

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and acts as an investment holding company as well as engaged in watch trading. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## 2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") (hereinafter collectively referred to as "new HKFRS") which are effective for accounting periods beginning on or after 1 January 2005 except for HKFRS 3 "Business combinations". The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005 except for the adoption of HKAS 40 "Investment property".

HKFRS 3 is applicable to business combination for which the agreement date is on or after 1 January 2005. The Group has not entered into any business combination for which the agreement date is on or after 1 January 2005. Therefore, HKFRS 3 did not have any impact on the Group for the year ended 31 March 2005.

HKAS 40 introduces both cost model and fair value model for the measurement of investment property. Under the cost model, HKAS 40 requires the investment property to be stated at cost less depreciation and any identified impairment loss at the balance sheet date. The Group has elected to apply cost model in measuring its investment property and provide depreciation charges on its investment property to the income statement over its estimated useful lives. As a result of the adoption of HKAS 40, the Group reclassified the amount remaining in properties revaluation reserve as at 1 April 2004 of HK\$666,000 to the Group's retained profits. Moreover, the Group's profit attributable to the shareholders for the year ended 31 March 2005 included an amount of HK\$200,000, representing the depreciation charges provided in respect of the investment property in the current year. There were no effect of the Group's results for the prior accounting periods with respect to the early adoption of HKAS 40.

For those new HKFRSs that the Group has not early adopted in the financial statements for the year ended 31 March 2005, the Group has commenced considering the potential impact of those new HKFRSs but is not yet in a position to determine whether those HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. Those HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment securities. The principal accounting policies adopted which are in accordance with accounting principles generally accepted in Hong Kong are as follows:

### **Basis of consolidation**

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

All significant inter-company transactions and balances within the Group are 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 at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisition is presented as deductions 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 subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Investments in subsidiaries**

Investments in subsidiaries are stated at cost less any identified impairment loss.

### **Investments in securities**

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of 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 recognised in each period represents a constant yield on the investment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Investments in securities (Continued)**

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

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 the profit or loss for the period.

### **Turnover**

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

### **Revenue recognition**

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

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

Rental income, including rentals invoiced in advance, from properties let under operating leases is recognised on a straight line basis over the period of the respective leases.

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

### **Investment properties**

Investment properties, which are properties held to earn rental income and/or capital appreciation, are stated at cost less depreciation and any identified impairment losses.

The cost of investment properties is depreciated over the period of the lease using the straight line method.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and amortisation and any identified impairment loss at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Property, plant and equipment (Continued)**

Certain land and buildings which have been previously classified as investment properties are stated at their valuation immediately prior to transfer. No further valuation will be carried out on these land and buildings. On the subsequent sale or the retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

The cost or valuation of leasehold land is amortised over the period of the lease using the straight line method.

The cost or valuation of buildings is depreciated over their estimated useful lives of 30 years or 50 years using the straight line method.

Depreciation is provided to write off the cost of other property, plant and equipment over their estimated useful lives, using the reducing balance method, at the rate of 20% per annum.

### **Inventories**

Inventories, which represent goods held for sale, are stated at the lower of cost and net realisable value. Cost which comprises all costs of purchases and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition is calculated on a specific identification basis. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

### **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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment (Continued)

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, 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.

### Taxation

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

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **Foreign currencies**

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENT

### **Business segments**

The Group's operation is regarded as a single segment, being an enterprise engaged in watch trading.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 4. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

### Geographical segments

The Group's operations are located in Hong Kong and Mainland China (the "PRC"), representing the basis on which the Group reports its primary segment information. The following table provides an analysis of the Group's geographical segment information.

	Turnover		Results	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	1,857,567	1,851,239	78,738	72,587
PRC	305,360	206,256	12,302	6,695
Inter-segment sales elimination	(121,117)	(181,262)	—	—
	<b>2,041,810</b>	<b>1,876,233</b>	<b>91,040</b>	<b>79,282</b>
Unallocated other operating income			202	2,202
Unallocated corporate expenses			(299)	(102)
Profit from operations			<b>90,943</b>	81,382
Finance costs			(2,435)	(1,175)
Profit before taxation			<b>88,508</b>	80,207
Taxation			(14,514)	(11,577)
Net profit attributable to shareholders			<b>73,994</b>	68,630

Inter-segment sales are charged at the prevailing market rate.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 4. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

