(1) GENERAL

Peace Mark (Holdings) Limited (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 16 to the financial statements.

(2) ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company and its subsidiaries (the "Group") have adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects of those SSAPs on the Group's accounting policies and on the amounts disclosed in the financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure requirements under the SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are set out in notes 22 and 31(b) respectively.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

(2) ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Continued)

SSAP 29 prescribes the accounting treatment for intangible assets that are not dealt with specifically in another SSAP. This statement requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The statement also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 30 prescribes the accounting treatment for business combination. Goodwill / Negative goodwill arising on acquisition of subsidiaries was previously eliminated against consolidated reserves, and was realised and released to the consolidated income statement upon disposal of such subsidiaries.

Following the adoption of SSAP 30, goodwill is capitalised as an asset and amortised over its estimated useful life of not exceeding 20 years. Negative goodwill is presented in the consolidated balance sheet as a deduction from assets in the same consolidated balance sheet classification as goodwill and recognised as income by reference to any identifiable future losses and expenses and / or the fair values of the identifiable non-monetary assets acquired. The Group has adopted the transitional provision as permitted under SSAP 30. However, any impairment loss in respect of such goodwill is recognised retrospectively in the period when such impairment loss occurred in accordance with the requirements of SSAP 31.

SSAP 31 prescribes the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amounts. SSAP 31 also specifies when an enterprise should reverse an impairment loss and prescribe certain disclosures for impaired assets.

In accordance with the requirements of SSAP 31 and the transitional provisions for SSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against available reserves. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". Accordingly, goodwill in the amount of approximately HK$9,159,000 which was impaired in prior periods' retained profits as brought forward at 1 April, 2001 and this also results in a decrease in the Group's profit attributable to shareholders for the year ended 31 March, 2001 of approximately HK$9,159,000.

The adoption of other new and revised SSAPs as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

(3) 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 and leasehold properties, as further explained in the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

(a) Basis of consolidation

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment loss. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

(b) Goodwill

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of the subsidiaries at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is capitalised and amortised on a straight-line basis over the shorter of its estimated useful life of 20 years. The amortisation charge for each period is recognised as an expense.

Goodwill arising from transactions completed prior to 1 April, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognised as an expense.

On disposal of an interest in a subsidiary, the attributable amount of goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Negative goodwill

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, should be recognised as negative goodwill.

Negative goodwill is recognised in the income statement as follows:

(a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.

(b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable / amortisable assets.

(c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

(d) Investments in securities

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

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

Investments other than held-to-maturity debt securities are classified as securities for trading purposes and other securities.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments in securities (Continued)

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.

(e) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to 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 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 fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 (Revised) "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets over their estimated useful lives using the straight-line method. The annual rates used are as follows:

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

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fixed assets and depreciation (Continued)

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss arising on the disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Properties under construction are stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs.

Properties under construction are not depreciated until such time as the assets are completed and ready for their intended use.

(f) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment loss.

Intangible assets mainly comprise the following:

(i) *Technical know-how*

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

(ii) *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.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Intangible assets (Continued)

(iii) *Trademark*

Trademark is stated at acquisition cost and is amortised on a straight-line basis over its expected future economic life of 20 years.

The amortisation period and the amortisation method are reviewed annually at each financial year end.

(g) Impairment of assets

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, intangible assets and investments in subsidiaries have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is firstly charged against the related revaluation reserve to the extent of the amount held in the revaluation reserve with any excess recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(i) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

(j) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Provisions and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

(l) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of goods have been transferred to the customers.

(ii) Rendering of services

Service income is recognised as services are rendered.

(iii) Rental income

Rental income is recognised on a straight-line basis over the respective terms of the leases.

(iv) Interest income

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

(v) Sale of investments in securities

Sale proceeds of investments in securities are recognised on a trade-date basis when contracts are executed.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Leases

Finance leases

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

Operating leases

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Off balance sheet financial instruments

Off balance sheet financial instruments arise from swap transactions undertaken by the Group in the interest rate markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognised in the income statement. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognised in the income statement on the same basis as those arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are marked to market are included in "Trade and other receivables" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Trade and other payables".

(o) Retirement benefits schemes

The Group provides defined contribution plans based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

(p) 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.

(q) Cash equivalents

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Segments

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, segment expenses and segment performance include transfers between segments. Such inter-segment pricing is based on similar terms as those available to unaffiliated customers for similar products. Those transfers are eliminated upon consolidation.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings and corporate and financing expenses.

(4) SEGMENT INFORMATION

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacture and trading of timepieces products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold. There are no sales between the segments.

