

Notes to Financial Statements

Year ended 31st March, 2003

1. GENERAL

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

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

2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following revised and new Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants ("HKSA").

SSAP 1 (Revised)	:	Presentation of financial statements
SSAP 11 (Revised)	:	Foreign currency translation
SSAP 15 (Revised)	:	Cash flow statements
SSAP 34	:	Employee benefits

Adoption of these SSAPs has no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

a) Statement of changes in equity

In accordance with SSAP 1 (Revised) the requirement for presenting a statement of recognized gains and losses has changed to presenting a statement of changes in equity.

b) Foreign currency translation

The principal revision in SSAP 11 (Revised) is that in preparing the consolidated financial statements, the income statements of the Group's operations outside Hong Kong have to be translated at the average rates for the period rather than at the exchange rates ruling on the balance sheet date. This change in accounting policy has not had any material effect on the results for the current and prior accounting years.

c) Cash flow statements

Under SSAP 15 (Revised), cash flows are classified by operating, investing and financing activities and cash flows of overseas operations are translated at the rate prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

d) Employee benefits

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. Adoption of this SSAP has not had any material effect on the results for the current and prior accounting years.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

2. ADOPTION OF REVISED AND NEW STATEMENTS OF STANDARD ACCOUNTING PRACTICE (cont'd)

Comparative figures have been reclassified to conform with the revised presentation arising from the adoption of these SSAPs.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with SSAPs issued by the HKSA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities. The principal accounting policies, which have been adopted in preparing the financial statements are as follows:

a) *Basis of consolidation*

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

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

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

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

b) Goodwill and negative goodwill (capital reserve) (cont'd)

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

c) Investments in subsidiaries

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

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

d) Interests in associates

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

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

e) Contractual joint ventures

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

f) Investments in securities

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

i) Investment securities

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

f) *Investments in securities (cont'd)*

ii) **Other investments**

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

g) *Revenue recognition*

Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

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

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

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

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

h) *Fixed assets and depreciation and amortization*

Fixed assets, other than investment properties, are stated at cost or revalued amount less accumulated depreciation and amortization and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalized as an additional cost of the fixed assets. Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount. The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

h) Fixed assets and depreciation and amortization (cont'd)

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

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

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

i) Investment properties

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

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

j) Computer software

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

k) Impairment

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

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

l) Properties held for resale

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

m) Convertible notes

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

n) Inventories

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

o) Foreign currencies

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

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

p) Related parties

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

q) Trade receivables

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

r) Cash and cash equivalents

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

s) Taxation

The charge for taxation is based on the results for the year after adjusting for items, which are non-assessable or disallowed. Certain items of income and expenses are recognized for tax purposes in a different accounting period from that in which they are recognized in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognized as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallize in the foreseeable future.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

t) *Operating leases*

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

u) *Employee benefits*

(i) Retirement benefit costs

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

(ii) Share options

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

v) *Contingent liabilities and contingent assets*

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

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

4. TURNOVER AND OTHER REVENUE

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

	2003 HK\$'000	2002 HK\$'000
Turnover		
Sales of watches	213,630	182,039
Rental income		
Investment properties	4,443	3,967
Others	615	570
	5,058	4,537
Investment securities	21,980	–
Programming service	4,928	2,784
	245,596	189,360
Other revenue		
Interest income from other than short-term bank deposits	331	886
Interest income from short-term bank deposits	626	1,420
Surplus arising from increase in value of properties held for resale	–	1,399
Repair income and others	7,475	5,694
	8,432	9,399
	254,028	198,759

5. SEGMENT INFORMATION

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

For management purposes, the Group's operating businesses are organized and managed separately into four segments: sales of watches, properties investment, securities investment and programming service. According to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Principal activities of each business segment are as follows:

Watches	–	trading and retailing of watches
Properties investment	–	holding of properties
Investment securities	–	holding and trading of listed securities
Programming service	–	sale and design of contract software programs

