

1. GENERAL

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

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 34 to the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities, as further explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

Basis of consolidation

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

All significant inter-company transactions and balances between the Group enterprises have been eliminated on consolidation.

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.

Goodwill

Goodwill or capital reserve arising acquisition of subsidiary, which represents the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of the subsidiary acquired at date of acquisition, is written off or credited directly to reserves respectively.

On disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

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 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 less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)Fixed assets and depreciation

Fixed assets are stated at cost or valuation 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 fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale 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.

Depreciation is provided to write off the cost or valuation of fixed assets over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of lease
Buildings	2% – 4%
Other assets	20%

Intangible assets

Intangible assets are stated at cost less any provision for irrecoverable amount considered by the Directors.

The cost of acquiring technical know-how in connection with product development for the licensed products manufactured by the Group are capitalised as intangible assets, and are amortised on a straight line basis over the terms of the relevant licences.

The cost of licences represents the upfront cost payable and is amortised on a straight line basis from the date of commencement of its economic use to the end of the terms of the licences.

Foreign currencies

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in securities

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

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

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, comprises all direct materials and, where applicable, direct labour costs and those overheads which have been incurred in bringing the inventories to their present location and condition, cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Leases

Leases are classified as finance leases whenever the terms of the leases 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 date of acquisition. 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 outstanding principal amount at the inception of the finance leases, are charged to the income statement over the period of the relevant lease 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 term.

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 resulting timing differences computed under the liability method, are recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Revenue recognition**

Sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when the services are rendered.

Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Operating leases

Rentals receivable and payable under operating leases are accounted for in the income statement on a straight line basis over the periods of the respective leases.

Retirement benefits schemes

Payments to defined contribution plans are charged as expenses as they fall due.

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 date of the advance.

Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

3. TURNOVER

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, by the Group to outside customers during the year.

	2001 HK\$'000	2000 HK\$'000
Continuing operation		
Timepieces	852,379	813,039
Discontinued operation		
General trading	–	8,116
Total turnover	852,379	821,155

4. RELATED PARTY AND CONNECTED TRANSACTIONS

EganaGoldpfeil, which beneficially owns 16.5% of the share capital of the Company, has been a substantial shareholder of the Company pursuant to the Listing Rules. Accordingly, the trading transactions between the Group and EganaGoldpfeil constitute connected transactions of the Company under the Listing Rules. In February 2000, a conditional waiver from strict compliance with the Listing Rules in respect of the trading transactions has been granted by the Stock Exchange for three financial years of the Company starting from the year commencing 1st April, 2000.

In addition to those related party transactions set out elsewhere in these financial statements, the Group had the following material transactions with its related parties as defined in note 2 during the year:

- (a) During the year, the Group had the following material transactions with its related companies:

	Notes	2001 HK\$'000	2000 HK\$'000
Sale of goods to EganaGoldpfeil and its subsidiaries	(i)	20,056	255,052
Purchase of raw materials from EganaGoldpfeil and its subsidiaries	(i)	3,104	79,991
Rental income from a subsidiary of EganaGoldpfeil	(ii)	833	960
Re-packing fees paid to EganaGoldpfeil	(iii)	407	–

- (b) At the balance sheet date, a total amount of approximately HK\$5,036,000 (2000: HK\$32,603,000) due from EganaGoldpfeil and its subsidiaries was included in trade receivables. The amount is trade in nature and is based on normal commercial terms.

Notes:

- (i) Sale and purchase transactions with EganaGoldpfeil and its subsidiaries were in relation to the Group's watch and clock division and were effected on normal commercial terms.
- (ii) The rental income is in relation to the letting of the factory premises of the Group in the PRC for the production activities of EganaGoldpfeil's leather business. The rental income was negotiated on arm's length basis.
- (iii) The re-packing fees are paid to EganaGoldpfeil for the re-packing of returned goods. The fees were negotiated on arm's length basis.

