Notes to the Accounts

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). The accounts are prepared under the historical cost convention as modified by the revaluation of certain properties.

In current year, the HKSA issued a number of Statements of Standard Accounting Practice ("SSAPs") and related interpretations which are effective for accounting periods commencing on or after 1 January 2001. The new SSAPs relevant to the Group are:

SSAP 14 (revised)	Lease (effective for period commencing on or after 1 July 2000)
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 Principal accounting policies *(continued)*

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisition is amortised using the straight-line basis over its estimated useful life not exceeding twenty years.

The gain or loss on disposal of a subsidiary includes the unamortised balance of goodwill relating to the subsidiary disposed of to the extent that it has not previously been realised in the consolidated results.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(d) Revenue recognition

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

Revenue from the sale of services is recognised when the services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(e) Fixed assets

Leasehold land, including land use rights in the People's Republic of China (the "PRC"), and buildings are stated at valuation. It is the Group's policy to review regularly the carrying value of leasehold land and buildings on an individual basis and adjustment is made where there has been a material change. If it is considered appropriate, independent professional valuations are obtained. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited. Upon the disposal of a property, the relevant portion of the realised revaluation reserve in respect of previous valuations is transferred from the revaluation reserve to retained earnings.

1 Principal accounting policies *(continued)*

(e) Fixed assets (continued)

Other tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Amortisation of leasehold land, including land use rights in the PRC, is calculated to write off its valuation over the unexpired period of the lease on a straight line basis. The principal annual rates used for this purpose are 2% to 2.5%.

Depreciation of leasehold buildings is calculated to write off their valuation on a straight line basis over the unexpired period of the lease or their expected useful lives to the Group, whichever is shorter. The principal annual rates used for this purpose are 2.5% to 4%.

Other tangible fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight line basis. The principal annual rates are as follows:-

Leasehold improvements	20%
Plant and machinery	20%
Furniture, fixtures and equipment	20% – 30%
Motor vehicles	30%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Construction in progress

Construction in progress is stated at cost which mainly comprises direct costs of construction and is transferred to fixed assets when it is capable of producing saleable output on a commercial basis. The amount of any reduction to recoverable amount is charged to the profit and loss account.

(g) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the rewards and risks of ownership of assets are accounted for as finance leases. At the inception of a finance lease, the fair value of the asset is recorded together with the obligation, excluding the interest element, to pay future rentals.

1 Principal accounting policies *(continued)*

(g) Assets under leases (continued)

(i) Finance leases *(continued)*

Payments to the lessor are treated as consisting of capital and interest elements. Finance charges are debited to the profit and loss account in proportion to the capital balance outstanding.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or lease periods.

(ii) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight line basis over the lease periods.

(h) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Trade receivables

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

(j) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(k) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

1 Principal accounting policies *(continued)*

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(m) Contingent liabilities

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 recognised 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 recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(n) Retirement benefit costs

The Group's contributions to the defined contribution retirement scheme are expenses as incurred.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Segment reporting

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

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as consideration payables, taxation, and corporate borrowing. Capital expenditure comprises additions to fixed assets (note 3).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

2 Turnover and revenue

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are principally engaged in the manufacturing and selling of watches and watch components, distribution of computer components, investment and property holding. Revenues recognised during the year are as follows:

	2001	2000
	HK$'000	HK$'000
Turnover		
Sale of watches and watch components	**75,186**	100,600
Distribution of computer components	**37,946**	—
	113,132	100,600
Other revenues		
Interest income	**20**	198
Rental income	**—**	70
Gain on disposal of fixed assets	**—**	117
Other income	**46**	311
	66	696
Total revenues	**113,198**	101,296

3 Segment information

Primary reporting format – business segments

Manufacturing and selling of watches and watch components
Distribution of computer components

There are no significant sales or other transactions between the business segments.

Secondary reporting format – geographical segments

The Group's two business segments are operated in 10 main geographical areas:

Hong Kong
Mainland China
Middle East
Canada
United States of America
South America
Europe
Africa
Asia
Australia

There are no significant sales between the geographical segments.

