

Notes to the Financial Statements

Year ended 31st March 2004

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associate are set out in notes 17 and 18 to the financial statements respectively.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICY

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS is inclusive of Statements of Standard Accounting Practice (“SSAPs”) and Interpretations approved by the HKSA:

SSAP 12 (Revised)	Income Taxes
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Income Taxes

In the current year, the Group has adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary 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 with limited exceptions.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment is required.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the accounting principles generally accepted in Hong Kong and comply with HKFRS issued by the HKSA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities. The principal accounting policies, which have been adopted in preparing the financial statements, are as follows:

a) **Basis of consolidation**

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

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

b) **Goodwill and negative goodwill (capital reserve)**

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

Goodwill and capital reserve arising on acquisitions after 1st April, 2001 is capitalized and amortized on a straight-line basis over its useful economic life, which is on average 20 years. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1st April, 2001 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill will be released to the income statement over a period of 20 years.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Goodwill and negative goodwill (capital reserve) (continued)

Goodwill and capital reserve arising on acquisitions prior to 1st April, 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realized in accordance with the realization of those underlying assets. When it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding the useful economic life. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealized capital reserve is included in the calculation of the profit or loss on disposal.

c) Investments in subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Dividend from subsidiaries is recognized by the Company when the Company's right to receive payment has been established.

d) Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

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 less any identified impairment loss.

e) Contractual joint ventures

A contractual joint venture is an entity established between the Group and one or more other parties with the rights and obligations of the joint venture partners governed by a contract. In case the Group owns more than 50% of the joint venture and is able to govern and control its financial and operating policies and its board of directors, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

i) Investment securities

Investment securities are stated at cost less any impairment loss that is other than temporary. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognized as an expense in the income statement.

ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of other investments are recognized in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the income statement as they arise.

g) 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 the title has passed.

Revenue from provision of service is recognized when services are provided.

Rental income from properties under operating leases is recognized on a straight-line basis over the relevant lease term.

Dividend income from investments in securities is recognized when the shareholders' right to receive payment has been established.

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

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Fixed assets and depreciation and amortization

Fixed assets, other than investment properties, are stated at cost or revalued amount less accumulated depreciation and amortization and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. 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 the fixed assets, the expenditure is capitalized as an additional cost of the fixed assets. Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount. 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 recognized in the income statement.

Certain of the Group's leasehold properties were revalued on an open market value basis as at 31st March, 1995 by Vigers Hong Kong Limited, a firm of independent professional valuers. Advantage has been taken of the transitional relief provided by paragraph 80 of the SSAP 17 "Property, Plant and Equipment" issued by the HKSA from the requirement to make revaluation on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any subsequent decrease in the net carrying amount of these properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the other property revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent sale or retirement of that asset, any attributable revaluation surplus not yet transferred to accumulated losses in prior years will be transferred directly to accumulated losses.

Depreciation and amortization are provided to write off the depreciable amount of fixed assets other than investment properties, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	2% or over the remaining terms of the leases, if shorter
Buildings	2 – 4%
Furniture, fixtures and fittings	15 – 20%
Leasehold improvements	5 – 50%
Machinery and equipment	20 – 50%
Motor vehicles	20%

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are stated at their open market value on the basis of period end valuation carried out annually by an independent external professional valuer. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property 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 of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve attributable to that property is transferred to the income statement as part of the profit or loss on disposal of the property.

No depreciation is provided on investment properties except when the unexpired term, including the renewal period, of the relevant lease are 20 years or less.

j) Computer software

Computer software is measured initially at cost and amortized on a straight-line basis over its estimated useful life, which is on average 1 year.

k) Impairment

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

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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Properties held for resale

Properties held for resale are stated at the lower of cost or carrying value and net realizable value. Net realizable value represents the estimated selling price less all costs to be incurred in selling.

m) Convertible notes

Convertible notes are regarded as debts unless conversion actually occurs. The finance charge recognized in the income statement in respect of the convertible notes includes a provision for the premium payable in the event of redemption rather than conversion of the convertible notes, which are outstanding at the balance sheet date. The provision is made on a straight-line basis over the period from the date of issue of the convertible notes to the date of redemption.

n) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less further costs expected to be incurred in selling and distribution.

o) Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. Gains and losses arising from foreign currency translation are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the income statements of overseas subsidiaries and associate expressed in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the year. The balance sheets of overseas subsidiaries and associate expressed in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. All exchange differences arising therefrom are dealt with in the currency translation reserve.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**p) Related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

q) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

r) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

s) 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 or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

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, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Taxation (continued)

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.

t) Operating leases

Rentals receivable (payable) under operating leases are credited (charged) to the income statement on a straight-line basis over the lease terms.

u) Employee benefits

(i) Retirement benefit costs

The contributions payable to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement. Contributions are reduced by employer's voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately and independently from those of the Group.