5. OTHER REVENUE

	2001 HK\$'000	2000 HK\$'000
Other revenue comprises:		
Rental income	872	1,084
Interest income	3,435	3,091
Management income	48	200
Subcontracting income	–	494
Claims received	153	235
Dividend income from investments in securities	1,574	598
Gain on disposal of fixed assets	–	20
Gain on disposal of investments in securities	–	18,592
Gain on disposal of intangible assets	7,400	–
Exchange gain	1,346	–
Sundry income	1,547	1,621
	16,375	25,935

6. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Depreciation		
Owned assets	20,942	10,285
Assets under finance leases	2,381	1,485
Amortisation of intangible assets	10,845	20,190
Auditors' remuneration	742	698
Rental of premises under operating leases	379	89
Retirement benefits scheme contributions	622	647
Loss on disposal of investment securities	6,674	–
Loss on disposal of fixed assets	52	–
Staff costs (including directors' and employees' emoluments as stated in note 9 below)	33,222	28,390
Write off of current assets	10,866	12,669

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7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank loans, syndicated loan and bank overdrafts wholly repayable within five years	12,260	9,970
Obligations under finance leases	401	405
	12,661	10,375

8. OTHER EXPENSES

Other expenses comprise all the expenses regarding the discontinued operations:

	2001 HK\$'000	2000 HK\$'000
Write off of investment in an associate	–	7,500
Write off of fixed assets	–	47
Write off of current assets	–	35,683
	–	43,230

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	–	–
Non-executive	150	150
	150	150
Other emoluments (executive directors):		
Salaries and other benefits	4,170	3,728
Pension scheme contributions	198	162
	4,368	3,890
	4,518	4,040

All of the Directors' emoluments were in the range of Nil to HK\$1,000,000.

9. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31st March, 2001, the five highest paid individuals included three Directors (for the year ended 31st March, 2000, the five highest paid individuals included three Directors), details of whose emoluments are set out in note 9(a) to the financial statements above. The emoluments of the two remaining individuals for the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	919	878
Pension scheme contributions	38	39
	957	917

The emoluments of these two individuals were in the range of Nil to HK\$1,000,000.

10. TAXATION

(a) Taxation in the consolidated income statement represents:

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax:		
Current year	2,526	1,293
Underprovision in prior years	–	92
Deferred taxation	1,720	–
	4,246	1,385

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

Details of deferred taxation are set out in note 25 to the financial statements.

(b) Tax recoverable in the consolidated balance sheet represents:

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax:		
Provision for current year	(4,246)	(1,293)
Over-provision relating to prior years	4,515	6,958
	269	5,665

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders, a loss of HK\$1,781,000 (2000: HK\$3,717,000) has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the net profit attributable to shareholders for the year of approximately HK\$34,958,000 (2000: HK\$17,224,000) and the weighted average number of 3,634,098,361 (2000: 2,993,105,532) shares in issue during the year.

(b) Diluted earnings per share

There is no diluted earnings per share for the years ended 31st March, 2001 and 31st March, 2000 presented since the Company has no dilutive potential ordinary shares.

13. FIXED ASSETS

	Properties under construction HK\$'000	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At 1st April, 2000	-	70,164	36,072	13,206	63,701	4,180	187,323
Addition	26,312	36,000	29,183	1,123	26,454	1,232	120,304
Disposal	-	-	-	-	-	(598)	(598)
At 31st March, 2001	26,312	106,164	65,255	14,329	90,155	4,814	307,029
Comprising:							
At valuation	-	14,000	-	-	-	-	14,000
At cost	26,312	92,164	65,255	14,329	90,155	4,814	293,029
	26,312	106,164	65,255	14,329	90,155	4,814	307,029
DEPRECIATION							
At 1st April, 2000	-	4,888	6,855	8,221	21,288	2,056	43,308
Provided for the year	-	2,064	4,531	1,804	14,218	706	23,323
Eliminated on disposal	-	-	-	-	-	(315)	(315)
At 31st March, 2001	-	6,952	11,386	10,025	35,506	2,447	66,316
NET BOOK VALUE							
At 31st March, 2001	26,312	99,212	53,869	4,304	54,649	2,367	240,713
At 31st March, 2000	-	65,276	29,217	4,985	42,413	2,124	144,015

One of the leasehold properties of the Group was revalued as at 31st March, 1995, on an open market value basis by Messrs. Jones Lang Wootton Limited, independent registered surveyors.

At 31st March, 2001, had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$90,321,000 (2000: HK\$55,041,000).

