



Notes to the Financial Statements

Year ended 31st March, 2002

1. GENERAL

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

During the year, the Group was engaged in the operation of a chain of watch retail outlets, property holding and investment, securities investment and programming service.

2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group has adopted for the first time a number of new and revised SSAPs issued by the Hong Kong Society of Accountants (the "HKSA"). Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new/ revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new/ revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior period.

a) Leases

SSAP 14 (Revised) "Leases" has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised). Comparative amounts in note 38 have been restated in order to achieve a consistent presentation.

b) Segment Reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment Reporting". Segment disclosures for the year ended 31st March, 2001 have been amended so that they are presented on a consistent basis.

c) Provisions and contingent assets

In accordance with SSAP 28 "Provisions, Contingent Liabilities and Contingent Assets", provisions are recognized when the Group has a present obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reasonably estimated. Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the enterprise. Adoption of this accounting policy has resulted in the derecognition of general provisions and amounts receivable after more than one year. This change in accounting policy has been applied retrospectively, resulting in prior period adjustments (note 4).



2. IMPACT OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (Continued)

d) Goodwill

In the current year, the Group has adopted SSAP 30 "Business Combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to the adoption of this SSAP is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to the adoption of this SSAP will be credited to income statement at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after the adoption of this SSAP is capitalized and amortized over its estimated useful life. Negative goodwill arising on acquisitions after the adoption of this SSAP is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

e) Impairment of assets

SSAP 31 "Impairment of Assets" has introduced a formal framework for the recognition of impairment losses in respect of the Group's assets other than financial assets and investment properties. Although in prior years the Group complied with the requirements of specific SSAPs in respect of impairment losses, the introduction of SSAP 31 has required a re-estimation of the recoverable amount of certain leasehold properties, resulting in the identification of additional impairment losses at 31st March, 2002 amounting to approximately HK\$1,487,000. These additional impairment losses after net off with reserves of HK\$46,000, have been provided in full in the current year.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of consolidation

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

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserve, which was not previously charged or recognized in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

b) Goodwill and capital reserve

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill arising on acquisitions after 1st April 2001 is capitalized and amortized on a straight-line basis over its useful economic life, which is on average 20 years. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Goodwill arising on acquisitions prior to 1st April 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Investments in subsidiaries

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

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

d) Interests in associates

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

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

e) Contractual joint ventures

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

f) Investments in securities

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

i) *Investment securities*

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

ii) *Other investments*

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



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Revenue recognition

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

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

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

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

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

h) Fixed assets and depreciation and amortization

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

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



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Fixed assets and depreciation and amortization (Continued)

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

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

In previous years, leasehold improvements were depreciated at 5 – 20% per annum. With effect from 1st April, 2001, leasehold improvements are depreciated at 5 – 50% per annum, which reflects the Group's previous experience of the useful lives of its assets. The change in depreciation rate has increased the depreciation charge for the year by approximately HK\$1,684,000.

i) Investment properties

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

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

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

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Computer software

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

k) Impairment

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

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

l) Properties held for resale

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

m) Convertible notes

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

n) Inventories

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



3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Foreign currencies

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

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

p) Related parties

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

q) Trade receivables

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

r) Cash equivalents

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

s) Taxation

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

t) Operating leases

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

u) Retirement benefits scheme contributions

The contributions payable to the Group's defined contribution retirement benefits scheme or Mandatory Provident Fund are charged to the income statement.

4. PRIOR PERIOD ADJUSTMENTS

The financial effect of the adoption of the new/revised accounting policies described in note 2 is summarized below:

	Accumulated losses
	HK\$'000
Balance at 1st April, 2000	
As originally stated	328,068
Reversal of general provisions	(59,757)
Reversal of amounts receivable after more than one year (Note 35)	76,500
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As restated	344,811
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Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

