

## NOTES TO THE FINANCIAL STATEMENTS

Year ended 31st March, 2005

### 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries and associate are set out in notes 17 and 18 to the financial statements respectively.

### 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") formerly named as Hong Kong Society of Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("new HKFRSs") and Hong Kong Accounting Standards ("HKAS") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st March, 2005. The Group has already commenced an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the new HKFRS3 "Business combinations" would have impact on the financial statements as set out below:-

At present, positive goodwill is amortised in the consolidated income statement on a straight-line basis over its estimated useful life. Following the adoption of the new HKFRS3 for the financial year beginning 1st April, 2005, in respect of previously recognized positive goodwill, amortization shall be discontinued and the goodwill shall be tested for impairment in accordance with Hong Kong Accounting Standard 36 "Impairment of assets".

Also, HKAS 40 requires all revaluation gains or losses of investment properties to be taken directly to the income statement. Currently, such changes are generally taken to the investment property revaluation reserve by the Group.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES**

In accordance with the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance, the financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, and the principal accounting policies adopted are as follows:

**a) Basis of consolidation**

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

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

**b) Goodwill and negative goodwill (capital reserve)**

Goodwill and negative goodwill (capital reserve) arising on consolidation represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets at the date of acquisition of subsidiaries, associates or jointly controlled entities.

Goodwill and capital reserve arising on acquisitions after 1st April, 2001 is capitalized and amortized on a straight-line basis over its useful economic life, which is on average 20 years. Goodwill arising on the acquisition of an associate or a jointly controlled entity is included in the carrying amount of the associate or jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet. Negative goodwill arising on acquisition of a subsidiary after 1st April, 2001 is presented as a deduction from non-current assets and will be released to the income statement based on an analysis of the circumstances from which the balance resulted. Negative goodwill arising on the acquisition of an associate or a jointly controlled entity is deducted from the carrying value of that associate or jointly controlled entity. Currently, negative goodwill will be released to the income statement over a period of 20 years.

Goodwill and capital reserve arising on acquisitions prior to 1st April, 2001 continue to be held in reserves. Goodwill will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired. Capital reserve has been allocated against the non-monetary assets of the subsidiaries, associates or jointly controlled entities acquired and is realized in accordance with the realization of those underlying assets. When it has not been practicable to allocate the capital reserve to the underlying assets with any reasonable accuracy, the reserve is released on a systematic basis over a period not exceeding the useful economic life. On disposal of a subsidiary, an associate or a jointly controlled entity, any previously unrealized capital reserve is included in the calculation of the profit or loss on disposal.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****c) Investments in subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. Dividend from subsidiaries is recognized by the Company when the Company's right to receive payment has been established.

**d) Interests in associates**

An associate is an enterprise over which the Group is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

**e) Contractual joint ventures**

A contractual joint venture is an entity established between the Group and one or more other parties with the rights and obligations of the joint venture partners governed by a contract. In case the Group owns more than 50% of the joint venture and is able to govern and control its financial and operating policies and its board of directors, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary.

**f) Investments in securities**

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

**(i) Investment securities**

Investment securities are stated at cost less any impairment loss that is other than temporary. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognized as an expense in the income statement.

**(ii) Other investments**

Other investments are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of other investments are recognized in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the income statement as they arise.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****g) 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 the title has passed.

Revenue from provision of service is recognized when services are provided.

Rental income from properties under operating leases is recognized on a straight-line basis over the relevant lease term.

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

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

Revenue from sale of investment securities is recognized on a trade date basis.

**h) Fixed assets and depreciation and amortization**

Fixed assets, other than investment properties, are stated at cost or revalued amount less accumulated depreciation and amortization and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. 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 the fixed assets, the expenditure is capitalized as an additional cost of the fixed assets. Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount. The gain or loss 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 recognized in the income statement.

Certain of the Group's leasehold properties were revalued on an open market value basis as at 31st March, 1995 by Vigers Hong Kong Limited, a firm of independent professional valuers. Advantage has been taken of the transitional relief provided by paragraph 80 of the Statements of Standard Accounting Practice ("SSAP") 17 "Property, Plant and Equipment" from the requirement to make revaluation on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any subsequent decrease in the net carrying amount of these properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the other property revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent sale or retirement of that asset, any attributable revaluation surplus not yet transferred to accumulated losses in prior years will be transferred directly to accumulated losses.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****h) Fixed assets and depreciation and amortization (continued)**

Depreciation and amortization are provided to write off the depreciable amount of fixed assets other than investment properties, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land	2% or over the remaining terms of the leases, if shorter
Buildings	2 – 4%
Furniture, fixtures and fittings	15 – 20%
Leasehold improvements	5 – 50%
Machinery and equipment	20 – 50%
Motor vehicles	20%

**i) Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are stated at their open market value on the basis of period end valuation carried out annually by an independent external professional valuer. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve attributable to that property is transferred to the income statement as part of the profit or loss on disposal of the property.

No depreciation is provided on investment properties except when the unexpired term, including the renewal period, of the relevant lease are 20 years or less.

**j) Computer software**

Computer software is measured initially at cost and amortized on a straight-line basis over its estimated useful life, which is on average 1 year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****k) Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that accounting standard.

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 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 under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that accounting standard.

**l) Properties held for resale**

Properties held for resale are stated at the lower of cost or carrying value and net realizable value. Net realizable value represents the estimated selling price less all costs to be incurred in selling.

**m) Convertible notes**

Convertible notes are regarded as debts unless conversion actually occurs. The finance charge recognized in the income statement in respect of the convertible notes includes a provision for the premium payable in the event of redemption rather than conversion of the convertible notes, which are outstanding at the balance sheet date. The provision is made on a straight-line basis over the period from the date of issue of the convertible notes to the date of redemption.

**n) Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less further costs expected to be incurred in selling and distribution.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****o) Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. Gains and losses arising from foreign currency translation are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the income statements of overseas subsidiaries and associate expressed in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the year. The balance sheets of overseas subsidiaries and associate expressed in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. All exchange differences arising therefrom are dealt with in the currency translation reserve.