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

5. SEGMENT INFORMATION (cont'd)

i) Business segment

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

	Year ended 31st March, 2003						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
- External sales	213,630	5,058	21,980	4,928	-	-	245,596
- Inter-segment sales	-	135	-	36	-	(171)	-
	<u>213,630</u>	<u>5,193</u>	<u>21,980</u>	<u>4,964</u>	<u>-</u>	<u>(171)</u>	<u>245,596</u>
Segment results	<u>(3,884)</u>	<u>3,805</u>	<u>(469)</u>	<u>(6,022)</u>	<u>121</u>	<u>-</u>	<u>(6,449)</u>
Finance costs							(1,352)
Other expenses	(55)	-	-	(30)	(26,965)	-	(27,050)
Share of results of an associate	-	-	-	(782)	-	-	(782)
Loss before taxation							(35,633)
Taxation							(240)
Loss after taxation							(35,873)
Minority interests							3,580
Net loss for the year							<u>(32,293)</u>
Segment assets	121,196	48,586	5,799	2,354	72,008	-	249,943
Interest in an associate	-	-	-	1,963	-	-	1,963
Total assets	<u>121,196</u>	<u>48,586</u>	<u>5,799</u>	<u>4,317</u>	<u>72,008</u>	<u>-</u>	<u>251,906</u>
Segment liabilities	<u>45,235</u>	<u>4,403</u>	<u>116</u>	<u>726</u>	<u>73,753</u>	<u>-</u>	<u>124,233</u>
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	2,368	-	-	38	31	-	2,437
Depreciation	3,231	275	-	374	206	-	4,086
Impairment loss recognized in respect of investment securities	-	-	-	-	2,285	-	2,285
Impairment loss recognized in respect of goodwill	-	-	-	-	20,977	-	20,977
Amortization of goodwill	-	-	-	30	1,791	-	1,821
Amortization of computer software	-	-	-	70	-	-	70

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

5. SEGMENT INFORMATION (cont'd)

i) Business segment (cont'd)

	Year ended 31st March, 2002						
	Sales of watches HK\$'000	Property-related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
Segment revenue							
– External sales	182,039	4,537	–	2,784	–	–	189,360
– Inter-segment sales	–	135	–	487	–	(622)	–
	<u>182,039</u>	<u>4,672</u>	<u>–</u>	<u>3,271</u>	<u>–</u>	<u>(622)</u>	<u>189,360</u>
Segment results	<u>5,391</u>	<u>3,858</u>	<u>(1,316)</u>	<u>(4,307)</u>	<u>(1,336)</u>	<u>–</u>	<u>2,290</u>
Finance costs							(1,388)
Other expenses	(61)	(264)	–	(26)	(1,604)	–	(1,955)
Share of results of an associate	–	–	–	(1,082)	–	–	(1,082)
Loss before taxation							(2,135)
Taxation							(179)
Loss after taxation							(2,314)
Minority interests							2,466
Net profit for the year							<u>152</u>
Segment assets	121,921	51,051	28,083	4,964	87,538	–	293,557
Interest in an associate	–	–	–	2,745	–	–	2,745
Total assets	<u>121,921</u>	<u>51,051</u>	<u>28,083</u>	<u>7,709</u>	<u>87,538</u>	<u>–</u>	<u>296,302</u>
Segment liabilities	<u>51,669</u>	<u>3,545</u>	<u>121</u>	<u>387</u>	<u>78,879</u>	<u>–</u>	<u>134,601</u>
Other segment information extracted from the income statement and balance sheet:							
Capital expenditure	4,010	151	–	945	7	–	5,113
Depreciation	4,759	365	–	265	237	–	5,626
Impairment loss recognized in respect of leasehold properties	–	1,441	–	–	–	–	1,441
Amortization of goodwill	–	–	–	26	1,567	–	1,593
Amortization of computer software	–	–	–	211	–	–	211

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

5. SEGMENT INFORMATION (cont'd)

ii) Geographical segment

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

	Year ended 31st March,			
	2003		2002	
Segment	Contribution to operating revenue	profit (loss)	Segment revenue	Contribution to operating profit (loss)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Mainland China, excluding Hong Kong	233,751	16	181,275	10,292
Hong Kong	3,274	(3,413)	3,711	(5,466)
Others	8,571	(3,052)	4,374	(2,536)
	245,596		189,360	
(Loss) Profit from operations		(6,449)		2,290