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

	2002			
	Turnover HK$'000	Segment Results HK$'000	Segment Assets HK$'000	Capital Expenditure HK$'000
United States of America	505,282	57,878	108,886	–
Europe	204,726	23,451	78,739	39,208
Asia	221,211	25,339	617,580	83,834
	931,219	106,668	805,205	123,042
Other revenue		18,706		
Unallocated expenses		(76,403)		
Finance costs		(9,264)		
Profit before taxation		39,707		
Unallocated assets			196,643	
Total assets			1,001,848	

(4) SEGMENT INFORMATION (Continued)

	2001			
	Turnover	**Segment Results**	**Segment Assets**	**Capital Expenditure**
	HK$'000	HK$'000	HK$'000	HK$'000
United States of America	504,608	63,488	67,442	–
Europe	207,980	26,168	27,797	–
Asia	139,791	17,588	385,194	154,304
	852,379	107,244	480,433	154,304
Other revenue		16,375		
Unallocated expenses		(73,754)		
Finance costs		(12,661)		
Impairment of goodwill		(9,159)		
Profit before taxation		28,045		
Unallocated assets			294,838	
Total assets			775,271	

(5) TURNOVER AND OTHER REVENUE

(a) Turnover

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

(b) Other revenue

	2002	2001
	HK$'000	HK$'000
Rental income	**1,252**	872
Interest income	**5,090**	3,435
Dividend income from investments in securities	**–**	1,574
Handling service income	**5,791**	–
Gain on disposal of intangible assets	**–**	7,400
Gain on disposal of fixed assets	**37**	–
Exchange gain	**2,917**	1,346
Sundry income	**3,619**	1,748
	18,706	16,375

(6) PROFIT FROM OPERATIONS

	2002 HK$'000	2001 HK$'000 (Restated)
Profit from operations has been arrived at after charging the following:		
Depreciation		
– Owned assets	**29,060**	20,942
– Assets under finance leases	**2,380**	2,381
Amortisation of intangible assets	**3,344**	10,845
Amortisation of goodwill	**617**	–
Impairment of goodwill	**–**	9,159
Loss on disposal of investments in securities	**10,823**	6,674
Loss on disposal of fixed assets	**–**	52
Staff costs, including directors' emoluments	**40,877**	33,222
Write-off of current assets	**6,640**	10,866

(7) FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on:		
Term loans, syndicated loan and bank overdrafts wholly repayable within five years	**9,084**	12,260
Obligations under finance leases	**180**	401
	9,264	12,661

(8) DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

(a) Directors' emoluments

	2002	2001
	HK$'000	HK$'000
Directors' fees:		
– Executive	**–**	–
– Non-executive	**190**	150
	190	150
Other emoluments (Executive Directors):		
Salaries and other benefits	**3,744**	4,170
Pension scheme contributions	**156**	198
	3,900	4,368
	4,090	4,518

The emoluments of the Directors are within the following bands:

	2002	2001
	Number of Directors	Number of Directors
Nil to HK$1,000,000	**10**	10
HK$1,000,001 to HK$1,500,000	**1**	–
	11	10

(8) DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

During the year ended 31 March, 2002, the five highest paid individuals included four Directors (for the year ended 31 March, 2001, the five highest paid individuals included three Directors) details of whose emoluments are set out in note 8(a) to the financial statements above. The emoluments of the remaining individual for the year are as follows:

	2002 HK$'000	2001 HK$'000
Salaries and other benefits	**650**	919
Pension scheme contributions	**12**	38
	662	957

The emoluments of this individual are in the range of Nil to HK$1,000,000.

(9) TAXATION

Taxation in the consolidated income statement represents:

	2002 HK$'000	2001 HK$'000
Hong Kong Profits Tax		
Current year	**2,868**	2,526
Underprovision in prior year	**56**	–
Deferred taxation	**1,653**	1,720
	4,577	4,246

Hong Kong Profits Tax is calculated at the prevailing rate of 16% (2001: 16%) on the estimated assessable profits for the year.

Details of deferred taxation are set out in note 23 to the financial statements.

(10) PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders, a loss of HK$15,342,000 (2001: HK$1,781,000) has been dealt with in the financial statements of the Company.

