

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activities of the Group are the manufacture, assembly and sale of electronic watches, trading of watch movements and watch parts and property development and investment.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

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 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 have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

Any premium or discount arising on the acquisition of an interest in a jointly controlled entity, representing the excess or shortfall respectively of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets of the jointly controlled entity at the date of acquisition, is dealt with in the same manner as that described above for goodwill.

On disposal of investments in subsidiaries or jointly controlled entities, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary or jointly controlled entity.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control.

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Joint venture (continued)**

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of net assets of the jointly controlled entities. The Group's share of post-acquisition results of jointly controlled entities is included in the consolidated income statement.

Revenue recognition

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

Income from properties developed for sale is recognised on the execution of a binding sales agreement.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight-line basis over the respective lease terms.

Profit or loss on trading in securities is recognised on a trade date basis when a sale and purchase contract is entered into.

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

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any valuation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a revaluation decrease, in which case the excess of the valuation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment other than properties under development are stated at cost less depreciation. 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. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. 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 asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising on the 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.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of property, plant and equipment other than properties under development over their estimated useful lives after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Freehold land	Nil
Leasehold land	Over the terms of the leases
Buildings	Over the shorter of the terms of leases, or 50 years
Leasehold improvements	20% - 33 $\frac{1}{3}$ %
Plant and machinery	25%
Motor vehicles	25%
Vessels	10%
Furniture, fixtures and office equipment	14.3% - 25%
Tools and moulds	33 $\frac{1}{3}$ % - 100%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the terms of the leases.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the dates of acquisitions. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

Development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation, subject to a maximum of five years.

Properties under development for long-term investment

Property under development for long-term investment purposes is stated at cost which includes the cost of land, development expenditure, other attributable expenses and capitalised borrowing costs incurred less any impairment loss recognised.

Properties under development for sale

Properties under development for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost includes the cost of land, development expenditure, other attributable expenses and capitalised borrowing costs. Net realisable value is determined by the directors, based on prevailing market conditions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Investments in securities**

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

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

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 net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Inventory of unsold properties

Completed properties remaining unsold at the year end are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and development costs attributable to the unsold properties. Net realisable value is determined by reference to sale proceeds of properties sold in the ordinary course of business less all estimated selling expenses or by management estimates based on prevailing market conditions.

Retirement benefit scheme

The pension costs charged to the income statement represent the contributions payable in respect of the current year to the Group's retirement benefit scheme.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the dates of the advances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

3. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers, proceeds from sales of properties and property rental income during the year. The following is an analysis of the Group's turnover and contribution to loss from operations by principal activity and geographical segment:

	Turnover		Contribution to loss from operations	
	2001 HK\$	2000 HK\$	2001 HK\$	2000 HK\$
By principal activity:				
Manufacture, assembly and sale of electronic watches	359,556,368	358,055,690	40,054,884	51,570,133
Trading of watch movements and watch parts	427,560,573	474,579,185	15,446,273	(13,438,235)
Property development	398,000,000	395,000,000	(4,457,989)	(44,524,070)
Property investment	3,839,230	689,935	(69,177,148)	(940,746)
Others	–	2,452,771	(2,214,182)	(3,845,500)
	<u>1,188,956,171</u>	<u>1,230,777,581</u>	<u>(20,348,162)</u>	<u>(11,178,418)</u>
By geographical segment:				
Hong Kong	852,172,489	911,693,991	(49,035,710)	(52,169,548)
North America	234,079,920	266,499,978	23,020,024	36,060,000
Europe	90,110,390	37,446,980	5,456,186	2,426,154
Others	12,593,372	15,136,632	211,338	2,504,976
	<u>1,188,956,171</u>	<u>1,230,777,581</u>	<u>(20,348,162)</u>	<u>(11,178,418)</u>

