

### 1. General

The Company is incorporated in Bermuda as an exempted company with limited liability and acts as an investment holding company. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2. Adoption of Revised Statement of Standard Accounting Practice

In the current year, the Group has adopted for the first time the Hong Kong Financial Reporting Standard ("HKFRS") — Statement of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income taxes" issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The adoption of this revised SSAP 12 has introduced a new basis of accounting for income taxes (including both current tax and deferred tax) and additional disclosure requirements. These changes have not had any significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

### 3. Significant Accounting Policies

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment securities. The principal accounting policies adopted which are in accordance with accounting principles generally accepted in Hong Kong are as follows:

#### **Basis of consolidation**

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

#### **Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition is presented as deductions from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

#### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any identified impairment loss.

### 3. Significant Accounting Policies (Continued)

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill less the negative goodwill in so far as it has not already been written off, amortised or released to income, less any identified impairment loss.

#### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity securities are measured at fair value at subsequent reporting dates.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the profit or loss for the period.

#### Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

#### Revenue recognition

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

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income, including rentals invoiced in advance, from properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

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

### 3. Significant Accounting Policies (Continued)

#### Leases

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risks and rewards of ownership of the leased assets to the Group. Assets held under finance leases are capitalised at their fair value at the date of inception of the leases. Any outstanding principal portion of the leasing commitments is shown as obligations of the Group. The finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals payable are charged to the income statement on a straight line basis over the period of the respective leases.

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on an annual professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment properties revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance on the investment properties revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequent arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of investment properties, any balance in the investment properties revaluation reserve attributable to the disposed property is transferred to the income statement.

No depreciation is provided on investment properties which are held on leases with unexpired terms of more than 20 years.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

Certain land and buildings which have been previously classified as investment properties are stated at their valuation immediately prior to transfer. No further valuation will be carried out on these land and buildings. On the subsequent sale or the retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

### 3. Significant Accounting Policies (Continued)

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

The cost or valuation of leasehold land is amortised over the period of the lease using the straight line method.

The cost or valuation of buildings is depreciated over their estimated useful lives of 30 years or 50 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the rate of 20% per annum.

Assets held under finance leases are depreciated on the same basis as assets owned by the Group or over the period of the leases, if shorter.

#### Inventories

Inventories, which represent goods held for sale, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchases and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition is calculated on a specific identification basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

#### Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

### 3. Significant Accounting Policies (Continued)

#### Taxation (Continued)

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

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

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

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

#### Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

### 4. Business and Geographical Segment

#### Business segments

The Group's operations is regarded as a single segment, being an enterprise engaged in watch trading.

#### Geographical segments

The Group's operations are located in Hong Kong and Mainland China (the "PRC"), representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

## 4. Business And Geographical Segment (Continued)

## Geographical segments (Continued)

	Turnover		Results	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	1,851,239	1,868,637	72,587	76,672
PRC	206,256	164,599	6,695	3,942
Inter-segment sales elimination	(181,262)	(131,457)	—	—
	<u>1,876,233</u>	<u>1,901,779</u>	<u>79,282</u>	<u>80,614</u>
Unallocated other operating income			2,202	202
Unallocated corporate expenses			(102)	(1,637)
Profit from operations			81,382	79,179
Finance costs			(1,175)	(1,603)
Profit before taxation			80,207	77,576
Taxation			(11,577)	(12,091)
Net profit attributable to shareholders			<u>68,630</u>	<u>65,485</u>

Inter-segment sales are charged at the prevailing market rate.

## Balance Sheet

	Segment assets		Segment liabilities	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	643,248	600,301	82,532	53,531
PRC	109,534	84,879	705	254
	<u>752,782</u>	<u>685,180</u>	<u>83,237</u>	<u>53,785</u>
Unallocated	13,712	706	26,148	28,342
	<u>766,494</u>	<u>685,886</u>	<u>109,385</u>	<u>82,127</u>

## 4. Business and Geographical Segment (Continued)

## Geographical segments (Continued)

## Other Information

	Capital additions		Depreciation and amortisation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	4,696	1,362	3,734	3,360
PRC	2,818	1,321	839	478
Unallocated	496	40	199	102
	<u>8,010</u>	<u>2,723</u>	<u>4,772</u>	<u>3,940</u>