**p) Related parties**

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.

**q) Trade receivables**

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

**r) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks less bank overdrafts.

**s) 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****s) Taxation (continued)**

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 and associates, and interests in joint ventures, 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.

**t) Operating leases**

Rentals receivable (payable) under operating leases are credited (charged) to the income statement on a straight-line basis over the lease terms.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****u) Employee benefits****(i) Retirement benefit costs**

The contributions payable to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the income statement. Contributions are reduced by employer's voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately and independently from those of the Group.

**(ii) Share options**

The nominal income received from the grantees as consideration for the grant is recognized as income upon acceptance of the grant by the grantees. No employee benefits cost is recognized when options are granted. When the options are exercised, equity is increased by the amount of the proceeds received.

**v) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**4. TURNOVER AND OTHER REVENUE**

Turnover represents the gross proceeds received and receivable derived from the sales of watches, investment securities, property rental and provision of programming service and is summarized as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Turnover		
Sales of watches	<b>249,378</b>	245,489
Rental income		
Investment properties	<b>3,633</b>	3,835
Others	<b>83</b>	772
	<b>3,716</b>	4,607
Investment securities	–	7,960
Programming service	<b>2,556</b>	3,421
	<b>255,650</b>	261,477
Other revenue		
Interest income from other than short-term bank deposits	<b>104</b>	93
Interest income from short-term bank deposits	<b>802</b>	533
Customers service income and others	<b>8,163</b>	8,036
Profit on disposal of property held for resale	–	853
	<b>9,069</b>	9,515
	<b>264,719</b>	270,992

**5. SEGMENT INFORMATION**

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

For management purposes, the Group's operating businesses are organized and managed separately into three segments: sales of watches, property-related business and programming service. During the year under review, the Group has not involved in any investment securities activities, either holding or trading of listed securities. According to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Principal activities of each business segment during the year under review are as follows:

Sales of watches	–	trading and retailing of watches
Property-related business	–	holding of properties
Programming service	–	sale and design of contract software programs

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 5. SEGMENT INFORMATION (continued)

## i) Business segment

Details of the segment information by business segments are as follows:

	Year ended 31st March, 2005						Consolidated HK\$'000
	Sales of watches HK\$'000	Property- related business HK\$'000	Investment securities HK\$'000	Program- ming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	
Segment revenue							
– External sales	249,378	3,716	–	2,556	–	–	255,650
– Inter-segment sales	–	4	–	1,191	–	(1,195)	–
	<u>249,378</u>	<u>3,720</u>	<u>–</u>	<u>3,747</u>	<u>–</u>	<u>(1,195)</u>	<u>255,650</u>
Segment results	<u>4,304</u>	<u>231</u>	<u>–</u>	<u>(2,420)</u>	<u>(6,352)</u>	<u>–</u>	<u>(4,237)</u>
Finance costs							(1,349)
Other income (expenses), net	(212)	11,453	–	(29)	(431)	–	10,781
Share of results of an associate	–	–	–	(167)	–	–	(167)
Profit before taxation							5,028
Taxation							(933)
Profit after taxation							4,095
Minority interests							291
Net profit for the year							<u>4,386</u>
Segment assets	174,492	23,714	–	3,093	101,342	–	302,641
Interest in an associate	–	–	–	1,190	–	–	1,190
Total assets	<u>174,492</u>	<u>23,714</u>	<u>–</u>	<u>4,283</u>	<u>101,342</u>	<u>–</u>	<u>303,831</u>
Segment liabilities	<u>52,636</u>	<u>4,496</u>	<u>–</u>	<u>1,141</u>	<u>75,898</u>	<u>–</u>	<u>134,171</u>
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	9,908	115	–	127	372	–	10,522
Depreciation	4,220	933	–	109	109	–	5,371
Impairment loss on leasehold property	–	747	–	–	–	–	747
Amortization of goodwill	–	–	–	30	431	–	461

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 5. SEGMENT INFORMATION (continued)

## i) Business segment (continued)

	Year ended 31st March, 2004						Consolidated HK\$'000
	Sales of watches HK\$'000	Property- related business HK\$'000	Investment securities HK\$'000	Program- ming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	
Segment revenue							
– External sales	245,489	4,607	7,960	3,421	–	–	261,477
– Inter-segment sales	–	–	–	974	–	(974)	–
	<u>245,489</u>	<u>4,607</u>	<u>7,960</u>	<u>4,395</u>	<u>–</u>	<u>(974)</u>	<u>261,477</u>
Segment results	<u>(543)</u>	<u>3,050</u>	<u>2,185</u>	<u>(2,074)</u>	<u>(7,210)</u>	<u>–</u>	<u>(4,592)</u>
Finance costs							(1,362)
Other income (expenses), net	(80)	47,361	–	(57)	(8,255)	–	38,969
Share of results of an associate	–	–	–	(606)	–	–	(606)
Profit before taxation							32,409
Taxation							(250)
Profit after taxation							32,159
Minority interests							584
Net profit for the year							<u>32,743</u>
Segment assets	126,784	46,757	3,097	3,116	109,057	–	288,811
Interest in an associate	–	–	–	1,357	–	–	1,357
Total assets	<u>126,784</u>	<u>46,757</u>	<u>3,097</u>	<u>4,473</u>	<u>109,057</u>	<u>–</u>	<u>290,168</u>
Segment liabilities	<u>46,089</u>	<u>5,261</u>	<u>–</u>	<u>504</u>	<u>75,222</u>	<u>–</u>	<u>127,076</u>
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	3,375	1,161	–	39	13	–	4,588
Depreciation	2,971	791	–	148	186	–	4,096
Impairment loss recognized in respect of goodwill	–	–	–	–	7,449	–	7,449
Amortization of goodwill	–	–	–	30	819	–	849

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 5. SEGMENT INFORMATION (continued)

## ii) Geographical segment

Details of the segment information by geographical segments are as follows:

	Year ended 31st March,			
	2005		2004	
	Segment revenue HK\$'000	Contribution to operating loss HK\$'000	Segment revenue HK\$'000	Contribution to operating loss HK\$'000
The Mainland China, excluding Hong Kong	247,999	3,666	246,138	2,715
Hong Kong	3,169	(7,866)	4,457	(8,143)
Others	4,482	(37)	10,882	836
	<u>255,650</u>		<u>261,477</u>	
Loss from operations		<u>(4,237)</u>		<u>(4,592)</u>

An analysis of the carrying amount of segment assets and additions to fixed assets by the geographical area in which the assets are located is as follows:

	Year ended 31st March,			
	2005		2004	
	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000
The Mainland China, excluding Hong Kong	125,413	7,051	121,753	2,955
Hong Kong	134,000	2,327	132,475	1,528
Switzerland	41,551	1,132	33,196	93
Others	2,867	12	2,744	12
	<u>303,831</u>	<u>10,522</u>	<u>290,168</u>	<u>4,588</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**6. OTHER OPERATING EXPENSES, NET**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Provision for bad and doubtful debts	<b>1,169</b>	1,337
Provision for diminution in value of properties held for resale	<b>10</b>	297
Provision for slow-moving inventories	<b>10,280</b>	19,702
Written back of provision for bad and doubtful debts	<b>(1,086)</b>	–
Written back of trade and other payables	<b>(347)</b>	(208)
	<b>10,026</b>	21,128

**7. FINANCE COSTS**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five years	–	11
Convertible notes	<b>377</b>	379
	<b>377</b>	390
Convertible notes:		
Amortization of premium on redemption	<b>972</b>	972
Total borrowing costs	<b>1,349</b>	1,362

**8. OTHER INCOME, NET**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Impairment loss recognized in respect of goodwill	–	(7,449)
Write off of fixed assets	<b>(212)</b>	(108)
Amortization of goodwill	<b>(461)</b>	(849)
Management fee (Note 29)	<b>(6,013)</b>	–
Provision for impairment loss on leasehold property	<b>(747)</b>	–
Deficit arising from valuation of an investment property	<b>(3,006)</b>	–
Loss on disposal of property interests in Dongguan (Note 29)	<b>(170)</b>	–
Profit on disposal of leasehold property	<b>283</b>	–
Profit on liquidation of a subsidiary	–	14
Final receipt of consideration from disposal of the Lakeview Project	<b>21,107</b>	47,361
	<b>10,781</b>	38,969

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after crediting and charging the following:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Crediting:		
Gross rental income from investment properties	<b>3,633</b>	3,835
Rental income from others, net of outgoings of Nil (2004: Nil)	<b>83</b>	772
Interest income from other than short-term bank deposits	<b>104</b>	93
Interest income from short-term bank deposits	<b>802</b>	533
Gross gain on sale of investments in securities – other investments	–	2,166
Profit on disposal of property held for resale	–	853
Profit on disposal of fixed assets	<b>79</b>	–
Profit on disposal of leasehold property	<b>283</b>	–
Dividend from listed securities	–	48
Net exchange gain	<b>406</b>	–
	<b>167,442</b>	<b>180,306</b>
Charging:		
Auditors' remuneration	<b>545</b>	532
Depreciation on owned fixed assets	<b>5,371</b>	4,096
Amortization on goodwill	<b>461</b>	849
Impairment loss recognized in respect of goodwill	–	7,449
Loss on write off of fixed assets	<b>212</b>	108
Net exchange loss	–	314
Staff costs excluding directors' fees and emoluments (Note 10)	<b>34,143</b>	29,422
Operating lease rentals in respect of rented premises	<b>20,950</b>	18,177
Loss on disposal of property interests in Dongguan (Note 29)	<b>170</b>	–
Provision for impairment loss on leasehold property	<b>747</b>	–
Deficit arising from valuation of an investment property	<b>3,006</b>	–
Management fee (Note 29)	<b>6,013</b>	–
Retirement benefits scheme contributions, net of forfeited contributions of HK\$ Nil (2004: HK\$ Nil)	<b>479</b>	391
Cost of inventories recognized as expenses	<b>167,442</b>	180,306

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

## Directors

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	<b>50</b>	400
Non-executive directors, including independent non-executive directors	<b>650</b>	600
Emoluments to executive directors		
– Salaries and benefits in kind	<b>1,934</b>	1,595
– Retirement benefits contributions	<b>60</b>	39
	<b>2,694</b>	2,634

The emoluments of the directors were within the following bands:

	<b>Number of director(s)</b>	
	<b>2005</b>	2004
Up to HK\$1,000,000	<b>6</b>	6
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	–
	<b>7</b>	6

In addition to the above emoluments, certain directors had outstanding share options granted under the Company's 1997 Share Option Scheme as referred in note 24. Details of these benefits in kind are disclosed under the section headed "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (continued)

## Employees

The five highest paid individuals for the year included one (2004: one) directors, details of whose emoluments are set out above. The emoluments of the remaining four (2004: four) individuals during the year are as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Salaries and benefits in kind	<b>3,608</b>	3,722
Performance related incentive payments	<b>1,394</b>	1,877
Retirement benefits scheme contributions	<b>87</b>	36
	<b>5,089</b>	5,635

The emoluments of the four (2004: four) individuals were within the following bands:

	<b>Number of employee(s)</b>	
	<b>2005</b>	2004
Up to HK\$1,000,000	<b>1</b>	1
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	1
HK\$1,500,001 – HK\$2,000,000	<b>1</b>	2
	<b>4</b>	4

## 11. TAXATION

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Current:		
Hong Kong	–	–
Outside Hong Kong	<b>933</b>	250
	<b>933</b>	250

Hong Kong Profits Tax is calculated at a rate of 17.5% (2004: 17.5%) of the estimated assessable profit for the year. No Hong Kong Profits Tax is provided because the assessable profits generated during the year is set off by the taxable losses carried forward.