(ii) Share options

The nominal income received from the grantees as consideration for the grant is recognized as income upon acceptance of the grant by the grantees. No employee benefits cost is recognized when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Year ended 31st March 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

v) Contingent liabilities and contingent assets (continued)

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

4. TURNOVER AND OTHER REVENUE

Turnover represents the gross proceeds received and receivable derived from the sales of watches, investment securities, property rental and provision of programming service and is summarized as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sales of watches	245,489	213,630
Rental income		
Investment properties	3,835	4,443
Others	772	615
	4,607	5,058
Investment securities	7,960	21,980
Programming service	3,421	4,928
	261,477	245,596
Other revenue		
Interest income from other than short-term bank deposits	93	331
Interest income from short-term bank deposits	533	626
Customers service income and others	8,036	7,475
Profit on disposal of property held for resale	853	–
	9,515	8,432
	270,992	254,028

Notes to the Financial Statements

Year ended 31st March 2004

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

For management purposes, the Group's operating businesses are organized and managed separately into four segments: sales of watches, property-related business, investment securities and programming service. According to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Principal activities of each business segment are as follows:

Sales of watches	– trading and retailing of watches
Property-related business	– holding of properties
Investment securities	– holding and trading of listed securities
Programming service	– sale and design of contract software programs

Year ended 31st March 2004

5. SEGMENT INFORMATION (continued)

i) Business segment

Details of the segment information by business segments are as follows:

	Year ended 31st March, 2004						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
– External sales	245,489	4,607	7,960	3,421	–	–	261,477
– Inter-segment sales	–	–	–	974	–	(974)	–
	245,489	4,607	7,960	4,395	–	(974)	261,477
Segment results	(543)	3,050	2,185	(2,074)	(7,210)	–	(4,592)
Finance costs							(1,362)
Other income (expenses), net	(80)	47,361	–	(57)	(8,255)	–	38,969
Share of results of an associate	–	–	–	(606)	–	–	(606)
Profit before taxation							32,409
Taxation							(250)
Profit after taxation							32,159
Minority interests							584
Net profit for the year							32,743
Segment assets	126,784	46,757	3,097	3,116	109,057	–	288,811
Interest in an associate	–	–	–	1,357	–	–	1,357
Total assets	126,784	46,757	3,097	4,473	109,057	–	290,168
Segment liabilities	46,089	5,261	–	504	75,222	–	127,076
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	3,375	1,161	–	39	13	–	4,588
Depreciation	2,971	791	–	148	186	–	4,096
Impairment loss recognized in respect of goodwill	–	–	–	–	7,449	–	7,449
Amortization of goodwill	–	–	–	30	819	–	849

Notes to the Financial Statements

Year ended 31st March 2004

5. SEGMENT INFORMATION (continued)

i) Business segment (continued)

	Year ended 31st March, 2003						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
– External sales	213,630	5,058	21,980	4,928	–	–	245,596
– Inter-segment sales	–	135	–	36	–	(171)	–
	<u>213,630</u>	<u>5,193</u>	<u>21,980</u>	<u>4,964</u>	<u>–</u>	<u>(171)</u>	<u>245,596</u>
Segment results	(3,884)	3,805	(469)	(6,022)	121	–	(6,449)
Finance costs							(1,352)
Other expenses	(55)	–	–	(30)	(26,965)	–	(27,050)
Share of results of an associate	–	–	–	(782)	–	–	(782)
Loss before taxation							<u>(35,633)</u>
Taxation							<u>(240)</u>
Loss after taxation							<u>(35,873)</u>
Minority interests							<u>3,580</u>
Net loss for the year							<u>(32,293)</u>
Segment assets	121,196	48,586	5,799	2,354	72,008	–	249,943
Interest in an associate	–	–	–	1,963	–	–	1,963
Total assets	<u>121,196</u>	<u>48,586</u>	<u>5,799</u>	<u>4,317</u>	<u>72,008</u>	<u>–</u>	<u>251,906</u>
Segment liabilities	45,235	4,403	116	726	73,753	–	124,233
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	2,368	–	–	38	31	–	2,437
Depreciation	3,231	275	–	374	206	–	4,086
Impairment loss recognized in respect of investment securities	–	–	–	–	2,285	–	2,285
Impairment loss recognized in respect of goodwill	–	–	–	–	20,977	–	20,977
Amortization of goodwill	–	–	–	30	1,791	–	1,821
Amortization of computer software	–	–	–	70	–	–	70

Year ended 31st March 2004

5. SEGMENT INFORMATION (continued)

ii) Geographical segment

Details of the segment information by geographical segments are as follows:

	Year ended 31st March,			
	2004		2003	
	Segment revenue HK\$'000	Contribution to operating loss HK\$'000	Segment revenue HK\$'000	Contribution to operating loss HK\$'000
The Mainland China, excluding Hong Kong	246,138	2,715	233,751	16
Hong Kong	4,457	(8,143)	3,274	(3,413)
Others	10,882	836	8,571	(3,052)
	261,477		245,596	
Loss from operations		(4,592)		(6,449)