3 Segment information *(continued)*

Primary reporting format – business segments

An analysis of the Group's turnover and contribution to operating results for year ended 31 December and assets and liabilities by business segments as at 31 December is as follows:

	Manufacturing and selling of watches and watch components		Distribution of computer components		Consolidated	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
TURNOVER						
External sales	**75,186**	100,600	**37,946**	—	**113,132**	100,600
RESULTS						
Segment result	**(8,657)**	2,250	**(2,827)**	—	**(11,484)**	2,250
Unallocated corporate expenses					**(8,778)**	(23,280)
Waiver of bank loans and interests					**—**	47,513
Operating (loss)/profit					**(20,262)**	26,483
Finance costs					**(674)**	(896)
Operating (loss)/profit before taxation					**(20,936)**	25,587
Taxation					**(126)**	2,877
(Loss)/profit for the year					**(21,062)**	28,464
ASSETS						
Segment assets	**75,918**	59,887	**3,141**	—	**79,059**	59,887
Unallocated corporate assets					**10,783**	10,323
Combined total assets					**89,842**	70,210
LIABILITIES						
Segment liabilities	**47,708**	29,810	**6,147**	—	**53,855**	29,810
Unallocated corporate liabilities					**11,828**	12,436
					65,683	42,246
OTHER INFORMATION						
Capital expenditure	**459**	403	**40**	—		
Depreciation	**4,986**	6,766	**113**	—		
Non cash income/ (expenses) other than depreciation	**761**	(2,281)	**(890)**	—		

3 Segment information *(continued)*

Secondary reporting format - geographical segments

	Turnover 2001 HK$'000	Segment (loss)/profit 2001 HK$'000	Total assets 2001 HK$'000	Capital expenditures 2001 HK$'000
Hong Kong	**48,729**	**(3,466)**	**37,233**	**25**
Mainland China	**—**	**—**	**46,520**	**458**
Middle East	**17,696**	**(865)**	**2,816**	**—**
Canada	**22,729**	**(882)**	**2,039**	**33**
United States of America	**2,904**	**(142)**	**175**	**—**
South America	**9,967**	**(487)**	**—**	**—**
Europe	**7,308**	**(357)**	**1,019**	**—**
Africa	**2,448**	**(120)**	**2**	**—**
Asia	**1,258**	**(61)**	**38**	**—**
Australia	**93**	**(5)**	**—**	**—**
	113,132	**(6,385)**	**89,842**	**516**
Depreciation		**(5,587)**		
Unallocated costs		**(8,290)**		
Operating loss		**(20,262)**		

	Turnover 2000 HK$'000	Segment (loss)/profit 2000 HK$'000	Total assets 2000 HK$'000	Capital expenditures 2000 HK$'000
Hong Kong	47,860	4,288	34,060	1,605
Mainland China	—	—	32,825	155
Middle East	23,553	2,111	2,422	—
Canada	—	—	—	—
United States of America	8,707	780	395	—
South America	8,077	724	122	—
Europe	6,288	564	304	—
Africa	3,822	343	4	—
Asia	2,293	206	78	—
Australia	—	—	—	—
	100,600	9,016	70,210	1,760
Depreciation		(7,214)		
Unallocated costs		(22,832)		
Waiver of bank loans and interests		47,513		
Operating profit		26,483		

4 Operating (loss)/profit

The operating (loss)/profit is stated after charging/(crediting) the following:

	2001	2000
	HK$'000	HK$'000
Cost of inventories sold	**125,487**	118,815
Reversal of provision for obsolete and slow moving inventories	**(7,944)**	(21,803)
Auditors' remuneration		
– Charge for the year	**462**	570
– Underprovision for previous year	**—**	50
Depreciation		
– Owned fixed assets	**3,803**	5,496
– Leased fixed assets	**1,784**	1,718
Amortisation of goodwill	**2,678**	—
Staff costs (excluding directors' remuneration) - note	**15,448**	14,619
Operating lease rentals		
Hire of office equipment	**19**	16
Land and buildings	**3,322**	2,291
Other operating expenses		
Provision for bad debt	**493**	—
Loss on disposal of fixed assets	**385**	—
Impairment - goodwill (note 13)	**703**	—
Other loss (note 17)	**7,504**	—
Loss on disposal of subsidiaries	**—**	685
Revaluation deficit in respect of leasehold land and buildings	**—**	2,281
Financial restructuring costs	**—**	5,063
Provision for construction in progress	**—**	169
Other gains		
Reversal of provision for advances to a supplier	**(22,952)**	(19,250)
Reversal of provision for bad and doubtful debts	**—**	(2,381)
Waiver of finance lease charges	**—**	(445)
Revaluation surplus in respect of leasehold land and buildings	**(761)**	—
Waiver of accrued salaries due to a director (note 11)	**(1,000)**	—
Waiver of accrued salaries due to ex-directors	**(3,950)**	—