13. FIXED ASSETS (Continued)

The carrying value of properties held by the Group comprises:

	2001 HK\$'000	2000 HK\$'000
Leasehold properties:		
Held in Hong Kong, medium-term lease	16,675	17,115
Held in People's Republic of China, medium-term lease	82,537	48,161
	99,212	65,276

The net book value of the Group's fixed assets includes an aggregate amount of HK\$1,259,000 (2000: HK\$8,370,000) in respect of assets held under finance leases.

14. INTANGIBLE ASSETS

	Technical know-how HK\$'000	Licence HK\$'000	Total HK\$'000
COST			
At 1st April, 2000	27,145	27,600	54,745
Addition	–	34,000	34,000
Disposal	(20,000)	(46,600)	(66,600)
At 31st March, 2001	7,145	15,000	22,145
AMORTISATION			
At 1st April, 2000	18,967	4,341	23,308
Provided for the year	5,847	4,998	10,845
Eliminated on disposal	(20,000)	–	(20,000)
At 31st March, 2001	4,814	9,339	14,153
NET BOOK VALUE			
At 31st March, 2001	2,331	5,661	7,992
At 31st March, 2000	8,178	23,259	31,437

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15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	51,398	51,398

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 34 to the financial statements.

16. INVESTMENTS IN SECURITIES

	2001 HK\$'000	2000 HK\$'000
Equity securities:		
Listed in Hong Kong, at cost	40,906	52,823
Unrealised holding (loss) gain	(17,907)	11,472
At market value	22,999	64,295

17. INVENTORIES

	2001 HK\$'000	2000 HK\$'000
Raw materials	44,713	59,269
Work in progress	33,342	6,391
Finished goods	47,743	57,885
	125,798	123,545

18. TRADE AND OTHER RECEIVABLES

The Group has extended an average credit period of 90-120 days to its trade customers. Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	2001 HK\$'000	2000 HK\$'000
Trade receivables:		
0-3 months	101,004	141,106
4-6 months	12,918	23,829
Deposits, prepayments and other receivables (a)	113,922	164,935
Short term investment deposit (b)	128,301	11,546
	25,000	–
	267,223	176,481

18. TRADE AND OTHER RECEIVABLES (Continued)

- (a) During the year, an amount of HK\$42,000,000 had been paid to a Swiss company for the purchases of inventories for the provision of after-sale services. As the Group decided not to proceed with the project, the amount was fully refunded after the year end date.

An amount of HK\$20,000,000 was receivable from a company for selling back the remote control technology for watches. The amount was fully repaid subsequent to the year end.

During the year, the Group advanced an aggregate amount of approximately HK\$39,000,000 to a Japanese distributor for financing the joint development of the distribution network in Japan. The advance was negotiated on an arm's length basis and interest was calculated on normal commercial term. The term was one year from the dates of advances.

- (b) A refundable escrow money of HK\$25,000,000 was paid to an US based investment fund for direct investment. As the Group subsequently withdrew from the investment, the escrow money together with interest calculated at 8% per annum were settled subsequent to year end date.

19. TRADE AND OTHER PAYABLES

Included in trade and other payables are creditors with the following ageing analysis:

	2001 HK\$'000	2000 HK\$'000
Trade payables:		
0-3 months	19,342	31,204
4-6 months	4,536	4,254
Accruals and other payables	23,878 11,633	35,458 5,874
	35,511	41,332

20. SHARE CAPITAL

	Number of shares	Value HK\$'000
Shares of HK\$0.10 each		
Authorised:		
At 31st March, 2000 and 31st March, 2001	6,000,000,000	600,000
Issued and fully paid:		
At 1st April, 1999	2,969,723,019	296,972
Exercise of share option subscription rights	112,000,000	11,200
At 31st March, 2000	3,081,723,019	308,172
Placement of new shares	596,500,000	59,650
At 31st March, 2001	3,678,223,019	367,822

20. SHARE CAPITAL (Continued)

The Directors of the Company entered into an agreement with Upbest Securities Company Limited ("Upbest"), an independent third party as the placing agent on 28th April, 2000 for a placement of 596,500,000 new shares (the "Placement Shares") of HK\$0.10 each in the Company at a price of HK\$0.10 per Placement Share with independent private and professional institutional investors (the "Placement"). The Placement was fully underwritten by Upbest.

The Placement Shares represented approximately 19.4% of the originally existed issued share capital of the Company and approximately 16.2% of the then issued share capital of the Company as enlarged by the Placement. The Listing Committee of The Stock Exchange of Hong Kong Limited granted the listing of, and permission to deal in, the Placement Shares.