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	Year ended 31st March,			
	2004		2003	
	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000
The Mainland China, excluding Hong Kong	121,753	2,955	127,506	2,323
Hong Kong	132,475	1,528	43,878	106
Singapore	–	–	53,146	–
Switzerland	33,196	93	22,112	–
Others	2,744	12	5,264	8
	290,168	4,588	251,906	2,437

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6. OTHER OPERATING EXPENSES, NET

	2004 HK\$'000	2003 HK\$'000
Provision for bad and doubtful debts	1,337	3,944
Provision for diminution in value of properties held for resale	297	454
Provision for slow-moving inventories	19,702	8,685
Net unrealized loss on revaluation of investments in securities	–	873
Written back of provision for bad and doubtful debts	–	(59)
Written back of trade and other payables	(208)	(4,910)
	21,128	8,987

7. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five years	11	1
Convertible notes	379	379
	390	380
Convertible notes:		
Amortization of premium on redemption	972	972
Total borrowing costs	1,362	1,352

8. OTHER INCOME (EXPENSES), NET

	2004 HK\$'000	2003 HK\$'000
Impairment loss recognized in respect of investment securities	–	(2,285)
Impairment loss recognized in respect of goodwill	(7,449)	(20,977)
Write off of fixed assets	(108)	(55)
Amortization of goodwill	(849)	(1,821)
Exchange reserve transferred to income statement upon liquidation of a subsidiary	–	(1,912)
Profit on liquidation of a subsidiary	14	–
Receipt of further consideration from the disposal of Lakeview Project	47,361	–
	38,969	(27,050)

Year ended 31st March 2004

9. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after crediting and charging the following:

	2004	2003
	HK\$'000	HK\$'000
Crediting:		
Gross rental income from investment properties	3,835	4,443
Rental income from others, net of outgoings of Nil (2003: Nil)	772	615
Interest income from other than short-term bank deposits	93	331
Interest income from short-term bank deposits	533	626
Gross gain on sale of investments in securities – other investments	2,166	649
Profit on disposal of property held for resale	853	–
Dividend from listed securities	48	30
Net exchange gain	–	1,854
Charging:		
Auditors' remuneration	532	614
Depreciation on owned fixed assets	4,096	4,086
Amortization on		
Goodwill	849	1,821
Computer software	–	70
Impairment loss recognized in respect of investment securities	–	2,285
Impairment loss recognized in respect of goodwill	7,449	20,977
Loss on write off of fixed assets	108	55
Net exchange loss	314	–
Staff cost excluding directors' fees and emoluments (<i>Note 10</i>)	29,422	27,120
Operating lease rentals in respect of rented premises	18,177	19,781
Retirement benefits scheme contributions, net of forfeited contributions of HK\$ Nil (2003: HK\$ Nil)	391	431
Cost of inventories recognized as expenses	180,306	179,571

Notes to the Financial Statements

Year ended 31st March 2004

10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive directors	400	449
Non-executive directors, including independent non-executive directors	600	600
Emoluments to executive directors		
– Salaries and benefits in kind	1,595	2,204
– Retirement benefits contributions	39	56
	2,634	3,309

The emoluments of the directors were within the following bands:

	Number of director(s)	
	2004	2003
Up to HK\$1,000,000	6	4
HK\$1,000,001 – HK\$1,500,000	–	2
	6	6

In addition to the above emoluments, certain directors had outstanding share options granted under the Company's 1997 Share Option Scheme as referred in note 25. Details of these benefits in kind are disclosed under the paragraph "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.

Year ended 31st March 2004

10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)**Employees**

The five highest paid individuals for the year included one (2003: two) directors, details of whose emoluments are set out above. The emoluments of the remaining four (2003: three) individuals during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and benefits in kind	3,722	2,567
Performance related incentive payments	1,877	1,004
Retirement benefits scheme contributions	36	24
	5,635	3,595

The emoluments of the four (2003: three) individuals were within the following bands:

	Number of employee(s)	
	2004	2003
Up to HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	2	1
	4	3

11. TAXATION

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Current:		
Hong Kong	–	–
Outside Hong Kong	250	240
	250	240

Notes to the Financial Statements

Year ended 31st March 2004

11. TAXATION (continued)

Hong Kong Profits Tax is calculated at a rate of 17.5% (2003: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the year of assessment 2003/04. No Hong Kong Profits Tax is provided because the assessable profits generated during the year is set off by the taxable losses carried forward.

Taxation for overseas subsidiary companies is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

The charge for the year can be reconciled to the profit (loss) per the income statement as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Profit (loss) before tax	32,409	(35,633)
Tax at the applicable tax rates to profits in the countries concerned	7,605	(733)
Tax effect of expenses not deductible for tax purpose	3,084	2,313
Tax effect of income not taxable for tax purpose	(10,153)	(741)
Tax effect of tax losses not recognized	2,908	1,818
Tax effect of utilization of previously unrecognized tax losses	(3,194)	(2,459)
Tax effect of others	–	42
Taxation charge for the year	250	240

The Group has allowable tax losses arising in Hong Kong of approximately HK\$343 million, which are mainly arised prior to the capital restructuring in 1997, (2003: HK\$357 million) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses due to the unpredictability of future profit streams.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group deferred tax assets or liabilities as at 31st March, 2003. Accordingly, no prior year adjustment is included in the financial statements.