Note : Staff costs here are excluding directors' emoluments which are disclosed in note 11 below and direct labour costs of HK$13,751,000 (2000 : HK$15,615,000) which are included in cost of inventories sold.

5 Finance costs

	2001 HK$'000	2000 HK$'000
Interest expense on bank loans and overdrafts	**585**	896
Other loan interest	**83**	—
Hire charges	**6**	—
	674	896

6 Taxation

	2001 HK$'000	2000 HK$'000
Hong Kong profits tax		
– (Under)/overprovision in previous years	**(217)**	2,877
Overseas taxation recovered	**91**	—
	(126)	2,877

(a) No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group has no assessable profit for the year (2000 : Nil).

(b) The amount of taxation recovered represents Canadian income tax recovered during the year.

(c) Taxation in the consolidated balance sheet represents the amount of Hong Kong profits tax provided for previous years.

(d) Tax recoverable in the consolidated balance sheet represents the excess of Canadian provisional income tax paid over the amount of tax payable.

(e) No provision for deferred taxation has been made in the accounts as the effect of all timing differences is not material to the Group.

7 Loss attributable to shareholders

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK$16,751,000 (2000: HK$154,377,000).

8 Dividends

No dividends had been paid or declared by the Company during the year (2000: Nil).

9 (Loss)/earnings per share

(a) The calculation of basic loss/earnings per share is based on the loss attributable to shareholders of HK$21,062,000 (2000: profit of HK$28,464,000) and the weighted average of 3,307,837,922 (2000 : 2,657,828,474) ordinary shares in issue.

(b) Diluted loss per share for the year has not been presented as the effect of any dilution is anti-dilutive. The diluted earnings per share for the year ended 31 December 2000 was based on 3,062,395,003 ordinary shares which was the weighted average number of ordinary shares in issue during that year plus the weighted average number of 346,254,836 ordinary shares deemed to be issued at no consideration if all outstanding warrants had been exercised.

10 Retirement benefit costs

The Group operates a Mandatory Provident Fund scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all eligible employees of the Company and its subsidiaries in Hong Kong. The MPF scheme is a defined contribution retirement scheme and the contributions to the fund by the Group and employees are calculated as a percentage of employees' basic salaries. The assets of the MPF scheme are held separately from those of the Group in an independently administered fund.

The retirement benefit cost charged to the profit and loss account represents contributions paid and payable by the Group to the MPF scheme.

At the balance sheet date, there were no forfeited contributions, which arose upon employees leaving the retirement benefits schemes, available to reduce the contributions payable by the Group in future years.

11 Directors' and senior management's emoluments

(a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:-

	2001	2000
	HK$'000	HK$'000
Fees :		
Executive directors	**—**	—
Independent non-executive directors	**178**	140
	178	140
Other emoluments of executive directors:		
Basic salaries and allowance	**2,745**	8,036
Benefit from share options exercised	**—**	19,829
Contribution to provident fund	**64**	—
	2,809	27,865
	2,987	28,005

11 Directors' and senior management's emoluments *(continued)*

(b) The number of directors whose emoluments fell within the following bands is as follows:-

HK$	Number of directors 2001	2000
0 - 1,000,000	**12**	9
1,000,001 - 1,500,000	—	2
1,500,001 - 2,000,000	—	1
5,500,001 - 6,000,000	—	1
6,500,001 - 7,000,000	—	1
8,500,001 - 9,000,000	—	1
	12	15

During the year, one director waived the accrued salaries of HK$1,000,000 for the three years ended 31 December 2000. Apart from this, no directors have waived or agreed to waive any emoluments in respect of the years ended 31 December 2000 and 2001.

No emoluments have been paid by the Group to the directors as an inducement to join the Group, or as compensation for loss of office.

