1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

These condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31st March, 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations ("HK-Int")) that affect the Group and are adopted for the first time for the current period's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 28, 31, 33, 37, 40, HKAS-Int 15, HKAS-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

HKAS 17

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and impairment losses. Depreciation was calculated to write off the cost on a straight-line basis over the shorter of the lease term and the estimated useful lives of the buildings.

With the adoption of HKAS 17, the interest in leasehold land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be separately identified from the fair value of the interest in leasehold land at the time the lease was first entered into by the Group, or taken over from the previous leasee, or at the date of construction of those buildings, if later. Any prepaid land premiums for acquiring the land leases, or other lease payments, are amortized in the income statement on a straight-line basis over the lease term or where there is impairment, the impairment is expensed in the income statement. This new accounting policy has been adopted retrospectively and comparative amounts have been restated accordingly. The resulting effect on the financial statements of the Group is set out in notes 1(a) and (b) below.

HKASs 32 and 39
In prior years, the accounting policies for certain financial instruments were as follows:

– Equity investments, other than investments in subsidiaries, associates and jointly controlled companies, were classified as (i) investment securities, where the investments were held on a continuing basis for an identifiable long-term strategic purpose were classified as investment securities and were stated at cost less any provisions for impairment loss; and (ii) other investments, and were stated at fair value with changes in fair value recognized in the income statement as they arose.

– The notional amounts of derivative financial instruments, including interest rate and currency swaps, interest rate options and foreign currency options, entered into by the Group were not reflected in the balance sheet. The related interest flows were accounted for on an accrual basis and the premiums paid on purchased options were amortized over the terms of the respective options.

In accordance with HKASs 32 and 39, the following new accounting policies have been adopted for the financial instruments mentioned above:

– All non-trading investments, other than investments in subsidiaries, associates and jointly controlled companies, are classified as available-for-sale financial assets and carried at fair value. Changes in fair value are recognized in the fair value reserve under equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the fair value reserve in respect of the investment is transferred to the income statement for the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale financial assets is recognized directly in the fair value reserve. If there is no reasonable estimate on the fair value, the available-for-sale financial asset is stated at cost less impairment loss.

– All derivative financial instruments entered into by the Group are stated at fair value. Changes in fair value are recognized in the income statement as they arise.

– Fair value of financial instruments is estimated as follows:

  (i) The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

  (ii) The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine the fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

Comparative amounts have not been restated nor has the opening balance of the fair value reserve been restated as this is prohibited by the transitional arrangements in HKAS 39. The resulting effect on the financial statements of the Group is set out in notes 1(a) and (b) below.

HKFRS 3 and HKASs 36 and 38
In prior periods, goodwill arising on consolidation for acquisitions:

– before 1st April, 2001 was taken directly to reserves at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and

– on or after 1st April, 2001 was amortized on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment.

– Intangible assets mainly comprise the trademark, which is stated at acquisition cost and is amortized on a straight line basis over its expected future economic life of 20 years.

In accordance with the transitional arrangements under HKFRS 3, and the provisions of HKASs 36 and 38:

– The Group ceased amortization of goodwill prospectively;

– The cumulative amount of amortization as at 1st January, 2005 has been offset against the cost of the goodwill, with no comparative amounts restated;

– Goodwill which had previously been taken directly to reserves will not be recognized in the income statement on disposal or impairment of the acquired business, or under any other circumstances;

– Goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognized when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount; and

– The Group has reassessed the useful lives of its intangible assets. Intangible assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment and are reviewed for impairment whenever events that the carrying amount may not be recoverable.

The resulting effect on the financial statements of the Group is set out in notes 1(a) and (b) below.

HKAS 21
In prior years, goodwill was carried at cost less amortisation and impairment.

With the adoption of HKAS 21, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserves, together with any other differences arising form the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1st April, 2005.

HKFRS 2
In prior years, no amounts were recognized in the income statement for the share options granted to employees or directors of the Group to acquire shares of the Company at specified exercise prices under the share option schemes operated by the Group.

If the employees or directors of the Group chose to exercise the share options, the nominal amount of share capital and share premium were credited only to the extent of the share option's exercise price receivable.

With the adoption of HKFRS 2, the Group recognizes the fair value of such share options or shares as an expense in the income statement. A corresponding increase is recognized in the employee share-based compensation reserve under equity. Where the employees or directors are required to meet vesting conditions before they become entitled to the share options or shares, the Group recognizes the fair value of the share options or shares granted as an expense over the vesting period. If the employees or directors choose to exercise share options, the respective amount in the employee share-based compensation reserve is transferred to share capital and share premium, together with the exercise price. At each balance sheet date, the Group revises its estimates of the number of share options or shares that are expected to become vested. The impact of the revision of original estimates, if any, is recognized in the income statement with a corresponding adjustment to the employee share-based compensation reserve over the remaining vesting period.

The Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to all share options or shares granted to employees or directors on or before 7th November, 2002.

a. Effect on the unaudited consolidated income statement

In respect of the six-month period ended 30th September, 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six-month period ended 30th September, 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective new HKFRSs. As retrospective adjustments have not been made for all changes in accounting policies as explained above, the amounts shown for the six months ended 30th September, 2004 may not be comparable to the amounts shown for the current interim period.

In HK$'000		Effect of adoption		
			HKFRS 3,	
		HKASs	HKASs	
	HKAS17	32 & 39	36 & 38	Total
For the six months ended 30th September, 2005				
Increase/(Decrease) in profit				
Decrease in amortization of goodwill			3,965	3,965
Decrease in amortization of intangible assets			1,547	1,547
Increase in other gains, net		201		201
Increase in amortization of Land Lease premium	(267)			(267)
Total increase/(decrease) in profit attributable to equity holders of the Company	(267)	201	5,512	5,446
In HK$'000				
For the six months ended 30th September, 2004				
Decrease in profit				
Increase in amortization of Land Lease premium	(267)			(267)
Total decrease in profit attributable to equity holders of the Company				(267)

b. **Effect on the unaudited consolidated balance sheet**

In respect of the position as at 30th September, 2005, the following table sets out (i) the adjustments that have been made to the opening balances at 1st April, 2005, which are the aggregate effect of retrospective adjustments as at 31st March, 2005 and the opening balance adjustments made as at 1st April, 2005; and (ii) the estimates of the extent to which movement of balances for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the position as at 31st March, 2005, the table only discloses the aggregate effect of retrospective adjustments as at 31st March, 2005, which are in accordance with the relevant transitional provisions of the respective

In HK$'000		Effect of adoption		
			HKFRS 3,	
	HKASs	HKASs	HKASs	
	17	32 & 39	36 & 38	Total
As at 30th September, 2005				
Increase/(Decrease) in assets				
Decrease in property, plant and equipment	(20,989)			(20,989)
Increase in interest in leasehold land held for own use	20,989			20,989
Increase in goodwill			3,965	3,965
Increase in intangible assets			1,547	1,547
Increase in derivative financial instruments (assets)		201		201
Increase in equity				
Increase in retained profits		201	5,512	5,713
In HK$'000				
As at 31st March, 2005				
Increase/(Decrease) in assets				
Decrease in property, plant and equipment	(21,256)			(21,256)
Increase in interest in leasehold land held for own use	21,256			21,256
Increase in equity				
Increase in retained profits				0

2. TURNOVER AND SEGMENTAL INFORMATION

Segment information is presented by way of geographical segments. As the Group's turnover and operating profit were contributed solely by manufacturing, trading, distributing and retailing timepieces products, business segments are not presented.

In determining the Group's geographical segments, segment revenue and results are based on the final destination of goods sold as follows:

	Turnover Six months ended 30th September,		**Segment results Six months ended 30th September,**	
	2005	2004 (restated)	**2005**	2004 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The Americas	**422,921**	420,423	**57,984**	51,794
Asia (excluding China)	**186,845**	189,503	**16,015**	29,668
Europe	**128,001**	128,962	**11,093**	23,901
China	**261,228**	121,349	**99,284**	35,877
	998,995	860,237	**184,376**	141,240
Other revenue			**21,319**	9,008
Unallocated expenses			**(87,879)**	(68,638)
Finance costs			**(22,721)**	(9,900)
Profit before taxation			**95,095**	71,710

3. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging (crediting):

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000* (restated)
Depreciation of property, plant and equipment	**32,936**	31,192
Amortization of intangible assets	**–**	3,123
Amortization of goodwill	**–**	1,785
Amortization of Land Lease premium	**267**	267
Interest expenses	**22,721**	9,900
Interest income	**(12,779)**	(835)

4. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30th September, 2004: 17.5%) on the estimated assessable profits. Taxation on other overseas profit has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries of the Group operate.

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
Current period		
Hong Kong profits tax	**11,274**	8,478
The People's Republic of China (the "PRC")	**167**	–
Overseas	**550**	42
Deferred taxation		
Origination and reversal of temporary differences	**548**	(1,240)
	12,539	7,280

5. DIVIDEND

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
2005 interim dividend declared of 3 HK cents (2004: 2.2 HK cents) per ordinary share	**26,992**	18,405

This dividend declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

6. EARNINGS PER SHARE

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

	Six months ended 30th September,	
	2005	2004
	HK$'000	*HK$'000*
		(restated)
Profit attributable to equity holders of the Company	**80,572**	57,639
Weighted average number of shares for the purpose of basic earnings per share calculation	**884,531,348**	817,472,226
Potential dilutive shares		
– share options	**18,098**	17,268
– warrants	**–**	40,916,080
Weighted average number of shares for the purpose of diluted earnings per share calculation	**884,549,446**	858,405,574
Basic earnings per share (HK cents)	**9.11**	7.05
Diluted earnings per share (HK cents)	**9.11**	6.71

7. CAPITAL EXPENDITURE

During the period, the Group spent approximately HK$57,660,000 (31st March, 2005: HK$121,986,000) on property, plant and equipment to expand its business. Carrying amount of property, plant and equipment of the Group disposed of during the period amounted to HK$1,089,000 (31st March, 2005: HK$202,000).

