NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

1. GENERAL

Peace Mark (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 17 to the financial statements.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

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

SSAP 12 (Revised) Income Taxes

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. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and interpretations) issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of leasehold properties, as further explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealized profits are eliminated in full. Unrealized losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

(b) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates and jointly controlled entities *(Continued)*

The consolidated income statement includes the Group's share of the post-acquisition results of associates and jointly controlled entities for the year. In the consolidated balance sheet, interest in associates are stated at the Group's share of the net assets plus the goodwill/less the negative goodwill in so far as it has not already been amortized, less any identified impairment loss.

In the Company's balance sheet, the investments in associates and jointly controlled entities are stated at cost less impairment losses. The results of associates and jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities acquired. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is capitalized and amortized on a straight-line basis over the shorter of its estimated useful life or 20 years. The amortization charge for each period is recognized as an expense.

Goodwill arising from transactions completed prior to 1 April, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognized as an expense.

In respect of acquisitions of associates and jointly controlled entities, goodwill is amortized to income statement on a straight line basis over its estimated useful life. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses.

The profit and loss on disposal of a subsidiary or an associate is calculated by reference to the net assets at the date of disposal including the attributable amount of goodwill which remains unamortized.

(d) Negative goodwill

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Negative goodwill *(Continued)*

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the Group's plan of acquisition and can be measured reliably, that portion of negative goodwill is recognized as income when the future losses and expenses are recognized.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses at the date of acquisition, negative goodwill will be recognized as income on a systematic basis over the remaining useful life of the identifiable acquired depreciable/amortizable assets. The amount of any negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognized as income immediately.

Negative goodwill arising from transactions completed prior to 1 April, 2001 is credited to capital reserve.

(e) Investments in securities

Investments in securities are recognized on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortized cost, less any impairment loss recognized to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognized in each period represents a constant yield on the investment.

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary on individual basis. The amount of the reduction is recognized as an expense in the income statement.

Other investments are measured at fair value with unrealized gains and losses included in net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the item to working condition and location for its intended use. Expenditure incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. 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 an item of property, plant and equipment, the expenditure is capitalized as additional cost of the item.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 (Revised) "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives.

Freehold land	Nil
Leasehold land	Over the term of lease
Buildings	2% straight line method or over the term of lease whichever is shorter
Leasehold improvements	20% reducing balance method
Other assets	20% reducing balance method

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net sale proceeds and the carrying amount of the relevant item, and is recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Plant and machinery under installation

Plant and machinery under installation is stated at cost less any impairment losses. Cost comprises direct and indirect costs of acquisition and installation. Installed items are transferred from plant and machinery under installation to plant and machinery. No provision for depreciation is made on these assets until such time as the relevant assets are installed and ready for use.

(h) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognized as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses.

Intangible assets mainly comprise the following:

(i) Technical know-how

The costs of acquiring technical know-how in connection with product development for the licensed products manufactured by the Group are capitalized and amortized on a straight line basis over the terms of the relevant licenses.

(ii) Licenses

The cost of licenses represents the upfront cost payable and is amortized on a straight line basis from the date of commencement of its economic use to the end of the terms of the licenses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Intangible assets *(Continued)*

(iii) Trademark

Trademark is stated at acquisition cost and is amortized on a straight line basis over its expected future economic life of 20 years.

The amortization period and the amortization method are reviewed annually at each financial year end.

(i) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, intangible assets, interests in subsidiaries, interest in an associate and interest in a jointly controlled entity have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment losses, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life.

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 revalued amount, in which case the impairment loss is firstly charged against the related revaluation reserve to the extent of the amount held in the revaluation reserve with any excess recognized as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to 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, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

(k) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax *(Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or labilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Income tax *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously, or
- In the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.

(l) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The income statement of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the dates of cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Trade and other receivables

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

(n) Provisions and contingencies

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 title has passed.

Rental income under operating leases is recognized on a straight-line basis over the respective terms of the leases.

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

Proceeds on disposal of securities are recognized on a trade date basis when contracts are executed.

(p) Leases

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognizes finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Off balance sheet financial instruments

Off balance sheet financial instruments arise from swap transactions undertaken by the Group in the interest rate and currency markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognized in the income statement. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognized in the income statement on the same basis as those arising from the related assets, liabilities or net positions. Unrealized gains on transactions which are marked to market are included in "Trade and other receivables" in the balance sheet. Unrealized losses on transactions which are marked to market are included in "Trade and other payables".

(r) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(ii) Pension obligations

The Group operates a number of defined contribution plans in Hong Kong, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant group companies. The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Employee benefits *(Continued)*

(iii) Share option scheme

The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account.

(s) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decision, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of cash flow statement.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Segments

A segment is a distinguished component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting policy, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interest.

4. SEGMENT INFORMATION

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacture, trading, distribution and related service income of timepiece products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold.