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

	Year ended 31st March,			
	2003		2002	
Carrying amount of segment assets	Additions to fixed assets	Carrying amount of segment assets	Additions to fixed assets	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	
The Mainland China, excluding Hong Kong	127,506	2,323	155,022	3,886
Hong Kong	43,878	106	84,546	991
Singapore	53,146	–	30,800	–
Switzerland	22,112	–	17,623	28
Others	5,264	8	8,311	208
	251,906	2,437	296,302	5,113

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

6. OTHER OPERATING EXPENSES, NET

	2003 HK\$'000	2002 HK\$'000
Provision for bad and doubtful debts	3,944	1,554
Provision for diminution in value of properties held for resale	454	–
Provision for slow-moving inventories	8,685	4,635
Net unrealized loss on revaluation of investments in securities	873	1,121
Written back of provision for bad and doubtful debts	(59)	(696)
Written back of trade and other payables	(4,910)	(6,409)
	8,987	205

7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five years	1	5
Convertible notes	379	379
Other loan	–	32
	380	416
Convertible notes:		
Amortization of premium on redemption	972	972
Total borrowing costs	1,352	1,388

8. OTHER EXPENSES

	2003 HK\$'000	2002 HK\$'000
Impairment loss recognized in respect of investment securities	2,285	–
Impairment loss recognized in respect of goodwill	20,977	–
Impairment loss recognized in respect of leasehold properties	–	1,441
Write off of fixed assets	55	64
Amortization of goodwill	1,821	1,593
Exchange reserve transferred to income statement upon liquidation of a subsidiary	1,912	–
Profit on liquidation of subsidiaries	–	(1,143)
	27,050	1,955

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

9. LOSS BEFORE TAXATION

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

	2003	2002
	HK\$'000	HK\$'000
Crediting:		
Gross rental income from investment properties	4,443	3,967
Rental income from others, net of outgoings of Nil (2002: Nil)	615	570
Interest income from other than short-term bank deposits	331	886
Interest income from short-term bank deposits	626	1,420
Gross gain on sale of investments in securities – other investments	649	–
Dividend from listed securities	30	–
Net exchange gain	1,854	–
Charging:		
Auditors' remuneration	614	657
Depreciation on owned fixed assets	4,086	5,626
Amortization on		
Goodwill	1,821	1,593
Computer software	70	211
Impairment loss recognized in respect of leasehold properties	–	1,441
Impairment loss recognized in respect of investment securities	2,285	–
Impairment loss recognized in respect of goodwill	20,977	–
Loss on write off of fixed assets	55	64
Net exchange loss	–	365
Staff cost excluding directors' fees and emoluments (<i>Note 10</i>)	27,120	22,446
Operating lease rentals in respect of rented premises	19,781	15,152
Retirement benefits scheme contributions, net of forfeited contributions of HK\$Nil (2002: HK\$13,000)	431	421

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	449	701
Non-executive directors, including independent non-executive directors	600	750
Emoluments to executive directors		
– Salaries and benefits in kind	2,204	2,181
– Retirement benefits scheme contributions	56	66
	3,309	3,698

The emoluments of the directors were within the following bands:

	Number of director(s)	
	2003	2002
Up to HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	2	–
HK\$1,500,001 – HK\$2,000,000	–	1
	6	6

In addition to the above emoluments, certain directors had outstanding share options granted under the Company's 1997 Share Option Scheme as referred in note 26. Details of these benefits in kind are disclosed under the paragraph "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

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

Employees

The five highest paid individuals for the year included two (2002: two) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2002: three) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and benefits in kind	2,567	2,146
Performance related incentive payments	1,004	792
Retirement benefits scheme contributions	24	88
	3,595	3,026

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

10. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (cont'd)

Employees (cont'd)

The emoluments of the three (2002: three) individuals were within the following bands:

	Number of employee(s)	
	2003	2002
Up to HK\$1,000,000	1	2
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	–
	3	3

11. TAXATION

The charge comprises:

Taxation in other jurisdictions of the
Company and its subsidiaries

	2003 HK\$'000	2002 HK\$'000
	240	179

No provision for Hong Kong Profits Tax has been made for the year as the Company and its subsidiaries operating in Hong Kong have no assessable profit during the year under review. Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profit for the year.