8. TRADE RECEIVABLES

Payment terms with customers are mainly on credit. Invoices are normally payable within 90 days to 120 days of issuance. Each customer has a pre-set maximum credit limit.

An aging analysis of trade receivables is as follows:

	As at 30th September, 2005 *HK$'000*	As at 31st March, 2005 *HK$'000*
Not yet due	**219,002**	214,307
Over due within 90 days	**28,959**	38,444
Overdue between 91 to 180 days	**26,198**	21,021
Overdue over 180 days	**22,219**	2,266
	296,378	276,038

9. TRADE AND OTHER PAYABLES

An aging analysis of trade payables is as follows:

	As at 30th September, 2005 *HK$'000*	As at 31st March, 2005 *HK$'000*
Trade payables:		
Not yet due	**85,519**	59,295
Overdue within 90 days	**44,202**	43,030
Overdue between 91 to 180 days	**10,996**	9,680
Overdue over 180 days	**7,639**	6,903
	148,356	118,908
Accruals and other payables	**100,585**	101,186
	248,941	220,094

10. INTEREST-BEARING BORROWINGS

The interest-bearing borrowings are repayable as follows:

	As at 30th September, 2005 *HK$'000*	As at 31st March, 2005 *HK$'000*
Within one year	**389,505**	671,570
After one year but within two years	**268,000**	217,940
After two years but within five years	**386,000**	51,200
	1,043,505	940,710
Less: amount repayable within one year	**389,050**	671,570
	654,000	269,140
Analyzed as:		
– secured	**–**	16,800
– unsecured	**1,043,505**	923,910
	1,043,505	940,710

11. OBLIGATIONS UNDER FINANCE LEASES

The obligations under finance leases are repayable as follows:

	As at 30th September, 2005 HK$'000	As at 31st March, 2005 HK$'000
Within one year	**2,427**	3,187
More than one year but within two years	**652**	1,151
More than two years but within five years	**117**	611
	3,196	4,949
Less: future finance charges	**(250)**	(380)
	2,946	4,569
Less: amount repayable within one year	**2,223**	2,918
	723	1,651

12. SHARE CAPITAL

	As at 30th September, 2005 HK$'000	As at 31st March, 2005 HK$'000
Authorized:		
6,000,000,000 (31st March, 2005: 6,000,000,000) ordinary shares of HK$0.10 each	**600,000**	600,000
Issued and fully paid:		
905,705,780 (31st March, 2005: 868,082,259) ordinary shares of HK$0.10 each	**90,571**	86,808

	Note	**Number of shares issued**	**Paid-up nominal value HK$'000**
As at 31st March, 2005		868,082,259	86,808
Issue of new shares pursuant to the exercise of warrants	*a*	37,623,521	3,763
As at 30th September, 2005		**905,705,780**	**90,571**

Notes:

a. A bonus issue of warrants (the "Bonus Warrants") of the Company to its shareholders was approved by the Board on 1st August, 2003. The Bonus Warrants are exercisable at any time from 5th August, 2003 to 4th August, 2005, both dates inclusive. Each Bonus Warrant entitles the holder thereof to subscribe for one new share at an initial subscription price of HK$0.65. During the period, 37,623,521 new shares of HK$0.1 each were issued upon the exercise of 37,623,521 Bonus Warrants. These shares rank pari passu with the existing shares of the Company.

13. RELATED PARTY TRANSACTIONS

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

		Six months ended 30th September,	
	Note	**2005** **HK$'000**	2004 *HK$'000*
Sales of finished goods to related companies	*a*	**23,282**	3,001
Rental for use of plant and machinery provided to and charged to a related company	*b*	**944**	1,000
Electroplating services provided by and respective fee charged by a related company	*c*	**(5,109)**	(5,432)
Key management compensation	*d*	**1,828**	2,776

Notes:

a. Sales of finished goods to the related companies were conducted in the ordinary course of business at prices and terms as determined by the transaction parties on arm's length basis. In respect of transactions for which the price or volume has not yet been agreed with the relevant parties, the directors have determined the relevant amount based on their best estimation.

b. The amounts of the rental received from the jointly controlled entity and the related company were agreed between the transaction parties on arm's length basis.

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

d. Detail of key management compensation of the Group

	Six months ended 30th September,	
	2005 **HK$'000**	2004 *HK$'000*
Salaries and other short-term employee benefits	**1,750**	2,698
Post employment benefits	**78**	78

14. COMMITMENTS UNDER OPERATING LEASES

As at 30th September, 2005, the Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:

	As at 30th September, 2005	As at 31st March, 2005
	HK$'000	*HK$'000*
Within one year	**19,331**	5,126
More than one year but within five years	**36,311**	8,679
More than five years	**2,402**	–
	58,044	13,805

15. CONTINGENT LIABILITIES

As at 30th September, 2005, the Group has contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$75,032,000 (31st March, 2005: HK$45,497,000).