4. OTHER REVENUE

	2001 HK\$	2000 HK\$
Bank interest income	3,201,909	3,841,905
Net exchange gain	5,433,669	2,584,870
Gain on disposal of property, plant and equipment	–	44,975
Sundry income	574,419	1,064,974
	<u>9,209,997</u>	<u>7,536,724</u>

5. OTHER OPERATING EXPENSES

	2001 HK\$	2000 HK\$
Provision for impairment loss on property under development for long term investment	3,456,272	3,151,552
Provision for properties under development for sales contracted to be sold	–	35,530,000
	<u>3,456,272</u>	<u>38,681,552</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

6. LOSS FROM OPERATIONS

	2001	2000
	HK\$	HK\$
Loss from operations has been arrived at after charging:		
Depreciation of:		
Owned assets	15,725,337	20,079,127
Assets held under finance leases	3,163,016	3,945,775
	18,888,353	24,024,902
Amortisation of development costs	300,000	4,736,902
Auditors' remuneration	994,500	945,070
Operating lease charges on land and buildings	1,801,876	325,256
Staff costs	100,193,397	73,556,928
Less: Amount capitalised to properties under development	(18,468,982)	(18,523,097)
	81,724,415	55,033,831
Write-off of development costs	–	2,474,880
Loss on disposal of property, plant and equipment	801,395	–
and after crediting:		
Gross rental income from investment properties	3,839,230	689,935
Less: Outgoings	(519,888)	(20,949)
Net rental income from investment properties	3,319,342	668,986

Operating lease charges in respect of staff quarters amounting to HK\$3,358,507 (2000: HK\$Nil) are included in staff costs.

7. FINANCE COSTS

	2001	2000
	HK\$	HK\$
Interest on:		
Bank loans and overdrafts		
Wholly repayable within five years	25,587,886	22,175,494
Not wholly repayable within five years	14,162,581	13,610,006
Obligations under finance leases	1,106,630	797,472
	40,857,097	36,582,972
Total borrowing costs	40,857,097	36,582,972
Less: Amount capitalised to properties under development	(16,026,118)	(12,625,939)
	24,830,979	23,957,033

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001	2000
	HK\$	HK\$
Fees		
Executive directors	250,000	250,000
Independent non-executive directors	350,000	100,000
	600,000	350,000
Other emoluments (executive directors)		
Salaries and other benefits	18,907,985	18,535,760
	19,507,985	18,885,760

Included in salaries and other benefits is an amount of HK\$4,025,785 (2000: HK\$3,528,385) in respect of accommodation provided to the directors of the Company.

The emoluments of the directors are within the following bands:

	Number of directors	
	2001	2000
HK\$ nil – HK\$1,000,000	3	2
HK\$2,000,001 – HK\$2,500,000	–	1
HK\$3,000,001 – HK\$3,500,000	3	2
HK\$4,000,001 – HK\$4,500,000	1	1
HK\$4,500,001 – HK\$5,000,000	1	1
	8	7

(b) Employees' emoluments

The five top paid employees are all executive directors of the Group whose emoluments have been disclosed in note (a) above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

9. TAXATION

	2001 HK\$	2000 HK\$
The (charge) credit comprises:		
Hong Kong Profits Tax		
Provision for the year	(3,803,254)	(2,252,058)
(Under)overprovision in prior years	(8,101,209)	1,054,161
Tax refund	543,591	40,119
	(11,360,872)	(1,157,778)
Other jurisdictions	(616,091)	(1,454)
	(11,976,963)	(1,159,232)
Deferred taxation (note 27)	121,061	361,058
	(11,855,902)	(798,174)

Hong Kong Profits Tax is calculated at 16% (2000: 16%) on the estimated assessable profit for the year.

Tax refund represented 10% of 1997/98 profits tax refunded under Section 87 of Inland Revenue Ordinance.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

On 8th December, 1999, the Inland Revenue Department (“IRD”) commenced a review of the accounting records of certain subsidiaries of the Group. The directors understand that the principal scope of the IRD review is in respect of the deductibility of certain expenses for the period from 1st April, 1993 to 31st March, 1999. The IRD has completed the review and issued notices of assessment/revised assessment on certain subsidiaries of the Company on 29th June, 2001 amounting to HK\$9,609,260, which has been included in the underprovision in prior years above.