21. SHARE OPTION SCHEME

Pursuant to a share option scheme (the "Scheme") which was adopted on 15th January, 1993, the Directors of the Company may, at their discretion, grant options to full time employees including Directors of the Company or any of its subsidiaries, to subscribe for shares in the Company at a price being not less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of grant of the options or the nominal value of the shares whichever is the higher. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

On 4th June, 1997, options to subscribe for 149,000,000 shares in the Company were granted to certain directors and eligible employees, which are exercisable from 4th December, 1997 to 3rd December, 2000 at an exercisable price of HK\$0.177 per share (subject to adjustment under the terms of the Scheme). All the then outstanding share options of a total of 13,500,000 shares expired on 3rd December, 2000.

On 8th October, 1999, further share options under the Scheme to subscribe for 149,300,000 shares in the Company were granted to certain directors and eligible employees, which are exercisable from 8th April, 2000 to 7th April, 2003 at an exercisable price of HK\$0.10 per share (subject to adjustment under the terms of the Scheme).

During the year, no share options were exercised out of these share options granted.

22. RESERVES

	Share premium HK\$'000	Merger deficit HK\$'000	Capital reserve (Goodwill) HK\$'000	Contributed surplus HK\$'000	Leasehold property revaluation reserve HK\$'000	Other reserve HK\$'000	Retained profits (Accumulated losses) HK\$'000	Total HK\$'000
THE GROUP								
At 1st April, 1999	34,631	(11,988)	19,998	-	5,466	-	51,014	99,121
Premium on shares issued upon exercise of share options	8,624	-	-	-	-	-	-	8,624
Reserve arising from acquisition of subsidiaries	-	-	3,848	-	-	-	-	3,848
Unrealised holding gain of investments in securities	-	-	-	-	-	11,472	-	11,472
Profit for the year	-	-	-	-	-	-	17,224	17,224
At 31st March, 2000	43,255	(11,988)	23,846	-	5,466	11,472	68,238	140,289
Subsequent valuation adjustment to goodwill	-	-	(7,369)	-	-	-	-	(7,369)
Eliminate goodwill arising on consolidation of subsidiaries	-	-	(45,264)	-	-	-	-	(45,264)
Net unrealised holding loss of investments in securities	-	-	-	-	-	(29,379)	-	(29,379)
Profit for the year	-	-	-	-	-	-	34,958	34,958
At 31st March, 2001	43,255	(11,988)	(28,787)	-	5,466	(17,907)	103,196	93,235
THE COMPANY								
At 1st April, 1999	34,631	-	-	39,399	-	-	(1,781)	72,249
Premium on shares issued upon exercise of share options	8,624	-	-	-	-	-	-	8,624
Loss for the year	-	-	-	-	-	-	(3,717)	(3,717)
At 31st March, 2000	43,255	-	-	39,399	-	-	(5,498)	77,156
Loss for the year	-	-	-	-	-	-	(1,781)	(1,781)
At 31st March, 2001	43,255	-	-	39,399	-	-	(7,279)	75,375

The capital reserve (goodwill) represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of the subsidiaries acquired.

22. RESERVES (Continued)

The merger deficit represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

The other reserve represents the amount of unrealised holding loss from the non-current investments in securities.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

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

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	2001 HK\$'000	2000 HK\$'000
Contributed surplus	39,399	39,399
Accumulated losses	(7,279)	(5,498)
	32,120	33,901

23. BANK BORROWINGS

THE GROUP	2001 HK\$'000	2000 HK\$'000
Bank borrowings comprise:		
Bank loans and syndicated loan	104,651	7,568
Trust receipt loans	146,267	135,190
Bank overdrafts	4,849	2,118
	255,767	144,876
Analysed as:		
Secured	6,240	7,400
Unsecured	249,527	137,476
	255,767	144,876
The bank borrowings are repayable as follows:		
Not exceeding one year or upon demand	198,348	139,042
More than one year, but not exceeding two years	36,357	1,566
More than two years, but not exceeding five years	21,062	4,268
	255,767	144,876
Less: Amount shown under current liabilities	(198,348)	(139,042)
	57,419	5,834
THE COMPANY		
Bank borrowings comprise:		
Syndicated loan, unsecured	85,000	–
The bank borrowings are repayable as follows:		
Not exceeding one year or upon demand	34,000	–
More than one year, but not exceeding two years	34,000	–
More than two years, but not exceeding five years	17,000	–
	85,000	–
Less: Amount shown under current liabilities	(34,000)	–
	51,000	–