### Geographical segments (Continued)

#### BALANCE SHEET

	Segment assets		Segment liabilities	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	699,834	649,960	92,400	85,896
PRC	182,352	109,534	6,682	1,039
	882,186	759,494	99,082	86,935
Unallocated	17,403	7,000	85,919	22,450
	899,589	766,494	185,001	109,385

#### OTHER INFORMATION

	Capital additions		Depreciation and amortisation	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	28,333	4,696	4,335	3,734
PRC	6,744	2,818	1,958	839
Unallocated	—	496	—	199
	35,077	8,010	6,293	4,772



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 5. PROFIT FROM OPERATIONS

	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 6)	18,948	16,047
Other staff's retirement benefits scheme contributions, net of negligible forfeited contributions	2,347	1,533
Other staff costs	41,030	34,915
	<b>62,325</b>	<b>52,495</b>
Amortisation of premium on acquisition of held-to-maturity securities included in administrative expenses	54	54
Auditors' remuneration		
— current year	1,200	950
— underprovision in prior year	61	62
Depreciation and amortisation of property, plant and equipment		
— owned by the Group	6,093	4,742
— held under a finance lease	—	30
Depreciation of investment properties	200	—
Loss on disposal of property, plant and equipment	6	1
Operating lease rentals in respect of land and buildings	14,411	10,837
and after crediting:		
Gross property rental income before deduction of negligible outgoings	320	475
Interest income	1,046	963
Release of negative goodwill included in other operating income	202	202
Unrealised gain on listed trading securities	120	248

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Fees for		
— executive directors	—	—
— independent non-executive directors	216	216
	216	216
Other emoluments for independent non-executive directors	—	—
Other emoluments for executive directors		
— basic salaries and allowances	10,204	9,281
— performance related incentive bonuses	7,284	5,457
— retirement benefits scheme contributions	1,244	1,093
	18,732	15,831
<b>Total directors' remuneration</b>	<b>18,948</b>	<b>16,047</b>

The emoluments of the directors were within the following bands:

	Number of directors	
	2005	2004
Up to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	—	2
HK\$1,500,001 to HK\$2,000,000	2	—
HK\$2,000,001 to HK\$2,500,000	1	2
HK\$2,500,001 to HK\$3,000,000	2	—
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	1

All the five highest paid employees of the Group in both years were executive directors of the Company. Details of their emoluments were disclosed above.

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 7. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on		
— a finance lease	(21)	(20)
— bank borrowings wholly repayable within five years	(2,358)	(1,155)
— bank borrowings not wholly repayable within five years	(56)	—
	<b>(2,435)</b>	<b>(1,175)</b>

## 8. TAXATION

	2005 HK\$'000	2004 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the year	(12,798)	(10,843)
Over/(under) provision in prior years	142	(75)
	<b>(12,656)</b>	<b>(10,918)</b>
PRC income tax	(1,858)	(949)
Deferred taxation	—	290
	<b>(14,514)</b>	<b>(11,577)</b>

The PRC income tax is calculated at the rates prevailing pursuant to the relevant laws and regulations.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 8. TAXATION (Continued)

The charge for the year is reconciled to the profit before taxation as follows:

	2005		2004	
	HK\$'000	%	HK\$'000	%
Profit before taxation	88,508		80,207	
Tax at Hong Kong Profits Tax rate	(15,489)	(17.5)	(14,036)	(17.5)
Tax effect of expenses not deductible for tax purposes	(27)	—	(729)	(0.9)
Tax effect of income not taxable for tax purposes	216	0.2	395	0.5
Utilisation of tax losses not previously recognised	794	0.9	3,006	3.7
Effect of different tax rates for subsidiaries operating in PRC	(259)	(0.3)	(161)	(0.2)
Others	109	0.1	23	—
Over(under)provision in prior year	142	0.2	(75)	—
Tax charge and effective tax rate for the year	(14,514)	(16.4)	(11,577)	(14.4)

## 9. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim dividend of 2.0 Hong Kong cents (2004: 2.0 Hong Kong cents) per share	5,505	5,505
Proposed final dividend of 4.5 Hong Kong cents (2004: 4.0 Hong Kong cents) per share	12,386	11,010
	17,891	16,515

The final dividend proposed for the year ended 31 March 2005 is calculated on the basis of 275,253,200 shares in issue at the date of this report.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Earnings:		
Net profit attributable to shareholders and earnings for the purposes of basic and diluted earnings per share	<b>73,994</b>	68,630