## 5. Profit From Operations

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (Note 6)	16,047	18,726
Other staff's retirement benefits scheme contributions, net of negligible forfeited contributions	1,533	1,656
Other staff costs	34,915	32,799
	<u>52,495</u>	<u>53,181</u>
Amortisation of premium on acquisition of held-to-maturity securities included in administrative expenses	54	54
Auditors' remuneration		
— current year	950	1,089
— underprovision in prior year	62	59
Depreciation and amortisation of property, plant and equipment		
— owned by the Group	4,742	3,903
— held under a finance lease	30	37
Loss on disposal of property, plant and equipment	1	661
Operating lease rentals in respect of land and buildings	10,837	10,845
Unrealised losses on listed trading securities	—	607
and after crediting:		
Amortisation of discount on acquisition of held-to-maturity securities included in other operating income	—	4
Gross property rental income before deduction of negligible outgoings	475	980
Interest income	963	1,681
Release of negative goodwill included in other operating income	202	202
Unrealised gain on listed trading securities	248	—
	<u>248</u>	<u>—</u>

## 6. Directors' And Employees' Emoluments

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees for		
— executive directors	—	—
— independent non-executive directors	<u>216</u>	<u>216</u>
	<u>216</u>	<u>216</u>
Other emoluments for independent non-executive directors	—	—
Other emoluments for executive directors		
— basic salaries and allowances	<b>9,281</b>	8,484
— performance related incentive bonuses	<b>5,457</b>	8,924
— retirement benefits scheme contributions	<b>1,093</b>	1,102
	<u>15,831</u>	<u>18,510</u>
Total directors' remuneration	<b><u>16,047</u></b>	<b><u>18,726</u></b>

The emoluments of the directors were within the following bands:

	<b>Number of directors</b>	
	<b>2004</b>	2003
Up to HK\$1,000,000	<b>3</b>	2
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	—
HK\$1,500,001 to HK\$2,000,000	—	1
HK\$2,000,001 to HK\$2,500,000	<b>2</b>	1
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$3,500,001 to HK\$4,000,000	<b>1</b>	2
HK\$4,000,001 to HK\$4,500,000	<b>1</b>	-
HK\$4,500,001 to HK\$5,000,000	<u>—</u>	<u>1</u>

All the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments were disclosed above.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

**7. Finance Costs**

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
Interest on		
— a finance lease	(20)	(60)
— bank borrowings wholly repayable within five years	<u>(1,155)</u>	<u>(1,543)</u>
	<u><b>(1,175)</b></u>	<u><b>(1,603)</b></u>

**8. Taxation**

	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2003: 16%) on the estimated assessable profit for the year	<b>(10,843)</b>	(13,057)
(Under)overprovision in prior years	<u>(75)</u>	<u>1,443</u>
	<b>(10,918)</b>	(11,614)
Mainland China income tax	<b>(949)</b>	(540)
Deferred taxation	<u>290</u>	<u>63</u>
	<u><b>(11,577)</b></u>	<u><b>(12,091)</b></u>

The income tax in Mainland China (the "PRC") is calculated at the rates prevailing pursuant to the relevant laws and regulations.

**8. Taxation (Continued)**

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

	2004		2003	
	HK\$	%	HK\$	%
Profit before taxation	<b>80,207</b>		<b>77,576</b>	
Tax at the domestic income tax rate	(14,036)	(17.5)	(12,412)	(16.0)
Tax effect of expenses not deductible for tax purposes	(729)	(0.9)	(1,511)	(1.9)
Tax effect of income not taxable for tax purposes	395	0.5	154	0.2
Tax effect of unrecognised tax losses	3,006	3.7	—	—
Effect of different tax rates for subsidiaries operating in PRC	(161)	(0.2)	(37)	—
Others	23	—	272	0.2
(Under)overprovision in prior year	(75)	—	1,443	1.9
Tax charge and effective tax rate for the year	<b>(11,577)</b>	<b>(14.4)</b>	<b>(12,091)</b>	<b>(15.6)</b>

**9. Dividends**

	2004 HK\$'000	2003 HK\$'000
Interim dividend of 2.0 Hong Kong cents (2003: 2.0 Hong Kong cents) per share	5,505	5,505
Proposed final dividend of 4.0 Hong Kong cents (2003: 3.5 Hong Kong cents) per share	11,010	9,634
	<b>16,515</b>	<b>15,139</b>

The final dividend proposed for the year ended 31 March 2004 is calculated on the basis of 275,253,200 shares in issue at the date of this report.

**10. Earnings Per Share**

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	<b>2004</b> <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Earnings:		
Net profit attributable to shareholders and earnings for the purposes of basic and diluted earnings per share	<u><b>68,630</b></u>	<u>65,485</u>
	<b>Number of shares</b>	
	<b>2004</b>	2003
Number of shares for the purposes of basic earnings per share	<b>275,253,200</b>	<u>275,253,200</u>
Potential dilutive shares issuable under the Company's share option scheme	<u>205,570</u>	
Weighted average number of shares for the purposes of diluted earnings per share	<u><b>275,458,770</b></u>	

No diluted earnings per share has been presented in 2003 as there were no potential dilutive shares issuable under the Company's share option scheme.