5. TURNOVER AND OTHER REVENUE

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

	2002 HK\$'000	2001 HK\$'000
Turnover		
Sales of complete watches	182,039	141,032
Rental income		
Investment properties	3,967	3,348
Land and buildings	294	304
Others	276	264
	4,537	3,916
Investment securities	–	1,341
Programming service	2,784	–
	189,360	146,289
Other revenue		
Written back of provision for bad and doubtful debts	696	975
Written back of trade and other payables	6,409	544
Interest income from other than short-term bank deposits	886	1,245
Interest income from short-term bank deposits	1,420	3,122
Surplus arising from increase in value of properties held for resale	1,399	–
Others	5,694	3,215
	16,504	9,101
	205,864	155,390



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

6. SEGMENT INFORMATION

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

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

Principal activities of each business segment are as follows:

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

6. SEGMENT INFORMATION (Continued)

i) Business segment

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

	Year ended 31st March, 2002						Consolidated HK\$'000
	Sale of Complete watches HK\$'000	Property- related business HK\$'000	Investment securities HK\$'000	Programming service HK\$'000	Corporate HK\$'000	Elimination HK\$'000	
Segment revenue							
– External sales	182,039	4,537	–	2,784	–	–	189,360
– Inter-segment sales	–	135	–	487	–	(622)	–
	<u>182,039</u>	<u>4,672</u>	<u>–</u>	<u>3,271</u>	<u>–</u>	<u>(622)</u>	<u>189,360</u>
Segment results	<u>6,087</u>	<u>3,859</u>	<u>(1,316)</u>	<u>(4,303)</u>	<u>(1,334)</u>	<u>–</u>	<u>2,993</u>
Finance costs							(2,091)
Other expenses	(61)	(264)	–	(26)	(1,604)	–	(1,955)
Share of results of an associate	–	–	–	(1,082)	–	–	(1,082)
Loss before taxation							(2,135)
Taxation							(179)
Loss after taxation							(2,314)
Minority interests							2,466
Net profit for the year							<u>152</u>
Segment assets	121,921	51,051	28,083	4,964	87,538	–	293,557
Interest in an associate	–	–	–	2,745	–	–	2,745
Total assets	<u>121,921</u>	<u>51,051</u>	<u>28,083</u>	<u>7,709</u>	<u>87,538</u>	<u>–</u>	<u>296,302</u>
Segment liabilities	<u>51,669</u>	<u>3,545</u>	<u>121</u>	<u>387</u>	<u>78,879</u>	<u>–</u>	<u>134,601</u>
Other segment information extracted from the income statement and balance sheet							
Capital expenditure	4,010	151	–	945	7	–	5,113
Depreciation	4,759	365	–	265	237	–	5,626
Impairment losses recognized	–	1,441	–	–	–	–	1,441
Amortization of goodwill	–	–	–	26	1,567	–	1,593
Amortization of computer software	–	–	–	211	–	–	211



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

6. SEGMENT INFORMATION (Continued)

i) Business segment (Continued)

	Year ended 31st March, 2001					Consolidated HK\$'000
	Sale of Complete watches HK\$'000	Property- related business HK\$'000	Investment securities HK\$'000	Corporate HK\$'000	Elimination HK\$'000	
Segment revenue						
– External sales	141,032	3,916	1,341	–	–	146,289
– Inter-segment sales	–	135	–	–	(135)	–
	<u>141,032</u>	<u>4,051</u>	<u>1,341</u>	<u>–</u>	<u>(135)</u>	<u>146,289</u>
Segment results	<u>8,005</u>	<u>346</u>	<u>(1,984)</u>	<u>(4,032)</u>	<u>–</u>	<u>2,335</u>
Finance costs						(1,831)
Other income	(3,826)	–	–	10,110	–	<u>6,284</u>
Profit before taxation						6,788
Taxation						<u>(45)</u>
Profit after taxation						6,743
Minority interests						<u>–</u>
Net profit for the year						<u>6,743</u>
Segment assets	<u>99,964</u>	<u>52,558</u>	<u>29,252</u>	<u>60,292</u>	<u>–</u>	<u>242,066</u>
Segment liabilities	<u>35,677</u>	<u>4,738</u>	<u>145</u>	<u>84,140</u>	<u>–</u>	<u>124,700</u>
Other segment information extracted from the income statement and balance sheet						
Capital expenditure	3,907	32	–	223	–	4,162
Depreciation	2,289	438	–	256	–	2,983