Taxation in other jurisdictions has been calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 24 to the financial statements.

12. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of HK\$32,293,000 (2002: a profit of HK\$152,000), a loss of HK\$3,183,000 (2002: HK\$5,128,000) has been dealt with in the financial statements of the Company.

13. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2003 (2002: Nil).

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is computed based on the following data:

	2003	2002
(Loss) Earnings		
(Loss) earnings for the purpose of basic (loss) earnings per share	HK\$(32,293,000)	HK\$152,000
Number of shares		
Weighted average number of shares for the purpose of basic (loss) earnings per share	333,719,516	328,541,434
Basic (loss) earnings per share	(9.68 cents)	0.05 cent

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

15. INTANGIBLE ASSETS

The Group

	Goodwill HK\$'000	Computer software HK\$'000	Total HK\$'000
Cost			
At 1st April 2002 and 31st March 2003	36,415	281	36,696
Amortization			
At 1st April 2002	1,597	211	1,808
Provided for the year	1,821	70	1,891
Impairment loss recognized (<i>note</i>)	20,977	–	20,977
At 31st March 2003	24,395	281	24,676
Net book values			
At 31st March 2003	12,020	–	12,020
At 31st March 2002	34,818	70	34,888

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

Note: The Board, having taken into account, among other things, the prevailing uncertain and sluggish economic condition, the worldwide difficulties encountered in the information technology industry and a valuation report prepared by a professional valuer as at 31st March, 2003, has recognized an impairment loss of approximately HK\$20,977,000 in the income statement.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

16. FIXED ASSETS

The Group

	Investment properties	Leasehold properties	Furniture, fixtures and fittings	Leasehold improve- ments	Machinery and equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
At 1st April 2002	36,608	18,336	4,944	7,516	4,945	224	72,573
Currency realignment	-	-	-	-	22	-	22
Reclassification	2,431	(2,431)	-	-	-	-	-
Additions	-	-	113	1,639	685	-	2,437
Write off	-	-	(2)	(718)	(1,083)	-	(1,803)
Deficit arising from revaluation	(1,295)	-	-	-	-	-	(1,295)
Eliminated on revaluation	(364)	-	-	-	-	-	(364)
At 31st March 2003	37,380	15,905	5,055	8,437	4,569	224	71,570
Comprising:							
At cost	-	11,014	5,055	8,437	4,569	224	29,299
At valuation - 1995	-	4,891	-	-	-	-	4,891
At valuation - 2003	37,380	-	-	-	-	-	37,380
At 31st March 2003	37,380	15,905	5,055	8,437	4,569	224	71,570
Depreciation and amortization							
At 1st April 2002	-	9,383	4,696	4,258	3,260	78	21,675
Currency realignment	-	-	-	-	16	-	16
Reclassification	364	(364)	-	-	-	-	-
Provided for the year	-	195	90	2,834	922	45	4,086
Eliminated on write off	-	-	(1)	(672)	(1,075)	-	(1,748)
Eliminated on revaluation	(364)	-	-	-	-	-	(364)
At 31st March 2003	-	9,214	4,785	6,420	3,123	123	23,665
Net book values							
At 31st March 2003	37,380	6,691	270	2,017	1,446	101	47,905
At 31st March 2002	36,608	8,953	248	3,258	1,685	146	50,898

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

16. FIXED ASSETS (cont'd)

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

	2003		2002	
	Investment properties HK\$'000	Leasehold properties HK\$'000	Investment properties HK\$'000	Leasehold properties HK\$'000
In Hong Kong under long-term leases	13,030	1,535	14,900	1,601
Outside Hong Kong under medium term leases	24,350	5,156	21,708	7,352
	37,380	6,691	36,608	8,953

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, at 31st March, 2003 on an open market basis.

The Group's properties outside Hong Kong with carrying value of HK\$28,741,000 (2002: HK\$28,296,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and accumulated impairment losses, their carrying value at 31st March, 2003 would be approximately HK\$1,249,000 (2002: HK\$1,301,000).