4. SEGMENT INFORMATION *(Continued)*

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

	2004			
	Turnover *HK$'000*	Segment results *HK$'000*	Segment assets *HK$'000*	Capital expenditure *HK$'000*
The Americas	788,970	123,358	222,741	9,106
Asia (excluding China)	354,962	55,811	1,045,417	47,064
Europe	229,519	36,089	27,494	701
China	61,041	12,140	456,640	113,161
	1,434,492	227,398	1,752,292	170,032
Other revenue		11,639		
Unallocated expenses		(130,747)		
Finance costs		(18,155)		
Share of profit of an associate		321		
Share of loss of a jointly controlled entity		(2,998)		
Profit before taxation		87,458		
Unallocated assets			56,532	
Total assets			1,808,824	

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

4. SEGMENT INFORMATION *(Continued)*

	2003			
	Turnover	Segment results	Segment assets	Capital expenditure
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Restated)	(Restated)	(Restated)	(Restated)
The Americas	607,670	82,075	199,306	686
Asia (excluding China)	300,906	40,353	753,179	16,456
Europe	210,391	28,403	52,478	5,110
China	132	(1,187)	217,758	53,223
	1,119,099	149,644	1,222,721	75,475
Other revenue		19,668		
Unallocated expenses		(75,683)		
Finance costs		(13,407)		
Share of loss of a jointly controlled entity		(6,194)		
Profit before taxation		74,028		
Unallocated assets			60,912	
Total assets			1,283,633	

5. TURNOVER AND OTHER REVENUE

(a) Turnover

The principal activities of the Group are manufacturing, trading, distributing and retailing of timepiece products.

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, to outside customers during the year.

5. TURNOVER AND OTHER REVENUE *(Continued)*

(b) Other revenue

	2004	2003
	HK$'000	*HK$'000*
Interest income	**4,761**	5,128
Realization of negative goodwill	**–**	4,101
Exchange gain	**–**	1,523
Rental income from other parties	**3,280**	4,130
Net realized gains on other investments	**600**	–
Sundry income	**2,998**	4,786
	11,639	19,668

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	2004	2003
	HK$'000	*HK$'000*
Auditors' remuneration		
– Current year	**1,190**	908
– Underprovision in prior years	**10**	35
Depreciation of property, plant and equipment		
– Owned assets	**38,001**	34,857
– Assets under finance leases	**697**	1,454
Amortization of intangible assets	**4,380**	5,399
Amortization of goodwill included in other operating expenses	**2,825**	719
Loss on write-down of inventories to net realizable value	**4,398**	–
Loss on disposal of property, plant and equipment	**4,046**	–
Loss on disposal of a jointly controlled entity	**1,764**	–
Staff costs, including directors' emoluments		
– Wages, salaries and benefits in kind	**71,497**	44,846
– Pension costs: defined contribution plans, net of forfeited contributions	**1,209**	1,080
Minimum lease payments in respect of properties under operating leases	**3,230**	1,079
Provision for bad debts	**2,500**	–

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

7. FINANCE COSTS

	2004	2003
	HK$'000	*HK$'000*
Interest on:		
Term loans, syndicated loans and bank overdrafts		
wholly repayable within five years	**17,982**	13,286
Obligations under finance leases	**173**	121
	18,155	13,407

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

	2004	2003
	HK$'000	*HK$'000*
Directors' fees:		
– Executive	**–**	–
– Independent Non-Executive	**310**	250
	310	250
Other emoluments (Executive Directors):		
Salaries and other benefits	**5,396**	3,500
Pension scheme contributions	**156**	156
	5,552	3,656
	5,862	3,906

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

During the year, no (2003: 7,820,000) options were granted to the three Directors of the Company under the Share Option Scheme (note 30). The emoluments of the Directors are within the following bands:

	2004	2003
	Number of Directors	Number of Directors
Nil to HK$1,000,000	**7**	8
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**2**	–
	10	9

(b) Employees' emoluments

During the year ended 31 March, 2004, the five highest paid individuals included three Directors (2003: three), details of whose emoluments are set out in note 8(a) to the financial statements above. The emoluments of the remaining individuals for the year are as follows:

	2004	2003
	HK$'000	*HK$'000*
Salaries and other benefits	**2,258**	1,575
Pension scheme contributions	**280**	19
	2,538	1,594

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Employees' emoluments *(Continued)*

The emoluments of the two (2003: two) individuals with the highest emoluments are within the following bands:

	2004	2003
	Number of individuals	Number of individuals
Nil to HK$1,000,000	**–**	1
HK$1,000,001 to HK$1,500,000	**2**	1
	2	2

9. INCOME TAX

	2004	2003
	HK$'000	*HK$'000*
(a) Income tax in the consolidated income statement represents:		
Current tax		
Hong Kong profits tax:		
Provision for current year	**9,791**	4,119
Underprovision in respect of prior year	**–**	516
	9,791	4,635
Deferred tax		
Origination and reversal of temporary differences	**(9,585)**	3,360
	206	7,995

In March 2003, the Hong Kong Government announced an increase in the profits tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%. This increase is taken into account in the preparation of the Group's financial statements. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

9. INCOME TAX *(Continued)*

No provision for the People's Republic of China ("PRC") income tax has been made as the relevant subsidiaries operating in the PRC has unused tax losses of HK$903,000 (2003: Nil) available for offset against future profits. No deferred tax asset has been recognized in respect of such losses due to the unpredictability of future profits streams. These unrecognized tax losses will expire in 2008.

Pursuant to the laws and regulations in the PRC, a PRC subsidiary in the Group is entitled to exemption from PRC income tax for two years commencing from the first profit-making year of operation and thereafter, this PRC subsidiary will be entitled to a 50% relief from PRC income tax for the following three years.