Taxation for overseas subsidiary companies is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**11. TAXATION (continued)**

The charge for the year can be reconciled to the profit per the income statement as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Profit before tax	<b>5,028</b>	32,409
Tax at the applicable tax rates to profits in the countries concerned	<b>947</b>	7,605
Tax effect of expenses not deductible for tax purpose	<b>4,930</b>	3,084
Tax effect of income not taxable for tax purpose	<b>(3,791)</b>	(10,153)
Tax effect of tax losses not recognized	<b>3,313</b>	2,908
Tax effect of utilization of previously unrecognized tax losses	<b>(4,573)</b>	(3,194)
Tax effect of others	<b>107</b>	–
Taxation charge for the year	<b>933</b>	250

The Group has allowable tax losses arising in Hong Kong of approximately HK\$323 million, which are mainly arisen prior to the capital restructuring in 1997, (2004: HK\$343 million) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses due to the unpredictability of future profit streams.

**12. NET PROFIT FOR THE YEAR**

Of the Group's net profit for the year of HK\$4,386,000 (2004: HK\$32,743,000), a loss of HK\$5,138,000 (2004: HK\$6,871,000) has been dealt with in the financial statements of the Company.

**13. DIVIDEND**

The Directors do not recommend payment of any dividend for the year ended 31st March, 2005 (2004: Nil).

**14. EARNINGS (LOSS) PER SHARE**

(a) Including the final receipt of consideration from disposal of the Lakeview Project:

The calculation of the basic earnings per share for the year ended 31st March, 2005 and 2004 is computed based on the following data:

	<b>2005</b>	2004
Earnings		
Earnings for the purpose of basic earnings per share	<b>HK\$4,386,000</b>	HK\$32,743,000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>333,719,516</b>	333,719,516

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**14. EARNINGS (LOSS) PER SHARE (continued)**

- (b) Excluding the final receipt of consideration from disposal of the Lakeview Project:

The calculation of the additional basic loss per share for the year ended 31st March, 2005 and 2004 is computed based on following data:

	<b>2005</b>	2004
	<b>HK\$</b>	HK\$
Earnings		
Net profit for the year	<b>4,386,000</b>	32,743,000
Adjustment for:		
Final receipt of consideration from disposal of the Lakeview Project	<b>(21,107,000)</b>	(47,361,000)
Loss for the purpose of basic loss per share excluding the final receipt of consideration from disposal of the Lakeview Project	<b>(16,721,000)</b>	(14,618,000)

**Number of shares**

Same as those details above for basic earnings per share.

The additional basic loss per share figure is disclosed to give a clearer indication of the underlying performance of the Group.

- (c) No disclosure of the diluted earnings per share and additional diluted loss per share for the year under review with comparative diluted earnings per share and additional diluted loss per share for the previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options will be anti-dilutive.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 15. INTANGIBLE ASSETS

## The Group

	<b>Goodwill</b>	<b>Computer software</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1st April, 2004 and 31st March, 2005	<u>36,415</u>	<u>281</u>	<u>36,696</u>
Amortization and impairment			
At 1st April, 2004	32,693	281	32,974
Provided for the year	<u>461</u>	<u>–</u>	<u>461</u>
At 31st March, 2005	<u>33,154</u>	<u>281</u>	<u>33,435</u>
Net book values			
At 31st March, 2005	<u>3,261</u>	<u>–</u>	<u>3,261</u>
At 31st March, 2004	<u>3,722</u>	<u>–</u>	<u>3,722</u>

Goodwill and computer software are amortized over their estimated useful life. The foreseeable useful life of the goodwill arising on the acquisition and computer software are on average 20 years and 1 year respectively.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 16. FIXED ASSETS

## The Group

	Investment properties	Leasehold properties	Furniture, fixtures and fittings	Leasehold improve- ments	Machinery and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1st April, 2004	31,490	22,005	2,848	9,587	5,666	224	71,820
Currency realignment	–	–	–	–	13	–	13
Reclassification	7,609	5,818	–	–	–	–	13,427
Additions	–	–	274	6,799	3,141	308	10,522
Disposal	(18,113)	(6,045)	–	–	(93)	(224)	(24,475)
Write off	–	–	(2,116)	(2,381)	(305)	–	(4,802)
Revaluation surplus	2,166	–	–	–	–	–	2,166
Revaluation deficit recognized in the income statement	(3,006)	–	–	–	–	–	(3,006)
At 31st March, 2005	<u>20,146</u>	<u>21,778</u>	<u>1,006</u>	<u>14,005</u>	<u>8,422</u>	<u>308</u>	<u>65,665</u>
Comprising:							
At cost	–	10,041	1,006	14,005	8,422	308	33,782
At valuation – 1995	–	4,891	–	–	–	–	4,891
At valuation – 2003	–	6,846	–	–	–	–	6,846
At valuation – 2005	20,146	–	–	–	–	–	20,146
At 31st March, 2005	<u>20,146</u>	<u>21,778</u>	<u>1,006</u>	<u>14,005</u>	<u>8,422</u>	<u>308</u>	<u>65,665</u>
Depreciation and amortization							
At 1st April, 2004	–	9,611	2,295	7,139	4,105	168	23,318
Currency realignment	–	2	–	–	10	–	12
Provided for the year	–	569	191	3,070	1,482	59	5,371
Impairment loss recognized in the reserve	–	289	–	–	–	–	289
Impairment loss recognized in the income statement	–	747	–	–	–	–	747
Eliminated on disposal	–	(2,506)	–	–	(93)	(175)	(2,774)
Eliminated on write off	–	–	(2,021)	(2,281)	(288)	–	(4,590)
At 31st March, 2005	<u>–</u>	<u>8,712</u>	<u>465</u>	<u>7,928</u>	<u>5,216</u>	<u>52</u>	<u>22,373</u>
Net book values							
At 31st March, 2005	<u>20,146</u>	<u>13,066</u>	<u>541</u>	<u>6,077</u>	<u>3,206</u>	<u>256</u>	<u>43,292</u>
At 31st March 2004	<u>31,490</u>	<u>12,394</u>	<u>553</u>	<u>2,448</u>	<u>1,561</u>	<u>56</u>	<u>48,502</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**16. FIXED ASSETS (continued)**

The Group's property interests at the balance sheet date comprise:

	2005		2004	
	Investment properties HK\$'000	Leasehold properties HK\$'000	Investment properties HK\$'000	Leasehold properties HK\$'000
In Hong Kong under long-term leases	7,700	7,031	7,140	7,367
Outside Hong Kong under medium term leases	12,446	6,035	24,350	5,027
	<b>20,146</b>	<b>13,066</b>	31,490	12,394

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited and Pierre Berset s.a., firms of independent professional valuers, at 31st March, 2005 on an open market basis.

