



Oriental Watch Holdings Limited

(Incorporated in Bermuda with limited liability)

Annual Report

2005



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. Yeung Ming Biu (*Chairman*)
Mr. Yeung Him Kit, Dennis (*Managing Director*)
Mr. Chan Che Kwong, William (*Senior Director*)
Mr. Fung Kwong Yiu (*Executive Director*)
Madam. Yeung Man Yee, Shirley (*Executive Director*)
Mr. Lam Hing Lun, Alain (*Executive Director*)
Mr. Choi Kwok Yum (*Executive Director*)
Dr. Sun Ping Hsu, Samson (*Non-executive Director*)
Dr. Li Sau Hung, Eddy (*Non-executive Director*)
Mr. So Kai Lau, Peter (*Non-executive Director*)

COMPANY SECRETARY

Mr. Lam Hing Lun, Alain

PRINCIPAL BANKERS

Hang Seng Bank Limited
Bank of America (Asia) Limited
DBS Bank (Hong Kong), Limited
Wing Hang Bank Limited

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

HONG KONG BRANCH SHARE REGISTRARS

Secretaries Limited
G/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

HONG KONG LEGAL ADVISER

Jennifer Cheung & Co

BERMUDA LEGAL ADVISER

Conyers, Dill & Pearman

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Room 312-8
China Insurance Group Building
141 Des Voeux Road Central
Central
Hong Kong

CHAIRMAN'S STATEMENT

FINAL RESULTS

For the year ended 31 March 2005, the Group recorded a consolidated turnover of HK\$2,042 million (2004: HK\$1,876 million), representing an increase of approximately 8.8%, and the profit attributable to shareholders of HK\$74.0 million increased by 7.9% (2004: HK\$68.6 million) compared to the same period of last year. Basic earnings per share for the year was 26.9 Hong Kong cents (2004: 24.9 Hong Kong cents), representing an increase of 8.0% over last year.

FINAL DIVIDEND

The Directors are pleased to propose a final dividend of Hong Kong 4.5 cents per share (2004: 4.0 Hong Kong cents per share) for the year ended 31 March 2005 to members, whose names appear on the Register of Members on 31 August 2005.

BUSINESS REVIEW AND PROSPECTS

The economic conditions of Hong Kong improved the past year, thus providing a better environment for business development. The Group recorded healthy growth during the period in both turnover and gross profit. However, a portion of the Group's income was affected by the increase in local rental rates of our retail shops. There has been an upward movement on the price of the local real estate rental rates, and this will in the near future create a pressure on our performance. The other portion of the increase in administration expenses is due to our investment in the development of our retail network in the PRC.

Since the commencement of our retail network in the PRC last year, we have now established ten outlets under the management of the Group. They are spread among the major cities of Beijing, Shanghai, GuangZhou, Nanjing, NanChong, ShengYang, CheungSha and ZhengZhou. In the second half of this year, more outlets will be opened in Beijing, NanJing, GuiYang and GuangZhou. Other than multi-brand shops bearing the name of Oriental Watch Company, the Group will also begin engaging in the management of boutique-style shops retailing a single brand name. Furthermore, through CEPA, the Group has acquired a permit for establishing a wholly-owned regional head office in the LuWan district of Shanghai. With this significant step accomplished, our control over the Group's various business concerns in the PRC will be much improved.

Our intensive investment in the PRC will continue to affect our short term performance, thus leading to further expansion of our retail business in the PRC. However, in the long term, we have strong confidence that our investment will certainly pay-off. As China continues to have one of the highest economic growth rate in the world, the people's spending power is continually increasing. As the PRC Government is also actively encouraging internal consumption, the prospects for our expanding retail network are very positive.

Due to our increasing investment in the PRC, we continue to closely monitor the movement of its currency. We are confident that our resources will allow us to take advantage of the current relative undervaluation of the RMB and to minimize the effect of its potential upward re-evaluation. With many of our investments already underway, we are in a position to acquire the benefits of such a re-evaluation through our current RMB accounts both in the PRC and in Hong Kong.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECTS *(Continued)*

At present, the Hong Kong market remains the main source of retail income for the Group. As most PRC tourists continue to target Hong Kong as a main travel destination, the Group's coming marketing strategy will include the consideration of re-locating some of our retail shops to those areas most highly visited by Mainland Chinese tourists.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the Group's total sales.