(b) Reconciliation between tax expense and accounting profit at the applicable tax rates:

	2004	2003
	HK$'000	*HK$'000*
Profit before taxation	**87,458**	74,028
Notional tax charge on profit before taxation, calculated at the applicable tax rate of 17.5% (2003: 16%)	**15,305**	11,844
Tax effect of income not taxable for tax purpose	**(56,561)**	(33,499)
Tax effect of expenses not deductible for tax purpose	**56,173**	34,710
Utilization of tax losses previously not recognized	**(2,718)**	(1,867)
Recognition of previously unrecognized tax losses	**(5,320)**	–
Tax effect of unused tax losses not recognized	**210**	3,071
Effect of different tax rates in other jurisdictions	**1,769**	(283)
Underprovision in respect of prior years	**–**	516
Effect of income tax on concessionary rates for certain subsidiaries	**(9,486)**	(6,734)
Effect of increase in tax rate on opening deferred tax balances	**–**	171
Others	**834**	66
Actual tax expense	**206**	7,995

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The Group's profit attributable to shareholders includes a profit of HK$59,576,000 (2003: HK$40,363,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

11. DIVIDENDS

	2004	2003
	HK$'000	*HK$'000*
Interim dividend paid of HK1.8 cents (2003: HK1.5 cents) per share	**11,544**	8,276
Final dividend proposed of HK2.0 cents (2003: HK1.5 cents) per share	**16,414**	9,463
	27,958	17,739

A final dividend in respect of 2004 of HK2.0 cents per share amounting to approximately HK$16,414,000 was proposed by the Board of Directors after the balance sheet date. The proposed dividend has not been accounted for as a liability until it is approved at the forthcoming Annual General Meeting.

12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

	2004	2003
Profit attributable to shareholders (in HK$'000)	**80,005**	58,199
Weighted average number of shares for the purpose of basic earnings per share calculation (in '000)	**643,510**	421,755
Potential dilutive shares		
Share options (in '000)	**16**	428
Warrants (in '000)	**18,158**	–
Weighted average number of shares for the purpose of diluted earnings per share calculation (in '000)	**661,684**	422,183
Basic earnings per share (HK cents)	**12.43**	13.80
Diluted earnings per share (HK cents)	**12.09**	13.79

13. RELATED PARTY TRANSACTIONS

Significant related party transactions which were carried out in the normal course of the Group's business and were conducted on normal commercial terms are as follows:

	Note	2004 *HK$'000*	2003 *HK$'000*
Sale of finished goods to related companies	(a)	**7,236**	–
Rental for use of plant and machinery provided to and charged to a jointly controlled entity	(b)	**1,000**	2,652
Electroplating services provided by and respective fee charged by a jointly controlled entity	(c)	**4,918**	6,089
Electroplating services provided by and respective fee charged by a related company	(c)	**6,727**	–

Notes:

(a) Sale of finished goods to the related companies were conducted in the normal course of business at prices and terms as determined by the transaction parties on arm's length basis.

(b) The amount of the rental received from the jointly controlled entity was agreed between the transaction parties on arm's length basis.

(c) Fee for electroplating services provided by the jointly controlled entity and a related company was charged at prices and terms as agreed between the transaction parties on arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

14. PROPERTY, PLANT AND EQUIPMENT

	The Group					
	Plant and machinery under installation *HK$'000*	**Freehold and leasehold properties** *HK$'000*	**Leasehold improve-ments** *HK$'000*	**Plant and machinery** *HK$'000*	**Other assets** *HK$'000*	**Total** *HK$'000*
Cost or valuation						
As at 1 April, 2003	–	204,681	73,154	166,038	46,065	489,938
Additions	41,863	655	5,423	17,202	3,806	68,949
Acquisition of subsidiaries	–	–	–	–	520	520
Written off	–	–	(4,474)	(225)	–	(4,699)
Disposals	–	–	(107)	–	(407)	(514)
Exchange realignment	–	266	(15)	(2)	13	262
Reclassification	–	–	–	(5)	5	–
As at 31 March, 2004	**41,863**	**205,602**	**73,981**	**183,008**	**50,002**	**554,456**
Comprising						
At valuation	–	14,000	–	–	–	14,000
At cost	41,863	191,602	73,981	183,008	50,002	540,456
As at 31 March, 2004	**41,863**	**205,602**	**73,981**	**183,008**	**50,002**	**554,456**
Accumulated depreciation						
As at 1 April, 2003	–	14,094	25,019	76,165	17,590	132,868
Provided for the year	–	4,819	9,481	19,061	5,337	38,698
Acquisition of subsidiaries	–	–	–	–	127	127
Eliminated on write-off	–	–	(597)	(117)	–	(714)
Eliminated on disposal	–	–	(12)	–	(193)	(205)
Exchange realignment	–	4	(1)	6	5	14
As at 31 March, 2004	**–**	**18,917**	**33,890**	**95,115**	**22,866**	**170,788**
Carrying amount						
As at 31 March, 2004	**41,863**	**186,685**	**40,091**	**87,893**	**27,136**	**383,668**
As at 31 March, 2003	–	190,587	48,135	89,873	28,475	357,070

One of the leasehold properties of the Group was revalued as at 31 March, 1995, on an open market value basis by Messrs. Jones Lang Wooton Limited, independent registered surveyors.

Had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying amount as at 31 March, 2004, would have been approximately HK$182,199,000 (2003: HK$185,996,000).

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying amount of properties held by the Group comprises:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Leasehold properties:		
Held in Hong Kong, medium-term leases	**15,594**	15,956
Held in PRC, medium-term leases	**165,831**	169,802
Freehold properties:		
Held outside Hong Kong	**5,260**	4,829
	186,685	190,587

As at 31 March, 2004, the carrying amount of the Group's property, plant and equipment held under finance leases was approximately HK$2,594,000 (2003: HK$3,404,000).