Year ended 31st March 2004

12. NET PROFIT (LOSS) FOR THE YEAR

Of the Group's net profit for the year of HK\$32,743,000 (2003: a loss of HK\$32,293,000), a loss of HK\$6,871,000 (2003: HK\$3,183,000) has been dealt with in the financial statements of the Company.

13. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2004 (2003: Nil).

14. EARNINGS (LOSS) PER SHARE

(a) Including the receipt of further consideration from the disposal of Lakeview Project:

The calculation of the basic earnings (loss) per share for the year ended 31st March, 2004 and 2003 is computed based on the following data:

	2004	2003
Earnings (loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share	HK\$32,743,000	(HK\$32,293,000)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	333,719,516	333,719,516

Notes to the Financial Statements

Year ended 31st March 2004

14. EARNINGS (LOSS) PER SHARE (continued)

- (b) Excluding the receipt of further consideration from the disposal of the Lakeview Project:

The calculation of the additional basic loss per share for the year ended 31st March, 2004 and 2003 is computed based on following data:

	2004	2003
	HK\$	HK\$
Earnings (loss)		
Net profit (loss) for the year	32,743,000	(32,293,000)
Adjustment for:		
Receipt of further consideration from the disposal of the Lakeview Project	(47,361,000)	
Loss for the purpose of basic loss per share excluding the receipt of further consideration from the disposal of the Lakeview Project	(14,618,000)	

Number of shares

Same as those details above for basic earnings (loss) per share.

The additional basic loss per share figure is disclosed to give a clearer indication of the underlying performance of the Group.

- (c) No disclosure of the diluted earnings per share and additional diluted loss per share for the year under review with comparative diluted loss per share and additional diluted loss per share for the previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options and convertible notes will be anti-dilutive.

Year ended 31st March 2004

15. INTANGIBLE ASSETS

The Group

	Goodwill	Computer	Total
	HK\$'000	software	HK\$'000
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st April 2003 and 31st March 2004	36,415	281	36,696
Amortization			
At 1st April 2003	24,395	281	24,676
Provided for the year	849	–	849
Impairment loss recognized (<i>note</i>)	7,449	–	7,449
At 31st March 2004	32,693	281	32,974
Net book values			
At 31st March 2004	3,722	–	3,722
At 31st March 2003	12,020	–	12,020

Goodwill and computer software are amortized over their estimated useful life. The foreseeable useful life of the goodwill arising on the acquisition and computer software are on average 20 years and 1 year respectively.

Note: The Board, having taken into account, among other things, the prevailing uncertain and sluggish economic condition, the worldwide difficulties encountered in the information technology industry and valuation reports prepared by an independent professional valuer as at 31st March, 2004 and 2003, has recognized an impairment loss of approximately HK\$7,449,000 and HK\$20,977,000 respectively in the income statement.

Notes to the Financial Statements

Year ended 31st March 2004

16. FIXED ASSETS

The Group

	Investment properties HK\$'000	Leasehold properties HK\$'000	Furniture, fixtures and fittings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1st April 2003	37,380	15,905	5,055	8,437	4,569	224	71,570
Currency realignment	-	-	-	-	8	-	8
Reclassification	(6,100)	6,100	-	-	-	-	-
Additions	-	-	472	2,842	1,274	-	4,588
Write off	-	-	(2,679)	(1,692)	(185)	-	(4,556)
Surplus arising from revaluation	210	-	-	-	-	-	210
At 31st March 2004	31,490	22,005	2,848	9,587	5,666	224	71,820
Comprising:							
At cost	-	11,014	2,848	9,587	5,666	224	29,339
At valuation – 1995	-	4,891	-	-	-	-	4,891
At valuation – 2003	-	6,100	-	-	-	-	6,100
At valuation – 2004	31,490	-	-	-	-	-	31,490
At 31st March 2004	31,490	22,005	2,848	9,587	5,666	224	71,820
Depreciation and amortization							
At 1st April 2003	-	9,214	4,785	6,420	3,123	123	23,665
Currency realignment	-	-	-	-	5	-	5
Provided for the year	-	397	166	2,329	1,159	45	4,096
Eliminated on write off	-	-	(2,656)	(1,610)	(182)	-	(4,448)
At 31st March 2004	-	9,611	2,295	7,139	4,105	168	23,318
Net book values							
At 31st March 2004	31,490	12,394	553	2,448	1,561	56	48,502
At 31st March 2003	37,380	6,691	270	2,017	1,446	101	47,905

Year ended 31st March 2004

16. FIXED ASSETS (continued)

The Group's property interests at the balance sheet date comprise:

	2004		2003	
	Investment properties HK\$'000	Leasehold properties HK\$'000	Investment properties HK\$'000	Leasehold properties HK\$'000
In Hong Kong under long-term leases	7,140	7,367	13,030	1,535
Outside Hong Kong under medium term leases	24,350	5,027	24,350	5,156
	31,490	12,394	37,380	6,691

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, at 31st March, 2004 on an open market basis.