(c) The five highest paid individuals during the year included three (2000 : five) directors, details of whose emoluments are set out in notes 11(a) and 11(b) above. The remaining individuals whose emoluments fell within the band of HK$Nil to HK$1,000,000, are as follows:-

	2001 HK$'000	2000 HK$'000
Basic salaries and other benefits in kind	**1,322**	—
Contributions to provident fund	**26**	—
	1,348	—

12 Fixed assets

	Group						
	Leasehold land and buildings outside Hong Kong held under medium term leases HK$'000	Construction in progress HK$'000 (note d)	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation							
Brought forward	21,900	9,043	7,100	38,605	8,817	3,048	88,513
Acquisition of subsidiaries	—	—	—	—	420	302	722
Additions, at cost	—	—	—	439	77	—	516
Provision	—	(9,043)	—	—	—	—	(9,043)
Exchange alignment	—	—	—	—	(8)	(13)	(21)
Disposals	—	—	(727)	—	(197)	(982)	(1,906)
Carried forward	21,900	—	6,373	39,044	9,109	2,355	78,781
Carried forward as follows:-							
At cost	—	—	6,373	39,044	9,109	2,355	56,881
At 2001 valuation	21,900	—	—	—	—	—	21,900
	21,900	—	6,373	39,044	9,109	2,355	78,781
Aggregate depreciation							
Brought forward	—	—	6,514	32,458	7,426	3,045	49,443
Acquisition of subsidiaries	—	—	—	—	160	73	233
Charge for the year	761	—	336	3,737	684	69	5,587
Adjustment on revaluation	(761)	—	—	—	—	—	(761)
Exchange alignment	—	—	—	—	(6)	(5)	(11)
Disposals	—	—	(478)	—	(49)	(982)	(1,509)
Carried forward	—	—	6,372	36,195	8,215	2,200	52,982
Net book value							
At 31 December 2001	21,900	—	1	2,849	894	155	25,799
At 31 December 2000	21,900	—	586	6,147	1,391	3	30,027

12 Fixed assets *(continued)*

(a) The Group's leasehold land and buildings including land use rights and buildings in the PRC, were revalued by AA Property Services Limited, an independent professional valuer, on an open market value basis as at 31 December 2001.

(b) The carrying amount of leasehold land and buildings as at 31 December 2001 would have been HK$23,618,000 (2000: HK$24,379,000) had they been stated at cost less accumulated depreciation.

(c) As at 31 December 2001, the net book value of fixed assets held by the Group under finance leases amounted to HK$1,352,000 (2000 : HK$2,916,000).

(d) Construction in progress represents the cost of construction in respect of the Group's new production facility in the PRC where construction has yet to be completed. As at 31 December 2001, the Group incurred an aggregate construction cost of HK$9,043,000. The directors are of the view that, as a result of the Group's current limited cash flows, the Group may not have the necessary cash resources available to complete the construction of this new production facility. In view of these circumstances, the directors have made full provision in respect of the aggregate construction costs of HK$9,043,000 during the four years ended 31 December 2000.

(e) The Group's leasehold land and buildings were pledged to the bank for banking facilities granted to the Group (note 24).

		Company	
	Furniture and fixtures HK$'000	**Computer equipment** HK$'000	**Total** HK$'000
Cost			
Brought forward	353	241	594
Transferred from a subsidiary	25	—	25
Disposals	(59)	—	(59)
Carried forward	319	241	560
Accumulated depreciation			
Brought forward	59	58	117
Transferred from a subsidiary	3	—	3
Charge for the year	72	72	144
Disposals	(21)	—	(21)
Carried forward	113	130	243
Net book value			
At 31 December 2001	206	111	317
At 31 December 2000	294	183	477

13 Goodwill

	Group 2001 HK$'000	Group 2000 HK$'000
Addition	**12,451**	—
Acquisition of subsidiaries (note 30c)	**890**	—
Amortisation charge	**(2,678)**	—
Impairment charge	**(703)**	—
At 31 December 2001	**9,960**	—

As at 31 December 2001, the Group performed an assessment of the fair value of its goodwill. The assessment was based on value in use of the assets as determined at the cash generating unit (the individual business operations) based on the present value of estimated future cash flows.

As a result of this assessment, a provision of HK$703,000 has been made for impairment in goodwill arising from acquisition of a subsidiary engaging in distribution of computer components for the year ended 31 December 2001.