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15. INTANGIBLE ASSETS

	The Group			
	Technical Know-how	License	Trademark	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost				
As at 1 April, 2003	7,140	15,000	61,668	83,808
Disposal	(7,140)	(15,000)	–	(22,140)
As at 31 March, 2004	**–**	**–**	**61,668**	**61,668**
Accumulated amortization				
As at 1 April, 2003	6,506	14,335	2,055	22,896
Provided for the year	634	665	3,081	4,380
Eliminated on disposal	(7,140)	(15,000)	–	(22,140)
As at 31 March, 2004	**–**	**–**	**5,136**	**5,136**
Carrying amount				
As at 31 March, 2004	**–**	**–**	**56,532**	**56,532**
As at 31 March, 2003	634	665	59,613	60,912

16(A). GOODWILL

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Cost		
At the beginning of the year	**20,717**	12,331
Addition	**42,536**	8,386
At the end of the year	**63,253**	20,717
Accumulated amortization		
At the beginning of the year	**1,336**	617
Provided for the year	**1,865**	719
At the end of the year	**3,201**	1,336
Carrying amount		
At the end of the year	**60,052**	19,381

In the opinion of the Board of Directors, the underlying value of goodwill as at 31 March, 2004 was not less than its carrying amount.

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FOR THE YEAR ENDED 31 MARCH, 2004

16(B). NEGATIVE GOODWILL

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Cost		
Addition	**–**	4,101
Realization for the year	**–**	(4,101)
Carrying amount		
At the end of the year	**–**	–

17. INTEREST IN SUBSIDIARIES

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Unlisted shares, at cost	**51,398**	51,398
Amounts due from subsidiaries	**1,006,063**	686,320
	1,057,461	737,718

The balances with subsidiaries are unsecured, non-interest bearing and not repayable within the next twelve months.

As at 31 March, 2004, the underlying value of interests in subsidiaries is, in the opinion of the Board of Directors, not less than the carrying amount in the books of the Company.

17. INTEREST IN SUBSIDIARIES *(Continued)*

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

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
Aerostar Timewear International Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Capricon Company Limited	British Virgin Islands	US$2 Ordinary	–	100	The People's Republic of China	Manufacturing timepiece
金百利實業（深圳）有限公司 (Transliteration: Capricon Industrial (Shenzhen) Co., Ltd.)	The People's Republic of China	HK$25,000,000	–	100	The People's Republic of China	Property investment
Cornell Worldwide International Holdings Limited	British Virgin Islands	US$1 Ordinary	–	100	The Americas	Trademark holding
Epoch World Company Limited▲	Taiwan	NTD19,000,000	–	95	Taiwan	Timepiece distribution, trading and marketing
Fiorucci Timewear (Far East) Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	License holding
廣州金匠時計有限公司 (Transliteration: Guangzhou Goldsmith Timepiece Co., Ltd.)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail
Eastern Group (Asia) Limited	Hong Kong	HK$2,000,000 Ordinary	–	100	Hong Kong	Timepiece distribution, trading and marketing

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17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
廣州意瑪迅貿易有限公司 (Transliteration: Guangzhou Imarsion Trading Co., Ltd.)	The People's Republic of China	RMB500,000	–	100	The People's Republic of China	Timepiece distribution and retail
廣州表匠鐘表維修有限公司 (Transliteration: Guangzhou Watchsmith Timepiece Servicing Co., Ltd.)	The People's Republic of China	RMB100,000	–	100	The People's Republic of China	Provision of after sales service and timepiece components trading
Inter Mark Worldwide Limited	Hong Kong	HK$100 Ordinary	–	100	Hong Kong	Timepiece distribution and marketing
Milus International S.A.▲	Switzerland	CHF760,000	–	100	Switzerland	Timepiece manufacturing and trading
Montana Timepieces International Limited	Hong Kong	HK$100 Ordinary	–	51	Hong Kong	Timepiece trading and marketing
Omni Watch & Clock Co., LLC.▲	State of New York, United States	US$8,698,090	–	51	United States	Timepiece distribution, trading and marketing
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	British Virgin Islands	Investment holding
Peace Mark Limited	Hong Kong	HK$110,000 Ordinary HK$10,000 Non-voting deferred*	–	100	Hong Kong	Timepiece trading, marketing and manufacturing

17. INTEREST IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held by the Company Direct %	Indirect %	Principal place of operation	Principal activities
PM License Management Limited	British Virgin Islands	US$100 Ordinary	–	100	British Virgin Islands	License holding
Pure Riches Industries Limited	Hong Kong	HK$2,760,000 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
深圳市大元錶業有限公司 (Transliteration: Shenzhen Dayuan Watches Co., Ltd.)	The People's Republic of China	RMB15,000,000	–	60	The People's Republic of China	Timepiece distribution and retail
Sinotop Investment Limited	British Virgin Islands	US$1 Ordinary	–	100	Hong Kong	Investment holding
Sky Type Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Asset holding
Timetech Industrial Limited	Hong Kong	HK$100 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
Vico Industries Limited	Hong Kong	HK$100 Ordinary	–	100	The People's Republic of China	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK$10,000 Ordinary	–	100	Hong Kong	Property holding

* *The deferred shares, which are not held by the Group, practically carry no rights to dividend or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.*

▲ *Companies not audited by Chu and Chu, Certified Public Accountants. The financial statements of the subsidiaries not audited by Chu and Chu, Certified Public Accountants reflect total net assets and total turnover constituting approximately 7.6% and 12.3% respectively of the related consolidated totals.*

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17. INTEREST IN SUBSIDIARIES *(Continued)*

The above table listed the subsidiaries of the Company which, in the opinion of the Board of Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Board of Directors, result in excessive length.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.