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

6. SEGMENT INFORMATION (Continued)

ii) Geographical segment

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

	Year ended 31st March,			
	2002		2001	
	Segment revenue HK\$'000	Contribution to operating profit HK\$'000	Segment revenue HK\$'000	Contribution to operating profit HK\$'000
The PRC, excluding Hong Kong	181,275	10,963	129,853	14,115
Hong Kong	3,711	(5,439)	6,698	(6,363)
Others	4,374	(2,531)	9,738	(5,417)
	<u>189,360</u>		<u>146,289</u>	
Profit from operations		<u>2,993</u>		<u>2,335</u>

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

	Year ended 31st March,			
	2002		2001	
	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000	Carrying amount of segment assets HK\$'000	Additions to fixed assets HK\$'000
The PRC, excluding Hong Kong	155,022	3,886	130,513	3,874
Hong Kong	84,546	991	57,047	275
Singapore	30,800	–	30,147	–
Switzerland	17,623	28	17,487	13
Others	8,311	208	6,872	–
	<u>296,302</u>	<u>5,113</u>	<u>242,066</u>	<u>4,162</u>



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

7. OTHER OPERATING EXPENSES

	2002 HK\$'000	2001 HK\$'000
Provision for bad and doubtful debts	1,554	565
Provision for diminution in value of properties held for resale	–	1,990
Provision for slow-moving inventories	4,635	6,257
Net unrealized loss on revaluation of investments in securities	1,121	1,803
	<u>7,310</u>	<u>10,615</u>

8. OTHER (EXPENSES) INCOME

	2002 HK\$'000	2001 HK\$'000
Provision for impairment loss on leasehold properties	(1,441)	–
Written off of fixed assets	(64)	(3,826)
Amortization of goodwill	(1,593)	–
Written off of investment and amounts due from subsidiaries upon liquidation	1,143	10,110
	<u>(1,955)</u>	<u>6,284</u>

9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five years	5	–
Convertible notes	379	377
Other loan	32	–
	<u>416</u>	<u>377</u>
Convertible notes:		
Amortization of premium on redemption	972	972
Others	703	482
Total borrowing costs	<u>2,091</u>	<u>1,831</u>



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

10. (LOSS) PROFIT BEFORE TAXATION

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

	2002	2001
	HK\$'000	HK\$'000
Crediting:		
Gross rental income from investment properties	3,967	3,348
Rental income from land and buildings and others net of outgoings of HK\$Nil (2001: HK\$94)	570	568
Interest income from other than short-term bank deposits	886	1,245
Interest income from short-term bank deposits	1,420	3,122
Dividend from listed securities	–	30
Profit on disposal of fixed assets	–	222
	<u> </u>	<u> </u>
Charging:		
Auditors' remuneration		
Current year	657	594
Underprovision in prior year	–	3
Depreciation on owned assets	5,626	2,983
Amortization on		
Goodwill	1,593	–
Computer software	211	–
Provision for impairment loss on leasehold properties	1,441	–
Loss on written off of fixed assets	64	3,826
Net exchange loss	365	1,013
Staff cost excluding directors' fees and emoluments (Note 11)	22,446	17,515
Operating lease rentals in respect of rented premises	15,152	10,893
Retirement benefits scheme contributions, net of forfeited contributions of HK\$13,000 (2001: HK\$4,000)	421	325
	<u> </u>	<u> </u>



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

11. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	2002 HK\$'000	2001 HK\$'000
Fees:		
Executive directors	701	500
Non-executive directors, including independent non-executive directors	750	750
Emoluments to executive directors		
– Salaries and benefits in kind	2,181	1,416
– Retirement benefits scheme contributions	66	62
	3,698	2,728

The emoluments of the directors were within the following bands:

	Number of director(s)	
	2002	2001
Up to HK\$1,000,000	5	4
HK\$1,500,001 – HK\$2,000,000	1	1
	6	5

In addition to the above emoluments, certain directors had share options granted under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES" in the DIRECTORS' REPORT.