17. INTERESTS IN SUBSIDIARIES

	The Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	320,837	320,837
Due from subsidiaries	819,089	810,362
Due to subsidiaries	(3,721)	(3,614)
	1,136,205	1,127,585
Provision for diminution in value	(826,845)	(826,845)
	309,360	300,740

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Particulars of the Company's principal subsidiaries as at 31st March, 2003 are as follows:

Name of subsidiary	Place of incorporation, establishment or registration/ operation	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK\$10,000	100%	–	Investment holding
Asia Commercial Enterprises Limited	Hong Kong/ The PRC	HK\$2	–	100%	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
Dongguan Asia Commercial Enterprises Limited ("DACEL")	The PRC	US\$6,500,000	–	100%	Watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewelry watches
Time City (Hong Kong) Limited	Hong Kong	HK\$3,000,000	–	100%	Watch trading
Asia Commercial Trading Limited	Hong Kong	HK\$100	100%	–	Securities investment holding
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Property holding and investment
Asia Commercial Investments Limited	British Virgin Islands/ Singapore	US\$1	100%	–	Securities investment holding

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

17. INTERESTS IN SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation, establishment or registration/ operation	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
上海冠亞鐘表有限公司	The PRC	RMB600,000	–	100%	Watch retailing and trading
KB Quest Holdings Limited	British Virgin Islands	US\$150,000	–	54%	Investment holding
KBQuest Hong Kong Limited	Hong Kong	HK\$1,950,000	–	54%	Sale and design of contract software programs

DACEL is a sino-foreign contractual joint venture established in the PRC. In the opinion of the Directors, the Group is able to govern and control the financial and operating policies and the Board of Directors of DACEL. Therefore, the Group continues to account for DACEL as a subsidiary.

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

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

18. INTEREST IN AN ASSOCIATE

	The Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	1,963	2,745

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

18. INTEREST IN AN ASSOCIATE (cont'd)

Particular of the Group's associate as at 31st March, 2003 is as follows:

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

19. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES

	Notes	The Group	
		2003 HK\$'000	2002 HK\$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	2,285	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	1,500	1,500
Club debentures		984	984
		4,769	4,769
Impairment loss recognized		(2,285)	–
Provision for diminution in value		(1,500)	(1,500)
		984	3,269

Notes:

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

20. INVESTMENTS IN SECURITIES – OTHER INVESTMENTS

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Debt securities				
– listed overseas	–	21,332	–	–
Equity securities				
– listed Hong Kong	1,770	1,980	–	–
– listed overseas	4,024	4,687	–	–
	5,794	6,667	–	–
	5,794	27,999	–	–

21. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK\$13,467,000 (2002: HK\$13,783,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	2003 HK\$'000	2002 HK\$'000
Trade receivables		
Up to 90 days	12,844	13,728
91 to 180 days	156	21
Over 180 days	467	34
	13,467	13,783
Other receivables, deposits and prepayments	9,589	10,770
	23,056	24,553

The Company did not have any trade receivables at 31st March, 2003 and 2002.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

22. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Included in trade and other payables and accrued charges are trade payables of HK\$10,676,000 (2002: HK\$17,620,000), the aged analysis of which at the balance sheet date is as follows:

	2003 HK\$'000	2002 HK\$'000
Trade payables		
Up to 90 days	9,511	17,106
91 to 180 days	598	10
Over 180 days	567	504
	10,676	17,620
Other payables and accrued charges	42,525	46,701
	53,201	64,321

The Company did not have any trade payables at 31st March, 2003 and 2002.

23. CONVERTIBLE NOTES

	The Group and the Company	
	2003 HK\$'000	2002 HK\$'000
Swiss Francs 11,800,000 7/8% Convertible Notes (the "Notes") due 2010, at par	61,912	61,912
Premium on redemption	5,993	5,021
Accrued interest	1,711	1,874
Interest paid during the year	(541)	(542)
	69,075	68,265

Under the original note agreement (as amended by the note moratorium on 19th February, 1997), holders of the Notes have the right at any time on or before 23rd February, 2010 to convert all or some of the Notes into shares of the Company at the conversion price of HK\$8.6 per share, subject to adjustment. Interest on the Notes is waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001 and the rate at which interest is charged on the Notes is 0.875% per annum for a period of nine years with effect from 23rd February, 2001. Interest is accrued over the revised duration of the Notes so as to produce a constant periodic rate of charge for each accounting period. The number of shares to be issued on conversion of a Note will be the principal amount of the Note (converted into Hong Kong dollars at a fixed rate of HK\$5.2468 to SFr.1.00) divided by the conversion price. The shares once converted will rank pari passu in all respects with the shares in issue at the date of conversion.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

