1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the manufacture, assembly and sale of electronic watches, trading of watch movements and watch parts, property development and investment and trading of securities.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in the presentation of a statement of changes in equity and a change in the format of presentation of the cash flow statement.

Cash flow statements

In the current year, the Group has adopted SSAP 15 (Revised) ''Cash flow statements''. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as operating or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude bank loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Employee benefits

In the current year, the Group has adopted SSAP 34 ''Employee benefits'', which introduces measurement rules for employee benefits, including retirement benefit plans. SSAP 34 also outlines the treatment of the Group's potential long service payments to the employees under the Hong Kong Employment Ordinance. The amount recognised as a liability for long service payments should be the net total of the present value of the defined benefit obligation at the balance sheet date minus the fair value at the balance sheet date of plan assets (if any) out of which the obligations are to be settled directly. The Group should also recognise the net of current service costs, interest costs, the expected return on any plan assets and or any reimbursement right recognised as an asset, actuarial gains and losses, past service costs and the effect of any curtailments or settlements, except to the extent that another SSAP requires or permits their inclusion in the cost of an asset. This change in accounting policy has been applied retrospectively, resulting in an adjustment of HK$8,865,302 and HK$8,249,926 to the opening balance of retained profits at 1st April, 2001 and 1st April, 2002. The change in policy has resulted in an increase in the net profit for the year ended 31st March, 2002 by HK$615,376 and an increase in the net profit for the year ended 31st March, 2003 by HK$1,706,173.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

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 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 have been 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 or jointly controlled entity at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition of subsidiaries prior to 1st April, 2001 continues to be held in reserves and will be credited to income at the time of disposal of the relevant subsidiary.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Negative goodwill (continued)

Negative goodwill arising on acquisition of subsidiaries after 1st April, 2001 is presented as deduction 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 a jointly controlled entity is deducted from the carrying value of that jointly controlled entity.

Subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Joint venture

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities less any identified impairment loss. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Revenue recognition

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

Income from properties developed for sale is recognised on the execution of a binding sales agreement.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the respective lease terms.

Revenue from trading of securities is recognised on a trade date basis when the relevant sale and purchase contract is entered into.

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

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

Management fee income is recognised when services are rendered.

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 independent professional valuations at the balance sheet date. Any valuation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the valuation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment other than properties under development are stated at cost less depreciation and any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of property, plant and equipment other than properties under development over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the terms of the leases
Buildings	Over the shorter of the terms of leases, or 50 years
Leasehold improvements	20% – 33⅓%
Plant and machinery	25%
Motor vehicles	25%
Furniture, fixtures and office equipment	14⅓% – 25%
Tools and moulds	33⅓% – 100%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the terms of the leases.

The gain or loss arising on the 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.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the dates of acquisitions. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values 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 balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

Properties under development for long-term investment

Property under development for long-term investment purposes is stated at cost which includes the cost of land, development expenditure, other attributable expenses and capitalised borrowing costs incurred less any identified impairment loss.

Development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising form development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Club debentures

Club debentures are stated at cost less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Antiques and pictures

Antiques and pictures are stated at cost less any identified impairment loss.

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 losses are recognised as an expense immediately.

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.

Investments in securities

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

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

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 net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Inventory of unsold properties

Completed properties remaining unsold at the year end are stated at the lower of cost and net realisable value.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates of exchange prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non– assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Retirement benefit costs

Payment to Mandatory Provident Fund Scheme (the ''MPF Scheme'') are charged as an expense as they fall due.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into five divisions – manufacture of watches, trading of watch movements, property development, property investment and trading of securities. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Manufacture of watches	– manufacture, assembly and sale of electronic watches and watch parts.
Trading of watch movements	– trading of watch movements and watch parts.
Property development	– development and sale of properties.
Property investment	– holding of properties for investment and leasing purposes.
Trading of securities	– trading of local and overseas market securities.

Segment information about these businesses is presented below.