14 Investments in subsidiaries

	Company 2001 HK$'000	Company 2000 HK$'000
Investments at cost - unlisted shares (note a)	**69,532**	69,532
Amounts due from subsidiaries (note b)	**262,756**	242,731
Amount due to a subsidiary	**(1,478)**	—
Less : provision	**(325,297)**	(305,820)
	5,513	6,443

(a) The table below lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year and formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

14 Investments in subsidiaries *(continued)*

Particulars of the principal subsidiaries as at 31 December 2001 are as follows: –

Company	Place of incorporation/ registration and operations	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Shares held directly:-				
Million-Well Enterprises Corp.	British Virgin Islands	US$130,000	100%	Investment holding
Lifecycle Investments Limited	British Virgin Islands	US$1	100%	Investment holding
Shares held indirectly:-				
Medtech (H.K.) Company Limited	Hong Kong	HK$2	100%	Investment holding and provision of secretarial services to group companies
City Check Limited	British Virgin Islands	US$10,000	100%	Manufacturing of watches and watch components
Dongguan Queshi Watch Co. Ltd.	The People's Republic of China	HK$15,400,000	100%	Manufacturing of watch components and property holding
Easy Rich Watch Dial Factory Limited	Hong Kong	HK$10,000	100%	Trading of watch dials
Funwell Industrial Company Limited	Hong Kong	HK$10,000	100%	Trading of leather watch straps

14 Investments in subsidiaries *(continued)*

Company	Place of incorporation/ registration and operations	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Hangfer Company Limited	Hong Kong	HK$10,000	100%	Trading of watch cases
Silver Crystal Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watch glasses
Stime Watch Manufacturing Limited	British Virgin Islands	US$50,000	100%	Trading of watches and watch components and property holding
Stime Watch Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watches
Vanfer Electroplating Factory Limited	Hong Kong	HK$10,000	100%	Electroplating of watch components
Wing Fat Watch Band Factory Limited	Hong Kong	HK$10,000	100%	Trading of metal watch bands
1024120 Ontario Limited	Canada	CAD$100	100%	Trading of computer components
Enet.com Limited	British Virgin Islands	US$1,400	100%	Investment holding
G. C. Systems (Asia) Limited	Hong Kong	HK$100,000	100%	Trading of computer components

14 Investments in subsidiaries *(continued)*

(b) The amounts due from subsidiaries, except HK$6,000,000 due from Stime Watch Manufacturing Company Limited which bears interest 8.5 percent per annum and is due on 17 February 2003, are unsecured, interest-free and have no fixed terms of repayment.

15 Inventories

	2001	2000
	HK$'000	HK$'000
Raw material	**6,186**	7,003
Work in progress	**20,501**	17,743
Finished goods	**1,622**	2,259
	28,309	27,005

As at 31 December 2001, the inventories that are carried at net realisable value amounted to HK$27,852,000 (2000 : HK$27,005,000).

16 Trade receivables

The following is an aging analysis of trade receivables at the balance sheet date:

	2001	2000
	HK$'000	HK$'000
0 - 3 months	**8,265**	8,422
4 - 6 months	**2,636**	959
7 - 12 months	**2,461**	3
Over 1 year	**16**	—
	13,378	9,384

It is the Group's policy to make full provision on those trade debts outstanding for more than six months at year end date and remained unsettled at the date of approval of these accounts.

17 Advances to a supplier

	2001 HK$'000	2000 HK$'000
Advances to a supplier	**12,387**	35,339
Less : provision	**(12,387)**	(35,339)
	—	—

During the years 1997 and 1998, the Group had advanced totally HK$56,669,000 to a supplier of the Group, Cheung Tat Metal Products Factory ("Cheung Tat"), for supply of goods. The amounts are unsecured, interest-free and have no fixed terms of repayment.

In 1998, the goods were later found to be defective and the Group exercised the right to reject the goods and returned the same to Cheung Tat, and further demanded Cheung Tat to refund the said consideration of HK$56,669,000 to the Group. Full provision for defective goods returned had been made against such advances in the aforesaid amounts.