23. CONVERTIBLE NOTES (cont'd)

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

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

24. DEFERRED TAXATION

A potential deferred tax asset of the Group estimated to be approximately HK\$57,000,000 (2002: HK\$58,000,000) in respect of the tax losses available to set off future profits has not been recognized in the financial statements as there is no certainty that the tax losses will be utilized in the foreseeable future.

Surpluses or deficits arising from the revaluation of the Group's investment and leasehold properties do not constitute timing differences for taxation purposes as any profit or loss realized on the subsequent disposal of these properties would not be subject to taxation.

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year under review or at 31st March, 2003 and 2002.

25. SHARE CAPITAL

	Number of shares	Value
	'000	HK\$'000
Ordinary shares of HK\$1 each		
Authorized:		
At 1st April, 2002 and 31st March, 2003	400,000	400,000
Issued and fully paid:		
At 1st April, 2002 and 31st March, 2003	333,719	333,719

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

26. SHARE OPTION SCHEMES

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

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

1997 Share Option Scheme

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

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

26. SHARE OPTION SCHEMES (cont'd)

1997 Share Option Scheme (cont'd)

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

	Number of options held at 01/04/2002 & 31/03/2003	Exercise price	Grant date	Exercise period
1. Directors				
Mr. Leung Chung Ping, Owen	3,000,000	HK\$1.00	24/09/1997	24/09/1997– 14/09/2007
Mr. Sum Pui Ying, Adrian	3,000,000	HK\$1.00	24/09/1997	24/09/1997– 14/09/2007
2. Continuous Contract Employees	1,400,000	HK\$1.00	24/09/1997	24/09/1999– 14/09/2007
	<u>7,400,000</u>			

No option was granted, exercised, cancelled or lapsed during the two years ended 31st March, 2003.

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

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

2002 Share Option Scheme

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

26. SHARE OPTION SCHEMES (cont'd)

2002 Share Option Scheme (cont'd)

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

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

26. SHARE OPTION SCHEMES (cont'd)

2002 Share Option Scheme (cont'd)

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

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

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

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

27. RESERVES

The Group

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1st April 2001	84	4,158	554	930	156,959	(337,038)	(174,353)
Deficit arising from valuation of investment properties	-	(514)	-	-	-	-	(514)
Reclassification	-	(188)	188	-	-	-	-
Net off with provision for impairment loss of leasehold properties	-	-	(46)	-	-	-	(46)
Excess depreciation on revalued properties	-	-	(18)	-	-	18	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	183	-	-	183
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	-	11	-	11
Profit for the year	-	-	-	-	-	152	152
Balance at 31st March 2002	84	3,456	678	1,113	156,970	(336,868)	(174,567)
Balance at 1st April 2002	84	3,456	678	1,113	156,970	(336,868)	(174,567)
Deficit arising from valuation of investment properties	-	(1,295)	-	-	-	-	(1,295)
Reclassification	-	95	(95)	-	-	-	-
Excess depreciation on revalued properties	-	-	(13)	-	-	13	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	1,228	-	-	1,228
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	1,912	-	-	1,912
Loss for the year	-	-	-	-	-	(32,293)	(32,293)
Balance at 31st March 2003	84	2,256	570	4,253	156,970	(369,148)	(205,015)
Attributable to:							
The Company and subsidiaries	84	2,256	570	4,249	156,970	(367,284)	(203,155)
Associate	-	-	-	4	-	(1,864)	(1,860)
	84	2,256	570	4,253	156,970	(369,148)	(205,015)

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

27. RESERVES (cont'd)

The Company

	Share premium	Accumulated	Total
	HK\$'000	losses	HK\$'000
		HK\$'000	HK\$'000
Balance at 1st April 2001	84	(86,335)	(86,251)
Loss for the year (<i>Note 12</i>)	–	(5,128)	(5,128)
Balance at 31st March 2002	84	(91,463)	(91,379)
Balance at 1st April 2002	84	(91,463)	(91,379)
Loss for the year (<i>Note 12</i>)	–	(3,183)	(3,183)
Balance at 31st March 2003	84	(94,646)	(94,562)