	Number of shares	
	2005	2004
Number of shares for the purposes of basic earnings per share	<b>275,253,200</b>	275,253,200
Potential dilutive shares issuable under the Company's share option scheme		205,570
Weighted average number of shares for the purposes of diluted earnings per share		<b>275,458,770</b>

No diluted earnings per share has been presented in the 2005 because the exercise price of the Company's options was higher than the average market price of the Company's shares during the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 11. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
<b>THE GROUP</b>	
<b>COST OR VALUATION</b>	
At 1 April 2003, at valuation	12,000
Disposals	(12,000)
At 31 March 2004	—
Additions	25,457
At 31 March 2005, at cost	25,457
<b>DEPRECIATION</b>	
Provided for the year and balance at 31 March 2005	200
<b>CARRYING VALUE</b>	
At 31 March 2005	25,257
At 31 March 2004	—

The investment properties which are rented out under operating leases are situated in Hong Kong and are held under long leases. It has been pledged to a bank to secure the credit facilities granted to the Group. The fair value of the Group's investment properties at 31 March 2005 was HK\$27,800,000, representing the valuation carried out by China-Tech Surveyors Limited, an independent firm of professional valuers, on an open market value basis.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>				
<b>COST OR VALUATION</b>				
At 1 April 2004	70,096	44,413	2,653	117,162
Additions	24	8,955	641	9,620
Disposals	—	—	(296)	(296)
At 31 March 2005	70,120	53,368	2,998	126,486
Comprising:				
At cost	68,020	53,368	2,998	124,386
At valuation — 1996	2,100	—	—	2,100
	70,120	53,368	2,998	126,486
<b>DEPRECIATION AND AMORTISATION</b>				
At 1 April 2004	6,946	28,089	1,631	36,666
Provided for the year	661	5,150	282	6,093
Eliminated on disposals	—	—	(175)	(175)
At 31 March 2005	7,607	33,239	1,738	42,584
<b>NET BOOK VALUES</b>				
At 31 March 2005	62,513	20,129	1,260	83,902
At 31 March 2004	63,150	16,324	1,022	80,496

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 12. PROPERTY, PLANT AND EQUIPMENT (Continued)

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
The net book value of property interests comprises:		
Properties held under		
— long leases in Hong Kong	61,619	62,250
— medium-term lease in the PRC	894	900
	62,513	63,150

The land and buildings stated at 1996 valuation were valued at 31 March 1996 by an independent firm of professional property valuers on an open market value basis before being transferred from investment properties. No further valuation will be carried out on these land and buildings.

## 13. NEGATIVE GOODWILL

	HK\$'000
<b>THE GROUP</b>	
<b>GROSS AMOUNT</b>	
At 1 April 2003, 31 March 2004 and 31 March 2005	(4,028)
<b>RELEASED TO INCOME</b>	
At 1 April 2003	402
Released during the year	202
At 31 March 2004	604
Released during the year	202
At 31 March 2005	806
<b>CARRYING VALUE</b>	
At 31 March 2005	(3,222)
At 31 March 2004	(3,424)



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 13. NEGATIVE GOODWILL (Continued)

The negative goodwill is released to income on a straight line basis over 20 years representing the estimated average useful life of the depreciable assets acquired.

## 14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares	124,085	123,614
Less: Impairment in value	(1,000)	(1,000)
	<b>123,085</b>	<b>122,614</b>

Details of the Company's principal subsidiaries at 31 March 2005 are set out in note 28.

## 15. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Quoted held-to-maturity debt securities	8,906	8,906	—	—
Less: Amortisation of premium on acquisition	(216)	(162)	—	—
	<b>8,690</b>	<b>8,744</b>	<b>—</b>	<b>—</b>
Investment securities				
— overseas unlisted shares	11,744	3,000	2,998	—
Trading securities				
— Hong Kong listed shares	978	858	—	—
— quoted overseas investment funds	7,782	—	—	—
	<b>29,194</b>	<b>12,602</b>	<b>2,998</b>	<b>—</b>
Market value of listed/quoted investments at 31 March	<b>17,930</b>	<b>10,568</b>		

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 15. INVESTMENTS IN SECURITIES (Continued)

Included in the investment securities was an investment in Union Bridge Power System Limited ("Union Bridge"). The investment in Union Bridge was classified as investment in an associate in prior year. In the opinion of the directors, the Group has no significant influence over the affairs of Union Bridge and therefore it is not regarded as an associate of the Group. The balance was reclassified from interest in an associate to investments in securities during the year.