The aggregate purchases during the year attributable to the Group's five largest suppliers comprised approximately 91% of the Group's total purchases while the purchases attributable to the Group's largest supplier was approximately 75% of the Group's total purchases.

None of the directors, their associates or any shareholder, which to the knowledge of the directors owned more than 5% of the Company's issued capital, had any interest in the share capital of any of the five largest suppliers of the Group.

CAPITAL AND FINANCE

The Group still maintains its policy of conservative capital management with its gearing ratio at prudent level. The financial foundation of the Group is strong with ample cash flow. Based on the solid cash position and banking facilities, the Group has healthy working capital and liquidity to meet its operating and expansion needs. At the end of the financial year under review, the Group's net assets amounted to HK\$715 million (2004: HK\$657 million) with a net asset value per share HK\$2.60 (2004: HK\$2.39). The Group's net current assets increased by approximately 5.1% to HK\$593 million (2004: HK\$564 million). Shareholders' funds at 31 March 2005 reached HK\$715 million, up by 8.8% (2004: HK\$657 million). The Group had cash on hand of HK\$150.2 million (2004: HK\$205.5 million) as at 31 March 2005 whilst bank loans and overdrafts totalled HK\$85.8 million (2004: HK\$22.3 million). The ratio of the Group's net bank borrowings was insignificant when compared to shareholders' funds.

In terms of management, the Group will continue to apply its strict cost and stock controls.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express gratitude to our shareholders, customers, suppliers and colleagues for their support and contributions to the Group in the past fiscal year. I look forward to continuing and improving their valuable relationships with the Group for many more periods ahead.

By order of the Board
Yeung Ming Bui
Chairman

Hong Kong, 20 July 2005

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YEUNG Ming Biu, aged 69, the Chairman of the Company, is a co-founder of the Group. He has over 53 years' experience in the watch business and is a Permanent Honorary Director of The Federation of Hong Kong Watch Trades and Industries Limited.

Mr. YEUNG Him Kit, Dennis, aged 36, joined the Group in 1993. He became Managing Director of the Company in March 2003. He holds a bachelor degree in commerce from the University of Toronto, Canada. Mr. Yeung is the son of Mr. Yeung Ming Biu.

Mr. CHAN Che Kwong, William, aged 57, joined the Group in 1993. He became Senior Director of the Company in April 2003 and has over 25 years' experience in the watch business. He is a Permanent Honorary Director and present Chairman of the Federation of Hong Kong Watch Trades and Industries Limited.

Mr. Fung Kwong Yiu, aged 61, joined the Group in 1974 and has over 41 years' experience in the watch business. He is a Permanent Honorary Director of The Federation of Hong Kong Watch Trades and Industries Limited.

Madam YEUNG Man Yee, Shirley, aged 43, joined the Group in 1991. She received a higher diploma in business studies and diploma in watch and jewellery management from North Herts College in the United Kingdom and CFH Institute in Switzerland respectively. Madam Yeung is the daughter of Mr. Yeung Ming Biu.

Mr. LAM Hing Lun, Alain, aged 46, joined the Group in 1992. He is the Group Financial Controller and Company Secretary of the Company and became Director of the Company in April 2003. He is responsible for the Group's accounting, financial control and secretarial matters. He has over 21 years' experience in accounting and auditing. Mr. Lam holds a master degree of business administration from the University of Hull. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.