(11) EARNINGS PER SHARE

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

	2002	2001 (Restated)
(a) *Basic earnings per share*		
Profit attributable to shareholders (in HK$'000)	**36,397**	25,799
Weighted average number of shares (in '000)	**183,911**	181,705
Basic earnings per share (cents)	**19.79**	14.20
(b) *Diluted earnings per share*		
Profit attributable to shareholders (in HK$'000)	**36,397**	25,799
Weighted average number of shares (in '000)	**183,911**	181,705
Potential dilutive shares (in '000)	**–**	–
Adjusted weighted average number (in '000)	**183,911**	181,705
Diluted earnings per share	**N/A**	N/A

(12) RELATED PARTY AND CONNECTED TRANSACTIONS

On 28 August, 2001, EganaGoldpfeil has reached an agreement with United Success Enterprises Limited ("United Success"), a company wholly owned by Mr. Leung Yung, for the sale of 367,830,000 shares (or equivalently 18,391,500 shares after the share consolidation on 25 January, 2002 whereby every 20 issued shares were consolidated into 1 consolidated share) of par value of HK$0.10 each which represents approximately 10% of the share capital of the Company at a consideration of HK$49,800,000.

Upon completion of the sale of said shares in the issued share capital of the Company by EganaGoldpfeil to United Success, the shareholding held by EganaGoldpfeil and its associates (as defined in the Listing Rules) in the Company was decreased from approximately 16.5% to approximately 6.5%. Thereafter, that is effective from 28 August, 2001, EganaGoldpfeil ceased to be a connected party to the Company under the Listing Rules and the trading transactions between the Group and EganaGoldpfeil do not constitute connected transactions of the Group.

Pursuant to SSAP 20, 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. After the sale of the shares by EganaGoldpfeil to United Success, EganaGoldpfeil was ceased to be related party to the Company, also on 28 August, 2001.

In February 2000, a conditional waiver from strict compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the trading transactions has been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for three financial years of the Company starting from the year commencing 1 April, 2000.

(12) RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

During the year, the Group had the following material transactions with its related parties as defined in note 3:

	Note	**2002** HK$'000	2001 HK$'000
Sale of goods to EganaGoldpfeil and its subsidiaries	*(i)*	**6,462**	20,056
Purchase of raw materials from EganaGoldpfeil and its subsidiaries	*(i)*	**48**	3,104
Rental income from a subsidiary of EganaGoldpfeil	*(ii)*	**347**	833

Notes:

(i) Sale and purchase transactions with EganaGoldpfeil and its subsidiaries were in relation to timepiece related transactions 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 at arm's length.

(13) FIXED ASSETS

	The Group						
	Properties under con-struction HK$'000	Freehold and leasehold properties HK$'000	Leasehold improve-ments HK$'000	Furniture, fixtures and equipment HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation							
As at 1 April, 2001	26,312	106,164	65,255	14,329	90,155	4,814	307,029
Additions	9,265	5,352	2,525	2,069	64,356	267	83,834
Disposals	–	–	–	(166)	(176)	(90)	(432)
As at 31 March, 2002	35,577	111,516	67,780	16,232	154,335	4,991	390,431
Comprising							
At valuation	–	14,000	–	–	–	–	14,000
At cost	35,577	97,516	67,780	16,232	154,335	4,991	376,431
	35,577	111,516	67,780	16,232	154,335	4,991	390,431
Depreciation							
As at 1 April, 2001	–	6,952	11,386	10,025	35,506	2,447	66,316
Provided for the year	–	2,284	6,023	1,951	20,233	949	31,440
Eliminated on disposals	–	–	–	(47)	(130)	(90)	(267)
As at 31 March, 2002	–	9,236	17,409	11,929	55,609	3,306	97,489
Net book value							
As at 31 March, 2002	35,577	102,280	50,371	4,303	98,726	1,685	292,942
As at 31 March, 2001	26,312	99,212	53,869	4,304	54,649	2,367	240,713

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

As at 31 March, 2002, had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$93,723,000 (2001: HK$90,321,000).

The net book value of the leasehold properties includes an amount of approximately HK$43,267,000 (2001: HK$43,893,000) in respect of an industrial waste management system implemented in an electroplating factory of the Group.

(13) FIXED ASSETS (Continued)

The carrying value of properties held by the Group comprises:

	The Group	
	2002	2001
	HK$'000	HK$'000
Leasehold properties:		
Held in Hong Kong, medium-term lease	**16,343**	16,675
Held in the People's Republic of China, medium-term lease	**83,902**	82,537
Freehold properties:		
Held outside Hong Kong	**2,035**	–
	102,280	99,212

As at 31 March, 2002, the net book value of the Group's fixed assets held under finance leases was approximately HK$776,000 (2001: HK$1,259,000).