## 16. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade receivables	44,813	20,039
Other receivables	22,274	12,023
	<b>67,087</b>	<b>32,062</b>

The Group maintains a general credit policy of not more than 30 days for its established and major customers. The following is an aged analysis of trade receivables at the balance sheet date:

Age	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 to 30 days	43,819	15,959
31 to 60 days	727	110
61 to 90 days	—	1
Over 90 days	267	3,969
	<b>44,813</b>	<b>20,039</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 17. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Trade payables	74,419	71,593
Other payables	19,108	11,644
	<b>93,527</b>	<b>83,237</b>

The following is an aged analysis of trade payables at the balance sheet date:

Age	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
0 to 60 days	72,984	67,002
61 to 90 days	911	44
Over 90 days	524	4,547
	<b>74,419</b>	<b>71,593</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 18. BANK LOANS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
The bank loans are repayable as follows:		
Within one year	980	—
Between one to two years	980	—
Between two to five years	2,940	—
After five years	9,473	—
	14,373	—
Less: Amount due within one year shown under current liabilities	980	—
Amount due after one year	13,393	—

## 19. SHORT-TERM BANK LOANS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Short-term bank loans		
— secured	2,830	21,698
— unsecured	66,038	—
	68,868	21,698

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 20. DEFERRED TAXATION

The following is the major deferred tax liabilities recognised and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2003	290	—	290
Credit to income statement for the year	(290)	—	(290)
Charge to equity for the year	—	141	141
At 31 March 2004 and 31 March 2005	—	141	141

At the balance sheet date, the Group and the Company has unutilised tax loss of HK\$8,771,000 (2004: HK\$11,911,000) and 962,000 (2004: HK\$5,312,000) respectively available to set off against future assessable profits. No deferred tax asset has been recognised in respect of these unutilised tax losses due to the unpredictability of future profit stream. These tax losses may be carried forward indefinitely except for HK\$1,762,000 (2004: HK\$610,000) of the Group which may only be carried forward for a maximum of five years.

## 21. SHARE CAPITAL

	Number of ordinary shares 2005 & 2004	Amount 2005 & 2004 <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
— authorised	500,000,000	50,000
— issued and fully paid	275,253,200	27,525

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 22. SHARE OPTIONS

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 17 October 2003, the Company approved and adopted a Share Option Scheme.

The options of the Share Option Scheme may be granted to any director of the Company, employee, consultant, customer, supplier or advisor of the Group or a company in which the Group holds an interest or a subsidiary of such company (the "Eligible Persons"), the trustee of the Eligible Persons or a company beneficially owned by the Eligible Person. The purpose of the Share Option Scheme is to attract and retain quality personnel and Eligible Persons to provide incentive to them to contribute to the business and operation of the Group. The total number of shares available for issue under the Share Option Scheme is 27,525,320 shares, representing 10% of the issued share capital of the Company at 20 July 2005. No Eligible Person shall be granted an option in any 12-month period for such number of shares (issued and to be issued) which in aggregate would exceed 1% of the share capital of the Company in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Rules Governing the Listing of Securities on the Stock Exchange. The exercisable period is determined by the directors, which shall not be more than 10 years from the date of grant. There is no general applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be open for acceptance in writing or by telex received by the secretary of the Company for a period of 21 days from the Eligible Person without paying any consideration upon the acceptance of the offer. The exercise price per share payable on the exercise of an option equal to the highest of:

- (a) the average closing price per share as quoted in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme;
- (b) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the nominal value of the share.

The Share Option Scheme is valid for a period of ten years commencing on the adoption date on 3 November 2003.

On 16 January 2004, 18,900,000 share options were granted to certain directors of the Company under the Company's Share Option Scheme at an exercise price of HK\$1.702. These share options were exercisable for the period from 16 January 2004 to 15 January 2014. No options were exercised during the year. The number of share options outstanding under the Share Option Scheme at 31 March 2004 and 31 March 2005 were 18,900,000.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 22. SHARE OPTIONS (Continued)