Mr. CHOI Kwok Yum, aged 50, joined the Group in 1969. He became Director of the Company in April 2003 and has over 36 years' experience in the watch business.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Dr. SUN Ping Hsu, Samson, M.B.E., J.P., aged 80, is the Chairman of Sun International Group of companies. He was deputy Chairman and a Director of Gilman & Co., Ltd. and Inchcape Hong Kong respectively from 1967 to 1985. Dr. Sun is the honorary permanent president of The Federation of Hong Kong Watch Trades and Industries Limited. He has over 52 years' experience in the manufacturing, marketing and distribution of watches, and 20 years' experience in the marketing and distribution of consumer and electronic products. He has involved in the PRC trade since 1979, and continues to be active in both trading and property development in the PRC. Dr. Sun has chaired many voluntary community services and charitable organizations. He has been a Non-executive Director of the Company since September 1993.

Dr. LI Sau Hung, Eddy, aged 50, has over 31 years' experience in the manufacturing business. He is the president of Hong Kong Economic & Trade Association and a member of the TDC Watch Trade Advisory Committee. Mr. Li holds a master degree of business administration and a PhD degree in economics. He was the 1991 awardee of The Ten Outstanding Young Persons and the 1993 awardee of Young Industrialists of Hong Kong. He has been a Non-executive Director of the Company since September 1993.

Mr. SO Kai Lau, Peter, aged 57, is a Certified Public Accountant and a Canadian Chartered Accountant. He was formerly a partner of Deloitte Touche Tohmatsu until he retired in May 2003. He is also an independent non-executive director of Tsit Wing International Holdings Limited, a company listed on the stock exchange in Singapore. Mr. So has been a Non-executive Director of the Company since September 2004.

SENIOR MANAGEMENT

Mr. TANG Tai Wai, David, aged 60, is the general manager of China division. He is responsible for sales and marketing in the PRC. He joined the Group in 1993 and has over 37 years' experience in the watch business.

Mr. TSE Mau Fai, aged 43, is the shop manager of Cathay Watch Company Limited. He joined the Group in 1981 and has over 24 years' experience in the watch business.

Mr. YEUNG Chi On, aged 45, is the shop manager of La Suisse Watch Company, Limited, Hong Kong branch. He joined the Group in 1980 and has over 25 years' experience in the watch business.

Mr. LIU Sik Yeun, aged 57, is the shop manager of La Suisse Watch Company, Limited, Kowloon branch. He joined the Group in 1979 and has over 26 years' experience in the watch business.

Mr. CHAN Yiu Wah, aged 43, is the shop manager of Oriental Watch Company Limited, Causeway Bay branch. He joined the Group in 1993 and has over 12 years' experience in the watch business.

DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT *(Continued)*

Mr. CHAN Cheng Yin, aged 64, is responsible for the finance and administration of La Suisse Watch Company, Limited, Kowloon branch. He joined the Group in 1976 and has over 29 years' experience in the watch business.

Mr. CHUI Cheung Wing, aged 61, is the shop manager of Oriental Watch Company Limited, Yaumati branch (333 Nathan Road). He joined the Group in 1991 and has over 42 years' experience in the watch business.

Mr. WATT Hing Yin, aged 42, is the shop manager of Oriental Watch Company Limited, Yaumati branch (555 Nathan Road). He joined the Group in 2003 and has over 20 years' experience in the watch business.

Madam LOH Nget Wah, aged 52, is the shop manager of Oriental Watch Company Limited, Pioneer Centre branch (750 Nathan Road). She joined the Group in 1990 and has over 18 years' experience in the watch business.

Mr. LAM Tung Hing, aged 47, is the shop manager of Oriental Watch Company Limited, Tsimshatsui branch. He joined the Group in 2003 and has over 27 year's experience in watches business.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company as well as engaged in watch trading.

The principal activities of the Company's principal subsidiaries are set out in note 28 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 17.

An interim dividend of 2.0 Hong Kong cents per share was declared and paid to the shareholders during the year. A final dividend of 4.5 Hong Kong cents per share being proposed by the directors is subject to approval by the shareholders in the forthcoming annual general meeting. The total dividends declared in respect of the year are set out in note 9 to the financial statements.

RESERVES

Movements in the reserve of the Group and the Company during the year are set out on page 20 and note 23 to the financial statements respectively.