2003

	Manufacture of watches *HK$*	Trading of watch movements *HK$*	Property development *HK$*	Property investment *HK$*	Trading of securities *HK$*	Eliminations *HK$*	Consolidated *HK$*
REVENUE							
External sales	241,150,268	443,671,254	–	8,474,223	–	–	693,295,745
Inter-segment sales	–	4,566,947	–	–	–	(4,566,947)	–
Total revenue	241,150,268	448,238,201	–	8,474,223	–	(4,566,947)	693,295,745

Inter-segment sales are charged at cost.

RESULT							
Segment result	7,000,760	3,246,610	(864,803)	(18,530,560)*	–	–	(9,147,993)
Interest income							691,222
Unallocated other operating income							10,911,896
Unallocated corporate expenses							(1,547,121)
Profit from operations							908,004
Finance costs							(6,939,311)
Share of results of jointly controlled entities			8,728,232				8,728,232
Profit before taxation							2,696,925
Taxation							56,344
Net profit for the year							2,753,269

* *Revaluation decrease in investment properties of HK$22,000,000 is included in the result of property investment segment.*

4. SEGMENT INFORMATION (CONTINUED)

BALANCE SHEET

	Manufacture of watches *HK$*	Trading of watch movements *HK$*	Property development *HK$*	Property investment *HK$*	Trading of securities *HK$*	Eliminations *HK$*	Consolidated *HK$*
ASSETS							
Segment assets	174,070,554	82,906,474	195,380,560	164,836,601	–	–	617,194,189
Interests in jointly controlled entities			12,027,173				12,027,173
Unallocated corporate assets							145,975,533
Consolidated total assets							775,196,895
LIABILITIES							
Segment liabilities	54,971,769	54,701,599	11,231,067	3,419,668	–	–	124,324,103
Unallocated corporate liabilities							359,100,694
Consolidated total liabilities							483,424,797

OTHER INFORMATION

	Manufacture of watches *HK$*	Trading of watch movements *HK$*	Property development *HK$*	Property investment *HK$*	Trading of securities *HK$*	Unallocated *HK$*	Consolidated *HK$*
Capital additions	18,210,004	2,550,907	20,758,675	5,847	–	–	41,525,433
Depreciation and amortisation	17,870,639	2,004,787	104,271	3,140,542	–	206	23,120,445
Revaluation decrease in investment properties	–	–	–	22,000,000	–	–	22,000,000

	Manufacture of watches *HK$*	Trading of watch movements *HK$*	Property development *HK$*	Property investment *HK$*	Trading of securities *HK$*	Eliminations *HK$*	(Restated) Consolidated *HK$*
2002							
REVENUE							
External sales	321,908,476	366,413,446	–	6,260,516	177,756,235	–	872,338,673
Inter-segment sales	16,250	5,277,303	–	–	–	(5,293,553)	–
Total revenue	321,924,726	371,690,749	–	6,260,516	177,756,235	(5,293,553)	872,338,673
Inter-segment sales are charged at cost.							
RESULT							
Segment result	29,638,388	(10,626,980)	(8,970,829)	(32,191,742)*	(3,808,649)	–	(25,959,812)
Interest income							3,280,082
Unallocated corporate expenses							(4,479,688)
Loss from operations							(27,159,418)
Finance costs							(13,768,240)
Share of results of jointly controlled entities			(758,500)				(758,500)
Loss before taxation							(41,686,158)
Taxation							(3,133,546)
Net loss for the year							(44,819,704)

* *Revaluation decrease in investment properties of HK$29,408,717 is included in the result of property investment segment.*

4. SEGMENT INFORMATION (CONTINUED)

BALANCE SHEET

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Trading of securities HK$	Eliminations HK$	(Restated) Consolidated HK$
ASSETS							
Segment assets	144,013,226	91,462,107	160,183,078	192,108,501	–	–	587,766,912
Interests in jointly controlled entities			3,298,941				3,298,941
Unallocated corporate assets							123,316,976
Consolidated total assets							714,382,829
LIABILITIES							
Segment liabilities	51,382,361	43,173,427	16,127,443	3,356,074	4,000	–	114,043,305
Unallocated corporate liabilities							308,208,727
Consolidated total liabilities							422,252,032