The Group's properties outside Hong Kong with carrying value of HK\$359,000 (2004: HK\$28,612,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and accumulated impairment losses, the carrying value at 31st March, 2005 would have been approximately HK\$6,772,000 (2004: HK\$7,094,000).

During the year under review, certain premises stated as Properties held for Resale, in the Group's current assets has been reclassified as Investment Properties and Leasehold Properties in the non-current assets. The aggregate amount of the reclassification is approximately HK\$13 million. The reclassification was a result of the usage of certain properties by the Group's own operation and leasing out.

**17. INTERESTS IN SUBSIDIARIES**

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	320,837	320,837
Due from subsidiaries	751,834	782,046
Due to subsidiaries	(75,662)	(53,826)
	<b>997,009</b>	1,049,057
Provision for diminution in value	(791,787)	(791,787)
	<b>205,222</b>	257,270

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**17. INTERESTS IN SUBSIDIARIES (continued)**

Particulars of the Company's principal subsidiaries as at 31st March, 2005 are as follows:

Name of subsidiary	Place of incorporation or establishment or registration/operation	Paid up issued ordinary share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK\$10,000	100%	–	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK\$10,000	–	100%	Investment holding & watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewellery watches
Time City (Hong Kong) Limited	Hong Kong	HK\$3,000,000	–	100%	Watch trading
Juvenia (Hong Kong) Company Limited	Hong Kong	HK\$5,000,000	–	100%	Brand development & watch trading
Accord Watch & Jewellery (International) Limited	Hong Kong	HK\$3,500,100	–	100%	Brand development & watch trading
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Property holding and investment
上海冠亞鐘表有限公司	The PRC	RMB600,000	–	100%	Watch retailing and trading
KB Quest Holdings Limited	British Virgin Islands	US\$150,000	–	54%	Investment holding
KBQuest Hong Kong Limited	Hong Kong	HK\$3,510,000	–	49%	Sale and design of contract software programs

The above list includes the subsidiaries of the Company, which in the opinion of the Directors, materially affected the results of the year or net assets of the Group. To give details of all the other subsidiaries would, in the opinion of the Directors, result in providing particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 18. INTEREST IN AN ASSOCIATE

	The Group	
	2005 HK\$'000	2004 HK\$'000
Share of net assets	<b>1,190</b>	1,357

Particular of the Group's associate as at 31st March, 2005 is as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of equity interest attributable to the Group	Principal activity
Shanghai Forward KBQuest Inc.	The PRC	US\$1,000,000	21%	Sale and design of computing software and related consultancy services

## 19. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES

	Notes	The Group	
		2005 HK\$'000	2004 HK\$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	<b>2,285</b>	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	<b>1,500</b>	1,500
Club debentures		<b>984</b>	984
		<b>4,769</b>	4,769
Impairment loss recognized		<b>(2,285)</b>	(2,285)
Provision for diminution in value		<b>(1,500)</b>	(1,500)
		<b>984</b>	984

Notes:

- (i) At 31st March, 2005, the Group held a 19% interest in Golden Crown, a company that was incorporated in Hong Kong and is engaged in the manufacturing of watchbands. The investment in Golden Crown is accounted for as investment securities as the Group does not have significant influence over this company. The Board, having taken into account the accounting treatment under SSAP 31 "Impairment of Assets", recognized impairment loss of approximately HK\$ 2,285,000 in the year of 2003.
- (ii) At 31st March, 2005, the Group held a 15% interest in AC Watch, a company that was incorporated in Hong Kong. The Group does not have any influence and/or control over this company, which is still under the process of being winding up. Full provision for diminution in value amounting to HK\$1,500,000 was provided in the year of 1999.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK\$16,287,000 (2004: HK\$14,576,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Trade receivables		
Up to 90 days	<b>14,918</b>	13,568
91 to 180 days	<b>71</b>	54
Over 180 days	<b>1,298</b>	954
	<b>16,287</b>	14,576
Other receivables, deposits and prepayments	<b>11,773</b>	11,195
	<b>28,060</b>	25,771

The Company did not have any trade receivables at 31st March, 2005 and 2004.

**21. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES**

Included in trade and other payables and accrued charges are trade payables of HK\$15,218,000 (2004: HK\$8,282,000), the aged analysis of which at the balance sheet date is as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Trade payables		
Up to 90 days	<b>14,617</b>	7,656
91 to 180 days	<b>66</b>	34
Over 180 days	<b>535</b>	592
	<b>15,218</b>	8,282
Other payables and accrued charges	<b>45,007</b>	45,832
	<b>60,225</b>	54,114

The Company did not have any trade payables at 31st March, 2005 and 2004.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 22. CONVERTIBLE NOTES

	<b>The Group and the Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Swiss Francs 11,800,000 7/8% Convertible Notes (the "Notes") due 2010, at par	<b>61,912</b>	61,912
Premium on redemption	<b>7,937</b>	6,965
Accrued interest	<b>1,383</b>	1,549
Interest paid during the year	<b>(542)</b>	(543)
	<b>70,690</b>	69,883

Pursuant to the original note agreement, holders of the Notes had the right at any time on or before 8th February, 2000 to convert all or some of the Notes into shares of the Company at the conversion price of HK\$8.6 per share, subject to adjustment. Interest on the Notes was waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001. The rate at which interest is charged on the Notes is 0.875% per annum for a period of nine years with effect from 23rd February, 2001. Interest is accrued over the revised duration of the Notes so as to produce a constant periodic rate of charge for each accounting period.

There is also an option granted to the holders of the Notes to cause the Company to redeem in US\$ at a fixed exchange rate of Sfr.1.00 = US\$0.67933 any Note on 23rd February, 2008 at a redemption price of 117.375% of its principal amount together with interest accrued up to the date of redemption.