The Group's properties outside Hong Kong with carrying value of HK\$28,612,000 (2003: HK\$28,741,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and accumulated impairment losses, their carrying value at 31st March, 2004 would be approximately HK\$7,094,000 (2003: HK\$1,249,000).

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	320,837	320,837
Due from subsidiaries	782,046	819,089
Due to subsidiaries	(53,826)	(3,721)
	1,049,057	1,136,205
Provision for diminution in value	(791,787)	(826,845)
	257,270	309,360

Notes to the Financial Statements

Year ended 31st March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31st March, 2004 are as follows:

Name of subsidiary	Place of incorporation or establishment or registration/operation	Paid up issued ordinary share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK\$10,000	100%	–	Investment holding
Asia Commercial Enterprises Limited	Hong Kong/The PRC	HK\$2	–	100%	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK\$10,000	–	100%	Investment holding & watch trading
Dongguan Asia Commercial Enterprises Limited ("DACEL")	The PRC	US\$6,500,000	–	100%	Watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewellery watches
Time City (Hong Kong) Limited	Hong Kong	HK\$3,000,000	–	100%	Watch trading
Juvenia (Hong Kong) Company Limited	Hong Kong	HK\$5,000,000	–	100%	Brand development & watch trading
Accord Watch & Jewellery (International) Limited (Formerly named as Accord Watch (International) Limited)	Hong Kong	HK\$3,500,100	–	100%	Watch & jewellery trading

Year ended 31st March 2004

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation or establishment or registration/ operation	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Property holding and investment
上海冠亞鐘表有限公司	The PRC	RMB600,000	–	100%	Watch retailing and trading
KB Quest Holdings Limited	British Virgin Islands	US\$150,000	–	54%	Investment holding
KBQuest Hong Kong Limited	Hong Kong	HK\$3,510,000	–	49%	Sale and design of contract software programs

DACEL is a sino-foreign contractual joint venture established in the PRC. In the opinion of the Directors, the Group is able to govern and control the financial and operating policies and the Board of Directors of DACEL. Therefore, the Group continues to account for DACEL as a subsidiary.

The above list includes the subsidiaries of the Company, which in the opinion of the Directors, materially affected the results of the year or net assets of the Group. To give details of all the other subsidiaries would, in the opinion of the Directors, result in providing particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Notes to the Financial Statements

Year ended 31st March 2004

18. INTEREST IN AN ASSOCIATE

	The Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	1,357	1,963

Particular of the Group's associate as at 31st March, 2004 is as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of equity interest attributable to the Group	Principal activity
Shanghai Forward KBQuest Inc.	The PRC	US\$1,000,000	21%	Sale and design of computing software and related consultancy services

19. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES

	Notes	The Group	
		2004 HK\$'000	2003 HK\$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	2,285	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	1,500	1,500
Club debentures		984	984
		4,769	4,769
Impairment loss recognized		(2,285)	(2,285)
Provision for diminution in value		(1,500)	(1,500)
		984	984

Year ended 31st March 2004

19. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES (continued)*Notes:*

- (i) At 31st March, 2004, the Group held a 19% interest in Golden Crown, a company that was incorporated in Hong Kong and is engaged in the manufacturing of watchbands. The investment in Golden Crown is accounted for as investment securities as the Group does not have significant influence over this company. The Board, having taken into account, the prevailing uncertain and sluggish economic condition, and the accounting treatment under SSAP 31 "Impairment of Assets" issued by HKSA, has recognized an impairment loss of approximately HK\$ 2,285,000 in the year of 2003.
- (ii) At 31st March, 2004, the Group held a 15% interest in AC Watch, a company that was incorporated in Hong Kong. The Group does not have any influence or/and control over this company, which is still under the process of winding up. Full provision for diminution in value amounting to HK\$1,500,000 has been provided in the year of 1999.

20. INVESTMENTS IN SECURITIES – OTHER INVESTMENTS

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Debt securities				
– listed overseas	–	–	–	–
Equity securities				
– listed Hong Kong	–	1,770	–	–
– listed overseas	–	4,024	–	–
	–	5,794	–	–
	–	5,794	–	–

Notes to the Financial Statements

Year ended 31st March 2004

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK\$14,576,000 (2003: HK\$13,467,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	2004	2003
	HK\$'000	HK\$'000
Trade receivables		
Up to 90 days	13,568	12,844
91 to 180 days	54	156
Over 180 days	954	467
	14,576	13,467
Other receivables, deposits and prepayments	11,195	9,589
	25,771	23,056

The Company did not have any trade receivables at 31st March, 2004 and 2003.

22. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Included in trade and other payables and accrued charges are trade payables of HK\$8,282,000 (2003: HK\$10,676,000), the aged analysis of which at the balance sheet date is as follows:

	2004	2003
	HK\$'000	HK\$'000
Trade payables		
Up to 90 days	7,656	9,511
91 to 180 days	34	598
Over 180 days	592	567
	8,282	10,676
Other payables and accrued charges	45,832	42,525
	54,114	53,201

The Company did not have any trade payables at 31st March, 2004 and 2003.

Year ended 31st March 2004

23. CONVERTIBLE NOTES

	The Group and the Company	
	2004	2003
	HK\$'000	HK\$'000
Swiss Francs 11,800,000 7/8% Convertible Notes (the "Notes") due 2010, at par	61,912	61,912
Premium on redemption	6,965	5,993
Accrued interest	1,549	1,711
Interest paid during the year	(543)	(541)
	69,883	69,075

Under the original note agreement (as amended by the note moratorium on 19th February, 1997), holders of the Notes have the right at any time on or before 23rd February, 2010 to convert all or some of the Notes into shares of the Company at the conversion price of HK\$8.6 per share, subject to adjustment. Interest on the Notes is waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001 and the rate at which interest is charged on the Notes is 0.875% per annum for a period of nine years with effect from 23rd February, 2001. Interest is accrued over the revised duration of the Notes so as to produce a constant periodic rate of charge for each accounting period. The number of shares to be issued on conversion of a Note will be the principal amount of the Note (converted into Hong Kong dollars at a fixed rate of HK\$5.2468 to SFr.1.00) divided by the conversion price. The shares once converted will rank pari passu in all respects with the shares in issue at the date of conversion.

There is also an option granted to the holders of the Notes to cause the Company to redeem in US\$ at a fixed exchange rate of SFr.1.00 = US\$0.67933 any Note on 23rd February, 2008 at a redemption price of 117.375% of its principal amount together with interest accrued up to the date of redemption.

The Company has the right, having given not less than 30 days and not more than 60 days' notice to the financial adviser in respect of the Notes, to redeem all, but not some only, of the Notes at par, together with interest accrued up to the date of redemption if the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited, converted into US\$ at the prevailing exchange rate, is at least 130% of the conversion price for 30 consecutive dealing days.

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Year ended 31st March 2004

24. SHARE CAPITAL

	Number of shares	Value
	'000	HK\$'000
Ordinary shares of HK\$1 each		
Authorized:		
At 1st April, 2003 and 31st March, 2004	400,000	400,000
Issued and fully paid:		
At 1st April, 2003 and 31st March, 2004	333,719	333,719

25. SHARE OPTION SCHEMES

The Company's 1997 Share Option Scheme was adopted pursuant to a resolution passed on 15th September, 1997 and expired on 15th September, 2000. The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2002 Share Option Scheme"), as approved by the shareholders of the Company at the special general meeting held on 20th September, 2002. The details of the 2002 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 30th July, 2002.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding share options are set out below):

1997 Share Option Scheme

The 1997 Share Option Scheme was designed to providing incentives to any executive directors or full time employees of the Company or any of its subsidiaries (the "Eligible Employees").

According to the Scheme, the maximum number of shares issued cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Option to executive directors may be exercised at any time during a period commencing from the date the option is accepted and ten years from 15th September, 1997. Option to full time employees may be exercised at any time during a period commencing 2 years after the date of the option is accepted and ten years from 15th September, 1997.

Year ended 31st March 2004

25. SHARE OPTION SCHEMES (continued)**1997 Share Option Scheme (continued)**

The exercise price is determined by the Directors of the Company, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the offer of the options.

Details of the options, which have been granted under the 1997 Share Option Scheme are listed below in accordance with Rule 17.07 of the Listing Rules:

	Number of options held at 01/04/2003 & 31/03/2004	Exercise price	Grant date	Exercise period
1. Directors				
Leung Chung Ping, Owen	3,000,000	HK\$1.00	24/09/1997	24/09/1997– 14/09/2007
Sum Pui Ying, Adrian	3,000,000	HK\$1.00	24/09/1997	24/09/1997– 14/09/2007
2. Continuous Contract Employees	1,400,000	HK\$1.00	24/09/1997	24/09/1999– 14/09/2007
	<u>7,400,000</u>			

No option was granted, exercised, cancelled or lapsed during the two years ended 31st March, 2004.

In the opinion of the Board, any valuation of the options granted based on any option pricing model is not appropriate and meaningful to the shareholders, taking into account of number of variables which are crucial for the calculation of the option value which have not been determined.

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

Year ended 31st March 2004

25. SHARE OPTION SCHEMES (continued)

2002 Share Option Scheme

The purpose of the 2002 Share Option Scheme is to encourage qualifying grantees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Qualifying grantees of the 2002 Share Option Scheme means (i) any employee including officer and director or any business-related consultant, agent, representative or adviser of the Company or any subsidiary or any affiliate; or (ii) any supplier, agent or consultant who provide goods or services to the Company or any subsidiary or any affiliate; or (iii) any customer of the Company or any subsidiary or any affiliate; or (iv) any business ally or joint venture partner of the Company or any subsidiary or any affiliate.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not be exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the Shares in issue from time to time. As at the date of the annual report, a total of 33,371,951 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme and the 1997 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2002 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the total number of shares in issue.