On 20 October 1999, the Group and Cheung Tat entered into a deed of settlement (the "Deed of Settlement"). Under the Deed of Settlement, Cheung Tat will deliver certain quartz watch movements to the Group every month between November 1999 and May 2004, wherein Cheung Tat has undertaken to deliver 100,000 quartz watch movements in each delivery, which are of acceptable quality and fit for the purpose of the Group. Up to 31 December 2001, the Group has received 26 installments in the total quantity of 4,257,950 quartz watch movements with estimated value of HK$44,282,000, being 1,657,950 quartz watch movements received ahead of schedule. Under the circumstances, it is believed that the Deed of Settlement will be completed earlier.

During the year, the price of quartz watch movements continues to drop. In order to reflect the real performance of the Group, a loss of HK$7,504,000 was recognised as other loss in the profit and loss account. Such loss will be continued until the price of quartz watch movement goes up to the price level as previously agreed with Cheung Tat under the Deed of Settlement.

18 Cash and bank balances

Included in cash and bank balances of the Group are Reminbi cash and bank deposits in the People's Republic of China of approximately HK$9,153,000 (2000 : HK$175,000).

19 Amounts due to directors

The year 2000 figure represented certain emoluments for the year ended 31 December 1997, 1999 and 2000 which were unpaid by the Group. The directors waived such emoluments during the year.

20 Trade payables

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

	2001 **HK$'000**	2000 HK$'000
0 - 3 months	**8,659**	4,786
4 - 6 months	**3,216**	3,631
7 - 12 months	**5,260**	4,894
Over 12 months	**2,428**	430
	19,563	13,741

21 Amount due to a substantial shareholder

The amount due to a substantial shareholder is unsecured, interest-free and has no fixed term of repayment. In last year, other than the advance of HK$1,000,000 which bears interest at Best Lending Rate per annum, the amount was unsecured, interest-free and had no fixed term of repayment.

22 Obligations under finance leases

	Minimum lease payment		**Present value of minimum lease payment**	
	2001 **HK$'000**	2000 HK$'000	**2001** **HK$'000**	2000 HK$'000
Amount payable:				
Within one year	**1,260**	2,619	**1,254**	2,619
In the second to fifth years inclusive	**101**	384	**92**	384
	1,361	3,003	**1,346**	3,003
Future finance charges	**15**	—	**—**	—
Present value of lease obligations	**1,346**	3,003	**1,346**	3,003
Amount due within one year, included under current liabilities			**(1,254)**	(2,619)
			92	384

23 Amount due to bank group

The year 2000 figure represented the unsettled portion of deferred payment agreed with Standard Chartered Bank as agent of the creditor bank ("Bank Group") of the Company upon financial restructuring which was completed in early of year 2000. The amount due to Bank Group was finally settled in March 2001. The amounts due to Bank Group was secured by charges on all the Group's undertakings, properties, assets, goodwill, rights and revenues. The Group has obtained the required consent from the Bank Group to release the debentures. The deed of release is being prepared.

24 Bank loans – secured

The bank loan is due on 16 May 2004 and is secured by leasehold land and buildings of the Group.

25 Bank overdrafts – secured

A bank has provided banking facilities to one of the subsidiaries of the Group, namely 1024120 Ontario Limited. The facilities are secured by a general security agreement, an assignment of book debts, a first collateral mortgage of approximately HK$275,000 on the residential property of the directors of the subsidiary, a demand promissory note of approximately HK$1,500,000 and personal guarantee by the director and officer of the subsidiary. The subsidiary is required to maintain certain debt to tangible net worth and current assets ratios, but is currently in default of these conditions. The subsidiary repaid the outstanding balance subsequent to balance sheet date.

26 Share capital

	2001	2000
	HK$'000	HK$'000
Authorised:		
Ordinary shares of HK$0.01 each	**100,000**	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each	**33,459**	29,175

On 10 January 2001, 300,000,000 ordinary shares were issued at a price of HK$0.041 per share as partial consideration for acquisition of the entire issued share capital of Enet.com Limited, a wholly-owned subsidiary company of the Group.