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

11. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (Continued)

Employees

The five highest paid individuals in the year included two (2001: one) directors, details of whose emoluments are set out above. The emoluments of the remaining three (2001: four) individuals are as follows:

	2002 HK\$'000	2001 HK\$'000
Salaries and benefits in kind	2,146	2,812
Performance related incentive payments	792	768
Retirement benefits scheme contributions	88	115
	<u>3,026</u>	<u>3,695</u>

The emoluments of the three (2001: four) individuals were within the following bands:

	Number of employee(s)	
	2002	2001
Up to HK\$1,000,000	2	3
HK\$1,000,001 – HK\$1,500,000	1	1
	<u>3</u>	<u>4</u>

12. TAXATION

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Taxation in other jurisdictions of the Company and its subsidiaries	<u>179</u>	<u>45</u>

No provision for Hong Kong Profits Tax has been made for the year as the Company and its subsidiaries operating in Hong Kong have no assessable profit during the year under review. Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profit for the year.

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

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

13. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$152,000 (2001: HK\$6,743,000), a loss of HK\$5,128,000 (2001: HK\$2,838,000) has been dealt with in the financial statements of the Company.

14. DIVIDEND

The Directors do not recommend the payment of a dividend for the year ended 31st March, 2002 (2001: Nil).

15. EARNINGS PER SHARE

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

	2002	2001
Earnings		
Earnings for the purpose of basic earnings per share	<u>HK\$152,000</u>	<u>HK\$6,743,000</u>
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	<u>328,541,434</u>	<u>291,719,516</u>
Basic earnings per share	<u>0.05 cent</u>	<u>2 cents</u>

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

16. INTANGIBLE ASSETS

The Group

	Goodwill	Computer software	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
At 1/4/2001	–	–	–
Acquired on acquisition of a subsidiary	36,415	–	36,415
Addition	–	281	281
	<u>36,415</u>	<u>281</u>	<u>36,696</u>
At 31/3/2002	<u>36,415</u>	<u>281</u>	<u>36,696</u>
Amortization			
At 1/4/2001	–	–	–
Acquired on acquisition of a subsidiary	4	–	4
Provided for the year	1,593	211	1,804
	<u>1,597</u>	<u>211</u>	<u>1,808</u>
At 31/3/2002	<u>1,597</u>	<u>211</u>	<u>1,808</u>
Net book values			
At 31/3/2002	<u>34,818</u>	<u>70</u>	<u>34,888</u>
At 31/3/2001	<u>–</u>	<u>–</u>	<u>–</u>

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

17. FIXED ASSETS

The Group

	Investment properties HK\$'000	Leasehold properties HK\$'000	Furniture, fixtures and fittings HK\$'000	Leasehold improve- ments HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1/4/2001	37,423	18,282	6,732	3,791	3,769	289	70,286
Currency realignment	-	-	-	-	2	-	2
Reclassification	(54)	54	-	-	-	-	-
Additions	-	-	161	3,755	1,041	-	4,957
Acquired on acquisition of a subsidiary	-	-	7	-	149	-	156
Written off	-	-	(1,956)	(30)	(16)	(65)	(2,067)
Deficit arising from revaluation	(514)	-	-	-	-	-	(514)
Eliminated on revaluation	(247)	-	-	-	-	-	(247)
At 31/3/2002	36,608	18,336	4,944	7,516	4,945	224	72,573
Comprising:							
At cost	-	13,445	4,944	7,516	4,945	224	31,074
At valuation - 1995	-	4,891	-	-	-	-	4,891
At valuation - 2002	36,608	-	-	-	-	-	36,608
At 31/3/2002	36,608	18,336	4,944	7,516	4,945	224	72,573
Depreciation and amortization							
At 1/4/2001	-	7,862	5,144	1,197	2,505	98	16,806
Currency realignment	-	-	-	-	1	-	1
Reclassification	247	(247)	-	-	-	-	-
Provided for the year	-	281	1,451	3,086	763	45	5,626
Acquired on acquisition of a subsidiary	-	-	-	-	5	-	5
Impairment loss recognized in the income statement	-	1,441	-	-	-	-	1,441
Impairment loss recognized in reserves	-	46	-	-	-	-	46
Eliminated on written off	-	-	(1,899)	(25)	(14)	(65)	(2,003)
Eliminated on revaluation	(247)	-	-	-	-	-	(247)
At 31/3/2002	-	9,383	4,696	4,258	3,260	78	21,675
Net book values							
At 31/3/2002	36,608	8,953	248	3,258	1,685	146	50,898
At 31/3/2001	37,423	10,420	1,588	2,594	1,264	191	53,480