INVESTMENT PROPERTIES

Details of movements in the Group's investment properties during the year are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group incurred approximately HK\$9.6 million on the acquisition of property, plant and equipment of which the amount was mainly incurred on the acquisition of furniture, fixtures and equipment. Details of these and other movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Yeung Ming Biu (*Chairman*)
Yeung Him Kit, Dennis (*Managing Director*)
Chan Che Kwong, William (*Senior Director*)
Fung Kwong Yiu
Yeung Man Yee, Shirley
Lam Hing Lun, Alain
Choi Kwok Yum

Independent non-executive directors:

Sun Ping Hsu, Samson, Dr.
Li Sau Hung, Eddy, Dr.
So Kai Lau, Peter (appointed on 20 September 2004)

In accordance with Clauses 86 and 87 of the Company's Bye-laws, Mr. Fung Kwong Yiu, Dr. Sun Ping Hsu, Samson and Mr. So Kai Lau, Peter retire and, being eligible, offer themselves for re-election.

The term of office of each of the independent non-executive directors is the period up to his retirement as required by the Company's Bye-laws.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 March 2005, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Name of director	Number of ordinary shares held				Total number of shares	Percentage of issued share capital of the Company
	Personal interest	Family interest	Corporate interest	Other interest		
Yeung Ming Biu	10,787,260	6,000,000	96,800,000 <i>Note (a)</i>	—	113,587,260	41.3%
Yeung Him Kit, Dennis	—	—	—	5,614,400 <i>Note (b)</i>	5,614,400	2.0%
Chan Che Kwong, William	622,515	—	—	9,709,436 <i>Note (c)</i>	10,331,951	3.8%
Fung Kwong Yiu	1,803,152	—	—	1,161,600 <i>Note (d)</i>	2,964,572	1.1%
Yeung Man Yee, Shirley	—	167,547	—	3,194,400 <i>Note (e)</i>	3,361,947	1.2%
Sun Ping Hsu, Samson, Dr.	—	—	2,000,000 <i>Note (f)</i>	—	2,000,000	0.7%

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES *(Continued)*

Notes:

- (a) Mr. Yeung Ming Biu and his wife, Madam Au Po Kee, are the beneficial owners of 45% and 22.5% respectively of the issued share capital of Realtower Holdings Limited. Realtower Holdings Limited is the beneficial owner of 55% of the issued share capital of Furama Investments Limited, which is the beneficial owner of 80% of the issued share capital of Datsun Holdings Limited. Datsun Holdings Limited is the beneficial owner of 96,800,000 shares in the Company.
- (b) Mr. Yeung Him Kit, Dennis is the beneficial owner of 10% and 8% of the issued share capital of Realtower Holdings Limited and Real Champ Limited respectively. Real Champ Limited is the beneficial owner of 20% of the issued share capital of Datsun Holdings Limited.
- (c) Mr. Chan Che Kwong, William is the beneficial owner of 10% of the issued share capital of Furama Investments Limited and 10% of the issued share capital of Y.H. Chan Limited which is the beneficial owner of 25% of the issued share capital of Furama Investments Limited. Y.H. Chan Limited also directly holds 294,365 shares in the Company.
- (d) Mr. Fung Kwong Yiu is the beneficial owner of 6% of the issued share capital of Real Champ Limited.
- (e) Madam Yeung Man Yee, Shirley is the beneficial owner of 7.5% of the issued share capital of Realtower Holdings Limited.
- (f) Dr. Sun Ping Hsu, Samson and his family members are beneficial owners of the entire issued share capital of Sun International Limited, which is the beneficial owner of 2,000,000 shares in the Company.