(14) INTANGIBLE ASSETS

During the year, the Group acquired a trademark, the market value of which was valued at approximately HK$48,500,000 by Sallmanns (Far East) Limited, an independent valuer.

	The Group				
	2002				2001
	Technical know-how	**Licence**	**Trademark**	**Total**	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000
Cost					
As at 1 April, 2001	**7,145**	**15,000**	**–**	**22,145**	54,745
Addition	**–**	**–**	**39,208**	**39,208**	34,000
Disposal	**(5)**	**–**	**–**	**(5)**	(66,600)
As at 31 March, 2002	**7,140**	**15,000**	**39,208**	**61,348**	22,145
Amortisation					
As at 1 April, 2001	**4,814**	**9,339**	**–**	**14,153**	23,308
Provided for the year	**846**	**2,498**	**–**	**3,344**	10,845
Eliminated on disposal	**–**	**–**	**–**	**–**	(20,000)
As at 31 March, 2002	**5,660**	**11,837**	**–**	**17,497**	14,153
Net book value					
As at 31 March, 2002	**1,480**	**3,163**	**39,208**	**43,851**	7,992
As at 31 March, 2001	**2,331**	**5,661**	**–**	**7,992**	31,437

(15) GOODWILL

During the year, SSAP 30 was adopted as detailed in note 2 to the financial statements. The amount of the goodwill arising on the acquisition of subsidiaries is as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
Cost		
As at 1 April, 2001	**–**	–
Acquisition of subsidiaries	**12,331**	–
As at 31 March, 2002	**12,331**	–
Amortisation		
As at 1 April, 2001	**–**	–
Provided for the year	**617**	–
As at 31 March, 2002	**617**	–
Net book value		
As at 31 March, 2002	**11,714**	–
As at 31 March, 2001	**–**	–

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January, 2001 to remain eliminated against consolidated reserves.

(16) INTERESTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	HK$'000
Unlisted shares, at cost	**51,398**	51,398
Amount due from subsidiaries	**577,275**	476,843
Amount due to a subsidiary	**(1)**	(1)
	628,672	528,240

(16) INTERESTS IN SUBSIDIARIES (Continued)

The balances with subsidiaries are unsecured, interest-free and not repayable within the next twelve months.

As at 31 March, 2002, the underlying value of interests in subsidiaries is, in the opinion of the Directors, not less than the carrying value in the books of the Company.

Details of the Company's principal subsidiaries at 31 March, 2002 are as follows:

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Capricon Company Limited	British Virgin Islands	US$100 Ordinary	–	100	Investment holding
Capricon Industrial (Shenzhen) Co., Ltd.	The People's Republic of China	HK$10,849,000	–	100	Property investment
Fulltop Limited	British Virgin Islands	US$1 Ordinary	–	100	Trademark and property holding
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
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK$10,000 Ordinary	100	–	Investment holding

(16) INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct %	Indirect %	
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
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	HK$10,000 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.

(16) INTERESTS IN SUBSIDIARIES (Continued)

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 operate in their respective places of incorporation / registration except for that Capricon Company Limited, Gar Shun Enterprises Development Limited, Pure Riches Industries Limited and Vico Industries Limited operate in the People's Republic of China and that Fulltop Limited operates in Switzerland.

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

(17) INVESTMENTS IN SECURITIES

	The Group	
	2002	2001
	HK$'000	HK$'000
Equity securities:		
Listed in Hong Kong, at cost	**37**	40,906
Unrealised holding loss	**(22)**	(17,907)
At market value	**15**	22,999

(18) INVENTORIES

	The Group	
	2002	2001
	HK$'000	HK$'000
Raw materials	**7,720**	44,713
Work-in-progress	**16,053**	33,342
Finished goods	**132,285**	47,743
	156,058	125,798

As at 31 March, 2002 and 2001, all inventories were stated at cost.

(19) 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:

	The Group	
	2002	2001
	HK$'000	HK$'000
Trade receivables:		
0 – 90 days	**113,400**	101,004
91 days – 180 days	**9,964**	12,918
Over 180 days	**4,424**	–
	127,788	113,922
Trade deposits	**70,077**	42,000
Other deposits, prepayments and other receivables	**145,023**	111,301
	342,888	267,223

(20) TRADE AND OTHER PAYABLES

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

	The Group	
	2002	2001
	HK$'000	HK$'000
Trade payables:		
0 – 90 days	**9,231**	19,342
91 days – 180 days	**3,324**	4,536
Over 180 days	**8,424**	–
	20,979	23,878
Accruals and other payables	**7,258**	11,633
	28,237	35,511