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

17. FIXED ASSETS (Continued)

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

	2002		2001	
	Investment properties HK\$'000	Leasehold properties HK\$'000	Investment properties HK\$'000	Leasehold properties HK\$'000
In Hong Kong under long-term leases	14,900	1,601	15,600	2,280
Outside Hong Kong under medium term leases	21,708	7,352	21,823	8,140
	36,608	8,953	37,423	10,420

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, at 31st March, 2002 on an open market basis.

The Group's properties outside Hong Kong with carrying value of HK\$28,296,000 (2001: HK\$28,749,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and accumulated impairment losses, their carrying value at 31st March, 2002 would be approximately HK\$1,301,000 (2001: HK\$1,852,000).

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	320,837	320,847
Due from subsidiaries	810,362	766,784
Due to subsidiaries	(3,614)	(4,787)
	1,127,585	1,082,844
Provision for diminution in value	(826,845)	(826,984)
	300,740	255,860



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

18. INTERESTS IN SUBSIDIARIES (Continued)

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

Name of subsidiary	Place of incorporation, establishment or registration/operation	Paid up issued ordinary share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK\$10,000	100%	–	Investment holding
Asia Commercial Enterprises Limited	Hong Kong/ The PRC	HK\$2	–	100%	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
Dongguan Asia Commercial Enterprises Limited ("DACEL") 東莞冠亞企業有限公司	The PRC	US\$6,500,000	–	100%	Watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewellery watches
Time City (Hong Kong) Limited	Hong Kong	HK\$3,000,000	–	100%	Watch trading
Asia Commercial Trading Limited	Hong Kong	HK\$100	100%	–	Securities investment holding
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Property holding
Time City International Company Limited	British Virgin Islands/ The PRC	US\$50,000	–	100%	Watch retailing and trading



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

18. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation, establishment or registration/operation	Paid up issued ordinary share capital/registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
Asia Commercial Investments Limited	British Virgin Islands/ Singapore	US\$1	100%	–	Securities investment holding
KB Quest Holdings Limited (formerly known as New Cyber Profits Limited)	British Virgin Islands	US\$150,000	–	54%	Investment holding
KBQuest Hong Kong Limited (formerly known as I-Calendar Limited)	Hong Kong	HK\$1,950,000	–	54%	Sale and design of contract software programs

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

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

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

19. INTEREST IN AN ASSOCIATE

	The Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	<u>2,745</u>	<u>—</u>

Particular of the Group's associate as at 31st March, 2002 is as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of equity interest attributable to the Group	Principal activity
Shanghai Forward KBQuest Inc. 上海復華知識庫軟件有限公司	The PRC	US\$1,000,000	21%	Sale and design of computing software and related consultancy services

20. INVESTMENTS IN SECURITIES - INVESTMENT SECURITIES

		The Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	2,285	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	1,500	1,500
Club debentures		<u>984</u>	<u>984</u>
		4,769	4,769
Provision for diminution in value		<u>(1,500)</u>	<u>(1,500)</u>
		<u>3,269</u>	<u>3,269</u>

Notes:

- i) At 31st March, 2002, the Group held a 19% interest in Golden Crown, a company that was incorporated in Hong Kong and is engaged in the manufacturing of watchbands. The investment in Golden Crown is accounted for as investment securities as the Group does not have significant influence over this company.
- ii) At 31st March, 2002, the Group held a 15% interest in AC Watch, a company that was incorporated in Hong Kong. The Group does not have any influence or/and control over this company, which is under the process of winding up during the year under review. Full provision for diminution in value amounting to HK\$1,500,000 has been provided in the year of 1999.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