Save as disclosed above, the paragraph "Share option scheme and directors' rights to acquire shares or debentures", and other than certain nominee shares in subsidiaries held by a director in trust for the Company, none of the directors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' REPORT

SHARE OPTION SCHEME AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

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

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

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

DIRECTORS' REPORT

SHARE OPTION SCHEME AND DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

A summary of the share options outstanding under the Company's share option scheme are as follows:

Name of director	Date of grant	Exercisable period	Number of share options and number of underlying shares	
			Exercise price per share HK\$	At 1.4.2004 and at 31.3.2005
Yeung Ming Biu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Yeung Him Kit, Dennis	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Chan Che Kwong, William	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Fung Kwong Yiu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Yeung Man Yee, Shirley	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Lam Hing Lun, Alain	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
Choi Kwok Yum	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000
				18,900,000

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable any director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 2005, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

Long position in shares of the Company

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Datsun Holdings Limited	96,800,000	35.2%
Furama Investments Limited	96,800,000	35.2%
Realtower Holdings Limited	96,800,000	35.2%

DIRECTORS' REPORT

DIRECTORS' INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS *(Continued)*

Realtower Holdings Limited holds 55% of the issued share capital of Furama Investments Limited which holds 80% of the issued share capital of Datsun Holdings Limited. Accordingly, both Realtower Holdings Limited and Furama Investments Limited are deemed under the SFO to be interested in the 96,800,000 shares in the Company which are held by Datsun Holdings Limited.

Messrs. Yeung Ming Bui, Yeung Him Kit, Dennis, Chan Che Kwong, William, Fung Kwong Yiu, Madam Yeung Man Yee, Shirley and Madam Au Po Kee (wife of Mr. Yeung Ming Bui) are deemed by the SFO to be interested in the shares of the Company beneficially owned by Datsun Holdings Limited in the manner described under the above paragraph headed "Directors' interests and short positions of substantial shareholders".

Save as disclosed above, at 31 March 2005, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 March 2005, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities on The Stock Exchange of Hong Kong Limited.

DONATIONS

During the year, the Group made charitable and other donations totalling HK\$321,000.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

DIRECTORS' REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, they have confirmed that they fully complied with the required standard set out in the Model Code throughout the year ended 31 March 2005.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this annual report, the percentage of the Company's share which are in the hands of the public exceeds 25% of the Company's total number of issued shares throughout the year ended 31 March 2005.

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Yeung Ming Bui
Chairman

Hong Kong, 20 July 2005

AUDITORS' REPORT

Deloitte.

德勤

To the Shareholders of Oriental Watch Holdings Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 17 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20 July 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	4	2,041,810	1,876,233
Cost of goods sold		(1,845,341)	(1,712,159)
Gross profit		196,469	164,074
Other operating income		10,397	7,768
Distribution costs		(34,331)	(25,716)
Administrative expenses		(81,592)	(66,744)
Gain on disposal of investment properties		—	2,000
Profit from operations	5	90,943	81,382
Finance costs	7	(2,435)	(1,175)
Profit before taxation		88,508	80,207
Taxation	8	(14,514)	(11,577)
Net profit attributable to shareholders		73,994	68,630
Dividends	9	17,891	16,515
Earnings per share	10		
— Basic		26.88 cents	24.93 cents
— Diluted		N/A	24.91 cents

CONSOLIDATED BALANCE SHEET

At 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investment properties	11	25,257	—
Property, plant and equipment	12	83,902	80,496
Negative goodwill	13	(3,222)	(3,424)
Interest in an associate		—	4,000
Investments in securities	15	29,194	12,602
		135,131	93,674
Current assets			
Inventories		542,929	428,595
Trade and other receivables	16	67,087	32,062
Taxation recoverable		4,265	6,712
Pledged bank deposits		3,150	3,150
Bank balances and cash		147,027	202,301
		764,458	672,820
Current liabilities			
Trade and other payables	17	93,527	83,237
Obligations under a finance lease		—	46
Taxation payable		5,560	3,698
Current portion of secured long-term bank loans	18	980	—
Short-term bank loans	19	68,868	21,698
Bank overdrafts		2,532	565
		171,467	109,244
Net current assets		592,991	563,576
Total assets less current liabilities		728,122	657,250
Non-current liabilities			
Secured long-term bank loans	18	13,393	—
Deferred taxation	20	141	141
		13,534	141
Net assets		714,588	657,109
Capital and reserves			
Share capital	21	27,525	27,525
Reserves		687,063	629,584
Shareholders' funds		714,588	657,109