The Company has the right, having given not less than 30 days and not more than 60 days' notice to the financial adviser in respect of the Notes, to redeem all, but not some only, of the Notes at par, together with interest accrued up to the date of redemption if the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited, converted into US\$ at the prevailing exchange rate, is at least 130% of the conversion price for 30 consecutive dealing days.

## 23. SHARE CAPITAL

	<b>Number of shares</b>	<b>Value</b>
	'000	HK\$'000
Ordinary shares of HK\$1 each		
Authorized:		
At 1st April, 2004 and 31st March, 2005	400,000	400,000
Issued and fully paid:		
At 1st April, 2004 and 31st March, 2005	333,719	333,719

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**24. SHARE OPTION SCHEMES**

The Company's 1997 Share Option Scheme was adopted pursuant to a resolution passed on 15th September, 1997 and expired on 15th September, 2000. The Company has, in accordance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), adopted a new share option scheme (the "2002 Share Option Scheme"), as approved by the shareholders of the Company at the special general meeting held on 20th September, 2002. The details of the 2002 Share Option Scheme as pursuant to the Listing Rules, are set out in the Company's circular dated 30th July, 2002.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding share options are set out below):

**1997 Share Option Scheme**

The 1997 Share Option Scheme was designed to providing incentives to any executive directors or full time employees of the Company or any of its subsidiaries (the "Eligible Employees").

According to the Scheme, the maximum number of shares issued cannot exceed 10% of the issued share capital of the Company excluding any shares issued pursuant to the Scheme from time to time. The number of shares in respect of which options granted to any Eligible Employee is not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

Option to executive directors may be exercised at any time during a period commencing from the date the option is accepted and ten years from 15th September, 1997. Option to full time employees may be exercised at any time during a period commencing 2 years after the date of the option is accepted and ten years from 15th September, 1997.

The exercise price is determined by the Directors of the Company, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the offer of the options.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**24. SHARE OPTION SCHEMES (continued)****1997 Share Option Scheme (continued)**

Details of the options, which have been granted under the 1997 Share Option Scheme are listed below in accordance with Rule 17.07 of the Listing Rules:

	Number of options held at 01/04/2004	Lapsed or cancelled during the year	Number of options held at 31/03/2005	Exercise price	Grant date	Exercise period
<b>1. Directors</b>						
Leung Chung Ping, Owen	3,000,000	–	3,000,000	HK\$1.00	24/09/1997	24/09/1997- 14/09/2007
Sum Pui Ying, Adrian	3,000,000	–	3,000,000	HK\$1.00	24/09/1997	24/09/1997- 14/09/2007
<b>2. Continuous Contract Employees</b>	1,400,000	200,000	1,200,000	HK\$1.00	24/09/1997	24/09/1999- 14/09/2007
	<u>7,400,000</u>	<u>200,000</u>	<u>7,200,000</u>			

No option was granted or exercised during the two years ended 31st March, 2005.

In the opinion of the Board, any valuation of the options granted based on any option pricing model is not appropriate and meaningful to the shareholders, taking into account of number of variables which are crucial for the calculation of the option value which have not been determined.

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**24. SHARE OPTION SCHEMES (continued)****2002 Share Option Scheme**

The purpose of the 2002 Share Option Scheme is to encourage qualifying grantees to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. Qualifying grantees of the 2002 Share Option Scheme means (i) any employee including officer and director or any business-related consultant, agent, representative or adviser of the Company or any subsidiary or any affiliate; or (ii) any supplier, agent or consultant who provide goods or services to the Company or any subsidiary or any affiliate; or (iii) any customer of the Company or any subsidiary or any affiliate; or (iv) any business ally or joint venture partner of the Company or any subsidiary or any affiliate.

The maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not be exceed 10 per cent. of the shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said scheme) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the Shares in issue from time to time. As at the date of the annual report, a total of 33,371,951 shares (representing approximately 10 per cent. of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme and the 1997 Share Option Scheme.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the 2002 Share Option Scheme and any other option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the total number of shares in issue.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto in addition to those set forth in the 2002 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria conditions and the satisfactory performance. However the 2002 Share Option Scheme itself does not specify any minimum holding period for which an option must be held before it can be exercised.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**24. SHARE OPTION SCHEMES (continued)****2002 Share Option Scheme (continued)**

The offer of a grant of share options may be accepted within 14 days from the date of the offer, upon payment of a nominal value of HK\$1.00 in total by the grantee. The exercise period of the share options granted is determined by the Board of Director, and shall not exceed a period of ten years after the date of grant.

The subscription price in respect of any particular option under the 2002 Share Option Scheme shall be such price as the Board may at its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of: (a) the nominal value of a share; (b) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options.

The 2002 Share Option Scheme will expire on 19th September, 2012.

As at the balance sheet date, no share option has been granted under the 2002 Share Option Scheme since its adoption.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

## 25. RESERVES

## The Group

	Share premium	Investment property revaluation reserve	Other property revaluation reserve	Currency translation reserve	Capital reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April 2003	84	2,256	570	4,253	156,970	(369,148)	(205,015)
Surplus arising from valuation of investment properties	–	210	–	–	–	–	210
Excess depreciation on revalued properties	–	–	(13)	–	–	13	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	613	–	–	613
Profit for the year	–	–	–	–	–	32,743	32,743
Balance at 31st March 2004	84	2,466	557	4,866	156,970	(336,392)	(171,449)
Balance at 1st April 2004	84	2,466	557	4,866	156,970	(336,392)	(171,449)
Surplus arising from valuation of investment properties	–	2,166	–	–	–	–	2,166
Net off with provision for impairment loss of leasehold property	–	–	(289)	–	–	–	(289)
Excess depreciation on revalued properties	–	–	(13)	–	–	13	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	596	–	–	596
Profit for the year	–	–	–	–	–	4,386	4,386
Balance at 31st March 2005	84	4,632	255	5,462	156,970	(331,993)	(164,590)
Attributable to:							
The Company and subsidiaries	84	4,632	255	5,458	156,970	(329,356)	(161,957)
Associate	–	–	–	4	–	(2,637)	(2,633)
	84	4,632	255	5,462	156,970	(331,993)	(164,590)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**25. RESERVES (continued)****The Company**