**11. Investment Properties**

	<i>HK\$'000</i>
<b>The Group</b>	
At 1 April 2002	13,500
Deficit arising on revaluation	<u>(1,500)</u>
At 31 March 2003	12,000
Disposal	<u>(12,000)</u>
At 31 March 2004	<u><u>—</u></u>

## 12. Property, Plant and Equipment

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>The Group</b>				
COST OR VALUATION				
At 1 April 2003	70,096	36,414	2,653	109,163
Additions	—	8,010	—	8,010
Disposals	—	(11)	—	(11)
	<u>70,096</u>	<u>44,413</u>	<u>2,653</u>	<u>117,162</u>
At 31 March 2004	<u>70,096</u>	<u>44,413</u>	<u>2,653</u>	<u>117,162</u>
Comprising:				
At cost	67,996	44,413	2,653	115,062
At valuation — 1996	2,100	—	—	2,100
	<u>70,096</u>	<u>44,413</u>	<u>2,653</u>	<u>117,162</u>
DEPRECIATION AND AMORTISATION				
At 1 April 2003	6,287	24,196	1,416	31,899
Provided for the year	659	3,898	215	4,772
Eliminated on disposals	—	(5)	—	(5)
	<u>6,946</u>	<u>28,089</u>	<u>1,631</u>	<u>36,666</u>
At 31 March 2004	<u>6,946</u>	<u>28,089</u>	<u>1,631</u>	<u>36,666</u>
NET BOOK VALUES				
At 31 March 2004	<u>63,150</u>	<u>16,324</u>	<u>1,022</u>	<u>80,496</u>
At 31 March 2003	<u>63,809</u>	<u>12,218</u>	<u>1,237</u>	<u>77,264</u>

## The Group

<b>2004</b>	2003
<b><i>HK\$'000</i></b>	<i>HK\$'000</i>

The net book value of property interests comprises:

Properties held under

- long leases in Hong Kong
- medium-term lease in the PRC

<b>62,250</b>	62,879
<b>900</b>	930
<u><b>63,150</b></u>	<u>63,809</u>

**12. Property, Plant and Equipment (Continued)**

The land and buildings stated at 1996 valuation were valued at 31 March 1996 by an independent firm of professional property valuers on an open market value basis before being transferred from investment properties. No further valuation will be carried out on these land and buildings.

At the balance sheet date, the net book value of the Group's property, plant and equipment held under a finance lease was HK\$167,000 (2003: HK\$197,000).

**13. Negative Goodwill**

	<i>HK\$'000</i>
<b>The Group</b>	
GROSS AMOUNT	
At 1 April 2002, 31 March 2003 and 31 March 2004	(4,028)
RELEASED TO INCOME	
At 1 April 2002	200
Released during the year	202
At 31 March 2003	402
Released during the year	202
At 31 March 2004	604
CARRYING VALUE	
At 31 March 2004	<u>(3,424)</u>
At 31 March 2003	<u>(3,626)</u>

The negative goodwill is released to income on a straight line basis over 20 years representing the estimated average useful life of the depreciable assets acquired.

**14. Investments in Subsidiaries**

	<b>The Company</b> <b>2004 &amp; 2003</b> <i>HK\$'000</i>
Unlisted shares, at cost	123,614
Less: Impairment in value	<u>(1,000)</u>
	<u>122,614</u>

Details of the Company's principal subsidiaries at 31 March 2004 are set out in note 27.

## 15. Interest in an Associate

	The Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of associate's net assets	<u>4,000</u>	<u>—</u>

The investment in associate represents the Group's 20% equity interest in Union Bridge Power Systems Limited which is incorporated in the Cayman Islands and engaged in the provision of electronic manufacturing services in the energy and power system industry.