The financial statements on pages 17 to 49 were approved and authorised for issue by the Board of Directors on 20 July 2005 and are signed on its behalf by:

Yeung Ming Biu
Chairman

Yeung Him Kit, Dennis
Managing Director

BALANCE SHEET

At 31 March 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Non-current assets			
Investments in subsidiaries	14	123,085	122,614
Investments in securities	15	2,998	—
		126,083	122,614
Current assets			
Other receivables		2,100	—
Amounts due from subsidiaries		104,727	101,074
Taxation recoverable		635	635
Bank balances and cash		84	154
		107,546	101,863
Current liabilities			
Accounts payables		8,084	7,637
Amounts due to subsidiaries		923	923
		9,007	8,560
Net current assets		98,539	93,303
Net assets		224,622	215,917
Capital and reserves			
Share capital	21	27,525	27,525
Reserves	23	197,097	188,392
Shareholders' funds		224,622	215,917

Yeung Ming Bui
Chairman

Yeung Him Kit, Dennis
Managing Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Properties revaluation reserve HK\$'000	Special reserve HK\$'000	Retained profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 1 April 2003	27,525	52,045	425	807	5,180	508,143	9,634	603,759
Deferred taxation	—	—	—	(141)	—	—	—	(141)
Net profit attributable to shareholders	—	—	—	—	—	68,630	—	68,630
2004 interim dividend declared	—	—	—	—	—	(5,505)	5,505	—
2004 final dividend declared	—	—	—	—	—	(11,010)	11,010	—
Dividends paid	—	—	—	—	—	—	(15,139)	(15,139)
At 31 March 2004 — as originally stated	27,525	52,045	425	666	5,180	560,258	11,010	657,109
Reclassification on adoption of Hong Kong Accounting Standard No. 40 "Investment property"	—	—	—	(666)	—	666	—	—
At 31 March 2004 — as re-stated	27,525	52,045	425	—	5,180	560,924	11,010	657,109
Net profit attributable to shareholders	—	—	—	—	—	73,994	—	73,994
2005 interim dividend declared	—	—	—	—	—	(5,505)	5,505	—
2005 final dividend declared	—	—	—	—	—	(12,386)	12,386	—
Dividends paid	—	—	—	—	—	—	(16,515)	(16,515)
At 31 March 2005, attributable to the Group	27,525	52,045	425	—	5,180	617,027	12,386	714,588

The special reserve of the Group comprises the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital and special reserves of those companies which were acquired by the Company pursuant to a group reorganisation in 1993. The special reserves of these acquired subsidiaries represent the credit arising on reduction of their paid up share capitals under the group reorganisation.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005 HK\$'000	2004 HK\$'000
Operating activities		
Profit before taxation	88,508	80,207
Adjustments for:		
Interest income	(1,046)	(963)
Interest expenses	2,435	1,175
Depreciation and amortisation of property, plant and equipment	6,093	4,772
Depreciation of investment properties	200	—
Loss on disposal of property, plant and equipment	6	1
Gain on disposal of investment properties	—	(2,000)
Release of negative goodwill	(202)	(202)
Amortisation of premium on acquisition of held-to-maturity securities	54	54
Unrealised gain on listed trading securities	(120)	(248)
Allowance for inventories	—	2,000
Operating cash flows before movements in working capital	95,928	84,796
(Increase) decrease in inventories	(114,334)	16,123
(Increase) decrease in trade and other receivables	(35,025)	735
Increase in trade and other payables	10,290	29,452
Cash (used in) from operations	(43,141)	131,106
Hong Kong Profits Tax paid	(8,690)	(15,002)
Mainland China income tax paid	(1,515)	(822)
Net cash (used in) from operating activities	(53,346)	115,282
Investing activities		
Interest received	1,046	963
Purchase of investment properties	(25,457)	—
Proceeds from disposal of investment properties	—	14,000
Purchase of property, plant and equipment	(9,620)	(8,010)
Proceeds from disposal of property, plant and equipment	115	5
Purchase of an associate	—	(4,000)
Purchase of investment securities	(12,526)	(3,000)
Decrease in pledged bank deposits	—	6,400
Net cash (used in) from investing activities	(46,442)	6,358