26 Share capital *(continued)*

On 8 March 2001, Huge China Developments Limited ("Huge China"), the substantial shareholder of the Company, entered into a placing agreement with Infast Brokerage Limited, a placing agent, for placing up to a total of 101,000,000 existing ordinary shares at a price of HK$0.06 per share to not less than six independent investors. The price was determined based on the closing price of HK$0.063 per share as quoted on the Stock Exchange on the last trading day of the shares immediately before and including the date of the announcement. Pursuant to a subscription agreement dated 8 March 2001 made between the Company and Huge China, on completion of the placing, Huge China will subscribe for up to 101,000,000 new ordinary shares at the price of HK$0.06 per share. The placing completed on 14 March 2001 and 61,000,000 existing shares of the Company were placed to independent investors. As a result, Huge China subscribed for 61,000,000 new ordinary shares of the Company. The net proceeds were used as working capital of the Group.

During the year, 67,410,621 shares of HK$0.01 each were issued at a subscription price of HK$0.02 per share to the warrant holders upon the exercise of their subscription rights for a total consideration of approximately HK$1,348,000.

27 Share options

Under a share option scheme approved by the shareholders of the Company on 4 July 1996 (the "Scheme"), the directors may, at their discretion, invite any employees or executive directors of the Group to take up options to subscribe for shares of the Company at any time during the ten years from 4 July 1996. No share option was exercised during the year.

Details of options outstanding as at 31 December 2001 are as follows:

	Number of share options
As at 1 January 2001	170,000,000
Less : share options lapsed during the year	20,000,000
As at 31 December 2001	150,000,000

28 Warrants

Each warrant confers upon the holder the right to subscribe in cash for one ordinary share of 0.01 each in the Company at an exercise price of HK$0.02 per share, subject to adjustment, at any time until 15 February 2002. During the year, 67,410,621 shares were issued by the Company on exercise of the warrants for an aggregate cash consideration of HK$1,348,000. As at 31 December 2001, the warrants entitling the holders to subscribe for a total of 337,155,908 shares of the Company were outstanding. The exercise in full of such warrants would result in the issue of 337,155,908 additional shares of HK$0.01 each at a total consideration of approximately HK$6,743,000, before expenses. Subsequent to the balance sheet date, 23,348,216 warrants were exercised and 313,807,692 warrants were lapsed on 15 February 2002.

29 Reserves

	Share premium account HK$'000	Contributed surplus (note a) HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Group							
At 1 January 2000	38,990	—	814	—	140	(248,234)	(208,290)
Capital reduction	—	—	—	—	—	51,035	51,035
Issue of shares	127,906	—	—	—	—	—	127,906
Share issue expenses	(326)	—	—	—	—	—	(326)
Profit attributable to shareholders	—	—	—	—	—	28,464	28,464
At 31 December 2000	166,570	—	814	—	140	(168,735)	(1,211)
At 1 January 2001	166,570	—	814	—	140	(168,735)	(1,211)
Issue of shares	3,724	—	—	—	—		3,724
Acquisition of a subsidiary	9,300	—	—	—	—	—	9,300
Share issue expenses	(51)	—	—	—	—	—	(51)
Loss attributable to shareholders	—	—	—	—	—	(21,062)	(21,062)
At 31 December 2001	179,543	—	814	—	140	(189,797)	(9,300)

29 Reserves *(continued)*

	Share premium account HK$'000	Contributed surplus (note a) HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Company							
At 1 January 2000	38,990	69,332	—	—	—	(165,108)	(56,786)
Capital reduction	—	—	—	—	—	51,035	51,035
Issue of shares	127,906	—	—	—	—	—	127,906
Share issue expenses	(326)	—	—	—	—	—	(326)
Loss for the year	—	—	—	—	—	(154,377)	(154,377)
At 31 December 2000	166,570	69,332	—	—	—	(268,450)	(32,548)
At 1 January 2001	166,570	69,332	—	—	—	(268,450)	(32,548)
Issues of shares	3,724	—	—	—	—	—	3,724
Acquisition of a subsidiary	9,300	—	—	—	—	—	9,300
Share issue expenses	(51)	—	—	—	—	—	(51)
Loss for the year	—	—	—	—	—	(16,751)	(16,751)
At 31 December 2001	179,543	69,332	—	—	—	(285,201)	(36,326)

(a) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued and the value of net assets of the underlying subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), a Company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

(b) The Company had no reserve available for distribution as at 31 December 2001.