## 16. Investments in Securities

	The Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Held-to-maturity debt securities	8,906	8,906
Less: Amortisation of premium on acquisition	<u>(162)</u>	<u>(108)</u>
	8,744	8,798
Investment securities		
— overseas unlisted shares	3,000	—
Trading securities		
— Hong Kong listed shares	<u>858</u>	<u>610</u>
	<u>12,602</u>	<u>9,408</u>
Shown under non-current assets	12,602	8,798
Shown under current assets	<u>—</u>	<u>610</u>
	<u>12,602</u>	<u>9,408</u>
Market value of quoted debt securities at 31 March	<u>9,710</u>	<u>9,519</u>
Market value of listed shares at 31 March	<u>858</u>	<u>610</u>

**17. Trade and Other Receivables**

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Trade receivables	<b>20,039</b>	22,967
Other receivables	<b>12,023</b>	9,830
	<u><b>32,062</b></u>	<u>32,797</u>

The Group maintains a general credit policy of not more than 30 days for its established and major customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Age</b>		
0 to 30 days	<b>15,959</b>	21,559
31 to 60 days	<b>110</b>	1,339
61 to 90 days	<b>1</b>	69
Over 90 days	<b>3,969</b>	—
	<u><b>20,039</b></u>	<u>22,967</u>

**18. Trade and Other Payables**

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Trade payables	<b>71,593</b>	42,400
Other payables	<b>11,644</b>	11,385
	<u><b>83,237</b></u>	<u>53,785</u>

**18. Trade and Other Payables (Continued)**

The following is an aged analysis of trade payables at the balance sheet date:

Age	The Group	
	2004 HK\$'000	2003 HK\$'000
0 to 60 days	67,002	40,986
61 to 90 days	44	260
Over 90 days	4,547	1,154
	<u>71,593</u>	<u>42,400</u>

**19. Obligations Under a Finance Lease**

	The Group			
	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amount payable under a finance lease:				
Within one year	66	114	46	78
Between one to two years	—	66	—	46
	<u>66</u>	<u>180</u>	<u>46</u>	<u>124</u>
Less: Future finance charges	(20)	(56)	—	—
Present value of lease obligations	<u>46</u>	<u>124</u>	<u>46</u>	<u>124</u>
Less: Amount due within one year shown under current liabilities			(46)	(78)
Amount due after one year			<u>—</u>	<u>46</u>

## 20. Deferred Taxation

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Revaluation of properties</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 April 2002	353	—	353
Credit to income statement for the year	(63)	—	(63)
At 31 March 2003	290	—	290
Credit to income statement for the year	(290)	—	(290)
Charge to equity for the year	—	141	141
At 31 March 2004	<u>—</u>	<u>141</u>	<u>141</u>

At the balance sheet date, the Group and the Company has unutilised tax loss of HK\$11,911,000 (2003: HK\$26,241,000) and HK\$5,312,000 (2003: HK\$3,102,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of these unutilised tax losses due to the unpredictability of future profit stream. These tax losses may be carried forward indefinitely except for HK\$610,000 (2003: Nil) of the Group which may only be carried forward for a maximum of five years.

## 21. Share Capital

	<b>Number of ordinary shares</b> <b>2004 &amp; 2003</b>	<b>Amount</b> <b>2004 &amp; 2003</b> <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
— authorised	<u>500,000,000</u>	<u>50,000</u>
— issued and fully paid	<u>275,253,200</u>	<u>27,525</u>

## 22. Share Options

### (a) Old share option scheme

Pursuant to the share option scheme adopted at a special general meeting of the Company held on 20 September 1993 (the "Old Share Option Scheme"), the directors of the Company may grant options as incentives to directors or employees of the Company or its subsidiaries to subscribe for shares in the Company within a period of ten years commencing from 20 September 1993. The Old Share Option Scheme expired on 20 September 2003.

## 22. Share Options (Continued)

### (a) Old share option scheme (Continued)

No option was granted, exercised or lapsed during the year and there was no outstanding share option as at 31 March 2003 and 31 March 2004.

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 17 October 2003, the Company approved and adopted a New Share Option Scheme.

### (b) New Share Option Scheme

The options of the New Share Option Scheme may be granted to any director of the Company, employee, consultant, customer, supplier or advisor of the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Eligible Persons"), the trustee of the Eligible Persons or a company beneficially owned by the Eligible Person. The purpose of the New Share Option Scheme is to attract and retain quality personnel and Eligible Persons to provide incentive to them to contribute to the business and operation of the Group. The total number of shares available for issue under the New Share Option Scheme is 27,525,320 shares, representing 10% of the issued share capital of the Company at 21 July 2004. No Eligible Person shall be granted an option in any 12-month period for such number of shares (issued and to be issued) which in aggregate would exceed 1% of the share capital of the Company 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 Rules Governing the Listing of Securities on the Stock Exchange. The exercisable period is determined by the directors, which shall not be more than 10 years from the date of grant. There is no general applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be open for acceptance in writing or by telex received by the secretary of the Company for a period of 21 days from the Eligible Person without paying any consideration upon the acceptance of the offer. The exercise price per share payable on the exercise of an option equal to the highest of:

- (a) the average closing price per share as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant or (where applicable) such price as from time to time adjusted pursuant to the New Share Option Scheme;
- (b) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the nominal value of the share.