(21) SYNDICATED LOAN AND OTHER INTEREST-BEARING BORROWINGS

	The Group	
	2002	2001
	HK$'000	HK$'000
Syndicated loan and other interest-bearing borrowings comprise:		
– Term loans	**63,224**	19,651
– Syndicated loan, unsecured	**200,000**	85,000
– Trust receipt and import loans	**156,758**	146,267
– Bank overdrafts	**381**	4,849
	420,363	255,767
Analysed as:		
– Secured	**–**	6,240
– Unsecured	**420,363**	249,527
	420,363	255,767
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**205,597**	198,348
– More than one year, but not exceeding two years	**125,302**	36,357
– More than two years, but not exceeding five years	**89,464**	21,062
	420,363	255,767
Less: Amount shown under current liabilities		
– Syndicated loan	**–**	(34,000)
– Other interest-bearing borrowings	**(205,597)**	(164,348)
	214,766	57,419
Analysed as:		
– Syndicated loan	**200,000**	51,000
– Other interest-bearing borrowings	**14,766**	6,419
	214,766	57,419

(21) SYNDICATED LOAN AND OTHER INTEREST-BEARING BORROWINGS (Continued)

	The Company	
	2002	2001
	HK$'000	HK$'000
Syndicated loan and other interest-bearing borrowings comprise:		
– Syndicated loan, unsecured	**200,000**	85,000
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	**–**	34,000
– More than one year, but not exceeding two years	**114,286**	34,000
– More than two years, but not exceeding five years	**85,714**	17,000
	200,000	85,000
Less: Amount shown under current liabilities		
–Syndicated loan	**–**	(34,000)
	200,000	51,000

(22) OBLIGATIONS UNDER FINANCE LEASES

As at 31 March, 2002, the Group had obligations under finance leases repayable as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**298**	562
More than one year, but not exceeding two years	**24**	298
More than two years, but not exceeding five years	**10**	34
	332	894
Less: finance charges	**(55)**	(137)
	277	757
Representing finance lease obligations:		
Current portion	**252**	480
Non-current portion	**25**	277
	277	757

(23) DEFERRED TAXATION

	The Group	
	2002	2001
	HK$'000	HK$'000
As at 1 April, 2001	**1,743**	23
Provided for the year	**1,653**	1,720
As at 31 March, 2002	**3,396**	1,743

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

	Liability provided		Net potential liabilities (assets) unrecognised	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Tax effect of timing differences attributable to:				
Excess of depreciation allowances over depreciation charged in the financial statements	**3,442**	1,789	**3,687**	1,019
Revaluation deficit on the Group's investment properties situated in the People's Republic of China	**(46)**	(46)	**–**	–
Tax losses	**–**	–	**(4,306)**	(3,133)
	3,396	1,743	**(619)**	(2,114)

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.

(24) SHARE CAPITAL

	Number of shares	Par value HK$	Amount HK$'000
Authorised:			
As at 1 April, 2001 and 31 March, 2002	6,000,000,000	0.10	600,000
Issued and fully paid:			
As at 1 April, 2001	3,678,223,019	0.10	367,822
Capital Reduction whereby the nominal value of the shares was reduced to HK$0.005 each by cancellation of HK$0.095 paid-up capital for each issued share	–	(0.095)	(349,431)
	3,678,223,019	0.005	18,391
Capital Consolidation whereby every 20 new issued shares with nominal value of HK$0.005 each in the capital of the Company following the Capital Reduction was consolidated into 1 consolidated share	(3,494,311,869)	0.095	–
As at 31 March, 2002	183,911,150	0.10	18,391

Pursuant to a special resolution passed on 24 January, 2002, the shareholders approved a capital reorganisation ("Capital Reorganisation") involving, among others, a reduction ("Capital Reduction") and consolidation ("Share Consolidation") of the issued share capital. The Capital Reorganisation has become effective on 25 January, 2002.

(24) SHARE CAPITAL (Continued)

Pursuant to the Capital Reorganisation:

1. the paid-up capital and nominal value of all the issued shares were reduced from HK$0.10 to HK$0.005 each by cancellation of HK$0.095 paid up capital on each issued share;

2. every 20 issued new shares were consolidated into 1 consolidated share; and

3. the credit of HK$349,431,187 arising from the Capital Reduction on the basis of 3,678,223,019 shares in issue transferred to the contributed surplus account of the Company, which may be used in future for such purposes as the Board may direct subject to the Companies Act and Bye-laws.