18. INTEREST IN AN ASSOCIATE

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Share of net assets	**5,642**	4,231
Unamortized goodwill	**26,120**	19,169
	31,762	23,400
Amount due from an associate	**33,918**	6,338
	65,680	29,738

The amount due from an associate is unsecured, interest bearing at HIBOR plus 1.5% with no fixed terms of repayment. In the opinion of the directors, the amount is not expected to be realized within twelve months from the balance sheet date and are therefore included in non-current assets.

18. INTEREST IN AN ASSOCIATE *(Continued)*

Details of the Group's associate as at 31 March, 2004 are as follows:

Name of associate	Place of incorporation/ registration	Issued and fully paid capital/ registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities
Niceworld Group Corporation	British Virgin Islands	US$12 Ordinary	50	* Timepiece distribution in Latin America

* During the year, the Group subscribed additional 10% (2003: 40%) in the enlarged capital of Niceworld Group Corporation ("Niceworld"). Niceworld holds three subsidiaries which have their respective places of incorporation in Mexico, Panama and Peru. These three subsidiaries have their distribution networks covering the whole of Latin America.

19. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group 2004 HK$'000	The Group 2003 HK$'000
Share of net assets (liabilities) of a jointly controlled entity	**10,597**	(6,131)
Amount due from a jointly controlled entity	**325**	15,666
	10,922	9,535

Details of the Group's jointly controlled entity as at 31 March, 2004 are as follows:

Name of jointly controlled entity	Place of incorporation and operation	Issued and fully paid capital/ registered capital	Percentage of equity interest held indirectly by the Company %	Principal activities
Pearl Link Limited	British Virgin Islands	US$300 Ordinary	49	*Investment holding

* Pearl Link Limited directly holds 100% equity interest in the capital of Gar Shun Enterprises Development Ltd., an electroplating and ionized plating production company in the PRC.

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20. INVESTMENTS IN SECURITIES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Investments in securities		
Equity securities:		
Listed in Hong Kong, at cost	–	15
Unrealized holding loss	–	(4)
At market value	–	11
Other investments		
Unlisted investments, at cost	**15,600**	–

Other investments

During the year, the Group invested HK$15,600,000 in 20% of the capital of a watch company incorporated in Japan, for long-term purpose. The acquisition is to pave the way for its expansion plan in the PRC. This company advises and assists Japanese brands in identifying and co-ordinating with PRC manufactures, distribution partners and acquisition targets. It also assists the Group to serve its Japanese customers.

21. OTHER FINANCIAL ASSETS

The amount of HK$29,225,000 represents investments in three investment and insurance combined policies issued by an international insurance group. A minimum annual return of 4% is guaranteed by the insurance group. Insurance costs are being deducted from the investment return for the key man insurances of the directors.

22. INVENTORIES

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Raw materials	**53,109**	78,170
Work in progress	**139,031**	67,460
Finished goods	**117,769**	82,085
	309,909	227,715

The carrying amount of inventories that are carried at net realizable value, with the original cost of HK$4,398,000 (2003: Nil), is Nil (2003: Nil).

23. TRADE AND OTHER RECEIVABLES

The Group allows a period of 90 – 120 days to its trade customers.

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Trade receivable from an associate	**–**	31,324
Other trade receivables	**191,558**	131,088
	191,558	162,412
Trade and other deposits, prepayments and other receivables	**205,915**	180,066
	397,473	342,478

Included in the trade and other deposits, prepayments and other receivables, there is an amount of HK$37,647,000 paid as escrow money for an acquisition of 51% capital in a watch movement factory in the PRC.

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23. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Trade receivables:		
0 – 90 days	**137,764**	151,872
91 days – 180 days	**23,616**	7,493
Over 180 days	**30,178**	3,047
	191,558	162,412

24. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following ageing analysis:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Trade payables:		
0 – 90 days	**45,885**	46,706
91 days – 180 days	**1,195**	1,812
Over 180 days	**3,251**	1,856
	50,331	50,374
Accruals and other payables	**92,120**	40,097
	142,451	90,471

25. INTEREST-BEARING BORROWINGS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Interest-bearing borrowings comprise:		
– Term loans	**261,662**	147,970
– Syndicated loan, unsecured	**380,000**	200,000
– Trust receipt and import loans	**161,804**	113,374
– Bank overdrafts	**–**	24
	803,466	461,368
Analyzed as:		
– Secured	**23,928**	26,400
– Unsecured	**779,538**	434,968
	803,466	461,368
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**382,016**	286,168
– More than one year, but not exceeding two years	**187,400**	125,954
– More than two years, but not exceeding five years	**234,050**	49,246
	803,466	461,368
Representing interest-bearing borrowings:		
Current portion	**382,016**	286,168
Non-current portion	**421,450**	175,200
	803,466	461,368

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25. INTEREST-BEARING BORROWINGS *(Continued)*

	The Company	
	2004	2003
	HK$'000	*HK$'000*
Interest-bearing borrowings comprise:		
– Syndicated loan, unsecured	**380,000**	200,000
– Term loans	**70,000**	–
	450,000	200,000
Interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**45,350**	114,286
– More than one year, but not exceeding two years	**182,600**	85,714
– More than two years, but not exceeding five years	**222,050**	–
	450,000	200,000
Representing interest-bearing borrowings:		
Current portion	**45,350**	114,286
Non-current portion	**404,650**	85,714
	450,000	200,000