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24. OBLIGATIONS UNDER FINANCE LEASES

	2001 HK\$'000	2000 HK\$'000
The maturity of obligations under finance leases is as follows:		
Within one year	476	3,339
More than one year, but not exceeding two years	281	699
More than two years, but not exceeding five years	–	140
	757	4,178
Less: Amount shown under current liabilities	(476)	(3,339)
	281	839

25. DEFERRED TAXATION

	2001 HK\$'000	2000 HK\$'000
At 1st April, 2000	23	23
Provided for the year	1,720	–
At 31st March, 2001	1,743	23

At the balance sheet date, the major components of the provision for deferred taxation are as follows:

	Liability provided		Net potential liability (asset) unrecognised	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowances over depreciation charged in the financial statements	1,789	69	1,019	3,892
Revaluation deficit on the Group's investment properties situated in The People's Republic of China	(46)	(46)	–	–
Tax losses	–	–	(3,133)	(1,160)
Provision for doubtful debts	–	–	–	(1,980)
	1,743	23	(2,114)	752

25. DEFERRED TAXATION (Continued)

Deferred tax has not been provided on the revaluation surplus arising on the valuation of properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation surplus does not constitute a timing difference for tax purposes.

26. RETIREMENT BENEFITS SCHEMES

The Group operates both a defined contribution pension scheme (the "Scheme") and a defined contribution Mandatory Provident Fund (the "MPF") since 1st December, 2000 for all eligible employees including Directors of the Company. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The cost charged to income statement represents contributions payable to the Scheme and the MPF by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there are no forfeited contributions which are available to reduce the contributions payable in the future years.

27. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	37,204	16,338
Interest received	(3,435)	(3,091)
Interest paid on bank loans, syndicated loan and bank overdrafts	12,260	9,970
Finance charges in respect of finance leases	401	405
Dividend income	(1,574)	(598)
Write off of investment in an associate	–	7,500
Write off of fixed assets	–	47
Gain on disposal of intangible assets	(7,400)	–
Amortisation of intangible assets	10,845	20,190
Depreciation of fixed assets	23,323	11,678
Loss (gain) on disposal of investment securities	6,674	(18,592)
Loss (gain) on disposal of fixed assets	52	(20)
(Increase) decrease in inventories	(2,253)	18,543
Increase in trade and other receivables	(90,742)	(63,809)
Increase in pledged fixed deposits	(11,625)	–
Decrease in trade and other payables	(5,821)	(1,896)
Net cash outflow from operating activities	(32,091)	(3,335)

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28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Obligations under finance leases HK\$'000	Minority interests HK\$'000
At 1st April, 1999	331,603	9,140	3,188	22,747
Inception of new hire purchase contracts	–	–	5,126	–
Repayment of obligations under finance leases	–	–	(4,136)	–
Exercise of share option subscription rights	11,200	–	–	–
Share premium arises on exercising share option subscription rights	8,624	–	–	–
Acquisition of subsidiaries	–	–	–	1,511
Repayment of bank loans and other loans	–	(1,572)	–	–
Share of loss for the year	–	–	–	(2,271)
At 31st March, 2000	351,427	7,568	4,178	21,987
Bank loans raised	–	15,155	–	–
Repayment of obligations under finance leases	–	–	(3,421)	–
Placement of new shares	59,650	–	–	–
Acquisition of initial interests in subsidiary	–	–	–	1,960
Acquisition of further interests in subsidiary	–	–	–	(1,511)
Syndicated loan raised	–	85,000	–	–
Repayment of bank loans and other loans	–	(3,072)	–	–
Share of loss for the year	–	–	–	(2,000)
At 31st March, 2001	411,077	104,651	757	20,436

29. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$'000	2000 HK\$'000
Short-term bank deposits	51,476	38,431
Cash and bank balances	45,677	75,489
Trust receipt loans	(146,267)	(135,190)
Bank overdrafts	(4,849)	(2,118)
Cash and cash equivalents at the end of the year	(53,963)	(23,388)

30. PURCHASE OF A SUBSIDIARY

During the year, the Group acquired a company with a patent registered in Japan in connection with a technology for downloading internet data from personal computers to wrist watches through infra-red communication (the "Technology Patent"). The market value of the Technology Patent was valued at approximately HK\$32,000,000 by Sallmanns (Far East) Ltd, an independent valuer.