Before the Capital Reduction, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 shares of which HK$367,822,302 divided into 3,678,223,019 shares were issued and credited as fully paid. Immediately upon the Capital Reorganisation becoming effective and on the basis that 3,678,223,019 shares were issued immediately prior to the Capital Reduction becoming effective, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 consolidated shares of which HK$18,391,115 divided into 183,911,150 consolidated shares were issued and credited as fully paid, and a credit of HK$349,431,187 arising from the Capital Reorganisation was transferred to the contributed surplus account of the Company as mentioned above. The Share Consolidation stipulated that every 20 issued new shares were consolidated into 1 consolidated share.

(25) RESERVES

The Group

	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 HK$'000	Total HK$'000
As at 1 April, 2000	43,255	(11,988)	23,846	–	5,466	11,472	68,238	140,289
Subsequent valuation adjustment to goodwill	–	–	(7,369)	–	–	–	–	(7,369)
Goodwill arising on acquisition of subsidiaries eliminated	–	–	(45,264)	–	–	–	–	(45,264)
Net unrealised holding loss of investments in securities	–	–	–	–	–	(29,379)	–	(29,379)
Profit for the year	–	–	–	–	–	–	34,958	34,958
As at 31 March, 2001 as previously reported	43,255	(11,988)	(28,787)	–	5,466	(17,907)	103,196	93,235
Effect of changes in accounting policies on adoption of SSAP 30 and SSAP 31	–	–	9,159	–	–	–	(9,159)	–
As at 31 March, 2001 as restated	43,255	(11,988)	(19,628)	–	5,466	(17,907)	94,037	93,235
Realisation of goodwill on disposal of subsidiary	–	–	32,000	–	–	–	–	32,000
Realisation of unrealised holding loss of investments in securities upon disposal	–	–	–	–	–	17,885	–	17,885
Credit arising on Capital Reduction	–	–	–	349,431	–	–	–	349,431
Profit for the year	–	–	–	–	–	–	36,397	36,397
As at 31 March, 2002	43,255	(11,988)	12,372	349,431	5,466	(22)	130,434	528,948

(25) RESERVES (Continued)

The Company

	Share premium	Merger deficit	Capital reserve (Goodwill)	Contributed surplus	Leasehold property revaluation reserve	Other reserve	Accumu-lated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 April, 2000	43,255	–	–	39,399	–	–	(5,498)	77,156
Loss for the year	–	–	–	–	–	–	(1,781)	(1,781)
As at 31 March, 2001	43,255	–	–	39,399	–	–	(7,279)	75,375
Credit arising on Capital Reduction	–	–	–	349,431	–	–	–	349,431
Loss for the year	–	–	–	–	–	–	(15,342)	(15,342)
As at 31 March, 2002	43,255	–	–	388,830	–	–	(22,621)	409,464

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.

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 gain (loss) from the investments in securities.

(25) RESERVES (Continued)

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:

	2002	2001
	HK$'000	HK$'000
Contributed surplus	**388,830**	39,399
Accumulated losses	**(22,621)**	(7,279)
	366,209	32,120

(26) SHARE OPTION SCHEMES

On 24 January, 2002, the share option scheme adopted by the Company on 15 January, 1993 (the "Old Share Option Scheme") was terminated and a replacing share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company on the same date to comply with the new amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") regarding the share option schemes of a company. As a result, the Company may no longer grant any further options under the Old Share Option Scheme. Out of all the share options to subscribe for 149,300,000 shares in the Company granted to certain directors and employees on 8 October, 1999 under the Old Share Option Scheme which are exercisable from 8 April, 2000 to 7 April, 2003 at an exercise price of HK$0.10 per share, share options to subscribe for 20,000,000 shares in the Company were lapsed on 27 November, 2001 due to, on 28 August, 2001, the resignations of Mr. Lee Ka Yue, Peter and Mr. Law Shik Chuen who are Executive Directors of the Company before the resignations. The remaining share options to subscribe for 129,300,000 shares in the Company were cancelled, and hence lapsed, on 29 November, 2002. No options have been granted under the New Share Option Scheme since the date of its adoption.

The purpose of the New Share Option Scheme is to advance the interests of the Company and its shareholders by providing to:

(i) the directors and employees of the Group with a performance incentive to reward them for their continued and improved services with the Group and to further encourage them by offering them an opportunity to obtain an ownership in the Company; and

(ii) the eligible persons (other than the directors and employees of the Group) with an incentive through ownership in the Company in order to motivate them to optimise their performance and efficiency for the benefit of the Group and / or to attract, retain or otherwise maintain their on-going business relationships with the Group which are or will be beneficial to the Group's success.