26. OBLIGATIONS UNDER FINANCE LEASES

	The Group 2004 HK$'000	2003 HK$'000
Within one year	**3,279**	824
More than one year, but not exceeding two years	**2,431**	804
More than two years, but not exceeding five years	**808**	659
	6,518	2,287
Less: Finance charges	**(76)**	(124)
	6,442	2,163
Representing finance lease obligations:		
– Current portion	**3,233**	773
– Non-current portion	**3,209**	1,390
	6,442	2,163

27. DEFERRED TAXATION

The followings are the components of deferred tax assets (liabilities) recognized in the consolidated balance sheet and the movements thereon during the year and prior reporting periods:

	The Group Accelerated tax depreciation HK$'000	Tax losses HK$'000	Unrealized profits on inventories HK$'000	Revaluation of properties HK$'000	Total HK$'000
As at 1 April, 2002	(3,442)	–	–	46	(3,396)
Credited (Charged) to consolidated income statement for the year	(3,360)	–	–	–	(3,360)
As at 31 March, 2003	(6,802)	–	–	46	(6,756)
Credited (Charged) to consolidated income statement for the year	(3,141)	11,748	1,002	–	9,609
As at 31 March, 2004	**(9,943)**	**11,748**	**1,002**	**46**	**2,853**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

27. DEFERRED TAXATION *(Continued)*

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable rates prevailing in the countries/places in which the Group operates.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Deferred tax assets	**12,272**	46
Deferred tax liabilities	**(9,419)**	(6,802)
	2,853	(6,756)

At the balance sheet date, the Group has unutilized tax losses of HK$22,905,000 (2003: HK$54,396,000) available for offset against future profits. A deferred tax asset has been recognized in respect of such tax loss of HK$11,794,000 (2003: Nil). No deferred tax asset has been recognized in respect of the remaining HK$11,111,000 (2003: HK$54,396,000) due to the unpredictability of future profit streams. Included in the unrecognized tax losses are losses of HK$903,000 (2003: Nil) that will expire in 2008. Other losses may be carried forward indefinitely.

The Company has no significant unprovided deferred taxation for the year or at the balance sheet date.

28. SHARE CAPITAL

	Note	Number of shares	Amount
			HK$'000
Ordinary shares of HK$0.1 each			
Authorized:			
As at 31 March, 2002, 31 March, 2003 and 31 March, 2004		**6,000,000,000**	**600,000**
Issued and fully paid:			
As at 1 April, 2002		183,911,150	18,391
Rights issue of two rights shares for every one share held	*(a)*	367,822,300	36,782
Issue of new shares pursuant to the exercise of share options	*(b)*	55,425,000	5,543
Shares repurchased and cancelled	*(d)*	(1,000,000)	(100)
Issue of new shares as 2003 interim scrip dividend, in lieu of cash	*(f)*	24,741,383	2,474
As at 31 March, 2003		630,899,833	63,090
Issue of new shares pursuant to the exercise of share options	*(b)*	1,980,000	198
Issue of new shares pursuant to the exercise of warrants	*(c)*	43,276,528	4,328
Issue of new shares as 2003 final scrip dividend, in lieu of cash	*(e)*	8,534,818	853
Issue of new shares as 2004 interim scrip dividend, in lieu of cash	*(f)*	6,062,352	606
As at 31 March, 2004		**690,753,531**	**69,075**

(a) On 6 June, 2002, the Company raised equity capital by way of a rights issue, 367,822,300 new shares of HK$0.18 each. The rights issue closed and became unconditional on 22 August, 2002.

(b) During the year, 1,980,000 (2003: 55,425,000) new shares of HK$0.1 each (2003: HK$0.1 each) were issued upon the exercise of options under a share option scheme adopted on 24 January, 2002 at exercise prices of HK$0.2 and HK$0.227 for 945,000 and 1,035,000 shares (2003: 54,390,000 shares and 1,035,000 shares) respectively. These shares rank pari passu with the existing shares of the Company.

28. SHARE CAPITAL *(Continued)*

(c) During the year, 126,554,966 warrants were issued in respect of the issued shares 632,774,833 as at 1 August, 2003 which represented share capital of HK$63,277,483 at 1 August, 2003, in proportion to one warrant for every five shares held by the shareholders. As at 31 March, 2004, 43,276,528 shares were issued in response to the exercise of warrant holders' right to purchase the shares at HK$0.65. The gross proceeds were approximately HK$28,130,000. The share capital in relation to the exercises of warrants was 4,327,653. These shares rank pari passu with existing shares of the Company.

(d) In the last year, the Company repurchased its own shares on the Stock Exchange as follows:

Month of repurchase	Number of shares	Price per share	Aggregate consideration paid
			HK$'000
March 2003	1,000,000	0.42	420

The above shares were cancelled upon repurchase and accordingly the issued share capital of the Company was reduced by the nominal value of these shares. The premiums on repurchase were charged against share premium.