	2001 HK\$'000	2000 HK\$'000
Net assets of the subsidiary acquired comprise:		
Furniture, fixtures and equipment	–	61
Plant and machinery	–	3,152
Pre-operating expenses	–	5
Inventories	–	2,093
Debtors, deposits and prepayments	–	2,425
Cash and bank balances	–	149
Creditors and accrued charges	–	(1,843)
Minority interests	–	(1,510)
	–	4,532
Goodwill (Capital reserve)	34,000	(3,847)
Satisfied by:		
Cash consideration paid	34,000	685
Analysis of the net outflow of cash and cash equivalents in respect of the purchase of the subsidiary:		
Cash consideration paid	(34,000)	(685)
Cash and bank balances acquired	–	149
Net outflow of cash and cash equivalents in respect of the purchase of the subsidiary	(34,000)	(536)

31. CONTINGENT LIABILITIES

At 31st March, 2001, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$165,210,000 (2000: HK\$116,921,000).

The Company has given guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK\$584,900,000 (2000: HK\$536,925,000). The extent of such facilities utilised by the subsidiaries at 31st March, 2001 amounted to approximately HK\$151,114,000 (2000: HK\$137,308,000).

32. CAPITAL AND LEASE COMMITMENTS

(a) Capital commitments outstanding at 31st March, 2001 not provided for in the financial statements were as follows:

	2001 HK\$'000	2000 HK\$'000
Contracted for	5,557	–

(b) As at 31st March, 2001, the Group had the following operating lease commitments in respect of leasehold land and buildings:

	2001 HK\$'000	2000 HK\$'000
Amounts payable within the next twelve months under non-cancellable operating leases which would expire		
– in the second to fifth year inclusive	51	–
– after five years	927	–
	978	–

33. PLEDGE OF ASSETS

At 31st March, 2001, certain assets of the Group with the following carrying values had been pledged to secure banking facilities for a subsidiary in the PRC and mortgage loans:

	2001 HK\$'000	2000 HK\$'000
Leasehold properties	16,729	17,502
Fixed deposits at bank	11,625	–

34. SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Group %	Principal activities
Capricon Company Limited	British Virgin Islands	US\$100 Ordinary	55	Investment holding
Capricon Industrial (Shenzhen) Co., Ltd.	The People's Republic of China	HK\$10,894,000	55	Property investment
Gar Shun Enterprises Development Limited	Hong Kong	HK\$400,000 Ordinary	51	Electroplating
Inter Mark Worldwide Limited	Hong Kong	HK\$100 Ordinary	100	Timepiece distribution
Nippon Communication Technology Ltd.	Japan	¥10,000,000 Ordinary	100	Patent holding
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK\$10,000 Ordinary	100	Investment holding
Peace Mark Limited	Hong Kong	HK\$100 Ordinary HK\$10,000 Non-voting deferred*	100	Timepiece trading and marketing
Peace Mark (Switzerland) Enterprises Limited	British Virgin Islands	US\$1 Ordinary	100	Provision of after sales service and timepiece components
PM Company Limited	British Virgin Islands	HK\$1 Ordinary	100	Subcontracting
Pure Riches Industries Limited	Hong Kong	HK\$2,760,000 Ordinary	100	Manufacturing of timepiece components

34. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital held by the Group %	Principal activities
Sky Type Limited	Hong Kong	HK\$10,000 Ordinary	100	Asset holding
Vico Industries Limited	Hong Kong	HK\$100 Ordinary	100	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK10,000 Ordinary	100	Property investment

* The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.

The above table listed the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

All subsidiaries are owned indirectly by the Company except Peace Mark (B.V.I.) Limited which is owned directly by the Company.

All subsidiaries are operated in their respective place of incorporation/registration except for Capricon Company Limited and Capricon Industrial (Shenzhen) Co., Ltd. which are operated in The People's Republic of China, Peace Mark (Switzerland) Enterprises Limited which is operated in Switzerland, and Nippon Communication Technology which is operated in Japan.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.