10. NET LOSS FOR THE YEAR

Of the Group’s net loss for the year of HK\$38,975,888 (2000: HK\$35,933,625), a profit of HK\$517,743 (2000: a loss of HK\$2,085,558) has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

The calculation of loss per share is based on the net loss for the year of HK\$38,975,888 (2000: HK\$35,933,625) and on the weighted average number of 1,175,184,838 (2000: 1,179,337,928) shares in issue during the year.

12. INVESTMENT PROPERTIES

	THE GROUP HK\$
At 1st April, 2000	57,500,000
Additions	43,114,654
Transferred from leasehold land and buildings	176,959,185
Transferred to inventory of unsold properties	(43,000,000)
Revaluation decrease	(63,773,839)
	170,800,000
At 31st March, 2001	170,800,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

12. INVESTMENT PROPERTIES (CONTINUED)

Investment properties were valued at their open market values at 31st March, 2001 by Messrs. Debenham Tie Leung, Chartered Surveyors, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$63,773,839, for which HK\$60,225,467 has been charged to the income statement and HK\$3,548,372 has been charged to the investment property revaluation reserve, respectively.

The carrying amount of investment properties comprises leasehold land and buildings in Hong Kong as follows:

	THE GROUP	
	2001	2000
	HK\$	HK\$
Long leases	170,800,000	14,500,000
Medium-term leases	–	43,000,000
	<u>170,800,000</u>	<u>57,500,000</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings in Hong Kong held under long leases <i>HK\$</i>	Overseas freehold land and buildings <i>HK\$</i>	Overseas land and buildings held under medium- term leases <i>HK\$</i>	Leasehold improvements <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Motor vehicles and vessels <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Tools and moulds <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP COST									
At 1st April, 2000	243,743,277	17,189,403	6,711,647	19,476,271	42,400,693	22,640,235	48,851,765	43,385,817	444,399,108
Exchange difference	–	(845,399)	(378,026)	(29,737)	–	–	(24,858)	–	(1,278,020)
Additions	–	–	4,523,717	11,155,076	9,561,679	461,787	3,669,651	523,930	29,895,840
Disposals	–	–	(1,698,255)	(659,092)	(88,000)	(638,000)	(209,711)	–	(3,293,058)
Transferred to investment properties	(186,052,408)	–	–	–	–	–	–	–	(186,052,408)
At 31st March, 2001	<u>57,690,869</u>	<u>16,344,004</u>	<u>9,159,083</u>	<u>29,942,518</u>	<u>51,874,372</u>	<u>22,464,022</u>	<u>52,286,847</u>	<u>43,909,747</u>	<u>283,671,462</u>
DEPRECIATION									
At 1st April, 2000	12,784,574	361,411	1,603,429	17,873,409	29,763,102	14,380,033	35,224,611	41,428,270	153,418,839
Exchange difference	–	(4,678)	(63,596)	(5,636)	–	–	(22,742)	–	(96,652)
Provided for the year	2,062,442	142,489	189,783	3,093,215	5,619,713	3,837,849	2,905,000	1,037,862	18,888,353
Eliminated on disposals	–	–	(249,180)	(350,570)	(88,000)	(451,917)	(208,022)	–	(1,347,689)
Transferred to investment properties	(9,093,223)	–	–	–	–	–	–	–	(9,093,223)
At 31st March, 2001	<u>5,753,793</u>	<u>499,222</u>	<u>1,480,436</u>	<u>20,610,418</u>	<u>35,294,815</u>	<u>17,765,965</u>	<u>37,898,847</u>	<u>42,466,132</u>	<u>161,769,628</u>
NET BOOK VALUES									
At 31st March, 2001	<u>51,937,076</u>	<u>15,844,782</u>	<u>7,678,647</u>	<u>9,332,100</u>	<u>16,579,557</u>	<u>4,698,057</u>	<u>14,388,000</u>	<u>1,443,615</u>	<u>121,901,834</u>
At 31st March, 2000	<u>230,958,703</u>	<u>16,827,992</u>	<u>5,108,218</u>	<u>1,602,862</u>	<u>12,637,591</u>	<u>8,260,202</u>	<u>13,627,154</u>	<u>1,957,547</u>	<u>290,980,269</u>