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the 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. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## 23. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
<b>THE COMPANY</b>						
At 1 April 2003	52,045	425	122,183	454	9,634	184,741
Net profit attributable						
to shareholders	—	—	—	18,790	—	18,790
2004 interim dividend declared	—	—	—	(5,505)	5,505	—
2004 final dividend declared	—	—	—	(11,010)	11,010	—
Dividends paid	—	—	—	—	(15,139)	(15,139)
At 31 March 2004	52,045	425	122,183	2,729	11,010	188,392
Net profit attributable						
to shareholders	—	—	—	25,220	—	25,220
2005 interim dividend declared	—	—	—	(5,505)	5,505	—
2005 final dividend declared	—	—	—	(12,386)	12,386	—
Dividends paid	—	—	—	—	(16,515)	(16,515)
At 31 March 2005	52,045	425	122,183	10,058	12,386	197,097

The contributed surplus of the Company arose as a result of the difference between the aggregate net tangible assets of the subsidiaries acquired by the Company and the nominal amount of the Company's shares which were issued to acquire those subsidiaries under the group reorganisation in 1993.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 23. RESERVES (Continued)

In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is available for distribution to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) the company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution as at 31 March 2005 was HK\$144,627,000 (2004: HK\$135,922,000), which comprises the aggregate of contributed surplus, retained profits and dividend reserve of the Company.

## 24. OPERATING LEASE ARRANGEMENTS

At the balance sheet date, the Group was committed to make the following future minimum leases payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	13,142	6,319
In the second to fifth year inclusive	10,898	3,184
After five years	58	—
	24,098	9,503



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 24. OPERATING LEASE ARRANGEMENTS (Continued)

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments in respect of investment properties rented out:

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Within one year	960	—
In the second to fifth year inclusive	560	—
	<b>1,520</b>	—

The Company has no operating lease commitments at the balance sheet date.

## 25. CAPITAL COMMITMENTS

	THE GROUP	
	2005 HK\$'000	2004 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of investments in securities	873	—

The Company has no capital commitments at the balance sheet date.

## 26. CONTINGENT LIABILITIES

At the balance sheet date, the Company has given corporate guarantees of HK\$264,706,000 (2004: HK\$139,800,000) to certain banks to secure the credit facilities granted to its subsidiaries.

## 27. RETIREMENT BENEFITS SCHEMES

The Group continues to operate a defined contribution retirement benefits scheme for its employees in Hong Kong. The assets of the scheme are held separately in a fund under the control of an independent trustee. The retirement benefits scheme contributions charged to the income statement represent the contributions payable by the Group to the fund at rates specified in the scheme. When employees leave the scheme prior to becoming fully vested in the contributions, the forfeited contributions will be used to reduce future contributions payable by the Group. There was no significant amount of unutilised forfeited contributions at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 27. RETIREMENT BENEFITS SCHEMES (Continued)

With the introduction of the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong, all employees who are not members of the Group's defined contribution retirement benefits scheme are required to join the MPF Scheme.

The employees of the Company's PRC subsidiaries are members of state-managed retirement benefits scheme operated by the PRC government. The Company's PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

## 28. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies and are wholly-owned by the Company, at 31 March 2005 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid share/ registered capital	Principal activities
Cathay Watch Company Limited	Hong Kong	HK\$1,000	Watch trading
Fenmount International Limited	British Virgin Islands/PRC	US\$1	Watch trading
Golden Advance Developments Limited	Hong Kong	HK\$1	Property holding
La Suisse Watch Company, Limited	Hong Kong	HK\$1,000	Watch trading
Oriental Watch Company Limited	Hong Kong	HK\$1,000	Watch trading
Excel Dragon International Limited *	Hong Kong	HK\$2	Property holding
Oriental Watch (China) Company Limited *	Hong Kong	HK\$1,000	Watch trading and investment holding
Unex Development Limited *	Hong Kong	HK\$2	Property holding

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

## 28. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ establishment/ operation	Nominal value of issued and fully paid share/ registered capital	Principal activities
上海東筋表行國際貿易有限公司 (Shanghai Oriental Watch International Trading Co., Ltd.) *	PRC	US\$200,000	Watch trading for a term of 50 years commencing 3 January 2001
上海嶠師貿易有限公司 (Qiaoshi Trading Company Limited)	PRC	RMB500,000	Watch trading for a term of 10 years commencing 19 August 2004
上海時分秒貿易有限公司 (Shanghai Key Machine Trading Company Limited) *	PRC	USD200,000	Watch trading for a term of 50 years commencing 17 October 2003

\* Indirectly held by the Company.

Shanghai Oriental Watch International Trading Co., Ltd., Qiaoshi Trading Company Limited and Shanghai Key Machine Trading Company Limited are wholly foreign owned enterprises established in the PRC.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.