The New Share Option Scheme is valid for a period of ten years commencing on the adoption date on 3 November 2003.

On 16 January 2004, 18,900,000 share options were granted to certain directors of the Company under the Company's New Share Option Scheme at an exercise price of HK\$1.702. The average closing price of the Company's shares immediately before the date of grant was HK\$1.69. These share options were exercisable for the period from 16 January 2004 to 15 January 2014. No options were exercised during the year and the number of share options under the New Share Option Scheme at 31 March 2004 was 18,900,000.

**22. Share Options (Continued)****(b) New Share Option Scheme (Continued)**

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

**23. Reserves**

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
<b>The Company</b>						
At 1 April 2002	52,045	425	122,183	1,858	12,386	188,897
Net profit attributable						
to shareholders	—	—	—	13,735	—	13,735
2003 interim						
dividend declared	—	—	—	(5,505)	5,505	—
2003 final						
dividend declared	—	—	—	(9,634)	9,634	—
Dividends paid	—	—	—	—	(17,891)	(17,891)
At 31 March 2003	52,045	425	122,183	454	9,634	184,741
Net profit attributable						
to shareholders	—	—	—	18,790	—	18,790
2004 interim						
dividend declared	—	—	—	(5,505)	5,505	—
2004 final						
dividend declared	—	—	—	(11,010)	11,010	—
Dividends paid	—	—	—	—	(15,139)	(15,139)
At 31 March 2004	<u>52,045</u>	<u>425</u>	<u>122,183</u>	<u>2,729</u>	<u>11,010</u>	<u>188,392</u>

The contributed surplus of the Company arose as a result of the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the Company's shares which were issued to acquire those subsidiaries under the group reorganisation in 1993.

**23. Reserves (Continued)**

In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

In the opinion of the directors, the Company's reserves available for distribution as at 31 March 2004 was HK\$135,922,000 (2003: HK\$132,271,000), which comprises the aggregate of contributed surplus, retained profits and dividend reserve of the Company.

**24. Operating Lease Commitments**

While the Company had no outstanding operating lease commitments at the balance sheet date, certain of its subsidiaries were committed to make the following future minimum leases payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	<b>The Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>6,319</b>	8,208
In the second to fifth year inclusive	<b>3,184</b>	2,489
	<b>9,503</b>	10,697

**25. Contingent Liabilities**

At the balance sheet date, the Company has given corporate guarantees of HK\$139,800,000 (2003: HK\$139,800,000) to certain banks to secure the credit facilities granted to its subsidiaries.

**26. Retirement Benefits Schemes**

The Group continues to operate a defined contribution retirement benefits scheme for its employees in Hong Kong. The assets of the scheme are held separately in a fund under the control of an independent trustee. The retirement benefits scheme contributions charged to the income statement represent the contributions payable by the Group to the fund at rates specified in the scheme. When employees leave the scheme prior to becoming fully vested in the contributions, the forfeited contributions will be used to reduce future contributions payable by the Group. There was no significant amount of unutilised forfeited contributions at the balance sheet date.

With the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong, all employees who are not members of the Group's defined contribution retirement benefits scheme are required to join the MPF Scheme.

**26. Retirement Benefits Schemes (Continued)**

The employees of the Company's PRC subsidiaries are members of state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

**27. Principal Subsidiaries**

Details of the Company's principal subsidiaries, all of which are limited liability companies and are wholly-owned by the Company, at 31 March 2004 are as follows:

<b>Name of subsidiary</b>	<b>Place of incorporation/ establishment/ operation</b>	<b>Nominal value of issued and fully paid share/ registered capital</b>	<b>Principal activities</b>
Cathay Watch Company Limited	Hong Kong	HK\$1,000	Watch trading
Fenmount International Limited	British Virgin Islands/PRC	US\$1	Watch trading
La Suisse Watch Company, Limited	Hong Kong	HK\$1,000	Watch trading
Oriental Watch Company Limited	Hong Kong	HK\$1,000	Watch trading
Excel Dragon International Limited *	Hong Kong	HK\$2	Property holding
Oriental Watch (China) Company Limited *	Hong Kong	HK\$1,000	Watch trading and investment holding
Unex Development Limited *	Hong Kong	HK\$2	Property holding
上海東舫表行國際貿易有限公司 (Shanghai Oriental Watch International Trading Co., Ltd.) *	PRC	US\$200,000	Watch trading for a term of 50 years commencing 3 January 2001

\* Indirectly held by the Company.

Shanghai Oriental Watch International Trading Co., Ltd. is a wholly foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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