Note: At 31st March, 2001, the net book values of property, plant and equipment includes an amount of HK\$10,907,229 (2000: HK\$8,668,759) in respect of assets held under finance leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

14. PROPERTIES UNDER DEVELOPMENT

	In Hong Kong held under long lease HK\$	Overseas freehold land HK\$	Total HK\$
THE GROUP			
At 1st April, 2000	137,748,745	82,353,026	220,101,771
Additions	132,476,521	3,456,272	135,932,793
Provision for impairment loss	–	(3,456,272)	(3,456,272)
On disposal of a subsidiary	(270,225,266)	–	(270,225,266)
Exchange difference	–	(6,035,600)	(6,035,600)
	<hr/>	<hr/>	<hr/>
At 31st March, 2001	<u>–</u>	<u>76,317,426</u>	<u>76,317,426</u>

At 31st March, 2001, interest of HK\$2,262,594 (2000: HK\$1,879,249) was capitalised to properties under development.

15. DEVELOPMENT COSTS

HK\$

THE GROUP COST	
At 1st April, 2000	1,940,427
Additions	195,000
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At 31st March, 2001	<u>2,135,427</u>
AMORTISATION	
At 1st April, 2000	1,233,990
Provided for the year	300,000
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At 31st March, 2001	<u>1,533,990</u>
NET BOOK VALUES	
At 31st March, 2001	<u>601,437</u>
At 31st March, 2000	<u>706,437</u>

16. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$	2000 HK\$
Unlisted shares, at cost	228,042,362	228,042,362
Amounts due from subsidiaries	33,792,833	34,004,919
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	<u>261,835,195</u>	<u>262,047,281</u>

In the opinion of the directors, the amounts due from subsidiaries are not repayable in the next twelve month period and, accordingly, the amounts are classified as non-current.

For the year ended 31st March, 2001

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place/country of incorporation/ operations	Issued share capital	Principal activities
<i>Direct subsidiary</i>			
National Electronics (Consolidated) Limited	Hong Kong	4,000 ordinary shares of HK\$0.25 each	Investment holding and trading of electronic products
National Properties Holdings Limited	Hong Kong	100 ordinary shares of HK\$1 each	Investment holding and property management
<i>Indirect subsidiary</i>			
Batilone Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property leasing
Brady Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Camy S.A.	Switzerland	1,500 ordinary shares of SFR 1,000 each	Manufacture and sale of analogue watches
Charteray International Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property investment
Cherish Limited	Hong Kong	100 ordinary shares of HK\$1 each	Property trading
Chirac Limited	Hong Kong	10 ordinary shares of HK\$10 each	Investment holding
Cinic Limited	Hong Kong	2 ordinary shares of HK\$1 each	Property investment
Duprey Limited	Hong Kong	100 ordinary shares of HK\$10 each	Trading of electronic products
Eastbond (Hong Kong) Limited	Hong Kong	10 ordinary shares of HK\$1 each	Manufacture and sale of plastic products
Eastern Mount Limited	Hong Kong	2 ordinary shares of HK\$1 each	Investment holding and subcontracting of electronic products in the People's Republic of China
Espadon S.A.	Switzerland	Total capital of SFR 200,000	Watch trading
Majorell Limited	Hong Kong	100 ordinary shares of HK\$10 each	Property investment and investment holding