OTHER INFORMATION

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Trading of securities HK$	Unallocated HK$	Consolidated HK$
Capital additions	9,439,864	721,142	85,422,064	358,120	–	–	95,941,190
Depreciation and amortisation	14,235,707	3,025,874	103,662	2,972,766	–	633,370	20,971,379
Impairment losses recognised in income statement	–	–	2,963,839	–	–	–	2,963,839
Revaluation decrease	–	–	–	29,408,717	–	–	29,408,717

Geographical segments

The Group's operations are located in Hong Kong, North America and Europe.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	Sales revenue by geographical market		Contribution to profit (loss) from operations	
				(Restated)
	2003 HK$	2002 HK$	**2003 HK$**	2002 HK$
Hong Kong and other regions in the People's Republic of China (the ''PRC'')	**485,527,331**	584,757,655	**2,811,178**	(43,360,649)
North America	**85,157,959**	187,999,945	**(2,994,554)**	11,701,172
Europe	**113,581,586**	91,916,898	**1,046,040**	4,029,380
Others	**9,028,869**	7,664,175	**45,340**	470,679
	693,295,745	872,338,673	**908,004**	(27,159,418)

4. SEGMENT INFORMATION (CONTINUED)

The following is an analysis of the carrying amount of segment assets, additions to property, plant and equipment, properties under development and development costs, analysed by the geographical area in which the assets are located:

2003

	Carrying amount of total assets *HK$*	Additions to property, plant and equipment *HK$*	Additions to properties under development *HK$*	Additions to development costs *HK$*
Hong Kong and the PRC	542,027,224	19,424,218	–	1,336,693
North America	215,671,822	652,242	20,112,280	–
Others	10,676	–	–	–
Total segment assets	757,709,722	20,076,460	20,112,280	1,336,693
Interests in jointly controlled entities	12,027,173			
Unallocated corporate assets	5,460,000			
	775,196,895			

2002

	Carrying amount of total assets *HK$*	Additions to property, plant and equipment *HK$*	Additions to properties under development *HK$*	Additions to development costs *HK$*
Hong Kong and the PRC	516,493,126	10,020,563	–	498,563
North America	179,416,805	749,627	84,672,437	–
Others	173,957	–	–	–
Total segment assets	696,083,888	10,770,190	84,672,437	498,563
Interests in jointly controlled entities	3,298,941			
Unallocated corporate assets	15,000,000			
	714,382,829			

5. OTHER OPERATING INCOME

	2003 **HK$**	2002 HK$
Bank interest income	**691,222**	3,280,082
Net exchange gain	**14,837,380**	112,986
Gain on disposal of property, plant and equipment	**–**	50,830
Sundry income	**1,321,891**	1,618,333
Overprovision of formation expenses in respect of jointly controlled entities	**–**	1,218,513
Reversal of provision for warranty	**4,829,902**	–
Management fee income received from jointly controlled entities (note)	**1,850,253**	865,814
	23,530,648	7,146,558

Note:

Management fee income was charged at a fixed percentage on the total certified construction costs incurred by the projects undertaken by the jointly controlled entities.

6. OTHER OPERATING EXPENSES

The amount represented impairment loss recognised on property under development for long-term investment in prior year.