30 Notes to consolidated cash flow statement

(a) Reconciliation of operating (loss)/profit to net cash (outflow)/inflow from operating activities

	2001 **HK$'000**	2000 HK$'000
Operating (loss)/profit	**(20,262)**	26,483
Reversal of provision for bad and doubtful debts	**—**	(2,381)
Reversal of provision for obsolete and slow-moving inventories	**(7,944)**	(21,803)
Provision for construction in progress	**—**	169
Revaluation (surplus)/deficit in respect of leasehold land and buildings	**(761)**	2,281
Waiver of accrued salaries due to a director	**(1,000)**	—
Waiver of accrued salaries due to ex-directors	**(3,950)**	—
Depreciation of fixed assets	**5,587**	7,214
Amortisation of goodwill	**2,678**	—
Impairment of goodwill	**703**	—
Loss/(gain) on disposal of other fixed assets	**386**	(117)
Loss on disposal of subsidiaries	**—**	685
Decrease in inventories	**8,030**	13,375
(Increase)/decrease in trade receivables, prepayments and deposits, including advances to a supplier	**(3,705)**	6,294
Increase/(decrease) in trade payables, accrued charges and provisions, including amounts due to directors	**18,063**	(4,616)
Decrease in trust receipt loans	**—**	(23,994)
Interest income	**(20)**	(198)
Net cash (outflow)/inflow from operating activities	**(2,195)**	3,392

(b) Analysis of changes in financing activities

	Share capital including share premium HK$'000	**Bank loans** HK$'000	**Obligations under finance leases** HK$'000
Brought forward	195,745	1,225	3,003
Issue of shares for cash	5,008	—	—
Share issue expenses written off directly to share premium	(51)	—	—
Addition of bank loans	—	12,150	—
Repayment of bank loans	—	(1,225)	—
Acquisition of a subsidiary	12,300	—	233
Payment of capital element of finance leases	—	—	(1,890)
Carried forward	213,002	12,150	1,346

30 Notes to consolidated cash flow statement *(continued)*

(c) Acquisition of subsidiaries

	2001	2000
	HK$'000	HK$'000
Bank overdrafts	**(1,293)**	—
Cash and bank balances	**363**	—
Fixed assets	**489**	—
Goodwill	**890**	—
Inventories	**1,390**	—
Obligations under finance leases	**(233)**	—
Other net current liabilities	**(317)**	—
Tax recoverable	**130**	—
	1,419	—
Goodwill arising on consolidation	**12,451**	—
Total consideration	**13,870**	—
Satisfied by :		
Net cash consideration	**1,570**	—
Issue of shares	**12,300**	—
	13,870	—

The analysis of net outflow of cash and cash equivalents in respect of the acquisition is as follows:

	2001	2000
	HK$'000	HK$'000
Cash consideration paid	**1,570**	—
Bank overdraft acquired	**930**	—
Net outflow of cash and cash equivalents	**2,500**	—

30 Notes to consolidated cash flow statement *(continued)*

(d) Disposal of subsidiaries

	2001 **HK$'000**	2000 HK$'000
Net assets disposal of		
Fixed assets	—	7,514
Other net current assets	—	1
	—	7,515
Loss on disposal	—	(685)
Consideration	—	6,830

The analysis of net inflow of cash and cash equivalents in respect of the disposal is as follows:

	2001 **HK$'000**	2000 HK$'000
Cash consideration received	—	6,830
Net inflow of cash and cash equivalents	—	6,830

(e) Major non-cash transactions

During the year, 300,000,000 ordinary shares were issued at a price of HK$0.041 per shares as partial consideration for acquisition of the entire issued share capital of Enet.com Limited, a wholly-owned subsidiary company of the Group.

31 Contingent liabilities

As at 31 December 2001, 26 (2000 : 35) employees have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Company is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees met the circumstances set out in the Ordinance, the Company's liability as at 31 December 2001 would be approximately HK$3,147,000 (2000 : HK$3,691,000). No provision has been made in this respect.

32 Commitments under operating leases

At the balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings and office equipment, falling due as follows:

	Land and buildings		Office equipment	
	2001	2000	**2001**	2000
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**51**	3,263	**19**	19
In the second to fifth years inclusive	**—**	1,891	**21**	40
	51	5,154	**40**	59

33 Approval of accounts

The accounts were approved by the board of directors on 27 April 2002.