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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Financial Reporting Standards are inclusive of Statements of Standard Accounting Practice (''SSAP''s) and Interpretations approved by the Hong Kong Society of Accountants.

In the current year, the Group has adopted, for the first time, the revised SSAP 12 ''Income taxes'' (Revised). 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 recognised 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 recognised 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. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of this revised SSAP has had no material effect on the results for the current or prior accounting periods. The prior period adjustments on deferred tax liabilities are set out in note 29.

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 an associate and 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries

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

Associate

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

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised loss provide evidence of an impairment of the asset transferred.

Investments in associates with a view for its disposal in near future are included in the Group's balance sheet at fair value.

The results of associates are accounted for by the Group on the basis of dividends received and receivable during the year.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

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

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% - 33 1/3%
Plant and machinery	25%
Motor vehicles	25%
Furniture, fixtures and office equipment	14 1/3% - 25%
Tools and moulds	33 1/3% - 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 from 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Club debentures

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profit 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 is 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.

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.

2004

	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	278,799,829	635,910,120	–	7,901,063	11,508,089	–	934,119,101
Inter-segment sales	–	3,604,688	–	–	–	(3,604,688)	–
Total revenue	278,799,829	639,514,808	–	7,901,063	11,508,089	(3,604,688)	934,119,101
Inter-segment sales are charged at cost.							
RESULT							
Segment result	(3,237,077)	11,974,948	(3,986,271)	28,112,510*	(1,361,972)	–	31,502,138
Interest income							189,416
Unallocated other operating income							16,930,538
Unallocated corporate expenses							(1,130,636)
Profit from operations							47,491,456
Finance costs							(5,830,278)
Share of results of jointly controlled entities			10,100,440				10,100,440
Profit before taxation							51,761,618
Taxation							(568,197)
Net profit for the year							51,193,421

* *Revaluation increase in investment properties of HK$22,500,000 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	154,360,075	104,343,976	306,886,722	193,536,511	4,103,209	–	763,230,493
Interest in an associate				2,880,000			2,880,000
Interests in jointly controlled entities			23,698,177				23,698,177
Unallocated corporate assets							119,085,252
Consolidated total assets							908,893,922
LIABILITIES							
Segment liabilities	48,468,049	77,875,529	28,398,095	2,555,827	4,000	–	157,301,500
Amount due to a jointly controlled entity			803,535				803,535
Unallocated corporate liabilities							418,159,805
Consolidated total liabilities							576,264,840

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	3,892,320	5,894,658	73,473,585	379,430	–	–	83,639,993
Depreciation and amortisation	16,306,018	2,299,247	2,339,708	305,358	–	–	21,250,331
Revaluation increase in investment properties	–	–	–	22,500,000	–	–	22,500,000

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.

	Manufacture of watches HK$	Trading of watch movements HK$	Property development HK$	Property investment HK$	Trading of securities HK$	Eliminations HK$	Consolidated HK$
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

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	
	2004 HK$	2003 HK$	**2004 HK$**	2003 HK$
Hong Kong and other regions in the People's Republic of China (the ''PRC'')	**712,341,071**	485,527,331	**58,288,030**	2,811,178
North America	**55,267,885**	85,157,959	**(4,079,603)**	(2,994,554)
Europe	**148,409,157**	113,581,586	**(6,815,387)**	1,046,040
Others	**18,100,988**	9,028,869	**98,416**	45,340
	934,119,101	693,295,745	**47,491,456**	908,004

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:

2004

	Carrying amount of total assets HK$	**Additions to property, plant and equipment** HK$	**Additions to properties under development** HK$
Hong Kong and the PRC	586,310,528	9,959,516	21,165,198
North America	305,904,790	2,774,209	49,741,070
Others	517,004	–	–
Total segment assets	892,732,322	12,733,725	70,906,268
Unallocated corporate assets	16,161,600		
	908,893,922		

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	554,054,397	19,424,218	–	1,336,693
North America	215,671,822	652,242	20,112,280	–
Others	10,676	–	–	–
Total segment assets	769,736,895	20,076,460	20,112,280	1,336,693
Unallocated corporate assets	5,460,000			
	775,196,895			

5. OTHER OPERATING INCOME

	2004 **HK$**	2003 HK$
Bank interest income	**189,416**	691,222
Management fee income received from jointly controlled entities (note)	**84,426**	1,850,253
Net exchange gain	**11,334,766**	14,837,380
Sundry income	**1,335,600**	1,321,891
Gain on disposal of property, plant and equipment	**676,240**	–
Reversal of provision for warranty	**–**	4,829,902
	13,620,448	23,530,648

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.