	<b>Share premium</b>	<b>Accumulated losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
Balance at 1st April 2003	84	(94,646)	(94,562)
Loss for the year (Note 12)	–	(6,871)	(6,871)
Balance at 31st March 2004	<u>84</u>	<u>(101,517)</u>	<u>(101,433)</u>
Balance at 1st April 2004	84	(101,517)	(101,433)
Loss for the year (Note 12)	–	(5,138)	(5,138)
Balance at 31st March 2005	<u>84</u>	<u>(106,655)</u>	<u>(106,571)</u>

The application of the share premium is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended). The capital reserve, currency translation reserve, investment property revaluation reserve and other property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and capital reserve arising on acquisitions, foreign currency translation and revaluation of investment properties and leasehold properties.

The Company did not have any reserves available for distribution at 31st March, 2005 and 2004.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH USED IN OPERATING ACTIVITIES**

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>5,028</b>	32,409
Non-cash items		
– Other operating expenses, net	<b>10,026</b>	21,128
– Other expenses, net	<b>4,426</b>	8,392
– Amortization of premium on redemption of convertible notes	<b>972</b>	972
Other income from final receipt of consideration from disposal of the Lakeview Project	<b>(21,107)</b>	(47,361)
Interest income from other than short-term bank deposits	<b>(104)</b>	(93)
Interest income from short-term bank deposits	<b>(802)</b>	(533)
Interest expenses	<b>377</b>	390
Depreciation and amortization	<b>5,371</b>	4,096
Share of results of an associate	<b>167</b>	606
Profit on disposal of investments in securities-other investments	–	(2,166)
Profit on disposal of fixed assets	<b>(79)</b>	–
Profit on disposal of property held for resale	–	(853)
Loss on disposal of leasehold property and Investment property	<b>2,595</b>	–
Dividend from listed securities	–	(48)
Operating profit before working capital changes	<b>6,870</b>	16,939
Increase in inventories	<b>(30,786)</b>	(18,813)
Increase in trade and other receivables, deposits and prepayments	<b>(2,199)</b>	(4,140)
Increase/(decrease) in trade and other payables and accrued charges	<b>5,027</b>	(631)
(Decrease)/increase rental received in advance	<b>(83)</b>	1,122
Cash used in operations	<b>(21,171)</b>	(5,523)
Interest received from other than short-term bank deposits	<b>104</b>	93
Interest received from short-term bank deposits	<b>748</b>	540
Interest paid on bank loan and overdrafts	–	(11)
Overseas taxation paid	<b>(673)</b>	(250)
Net cash used in operating activities	<b>(20,992)</b>	(5,151)

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**27. NET CASH FLOW FROM LIQUIDATION OF A SUBSIDIARY**

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Net liabilities disposed of:		
Trade and other payables and accrued charges	–	(14)
	–	(14)
Profit on liquidation of a subsidiary	–	14
	–	–
Satisfied by:		
Cash consideration received	–	–

**28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	<b>Share capital and premium</b> <b>HK\$'000</b>	<b>Convertible notes</b> <b>HK\$'000</b>	<b>Minority interests</b> <b>HK\$'000</b>
At 1st April 2003	333,803	69,075	(1,031)
Premium on redemption and interest accrued	–	1,351	–
Capital contributed by minority shareholders	–	–	2,437
Repayment of interest	–	(543)	–
Share of loss for the year	–	–	(584)
At 31st March 2004	<u>333,803</u>	<u>69,883</u>	<u>822</u>
At 1st April 2004	333,803	69,883	822
Premium on redemption and interest accrued	–	1,349	–
Repayment of interest	–	(542)	–
Share of loss for the year	–	–	(291)
At 31st March 2005	<u>333,803</u>	<u>70,690</u>	<u>531</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**29. DISPOSAL OF PROPERTY INTERESTS IN THE PRC**

On 13th January, 2005, a wholly owned subsidiary of the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party (the "Purchaser") to dispose (the "Disposal") of its entire interests (i.e. all the rights and obligations) derived from an agreement dated 8th June, 1992 (the "Old Agreement") entered into with Dongguan Houjie Town Economic Development Head Company (the "Chinese Partner") in relation to the grant of the land use right of industrial buildings in Dongguan, the PRC (the "Properties") for a term of 50 years. The total cash consideration for the disposal is RMB19.9 million (or approximately HK\$18.8 million) and was paid by the Purchaser upon signing of the Agreement.

The Properties comprises three blocks of industrial buildings and four blocks of dormitory buildings and two buildings accommodating a staff canteen and a power generator with a total gross floor area of approximately 48,900 square meters within an industrial complex located at No. 5, Industrial Zone, Houjie Town, Dongguan, the PRC. Pursuant to the Old Agreement, the subsidiary had to pay monthly management fee to the Chinese Partner for the grant of the land use right of the Properties.

Details of the disposal of Property Interests are set out in the press announcement and the Company's Circular dated 19th January, 2005 and 7th February, 2005 respectively.

As set out in the interim report for the period ended 30th September, 2004, the Chinese Partner requested the Group to reactive its OEM manufacturing activities in the joint venture in Dongguan, which had been dormant subsequent to the business restructuring in 1997. Such request was considered by the Group inconsistent with the Group's corporate strategy since 1997. The Chinese Partner later issued a written notice dated 15th September, 2004 demanding for management fee for prior years amounting to RMB6,374,200 (approximately HK\$6 million) (the "Claim"). The Group did not admit the validity of the Claim, however would consider any appropriate settlement proposals if deemed to be in the best interest to the Group. The Disposal served an opportunity for the Group to settle the Claim because pursuant to the Agreement, the Purchaser would assume the responsibility of settling the Claim.