21. INVESTMENTS IN SECURITIES – OTHER INVESTMENTS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Debt securities				
– listed overseas	21,332	19,745	–	–
Equity securities				
– listed Hong Kong	1,980	2,520	–	–
– listed overseas	4,687	6,872	–	–
	6,667	9,392	–	–
	27,999	29,137	–	–

22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK\$13,783,000 (2001: HK\$7,662,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date is as follows:

	2002 HK\$'000	2001 HK\$'000
Trade receivables		
Up to 90 days	13,728	7,576
91 –180 days	21	37
Over 180 days	34	49
	13,783	7,662
Other receivables, deposits and prepayments	10,770	10,213
	24,553	17,875

The Company did not have any trade receivables at 31st March, 2002 and 2001.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

23. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Included in trade and other payables and accrued charges are trade payables of HK\$17,620,000 (2001: HK\$2,085,000), the aged analysis of which at the balance sheet date is as follows:

	2002 HK\$'000	2001 HK\$'000 (restated)
Trade payables		
Up to 90 days	17,106	1,451
91 – 180 days	10	–
Over 180 days	504	634
	17,620	2,085
Other payables and accrued charges	46,701	52,936
	64,321	55,021

The Company did not have any trade payables at 31st March, 2002 and 2001.

24. CONVERTIBLE NOTES

	The Group and The Company	
	2002 HK\$'000	2001 HK\$'000
Swiss Francs 11,800,000 7/8% Convertible Notes due 2010, at par	61,912	61,912
Premium on redemption	5,021	4,049
Accrued interest	1,874	1,495
Interest paid during the year	(542)	–
	68,265	67,456

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

24. CONVERTIBLE NOTES (Continued)

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

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

25. DEFERRED TAXATION

A potential deferred tax asset of the Group estimated to be approximately HK\$58,000,000 (2001: HK\$58,000,000) in respect of the tax losses available to set off future profits has not been recognized in the financial statements as there is no certainty that the tax losses will be utilized in the foreseeable future.

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

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year under review or at 31st March, 2002 and 2001.

26. SHARE CAPITAL

	Number of shares '000	Value HK\$'000
Ordinary shares of HK\$1 each		
Authorized:		
At 1st April, 2001 and 31st March, 2002	400,000	400,000
Issued and fully paid:		
At 1st April, 2001	291,719	291,719
Issued in consideration for the acquisition of a subsidiary	42,000	42,000
At 31st March, 2002	333,719	333,719



27. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 15th September, 1997 for the primary purpose of providing incentives to any executive directors or full time employees of the Company or any of its subsidiaries ("Eligible Employees") and expired on 15th September, 2000. Under the Scheme, the Board of Directors of the Company is authorized to grant options at a consideration of HK\$1.00 per option to the Eligible Employees to subscribe for shares in the Company.

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

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

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

No option was granted, exercised, cancelled or lapsed during the two years ended 31st March, 2002.

The holders of the options outstanding of 7,400,000 at 31st March, 2002 and 2001 are entitled to subscribe for shares in the Company at an exercise price of HK\$1.00 for each share.