(e)

Year	Number of shares issued as final dividend	Scrip price	Credited to share capital account	Credited to share premium account	Total
		HK$	*HK$'000*	*HK$'000*	*HK$'000*
2003	8,534,818	0.733	853	5,402	6,255
2002	–	–	–	–	–

(f)

Year	Number of shares issued as interim dividend	Scrip price	Credited to share capital account	Credited to share premium account	Total
		HK$	*HK$'000*	*HK$'000*	*HK$'000*
2004	**6,062,352**	**1.309**	**606**	**7,329**	**7,935**
2003	24,741,383	0.219	2,474	2,945	5,419

29. RESERVES

The Group

	Share premium	Merger deficit	Capital reserve (Goodwill)	Contributed surplus	Leasehold property revaluation reserve	Other reserve	Exchange fluctuation reserve	Retained profits (Accumulated losses)	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April, 2002	43,255	(11,988)	12,372	349,431	5,466	(22)	-	130,434	-	528,948
Rights issue of two shares for every share held	29,426	-	-	-	-	-	-	-	-	29,426
Offset rights issue expenses	(4,141)	-	-	-	-	-	-	-	-	(4,141)
Exercise of share options	5,571	-	-	-	-	-	-	-	-	5,571
Shares repurchased	(322)	-	-	-	-	-	-	-	-	(322)
Unrealized holding loss of investments in securities	-	-	-	-	-	(4)	-	-	-	(4)
Exchange realignment	-	-	-	-	-	-	86	-	-	86
Profit for the year	-	-	-	-	-	-	-	58,199	-	58,199
2003 interim cash and scrip dividend	2,945	-	-	-	-	-	-	(8,276)	-	(5,331)
Proposed 2003 final dividend	-	-	-	-	-	-	-	(9,463)	9,463	-
As at 31 March, 2003	76,734	(11,988)	12,372	349,431	5,466	(26)	86	170,894	9,463	612,432
Exercise of share options	226	-	-	-	-	-	-	-	-	226
Exercise of warrants	23,683	-	-	-	-	-	-	-	-	23.683
2003 final cash and scrip dividend	5,402	-	-	-	-	-	-	(28)	(9,463)	(4,089)
2004 interim cash and scrip dividend	7,329	-	-	-	-	-	-	(11,544)	-	(4,215)
Exchange realignment	-	-	-	-	-	-	782	-	-	782
Profit for the year	-	-	-	-	-	-	-	80,005	-	80,005
Proposed 2004 final dividend	-	-	-	-	-	-	-	(16,414)	16,414	-
As at 31 March, 2004	**113,374**	**(11,988)**	**12,372**	**349,431**	**5,466**	**(26)**	**868**	**222,913**	**16,414**	**708,824**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

29. RESERVES *(Continued)*

	The Company				
	Share premium	Contributed surplus	Retained profits (Accumulated losses)	Proposed final dividend	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April, 2002	43,255	388,830	(22,621)	–	409,464
Rights issue of two shares for every share held	29,426	–	–	–	29,426
Offset rights issue expenses	(4,141)	–	–	–	(4,141)
Share repurchased	(322)	–	–	–	(322)
Exercise of share options	5,571	–	–	–	5,571
Interim cash and scrip dividend	2,945	–	(8,276)	–	(5,331)
Profit for the year	–	–	40,363	–	40,363
Proposed 2003 final dividend	–	–	(9,463)	9,463	–
As at 31 March, 2003	76,734	388,830	3	9,463	475,030
Exercise of share options	226	–	–	–	226
Exercise of warrants	23,683	–	–	–	23,683
2003 final cash and scrip dividend	5,402	–	(28)	(9,463)	(4,089)
2004 interim cash and scrip dividend	7,329	–	(11,544)	–	(4,215)
Profit for the year	–	–	59,576	–	59,576
Proposed 2004 final dividend	–	–	(16,414)	16,414	–
As at 31 March, 2004	**113,374**	**388,830**	**31,593**	**16,414**	**550,211**

The capital reserve (goodwill) represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess or shortfall of the purchase consideration over the fair value of the Group's share of separate net assets of the subsidiaries acquired.

The merger deficit of the Group represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

29. RESERVES *(Continued)*

The other reserve represents the amount of unrealized holding gain (loss) from the investments in securities.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	2004	2003
	HK$'000	*HK$'000*
Contributed surplus	**388,830**	388,830
Retained profits	**31,593**	3
Proposed final dividend	**16,414**	9,463
	436,837	398,296

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include any directors, employees, consultants or professional advisors, suppliers or customers, and authorized agents of the Group. The Scheme became effective on 24 January, 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the number of issued shares of the Company from time to time excluding the aggregate number of shares which were issued pursuant to the Scheme.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board of Directors, and in any event such period of time shall not exceed a period of 3 years commencing on the expiry of 6 months after the date of the acceptance of the offer and expiring on the last day of such period, or 24 January, 2012, whichever is the earlier.

The exercise price of the share options is determinable by the Board of Directors, but shall be the higher of (i) the closing price of the shares as stated in the daily quotations sheet issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the offer date, which must be a business day; and (ii) the average of the closing price of the shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the offer date.