7. PROFIT (LOSS) FROM OPERATIONS

	2003 HK$	2002 HK$
Profit (loss) from operations has been arrived at after charging:		
Amortisation of development costs included in administrative expenses	**745,564**	300,000
Auditors' remuneration	**849,668**	873,386
Depreciation of:		
Owned assets	**19,049,992**	17,447,512
Assets held under finance leases	**3,324,889**	3,223,867
	22,374,881	20,671,379
Loss on disposal of property, plant and equipment	**35,290**	–
Minimum lease payments for operating leases in respect of land and buildings	**2,757,961**	5,585,590
Staff costs including directors' emoluments	**85,186,107**	101,735,693
Less: Amount capitalised to properties under development	**(1,500,000)**	–
	83,686,107	101,735,693
and after crediting:		
Gross rental income from investment properties	**8,474,223**	6,260,516
Less: Outgoings	**(201,745)**	(705,117)
Net rental income from investment properties	**8,272,478**	5,555,399

Minimum lease payments for operating leases in respect of staff quarters amounting to HK$3,635,387 (2002: HK$3,877,958) are included in staff costs.

8. FINANCE COSTS

	2003 HK$	2002 HK$
Interest on:		
Bank loans and overdrafts		
Wholly repayable within five years	**6,828,816**	7,688,253
Not wholly repayable within five years	**3,836,378**	8,050,362
Obligations under finance leases	**859,157**	993,464
Total borrowing costs	**11,524,351**	16,732,079
Less: Amount capitalised to properties under development	**(4,585,040)**	(2,963,839)
	6,939,311	13,768,240

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 6% (2002: 6%) to expenditure on properties under development.

9. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
	HK$	HK$
Fees		
Executive directors	**250,000**	250,000
Independent non-executive directors	**350,000**	350,000
	600,000	600,000
Other emoluments (executive directors)		
Salaries and other benefits	**12,800,900**	20,885,065
	13,400,900	21,485,065

Included in salaries and other benefits is an amount of HK$2,656,985 (2002: HK$3,401,865) in respect of accommodation provided to the directors of the Company.

The emoluments of the directors are within the following bands:

	Number of directors	
	2003	2002
HK$		
Nil – 1,000,000	**2**	2
1,000,001 – 1,500,000	**1**	–
2,000,001 – 2,500,000	**2**	–
2,500,001 – 3,000,000	**1**	1
3,000,001 – 3,500,000	**–**	1
3,500,001 – 4,000,000	**–**	1
4,500,001 – 5,000,000	**1**	–
5,000,001 – 5,500,000	**–**	2
	7	7

(b) Employees' emoluments

The five top paid employees are all executive directors of the Group whose emoluments have been disclosed in note (a) above.

10. TAXATION

	2003 HK$	2002 HK$
The credit (charge) comprises:		
Hong Kong Profits Tax		
Current year	**(88,750)**	(2,808,234)
Overprovision in prior years	**303,396**	114,236
	214,646	(2,693,998)
Other jurisdictions	**(20,877)**	(461,536)
	193,769	(3,155,534)
Deferred taxation (note 30)	**(137,425)**	21,988
	56,344	(3,133,546)

Hong Kong Profits Tax is calculated at 16% (2002: 16%) on the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

11. DIVIDEND

On 28th August, 2001, a dividend of HK0.5 cent per share amounting to HK$5,839,681 was paid to shareholders as the final dividend in respect of 2001.

12. EARNINGS (LOSS) PER SHARE

The calculation of earnings (loss) per share is based on the net profit for the year of HK$2,753,269 (2002: restated loss of HK$44,819,704) and on the weighted average number of 1,160,208,832 (2002: 1,167,560,624) shares in issue during the year.

13. INVESTMENT PROPERTIES

	THE GROUP 2003 HK$	2002 HK$
At 1st April	**185,000,000**	170,800,000
Transferred (to) from inventory of unsold properties	**(52,500,000)**	44,826,150
Transferred to leasehold improvements	**–**	(1,217,433)
Revaluation decrease	**(22,000,000)**	(29,408,717)
At 31st March	**110,500,000**	185,000,000

Investment properties were valued at their open market values at 31st March, 2003 by DTZ Debenham Tie Leung Limited, International Property Advisers, on an open market existing use basis. This revaluation gave rise to a decrease of HK$22,000,000.

At the balance sheet date, the investment properties are situated in Hong Kong under long leases.