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

28. RESERVES

The Group

	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1/4/2000							
As originally stated	84	3,355	920	2,075	156,959	(328,068)	(164,675)
Prior period adjustments	–	–	–	–	–	(16,743)	(16,743)
	84	3,355	920	2,075	156,959	(344,811)	(181,418)
Surplus arising from valuation of investment properties	–	459	–	–	–	–	459
Reclassification	–	344	(344)	–	–	–	–
Excess depreciation on revalued properties	–	–	(22)	–	–	22	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	(1,145)	–	–	(1,145)
Exclusion of a subsidiary from consolidation upon liquidation	–	–	–	–	–	1,008	1,008
Profit for the year	–	–	–	–	–	6,743	6,743
Balance at 31/3/2001	<u>84</u>	<u>4,158</u>	<u>554</u>	<u>930</u>	<u>156,959</u>	<u>(337,038)</u>	<u>(174,353)</u>
Balance at 1/4/2001	84	4,158	554	930	156,959	(337,038)	(174,353)
Deficit arising from valuation of investment properties	–	(514)	–	–	–	–	(514)
Reclassification	–	(188)	188	–	–	–	–
Net off with provision for impairment loss of leasehold properties	–	–	(46)	–	–	–	(46)
Excess depreciation on revalued properties	–	–	(18)	–	–	18	–
Exchange differences arising from translation of financial statements of operation outside Hong Kong	–	–	–	183	–	–	183
Exclusion of a subsidiary from consolidation upon liquidation	–	–	–	–	11	–	11
Profit for the year	–	–	–	–	–	152	152
Balance at 31/3/2002	<u>84</u>	<u>3,456</u>	<u>678</u>	<u>1,113</u>	<u>156,970</u>	<u>(336,868)</u>	<u>(174,567)</u>
Attributable to:							
The Company and subsidiaries	84	3,456	678	1,109	156,970	(335,786)	(173,489)
Associate	–	–	–	4	–	(1,082)	(1,078)
	<u>84</u>	<u>3,456</u>	<u>678</u>	<u>1,113</u>	<u>156,970</u>	<u>(336,868)</u>	<u>(174,567)</u>



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

28. RESERVES (Continued)

The Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1/4/2000			
As originally stated	84	(83,547)	(83,463)
Prior period adjustments	–	50	50
	84	(83,497)	(83,413)
Loss for the year (Note 13)	–	(2,838)	(2,838)
Balance at 31/3/2001	<u>84</u>	<u>(86,335)</u>	<u>(86,251)</u>
Balance at 1/4/2001	84	(86,335)	(86,251)
Loss for the year (Note 13)	–	(5,128)	(5,128)
Balance at 31/3/2002	<u>84</u>	<u>(91,463)</u>	<u>(91,379)</u>

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

The Company did not have any reserves available for distribution at 31st March, 2002 and 2001.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

29. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2002 HK\$'000	2001 HK\$'000
(Loss) profit before taxation	(2,135)	6,788
Non-cash items		
– Other revenue	(8,504)	(1,519)
– Other operating expenses	7,310	10,615
– Other expenses (income)	1,955	(6,284)
– Amortization of premium on redemption of convertible notes	972	972
Interest income from other than short-term bank deposits	(886)	(1,245)
Interest income from short-term bank deposits	(1,420)	(3,122)
Interest expenses	416	377
Depreciation and amortization	5,837	2,983
Share of results of an associate	1,082	–
Profit on disposal of fixed assets	–	(222)
Profit on disposal of investments in securities		
– other investments	–	(41)
Dividend income	–	(30)
Increase in inventories	(25,249)	(12,394)
Decrease in amounts receivable after more than one year	–	534
Increase in trade and other receivables, deposits and prepayments	(7,020)	(5,221)
Increase in trade and other payables and accrued charges	16,236	2,892
Decrease in rental received in advance	(214)	(55)
Net cash outflow from operating activities	(11,620)	(4,972)

30. ACQUISITION OF A SUBSIDIARY

On 16th May, 2001, the Company acquired 54% of the issued share capital of KBQuest for an aggregate consideration of HK\$42 million which was satisfied by the allotment and issue of 42 million shares at a price of HK\$1.00 per share. The transaction has been accounted for by the acquisition method of accounting. The details of the Acquisition constitute a discloseable transaction for the Company under the Listing Rules, are set out in the Company's circular dated 24th May, 2001. Turnover and operating loss of approximately HK\$2,784,000 and HK\$4,303,000 respectively were resulted from KBQuest and its subsidiaries during the period since the Acquisition.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

30. ACQUISITION OF A SUBSIDIARY (Continued)

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

	HK\$'000
Share of net assets acquired	(6,182)
Purchase consideration	42,000
	<hr/>
Goodwill	<u>35,818</u>