(26) SHARE OPTION SCHEMES (Continued)

Eligible persons of the New Share Option Scheme include

(i) any director of the Group;

(ii) any employee (whether part time or full time) of the Group;

(iii) any consultant or professional adviser who, at the offer date ("Offer Date") of the grant of an option or options and during the option period ("Option Period"), which means a period to be notified by the board of directors ("Board") to each grantee of the option or options which the Board may in its absolute discretion determine save that such period of time shall not exceed a period of 10 years commencing on the commencement date of the option or options, in respect of any options granted to such consultant or professional adviser, is mandated by the Group for the provision of services;

(iv) any supplier or customer of the Group who, during the six-month period immediately prior to the offer date and any such time during the Option Period in respect of any options granted to such supplier or customer, has entered into business transactions with the Group the aggregate value of all of which shall have exceeded HK$10,000,000; and

(v) any person who, at the Offer Date and during the Option Period in respect of any options granted to such person, is appointed by the Group as an authorised agent of the Group.

The New Share Option Scheme became effective on 24 January, 2002 and unless otherwise terminated by the Company or the Directors, it shall be valid and effective for 10 years commencing on the adoption date on 24 January, 2002. After such period no further share options will be granted but in all other respects the provisions of the 2002 Scheme shall remain in full force and effect.

Pursuant to the New Share Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30 percent of the shares of the Company in issue from time to time. No options may be granted under the New Share Option Scheme if such grant would result in the above 30 percent limit being exceeded. The total number of shares available from issue under the options which may be granted under the New Share Option Schemes and any other share options schemes of the Company must not, in aggregate, exceed 10 percent of the issued share capital of the Company as at the date of approval of the New Share Option Scheme by the shareholders of the Company on 24 January, 2002 unless shareholders' approval has been obtained.

(26) SHARE OPTION SCHEMES (Continued)

Subject to the terms of the New Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time, within 10 years after the adoption date on 24 January, New Share Option of the New Share Option Scheme to make an offer of the grant of an option or options to any eligible person as the Board may in its absolute discretion select to subscribe for such number of shares as the Board may determine at the subscription price.

The subscription price shall be a price determined by the Board and notified to an eligible person and shall be the higher of the closing price of the share of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited on the Offer Date, which must be a business day; and the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the offer date.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee.

A summary of the movements of share options granted under the above schemes is as follows:

	New Share Option Scheme	Old Share Option Scheme
As at 1 April, 2001	–	149,300,000
Cancelled during the year	–	(129,300,000)
Lapsed during the year	–	(20,000,000)
As at 31 March, 2002	–	–

(27) RETIREMENT BENEFITS SCHEMES

The Group operates both a defined contribution pension scheme (the "Scheme") and a defined contribution Mandatory Provident Fund (the "MPF") since 1 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 the income statement represents contributions payable to the Scheme (2002: HK$810,000; 2001: HK$606,000) and the MPF (2002: HK$186,000; 2001: HK$16,000) 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.

During the year, contributions of approximately HK$73,000 (2001: nil) were forfeited which are available to reduce the contributions payable in the future years.

(28) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow (outflow) from operating activities

	2002	2001
	HK$'000	HK$'000
Profit before taxation	**39,707**	28,045
Interest income	**(5,090)**	(3,435)
Interest expenses on bank loans, syndicated loan and bank overdrafts	**9,084**	12,260
Finance charges in respect of finance leases	**180**	401
Dividend income	**–**	(1,574)
Impairment of goodwill	**–**	9,159
Amortisation of goodwill	**617**	–
Loss (Gain) on disposal of intangible assets	**5**	(7,400)
Depreciation of fixed assets	**31,440**	23,323
Amortisation of intangible assets	**3,344**	10,845
Loss on disposal of investment securities	**10,823**	6,674
(Gain) Loss on disposals of fixed assets	**(37)**	52
Loss on disposal of club debenture	**1,499**	–
Increase in inventories	**(30,260)**	(2,253)
Increase in trade and other receivables	**(43,665)**	(90,742)
Decrease in trade and other payables	**(7,274)**	(5,821)
Net cash inflow (outflow) from operating activities	**10,373**	(20,466)

(28) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of a subsidiary

	2002	2001
	HK$'000	HK$'000
Net assets of the subsidiary acquired	**–**	–
Goodwill arising on consolidation	**–**	34,000
Satisfied by:		
Cash consideration paid	**–**	34,000

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

	2002	2001
	HK$'000	HK$'000
Cash consideration paid	**–**	(34,000)
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	**–**	(34,000)

(28) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Analysis of changes in financing during the year