30. SHARE OPTION SCHEME *(Continued)*

The following share options were outstanding under the Scheme at the end of the year:

Name or category of participant	Number of share options: As at 1 April, 2003	Exercised during the year	At at 31 March, 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options**	Price of Company's shares***: At grant date of options	At exercise date of options
	'000	'000	'000			HK$	HK$	HK$
Directors								
Mr. Man Kwok Keung	1,035	1,035	–	05/09/2002	05/03/2003 to 05/03/2006	0.227	0.221	0.790 to 0.800
Other employees								
In aggregate	965	945	20	23/08/2002	23/02/2003 to 23/02/2006	0.200	0.202	0.430 to 1.600
	2,000	1,980	20					

* *The vesting periods of the share options are from the dates of the grant until the commencement of the exercise periods.*

** *The exercise prices of the share options are subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.*

*** *The prices of the Company's shares disclosed as at the dates of the grant of the share options are the Stock Exchange closing prices on the trading days immediately prior to the dates of the grant of the options. The prices of the Company's shares disclosed as at the dates of the exercise of the share options are the weighted average of the Stock Exchange closing prices over all of the exercises of options within the disclosure category.*

As at 31 March, 2004, the Company had 20,000 share options outstanding under the Scheme, with exercise period from 23 February, 2003 to 23 February, 2006 (both dates inclusive) and exercise price of HK$0.200. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 20,000 additional shares of HK$0.10 each and proceeds of approximately HK$4,000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

31. ACQUISITION OF SUBSIDIARIES

	2004	2003
	HK$'000	*HK$'000*
Net assets of the subsidiaries acquired comprise of:		
Furniture, fixtures and office equipment	393	20,377
Leasehold improvements	–	5,216
Plant and machinery	–	608
Trademark	–	22,460
Inventories	21,333	44,279
Trade and other receivables	10,631	18,142
Bank balances and cash	3,628	3,034
Trade and other payables	(7,569)	(17,766)
Tax payable	(2,483)	–
Bank loan	(2,725)	(5,308)
Minority interest	(9,226)	(37,421)
	13,982	53,621
Negative goodwill arising on consolidation	–	(4,101)
Goodwill arising on consolidation	42,536	8,386
Total purchase price paid, satisfied in cash	56,518	57,906
Less: cash of the subsidiaries acquired	(3,628)	(3,034)
Net outflow of cash and cash equivalents in connection with the purchase of the subsidiaries	52,890	54,872

32. CASH AND CASH EQUIVALENTS

	The Group	
	2004	2003
	HK$'000	*HK$'000*
Cash and bank balances	**467,491**	207,568
Bank overdrafts	**–**	(24)
Cash and cash equivalents at the end of the year	**467,491**	207,544

33. MAJOR NON-CASH TRANSACTION

During the year, the Group subscribed additional 10% equity interest in the enlarged capital of an associate in a consideration of HK$9,000,000 and was satisfied by way of capitalization of debt due from the associate.

In March 2004, the Group assigned certain receivables amounted to HK$33,619,000 from the operating subsidiaries of the associate to the associate. The amount assigned is shown under interest in an associate at the balance sheet date.

The Group invested an amount of HK$19,845,000 in proportion to its shareholding in the capital of the jointly controlled entity. The amount was satisfied by way of capitalization of debt due from the jointly controlled entity.

34. CONTINGENT LIABILITIES

As at 31 March, 2004, the Group has contingent liabilities in respect of bills discounted with recourse amounted to approximately HK$19,445,000 (2003: HK$67,951,000).

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries and a related company amounted to approximately HK$1,483,160,000 and HK$2,328,000 (2003: HK$929,000,000 and Nil) respectively. The extent of such facilities utilized by the subsidiaries as at 31 March, 2004 amounted to approximately HK$357,066,000 (2003: HK$261,000,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH, 2004

35. FINANCIAL INSTRUMENTS

The Group had entered into interest rate and currency rate swaps to manage its interest rate and currency rate risks. As at 31 March, 2004, the total notional amount of such interest and currency instruments were approximately HK$341,886,000 (2003: HK$201,000,000) and approximately HK$61,212,000 (2003: Nil) respectively. The notional amounts of the outstanding interest rate and currency rate swaps indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.

36. OPERATING LEASE ARRANGEMENTS

As at 31 March, 2004, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings were payable as follows:

	The Group	
	2004	2003
	HK$'000	*HK$'000*
– Within 1 year	**2,646**	2,341
– After 1 year but within 5 years	**7,195**	6,911
– After 5 years	**933**	1,267
	10,774	10,519

37. PLEDGE OF ASSETS

As at 31 March, 2004, leasehold properties with carrying amount of approximately HK$15,594,000 (2003: HK$15,956,000) and a fixed deposit of HK$2,328,000 (2003: Nil) had been pledged to secure banking facilities for a subsidiary. The pledged fixed deposit was subsequently released after the year end date and before the issuance of the financial statements.

38. POST BALANCE SHEET EVENTS

(a) On 6 April, 2004, A-ONE INVESTMENTS LIMITED and United Success Enterprises Limited, substantial shareholders of the Company, placed 93.5 million ordinary shares of the Company in total at HK$1.63 per share to some independent institutional investors and on 13 April, 2004, subscribed for 126.5 million new shares in total at HK$1.63 per share. The net proceed in the amount of HK$202 million was received immediately after the completion of the share subscription.

(b) On 24 May, 2004, the Group entered into an agreement of assignment of trade marks with an independent third party that the Group acquired certain trademarks in relation to a retail chains business operating under the trade name TimeZone at a consideration of RMB11.6 million (equivalent to HK$10,943,000). On 31 May, 2004, the Group entered into an agreement with an independent third party that the Group acquired the business assets of the retail chains TimeZone at a consideration of RMB19 million (equivalent to HK$17,925,000).

(c) In March 2004, pursuant to a conditional sale and purchase agreement entered into with an independent third party in connection with the acquisition of 51% equity interest in the capital of a watch movement factory in the PRC, an escrow money of HK$37,647,000 was paid. On 22 June, 2004, the agreement became unconditional and a joint venture agreement was signed and the equity transfer was completed.