The assumption of responsibility for settling the Claim by the Purchaser gave rise to approximately HK\$6 million of gain on disposal of the Properties, which thereby reduced the overall loss on disposal of property interests in Dongguan to approximately HK\$170,000.

Moreover, the Board is of the view that the Disposal represents an opportunity to the Group to realise its non-core investments and proceeds thereof could strengthen the working capital position for the operations of the core business of the Group.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

(a) At 31st March, 2005, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11,000,000 (2004 HK\$11,000,000) to banks to secure general banking facilities granted to the Group. As at 31st March, 2005, bank guarantees given in lieu of utility deposit amounting to approximately HK\$404,000 (2004: HK\$404,000). Except the aforesaid banking guarantees utilized during the year under review, the unutilized general banking facilities are acted as standby nature for potential business development of the Group's subsidiaries.
- (2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the acquisition of the information technology business in May 2001 is not in the best interests of the Company or the Shareholders and other appropriate declarations or further ancillary reliefs. As the Company is only a nominal defendant to a derivative action, the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Pursuant to the Court Order made on 4th January, 2002 that the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action. Further to the subsequent Court Orders made on 3rd and 4th September, 2003, the Company successfully denied the Plaintiff's application regarding claiming the Company to indemnify their legal costs incurred in this Action. Accordingly, the Board does not anticipate any significant adverse financial effect to the Company up to the date of this report.

The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.

Save as disclosed herein, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims which is, in the opinion of the Directors, of material importance and no litigation or claims which is, in the opinion of the Directors, of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**30. CONTINGENT LIABILITIES AND CONTINGENT ASSETS (continued)**

- (b) On 23rd August, 1999, the Group completed the disposal (the "Disposal") of its interests in the Dongguan Asia Commercial Hwang Gang Lake Development Limited (the "Lakeview Project"), a property development project in the PRC. In accordance with the original agreement and its subsequent supplemental agreements of the Disposal, the aggregate consideration was HK\$157 million and was treated as revenue and the part of the total consideration HK\$76.5 million was recognized as receivable in the year ended 31st March, 2000. Payment for this receivable would be made gradually from time to time according to the time schedule of the obtaining of the land use right certificates. Details of the Disposal were set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999.

Pursuant to the terms and conditions of agreements, the HK\$76.5 million of receivable remained outstanding as at 31st March, 2002. With a view of adopting the Statement of Standard Accounting Practice 28 "Provisions, Contingent Liabilities and Contingent Assets", governing financial statements relating to periods beginning on or after 1st January, 2001, such receivable was reversed and treated as contingent asset and disclosed in the financial statements accordingly.

As at 25th August, 2003, the Purchasers paid an amount of approximately HK\$47 million to the Company because they had obtained the land use right certificates in respect of Phases 7 to 10 of the Lakeview Project.

During the year under review, the Purchasers further notified that the land use right certificate for Phase 11 of the Lakeview Project had been obtained.

On 26th January, 2005, the Company has received from the Purchasers payment of approximately HK\$21 million in respect of such land use right. As informed by the Purchasers, all relevant land use right certificates for the Lakeview Project have been obtained. Accordingly, the payment amounting to approximately HK\$21 million represents the final receipt of consideration by the Company for the Disposal. Details of the final receipt of consideration for the Disposal are set out in the press announcement dated 26th January, 2005.

All the receipts have been accounted for as other income in the income statement. The short-term bank deposits and the shareholders' funds were increased by the same amount accordingly.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31st March, 2005

**31. RELATED PARTY TRANSACTIONS AND BALANCE**

The following is a summary of the significant transactions and balance with a related party during the year and as at year end.

- (1) Summary of income item

	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Consultancy services rendered to a substantial shareholder of the Company	<b>70</b>	112

- (2) The above amounts are included in the balance sheet of the Group and the Company as follows:

	<b>The Group</b>		<b>The Company</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Trade and other receivables, deposits and prepayments	–	151	–	–
Trade and other payable and accrued charges ( <i>Note</i> )	<b>83</b>	–	–	–

*Note:* As at 31st March, 2005, the entire annual fee for the current maintenance services period has been received in accordance with the prevailing industry's practices.

The above transactions have been entered into on terms agreed by the parties concerned.

**32. PLEDGE OF ASSETS**

At 31st March, 2005, certain of the Group's investment properties and leasehold properties with carrying value of HK\$7,700,000 (2004: HK\$7,140,000) and HK\$7,031,000 (2004: HK\$ 7,367,000) respectively were pledged to secure the general banking facilities to the extent of HK\$ 11,000,000.

At 31st March, 2005 and 2004, the Company had not pledged any assets.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**33. OPERATING LEASE ARRANGEMENTS****As lessor**

Property rental income earned during the year was HK\$3,633,000 (2004: HK\$3,835,000). As at 31st March, 2005, the properties held have committed tenants, whose tenancy agreements includes paying security deposits, expire or are terminable less than 1 year.

At 31st March, 2005, the Group had contracted with tenants for the following future minimum lease payments:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>197</b>	3,114
In the second to fifth year inclusive	-	5,865
After the fifth year	-	287
	<b>197</b>	9,266

**As lessee**

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 6.9 years. Certain rentals for the use of retail outlets are determined by reference to the revenue of the relevant outlets for the year and the rentals for certain retail outlets will be escalated by a fixed percentage per annum.

At the balance sheet date, the Group had total future minimum lease payments under the non-cancellable operating leases falling due as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>10,157</b>	7,971
In the second to fifth year inclusive	<b>13,948</b>	8,059
	<b>24,105</b>	16,030

The Company had no operating lease arrangements at 31st March, 2005 and 2004.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

Year ended 31st March, 2005

**34. RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund ("MPF") scheme for all Hong Kong eligible employees including executive directors. The assets of the MPF scheme are held separately from those of the Group in funds under the control of trustees.

The retirement benefit cost for the MPF scheme charged to the consolidated income statement represents contributions payable to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

Employees who are employed in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The amount of unvested benefits utilized by the Group to reduce contributions is nil during the year. The amount of unvested benefits available for future reduction of employer's contribution as at 31st March, 2005 is approximately HK\$116,000 (2004: HK\$216,000).