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2005

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Financing activities		
Interest paid	(2,435)	(1,175)
Dividends paid	(16,515)	(15,139)
Bank loans raised	130,283	33,962
Repayment of bank loans	(68,740)	(36,509)
Repayment of obligations under a finance lease	(46)	(78)
Net cash from (used in) financing activities	42,547	(18,939)
Net (decrease) increase in cash and cash equivalents	(57,241)	102,701
Cash and cash equivalents at 1 April	201,736	99,035
Cash and cash equivalents at 31 March	144,495	201,736
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	147,027	202,301
Bank overdrafts	(2,532)	(565)
	144,495	201,736

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

1. GENERAL

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

2. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Negative goodwill

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

Negative goodwill arising on acquisition is presented as deductions from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

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

Investments in subsidiaries

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

Investments in securities

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

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities (Continued)

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

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in the profit or loss for the period.

Turnover

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

Revenue recognition

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

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

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

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

Investment properties

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

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

Property, plant and equipment

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

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

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

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

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

Inventories

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

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

4. BUSINESS AND GEOGRAPHICAL SEGMENT

Business segments

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Geographical segments

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

4. BUSINESS AND GEOGRAPHICAL SEGMENT (Continued)

Geographical segments (Continued)

BALANCE SHEET

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

OTHER INFORMATION

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

5. PROFIT FROM OPERATIONS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

The emoluments of the directors were within the following bands:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

7. FINANCE COSTS

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

8. TAXATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

8. TAXATION (Continued)

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

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

9. DIVIDENDS

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

10. EARNINGS PER SHARE

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

11. INVESTMENT PROPERTIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. PROPERTY, PLANT AND EQUIPMENT

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

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

13. NEGATIVE GOODWILL

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

13. NEGATIVE GOODWILL (Continued)

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

14. INVESTMENTS IN SUBSIDIARIES

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

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

15. INVESTMENTS IN SECURITIES

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

15. INVESTMENTS IN SECURITIES (Continued)

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

16. TRADE AND OTHER RECEIVABLES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

17. TRADE AND OTHER PAYABLES

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

18. BANK LOANS

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

19. SHORT-TERM BANK LOANS

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

20. DEFERRED TAXATION

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

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

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

21. SHARE CAPITAL

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

22. SHARE OPTIONS

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

22. SHARE OPTIONS (Continued)

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted during the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapsed or are cancelled prior to their exercise date are deleted from the register of outstanding options.

23. RESERVES

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

23. RESERVES (Continued)

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

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

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

24. OPERATING LEASE ARRANGEMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

24. OPERATING LEASE ARRANGEMENTS (Continued)

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

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

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

25. CAPITAL COMMITMENTS

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

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

26. CONTINGENT LIABILITIES

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

27. RETIREMENT BENEFITS SCHEMES

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

27. RETIREMENT BENEFITS SCHEMES (Continued)

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

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

28. PRINCIPAL SUBSIDIARIES

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2005

28. PRINCIPAL SUBSIDIARIES (Continued)

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

* Indirectly held by the Company.

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

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

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

FINANCIAL SUMMARY

	Year ended 31 March				
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
RESULTS					
Turnover	1,598,968	1,713,574	1,901,779	1,876,233	2,041,810
Profit before taxation	115,954	96,896	77,576	80,207	88,508
Taxation	(19,347)	(16,389)	(12,091)	(11,577)	(14,514)
Profit before minority interests	96,607	80,507	65,485	68,630	73,994
Minority interests	720	(1,265)	—	—	—
Net profit attributable to shareholders	97,327	79,242	65,485	68,630	73,994
ASSETS AND LIABILITIES					
	As at 31 March				
	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Total assets	558,595	623,308	685,886	766,494	899,589
Total liabilities	(59,241)	(67,143)	(82,127)	(109,385)	(185,001)
Minority interests	3,835	—	—	—	—
Shareholders' funds	503,189	556,165	603,759	657,109	714,588