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

The Company did not have any reserves available for distribution at 31st March, 2003 and 2002.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

28. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH USED IN OPERATING ACTIVITIES

	2003 HK\$'000	2002 HK\$'000
Loss before taxation	(35,633)	(2,135)
Non-cash items		
– Other revenue	–	(1,399)
– Other operating expenses, net	8,987	205
– Other expenses	27,050	1,955
– Amortization of premium on redemption of convertible notes	972	972
Interest income from other than short-term bank deposits	(331)	(886)
Interest income from short-term bank deposits	(626)	(1,420)
Interest expenses	380	416
Depreciation and amortization	4,156	5,837
Share of results of an associate	782	1,082
Profit on disposal of investments in securities–other investments	(649)	–
Dividend from listed securities	(30)	–
Operating profit before working capital changes	5,058	4,627
Increase in inventories	(5,481)	(25,249)
Increase in trade and other receivables, deposits and prepayments	(1,558)	(7,020)
(Decrease) Increase in trade and other payables and accrued charges	(10,428)	16,236
Decrease in rental received in advance	(52)	(214)
Cash used in operations	(12,461)	(11,620)
Interest received from other than short-term bank deposits	239	377
Interest received from short-term bank deposits	645	1,468
Interest paid on bank loan and overdrafts	(1)	(5)
Overseas taxation paid	(246)	(178)
Net cash used in operating activities	(11,824)	(9,958)

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

29. ACQUISITION OF A SUBSIDIARY

The assets and liabilities arising from the Acquisition of a subsidiary are as follows:

	2003 HK\$'000	2002 HK\$'000
Share of net assets acquired	–	(6,182)
Purchase consideration	–	42,000
Goodwill	–	35,818

An analysis of the net cash inflow from this Acquisition is as follows:

	2003 HK\$'000	2002 HK\$'000
Net assets acquired:		
Goodwill	–	593
Amounts due from minority shareholders	–	792
Fixed assets	–	151
Trade and other receivables, deposits and prepayments	–	47
Bank balances and cash	–	10,093
Trade and other payables and accrued charges	–	(223)
Taxation	–	(5)
	–	11,448
Less: Amount attributable to minority interests	–	(5,266)
Goodwill	–	6,182
Consideration	–	42,000
Satisfied by:		
Issuance of shares	–	42,000
Cash consideration	–	–
Bank balances and cash acquired	–	10,093
Net cash inflow of cash and cash equivalents in respect of the purchase of a subsidiary	–	10,093

The subsidiary acquired in 2002 recorded HK\$2,784,000 and HK\$4,303,000 of the Group's turnover and operating loss respectively.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

30. NET CASH OUTFLOW FROM LIQUIDATION OF SUBSIDIARIES

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Trade and other receivables, deposits and prepayments	–	–
Bank balances and cash	–	–
Trade and other payables and accrued charges	–	(1,154)
	–	(1,154)
Reversal of goodwill written off upon liquidation of a subsidiary	–	11
	–	(1,143)
Profit on liquidation of subsidiaries	–	1,143
	–	–
Satisfied by:		
Cash consideration received	–	–

31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Convertible notes HK\$'000	Minority interests HK\$'000
At 1st April 2001	291,803	67,456	–
Issue of shares on acquisition of a subsidiary	42,000	–	–
Premium on redemption and interest accrued	–	1,351	–
Repayment of interest	–	(542)	–
Capital contributed by minority shareholders	–	–	538
Acquisition of a subsidiary	–	–	4,474
Share of currency translation reserve	–	–	3
Share of loss for the year	–	–	(2,466)
At 31st March 2002	333,803	68,265	2,549
At 1st April 2002	333,803	68,265	2,549
Premium on redemption and interest accrued	–	1,351	–
Repayment of interest	–	(541)	–
Share of loss for the year	–	–	(3,580)
At 31st March 2003	333,803	69,075	(1,031)