Year ended 31st March 2004

25. SHARE OPTION SCHEMES (continued)**2002 Share Option Scheme (continued)**

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2002 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However the 2002 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal value of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Director, and shall not exceed a period of ten years after the date of grant.

The subscription price in respect of any particular option under the 2002 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options.

The 2002 Share Option Scheme will expire on 19th September, 2012.

As at the balance sheet date, no share option has been granted under the 2002 Share Option Scheme since its adoption.

Notes to the Financial Statements

Year ended 31st March 2004

26. RESERVES

The Group

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2002	84	3,456	678	1,113	156,970	(336,868)	(174,567)
Deficit arising from valuation of investment properties	–	(1,295)	–	–	–	–	(1,295)
Reclassification	–	95	(95)	–	–	–	–
Excess depreciation on revalued properties	–	–	(13)	–	–	13	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	1,228	–	–	1,228
Exclusion of a subsidiary from consolidation upon liquidation	–	–	–	1,912	–	–	1,912
Loss for the year	–	–	–	–	–	(32,293)	(32,293)
Balance at 31st March 2003	84	2,256	570	4,253	156,970	(369,148)	(205,015)
Balance at 1st April 2003	84	2,256	570	4,253	156,970	(369,148)	(205,015)
Surplus arising from valuation of investment properties	–	210	–	–	–	–	210
Excess depreciation on revalued properties	–	–	(13)	–	–	13	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	613	–	–	613
Profit for the year	–	–	–	–	–	32,743	32,743
Balance at 31st March 2004	84	2,466	557	4,866	156,970	(336,392)	(171,449)
Attributable to:							
The Company and subsidiaries	84	2,466	557	4,862	156,970	(333,922)	(168,983)
Associate	–	–	–	4	–	(2,470)	(2,466)
	84	2,466	557	4,866	156,970	(336,392)	(171,449)

Year ended 31st March 2004

26. RESERVES (continued)

The Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2002	84	(91,463)	(91,379)
Loss for the year (<i>Note 12</i>)	–	(3,183)	(3,183)
Balance at 31st March 2003	84	(94,646)	(94,562)
Balance at 1st April 2003	84	(94,646)	(94,562)
Loss for the year (<i>Note 12</i>)	–	(6,871)	(6,871)
Balance at 31st March 2004	84	(101,517)	(101,433)

The application of the share premium is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended). The capital reserve, currency translation reserve, investment property revaluation reserve and other property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and capital reserve arising on acquisitions, foreign currency translation and revaluation of investment properties and leasehold properties.

The Company did not have any reserves available for distribution at 31st March, 2004 and 2003.

Notes to the Financial Statements

Year ended 31st March 2004

27. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH USED IN OPERATING ACTIVITIES

	2004 HK\$'000	2003 HK\$'000
Profit (loss) before taxation	32,409	(35,633)
Non-cash items		
– Other operating expenses, net	21,128	8,987
– Other expenses, net	8,392	27,050
– Amortization of premium on redemption of convertible notes	972	972
Other income from receipt of further consideration from the disposal of Lakeview Project	(47,361)	–
Interest income from other than short-term bank deposits	(93)	(331)
Interest income from short-term bank deposits	(533)	(626)
Interest expenses	390	380
Depreciation and amortization	4,096	4,156
Share of results of an associate	606	782
Profit on disposal of investments in securities-other investments	(2,166)	(649)
Profit on disposal of property held for resale	(853)	–
Dividend from listed securities	(48)	(30)
Operating profit before working capital changes	16,939	5,058
Increase in inventories	(18,813)	(5,481)
Increase in trade and other receivables, deposits and prepayments	(4,140)	(1,558)
Decrease in trade and other payables and accrued charges	(631)	(10,428)
Increase (decrease) in rental received in advance	1,122	(52)
Cash used in operations	(5,523)	(12,461)
Interest received from other than short-term bank deposits	93	239
Interest received from short-term bank deposits	540	645
Interest paid on bank loan and overdrafts	(11)	(1)
Overseas taxation paid	(250)	(246)
Net cash used in operating activities	(5,151)	(11,824)

Year ended 31st March 2004

28. NET CASH FLOW FROM LIQUIDATION OF A SUBSIDIARY

	2004	2003
	HK\$'000	HK\$'000
Net liabilities disposed of:		
Trade and other payables and accrued charges	(14)	–
	(14)	–
Profit on liquidation of a subsidiary	14	–
	–	–
Satisfied by:		
Cash consideration received	–	–

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	Convertible notes	Minority interests
	HK\$'000	HK\$'000	HK\$'000
At 1st April 2002	333,803	68,265	2,549
Premium on redemption and interest accrued	–	1,351	–
Repayment of interest	–	(541)	–
Share of loss for the year	–	–	(3,580)
At 31st March 2003	333,803	69,075	(1,031)
At 1st April 2003	333,803	69,075	(1,031)
Premium on redemption and interest accrued	–	1,351	–
Capital contributed by minority shareholders	–	–	2,437
Repayment of interest	–	(543)	–
Share of loss for the year	–	–	(584)
At 31st March 2004	333,803	69,883	822

