1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared under the historical cost convention as modified by the revaluation of investment properties and other investments, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Goodwill or capital reserve on consolidation

Goodwill or capital reserve arising on acquisition of subsidiaries and associated companies represents the excess or shortfall of purchase consideration over the fair values ascribed to the net assets acquired and is written off or credited directly to reserves in the year of acquisition.

On disposal of subsidiary or associated company, the attributable amount of goodwill or capital reserve previously written off against or credited to reserves is included in the determination of profit or loss on disposal.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

A company is a subsidiary if more than 50% of the issued voting share capital is held for the long term or if the composition of the board of directors is controlled by the Group. In the Company's balance sheet investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

(f) Investments in securities

(i) *Investment securities*

Investment securities which are held for long term are stated at cost less any provision for diminution in value other than temporary in nature.

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 investment is reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) *Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sale proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) 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, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(h) Fixed assets

Fixed assets other than investment properties (note 1(g)) are stated at cost less accumulated depreciation.

Depreciation of fixed assets is calculated to write off the cost of assets over their estimated useful lives on a straight line basis at the following annual rates:

Leasehold land	Remaining term of lease
Buildings	2%
Plant and machinery	10% to 20%
Furniture and fixtures, computer equipment, motor vehicles and vessels	10% to 30%

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Fixed assets (Continued)

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

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 on disposal of a fixed asset other than investment properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(i) Assets under leases

(i) *Finance leases*

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligations, excluding the interest element, to pay future rentals.

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balances outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received or paid are charged or credited to the profit and loss account on a straight line basis over the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) Properties held for/under development

Properties held for/under development are stated at cost less provision for diminution in value other than temporary in nature. Cost includes land cost, development and construction expenditure incurred and interest and other direct costs attributable to the development.

(k) Properties held for sale

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

(l) Borrowing costs

Borrowing costs incurred on external borrowings in connection with the financing of the acquisition or construction of properties held for/under development are capitalised as part of the cost of the relevant properties until the completion of development of the relevant properties for their intended purposes. The capitalisation rate is the interest rate applicable to the loan borrowed for development of the relevant properties.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(m) Inventories

Inventories, which mainly represent watch components, bonded polyster fabrics and home finishing products, comprise raw materials, work in progress and finished goods and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis or weighted average basis as appropriate, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sale proceeds less estimated selling expenses.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Retirement benefit costs

The Group contributes to defined contribution retirement schemes (the “Schemes”) which are available to all eligible employees. The assets of the Schemes are held separately from those of the Group in independently administered funds. Contributions made to the Schemes are calculated based on certain percentages of the applicable payroll costs. The Group may utilise the forfeited contributions to reduce its future contributions. Contributions to the Schemes are charged to the profit and loss account as incurred.

(o) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(p) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with as movement in reserves.

(q) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.