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

32. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) At 31st March, 2003, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11,000,000 (2002: HK\$11,000,000) to banks to secure general banking facilities granted to the Group. No banking facilities were utilized at 31st March, 2003 and 2002.
- (2) The Company is a nominal defendant of a derivative action brought by Galmare Investment Limited ("Galmare") with 2 Executive Directors on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. Galmare is seeking a declaration that the Acquisition is not in the best interests of the Company or the Shareholders, a declaration that the above Executive Directors are precluded from regarding the conditions precedent to completion from having been complied with, damages against the Executive Directors and other appropriate declarations or further ancillary reliefs. As the Company is only joined as a party to these proceedings as a nominal defendant to a derivative action, the role of the Company is limited i.e. not to take any active role in the proceedings and any damages recovered in such Action are paid to the Company directly. Pursuant to the Court Order made on 4th January, 2002 the Company is granted a leave to dispense with the filing and service of a defence in relation to the Action. The Board does not anticipate any significant adverse financial effect to the Company up to the date of this report.

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

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

- (b) On 23rd August, 1999, the Group completed the disposal of its interests in the Lakeview Project (the "Disposal"), a property development operation in the Mainland China. In accordance with the original agreement of the Disposal, which was modified with supplemental agreements, an amount of maximum up to HK\$76,500,000 would be made to 2 Group's subsidiaries gradually and treated as gain in the financial statements from time to time according to the time schedule in obtaining the land use rights within 10 years from the date of completion in respect of the non-vested land. The details of the Disposal are set out in the Company's circulars dated 14th December, 1998 and 23rd August, 1999. If no such land use rights are granted in respect of the non-vested land, the above-mentioned amount will not be recognized. Nevertheless, the Company would closely monitor the status of process of the issuance of such land use right certificate during the 10 years from the date of completion in respect of the non-vested land.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

33. RELATED PARTY TRANSACTIONS AND BALANCES

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

- (1) Summary of income and expenses items

	Income (Expenses)	
	2003 HK\$'000	2002 HK\$'000
Interest income from a minority shareholder who is also a director, of a former subsidiary	129	442
Provision for interest receivable from the above mentioned minority shareholder of a former subsidiary	(129)	(442)
Sales of programming software and related consultancy services to a substantial shareholder of the Company	–	991

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

	The Group		The Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade and other receivables, deposits and prepayments	302	302	–	–

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

34. PLEDGE OF ASSETS

At 31st March, 2003, certain of the Group's investment properties and leasehold properties with carrying value of approximately HK\$13,030,000 (2002: HK\$ 14,900,000) and HK\$1,535,000 (2002: HK\$ 1,601,000) respectively were pledged to secure the general banking facilities to the extent of HK\$11,000,000.

At 31st March, 2003 and 2002, the Company had not pledged any assets.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

35. OPERATING LEASE ARRANGEMENTS

As lessor

Property rental income earned during the year was HK\$4,443,000 (2002: HK\$3,967,000). The property held has committed tenants, whose tenancy agreements includes paying security deposits, expire or are terminable ranging from 1 to 9 years.

At 31st March, 2003, the Group had contracted with tenants for the following future minimum lease payments:

	2003 HK\$'000	2002 HK\$'000
Within one year	3,671	3,892
In the second to fifth years inclusive	6,605	8,257
After the fifth year	1,738	3,128
	12,014	15,277

As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from 6 months to 5 years. Certain rentals for the use of retail outlets are determined by reference to the revenue of the relevant outlets for the year and the rentals for certain retail outlets will be escalated by a fixed percentage per annum.

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

	2003 HK\$'000	2002 HK\$'000
Within one year	8,231	12,900
In the second to fifth years inclusive	6,843	14,676
After the fifth year	-	41
	15,074	27,617

The Company had no operating lease arrangements at 31st March, 2003 and 2002.

Notes to Financial Statements (cont'd)

Year ended 31st March, 2003

36. RETIREMENT BENEFITS SCHEME

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

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

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

The amount of unvested benefits utilized by the Group to reduce contributions is nil during the year. The amount of unvested benefits available for future reduction of employer's contribution as at 31st March, 2003 is approximately HK\$273,000 (2002: HK\$334,000)

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.