Year ended 31st March 2004

30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) At 31st March, 2004, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11,000,000 (2003: HK\$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March, 2004, bank guarantees given in lieu of utility deposit amounting to approximately HK\$404,000 (2003: Nil). Except the aforesaid banking guarantees utilized during the year under review, the facilities, which are solely acted as standby nature for any business development of the Group's subsidiaries, have remained intact for the past several years. It was mainly due to the fact that the Group has surplus cash reserve on hand throughout years.
- (2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders, a declaration that the above Executive Directors are precluded from regarding the conditions precedent to completion from having been complied with, damages against the Executive Directors and other appropriate declarations or further ancillary reliefs. As the Company is only joined as a party to these proceedings as a nominal defendant to a derivative action, the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Further to the Court Order made on 4th January, 2002 that the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action, pursuant to the subsequent Court Orders made on 3rd and 4th September, 2003, the ultimate result was that the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. Accordingly, the Board does not anticipate any significant adverse financial effect to the Company up to the date of this report.

The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.

Save as disclosed herein, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

- (b) On 23rd August, 1999, the Group completed the disposal of its interests in the Lakeview Project (the "Disposal"), a property development operation in the Mainland China. In accordance with the original agreement of the Disposal, which was modified with various supplemental agreements, the aggregate consideration was HK\$157 million and was treated as revenue and the balance of the consideration, HK\$76.5 million was recognized as receivable in the year ended 31st March, 2000. Payment for this receivable would be made gradually from time to time according to the time schedule of the obtaining of the land use rights certificates. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999.

Year ended 31st March 2004

30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)

The HK\$76.5 million of receivable remained outstanding as at 31st March, 2002. With a view of adopting the Statement of Standard Accounting Practice 28 "Provisions, Contingent Liabilities and Contingent Assets", governing financial statements relating to periods beginning on or after 1st January, 2001, such receivable was reversed and treated as contingent asset and disclosed in the financial statements accordingly.

However, as at 25th August, 2003, the Purchasers paid an amount of approximately HK\$47 million to the Company because they had obtained the land use right certificates in respect of Phases 7 to 10 of the Lakeview Project. The receipt has been accounted for as other income in the income statement. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

As stated in the aforesaid paragraphs, the receipt of the remaining balance of the aggregate consideration is on a gradual basis, i.e. to recognize and treat as other income in the financial statements from time to time as further land use right certificates are granted. The Company would monitor the status of the issuance of such land use right certificates and make further announcement when there is material progress.

31. RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the significant transactions and balances with related parties during the year and as at year end.

- (1) Summary of income item

	Income	
	2004 HK\$'000	2003 HK\$'000
Sales of programming software and related consultancy services to a substantial shareholder of the Company	112	–

- (2) The above amounts are included in the balance sheet of the Group and the Company as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade and other receivables, deposits and prepayments	151	302	–	–

The above transactions have been entered into on terms agreed by the parties concerned.

Notes to the Financial Statements

Year ended 31st March 2004

32. PLEDGE OF ASSETS

At 31st March, 2004, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK\$7,140,000 (2003: HK\$ 13,030,000) and HK\$7,367,000 (2003: HK\$ 1,535,000) respectively were pledged to secure the general banking facilities to the extent of HK\$11,000,000.

At 31st March, 2004 and 2003, the Company had not pledged any assets.

33. OPERATING LEASE ARRANGEMENTS

As lessor

Property rental income earned during the year was HK\$3,835,000 (2003: HK\$4,443,000). The property held has committed tenants, whose tenancy agreements includes paying security deposits, expire or are terminable ranging from 1 to 9 years.

At 31st March, 2004, the Group had contracted with tenants for the following future minimum lease payments:

	2004	2003
	HK\$'000	HK\$'000
Within one year	3,114	3,671
In the second to fifth years inclusive	5,865	6,605
After the fifth year	287	1,738
	9,266	12,014

As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 6.9 years. Certain rentals for the use of retail outlets are determined by reference to the revenue of the relevant outlets for the year and the rentals for certain retail outlets will be escalated by a fixed percentage per annum.

Year ended 31st March 2004

33. OPERATING LEASE ARRANGEMENTS (continued)*As lessee (continued)*

At the balance sheet date, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	2004	2003
	HK\$'000	HK\$'000
Within one year	7,971	8,231
In the second to fifth years inclusive	8,059	6,843
After the fifth year	–	–
	16,030	15,074

The Company had no operating lease arrangements at 31st March, 2004 and 2003.

34. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to the consolidated income statement represents contributions payable to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

Employees who are employed in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The amount of unvested benefits utilized by the Group to reduce contributions is nil during the year. The amount of unvested benefits available for future reduction of employer's contribution as at 31st March, 2004 is approximately HK\$216,000 (2003: HK\$273,000).

35. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.