**Amount** 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**
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 exercises 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

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

33. RESERVES

	Group										
	Share premium HK$'000	Merger deficit HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Other reserve HK$'000	Fair value reserve HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
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**

Notes to the Financial Statements

For the Year Ended 31 March 2007

33. RESERVES *(Continued)*

	The Company					
	Share premium HK$'000	Contributed surplus HK$'000	Retained profits HK$'000	Share option reserve HK$'000	Proposed final dividend HK$'000	Total HK$'000
As at 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

33. RESERVES *(Continued)*

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

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

Under the 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 **HK$'000**	2006 HK$'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.

34. SHARE OPTION SCHEME *(Continued)*

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

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

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

34. SHARE OPTION SCHEME *(Continued)*

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

	Date of grant	Vesting Period	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$	Price of Company's shares (Note b): 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	–
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			

34. SHARE OPTION SCHEME *(Continued)*

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

As at 31 March 2007, the Company had 140,255,000 (2006: 45,000,000) share options outstanding under the Scheme, with exercise period from 19 June 2006 to 31 March 2012 (both dates inclusive) and 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).

Notes to the Financial Statements

For the Year Ended 31 March 2007

34. SHARE OPTION SCHEME *(Continued)*

These fair values were calculated using 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 manners:

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;

34. SHARE OPTION SCHEME *(Continued)*

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 "Forth 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 Forth 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 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 was approved by the Independent Shareholders in 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

34. SHARE OPTION SCHEME *(Continued)*

(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 installments. 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.

Notes to the Financial Statements

For the Year Ended 31 March 2007

36. ACQUISITION OF SUBSIDIARIES

	2007 HK$'000	2006 HK$'000
Net assets of the subsidiaries acquired comprise 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 asset	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

Notes to the Financial Statements

For the Year Ended 31 March 2007

37. DISPOSAL OF SUBSIDIARIES

Net assets of the subsidiaries disposed comprise of:

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

38. MAJOR NON-CASH TRANSACTION

During the year, the Group entered into finance lease arrangement in respect of assets with a total capital value at the 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 has not yet be 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 scheme or staying in existing schemes. Where staff elected to join MPF, both the Company and staff are required to contribute 5% of the employees' relevant income (capped at HK$20,000 per month). Staff may elect to contribute more than the minimum as a voluntary contribution. The Group's contributions to this mandatory provident fund scheme are expensed as incurred.

(ii) Plan for PRC employees

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

Notes to the Financial Statements

For the Year Ended 31 March 2007

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.

Summary of Properties

For the Year Ended 31 March 2007

	Location	Lease expiry	Gross floor area (square metre)	Type	Category	Stage of completion	Group interest
1.	Unit 3 together with air conditioning plant room on 7th Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	2047	933.11	Industrial	Own use	Existing	100%
2.	Unit 3 together with air conditioning plant room on 12th Floor and car parking space No. P5 on 1st Floor of High Block Cheung Fung Industrial Building Nos. 23-39 Pak Tin Par Street Tsuen Wan New Territories	2047	933.11	Industrial	Own use	Existing	100%
3.	Flat F on 4/F of Block 5 Belvedere Garden Phase 3 No. 625 Castle Peak Road Tsuen Wan New Territories	2047	81	Staff quarter	Own use	Existing	100%
4.	19 Reuchenettestrasse 2502 Bienne Switzerland	Freehold	526	Industrial	Own use	Existing	100%

Five-Year Financial Summary

RESULTS

Year ended 31 March

	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	**2007** **HK$'000**
Turnover	1,119,099	1,434,492	1,937,947	2,241,771	**3,040,514**
Profit from operations	93,629	108,290	181,084	313,431	**456,338**
Finance costs	(13,407)	(18,155)	(27,439)	(60,346)	**(111,880)**
Share of profit (loss) of associates	–	321	(357)	2,974	**(9,512)**
Share of loss of a jointly controlled entity	(6,194)	(2,998)	(929)	(2,134)	**(2,027)**
Profit before taxation	74,028	87,458	152,359	253,925	**332,919**
Taxation	(7,995)	(206)	(23,158)	(37,924)	**(28,316)**
Profit for the year	66,033	87,252	129,201	216,001	**304,603**
Attributable to:					
Profit attributable to equity holders of the Company	58,199	80,005	123,917	200,619	**300,276**
Minority interest	7,834	7,247	5,284	15,382	**4,327**
	66,033	87,252	129,201	216,001	**304,603**

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

Five-Year Financial Summary

ASSETS AND LIABILITIES

As at 31 March

	2003 HK$'000	2004 HK$'000	2005 HK$'000 (Restated)	2006 HK$'000	**2007** **HK$'000**
Freehold land and interest in leasehold land	–	–	21,256	5,461	**7,961**
Property, plant and equipment	357,070	383,668	457,529	401,288	**518,010**
Intangible assets	80,293	116,584	201,624	196,143	**239,289**
Interest in associates	29,738	65,680	65,375	134,533	**87,300**
Interest in a jointly controlled entity	9,535	10,922	15,640	13,776	**15,994**
Investments in securities	11	15,600	16,768	–	**–**
Other financial assets	29,225	29,225	29,225	44,941	**181,057**
Deferred tax assets	46	12,272	12,577	9,224	**9,566**
Net current assets	396,145	638,204	658,351	1,485,044	**2,068,294**
	902,063	1,272,155	1,478,345	2,290,410	**3,127,471**
Long-term liabilities	(176,590)	(424,659)	(270,791)	(610,120)	**(1,077,869)**
Deferred tax liabilities	(6,802)	(9,419)	(15,314)	(11,392)	**(13,064)**
Minority interest	(43,149)	(60,178)	(84,812)	(107,573)	**(230,059)**
Net assets	675,522	777,899	1,107,428	1,561,325	**1,806,479**

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

www.peacemark.com

2007