	Share capital and share premium HK$'000	Interest-bearing borrowings HK$'000	Obligations under finance leases HK$'000	Minority interest HK$'000
As at 1 April, 2000	351,427	7,568	4,178	21,987
Drawdown of term 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 term loans and other loans	–	(3,072)	–	–
Share of loss for the year	–	–	–	(2,000)
As at 31 March, 2001	411,077	104,651	757	20,436
Drawdown of term loans	–	62,574	–	–
Repayment of obligations under finance leases	–	–	(480)	–
Credit arising on Capital Reduction	(349,431)	–	–	–
Trust receipt loans with maturity over 90 days	–	33,484	–	–
Syndicated loan raised	–	200,000	–	–
Repayment of syndicated loan	–	(85,000)	–	–
Repayment of term loans and other loans	–	(19,001)	–	–
Share of loss for the year	–	–	–	(1,267)
Acquisition of further interests in subsidiaries	–	–	–	(19,169)
As at 31 March, 2002	61,646	296,708	277	–

(28) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Disposal of a subsidiary

	2002	2001
	HK$'000	HK$'000
Net assets disposed of:	**–**	–

	2002	2001
	HK$'000	HK$'000
Satisfied by:		
Other receivables	**34,000**	–
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary:		
Cash received	**–**	–

During the year, the Group disposed of a subsidiary (the "Disposal") with a patent registered in Japan in connection with a technology for downloading Internet data for personal computers to wrist watches through infrared communication (the "Technology") for HK$34,000,000. The Disposal enabled the Group to recoup additional cash resources for better business opportunities. The market value of the Technology was HK$32,000,000 as valued by Sallmanns (Far East) Ltd., an independent valuer.

The subsidiary disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit for the year.

This represents the Group's only major non-cash transaction during the year.

(28) NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(e) Analysis of the balances of cash and cash equivalents

	2002	2001
	HK$'000	HK$'000
Cash and bank balances	**154,380**	97,153
Pledged fixed deposit at bank	**–**	11,625
Trust receipt loans	**(123,274)**	(146,267)
Bank overdrafts	**(381)**	(4,849)
Cash and cash equivalents at the end of the year	**30,725**	(42,338)

(29) CONTINGENT LIABILITIES

As at 31 March, 2002, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK$179,740,000 (2001: HK$165,210,000).

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK$816,000,000 (2001: HK$584,900,000). The extent of such facilities utilised by the subsidiaries as at 31 March, 2002 amounted to approximately HK$195,000,000 (2001: HK$151,000,000).

(30) FINANCIAL INSTRUMENTS

The Company had entered into interest rate swaps to manage its interest rate risk. As at 31 March, 2002, the total notional amount of such instruments was HK$201,000,000. The notional amounts of the outstanding interest rate swaps indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.

The Company had entered into currency-linked deposit contracts to manage its foreign currency risk. As at 31 March, 2002, the total US dollar based currency-linked deposits were amounted to US$2,200,000. The alternative currency of those contracts is Euro currency.

(31) CAPITAL AND LEASE COMMITMENTS

(a) Capital commitments outstanding as at 31 March, 2002 not provided for in the financial statements are as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
Contracted for	**628**	5,557

(b) As at 31 March, 2002, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings are payable as follows:

	The Group	
	2002	2001
	HK$'000	HK$'000
		(Restated)
– Within 1 year	**935**	932
– After 1 year but within 5 years	**3,707**	3,715
– After 5 years	**5,746**	6,672
	10,388	11,319

(32) PLEDGE OF ASSETS

As at 31 March, 2002, no assets of the Group were pledged.

As at 31 March, 2001, fixed bank deposits of HK$11,625,000 and leasehold properties with carrying value of HK$16,729,000 had been pledged to secure banking facilities for a subsidiary in the PRC and mortgage loans respectively.

(33) SUBSEQUENT EVENTS

On 6 June, 2002, the Directors announced that the Company proposed to issue, by way of rights, 367,822,300 rights shares at HK$0.18 each ("Rights Issue"). The Company will provisionally allot two right shares in nil-paid form for every one existing share held by the qualifying shareholders on the record date. The Rights Issue is not available to the overseas shareholders.

The net proceeds of the Rights Issue are expected to be about HK$63 million, about HK$24 million of which is intended to be used for establishing a distribution arm in the United States, about HK$10 million of which will be used for promoting the Group's licensed products through the distribution arm aforementioned, about HK$20 million of which will be used for developing its distribution network in the PRC and the remaining balance will be used as its general working capital.

The Rights Issue is conditional upon certain events as described in the announcement.