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

	HK\$'000
Net assets acquired:	
Goodwill	593
Amounts due from minority shareholders	792
Fixed assets	151
Trade and other receivables, deposits and prepayments	47
Bank balances and cash	10,093
Trade and other payables and accrued charges	(223)
Taxation	(5)
	<hr/>
	11,448
Less: Amount attributable to minority interests	<u>(5,266)</u>
	<hr/>
	6,182
Goodwill	<u>35,818</u>
	<hr/>
Consideration	<u>42,000</u>
	<hr/>
Satisfied by:	
Issuance of shares	<u>42,000</u>
	<hr/>
Cash consideration	–
Bank balances and cash acquired	<u>10,093</u>
	<hr/>
Net cash inflow of cash and cash equivalents in respect of the purchase of a subsidiary	<u>10,093</u>

During the period since the Acquisition, KBQuest and its subsidiaries has utilized HK\$5,220,000 from the Group's net operating cash flows and HK\$4,891,000 on investing activities.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

31. NET CASH OUTFLOW FROM WRITTEN OFF OF INVESTMENT AND AMOUNTS DUE FROM SUBSIDIARIES UPON LIQUIDATION

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Trade and other receivables, deposits and prepayments	–	37
Bank balances and cash	–	57
Trade and other payables and accrued charges	(1,154)	(11,194)
	(1,154)	(11,100)
Reversal of goodwill written off upon liquidation of a subsidiary	11	1,008
	(1,143)	(10,092)
Profit on written off of investment and amounts due from subsidiaries upon liquidation	1,143	10,110
	–	18
Satisfied by:		
Cash consideration received	–	18

32. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF WRITTEN OFF OF INVESTMENT AND AMOUNTS DUE FROM SUBSIDIARIES UPON LIQUIDATION

	2002 HK\$'000	2001 HK\$'000
Cash consideration	–	18
Less: Cash and cash equivalents disposed of with the subsidiaries upon liquidation	–	(57)
Net outflow of cash and cash equivalents in respect of written off of investment and amounts due from subsidiaries upon liquidation	–	(39)



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	Convertible notes	Minority interests
	HK\$'000	HK\$'000	HK\$'000
At 1/4/2000	291,803	66,107	–
Premium on redemption and interest accrued	–	1,349	–
At 31/3/2001	<u>291,803</u>	<u>67,456</u>	<u>–</u>
At 1/4/2001	291,803	67,456	–
Issue of shares on acquisition of a subsidiary	42,000	–	–
Premium on redemption and interest accrued	–	1,351	–
Repayment of interest	–	(542)	–
Capital contributed by minority shareholders	–	–	538
Acquisition of a subsidiary	–	–	4,474
Share of currency translation reserve	–	–	3
Share of loss for the year	–	–	(2,466)
At 31/3/2002	<u>333,803</u>	<u>68,265</u>	<u>2,549</u>

34. MAJOR NON-CASH TRANSACTIONS

During the year, the Group has issued 42 million ordinary shares of HK\$1.00 each of the Company at a price of HK\$1.00 per share for the acquisition of a subsidiary as stated in note 30 to the financial statements.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

35. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

(a) At 31st March, 2002, the Company had contingent liabilities as follows:

- (1) The Company has given corporate guarantees of HK\$11,000,000 (2001: HK\$40,000,000) to banks to secure general banking facilities granted to the Group. No bank facilities utilized at 31st March, 2002 and 2001.
- (2) The Company is the co-defendant with 2 Executive Directors in a representative action (the "Action") commenced by Galmare Investment Limited on 27th April, 2001, suing on behalf of itself and all other shareholders, other than the Executive Directors. As the Company is only named as "nominal defendant", no significant adverse financial effect to the Company is anticipated up to the date of this report. The Board shall inform the shareholders by press announcement, should there be any significant progress or major development in the litigation, which affects the interests of the shareholders in due course.
- (3) The Company is also named as defendant in another legal action. The Claimant claimed the debt of approximately HK\$1,700,000 which was arrived at during the restructuring of the Company around the years 1996 to 1997, and full provision has been provided then. An out-of-court settlement of HK\$800,000 has been reached on or around 12th July, 2002.

Save as disclosed herein, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

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



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

36. RELATED PARTY TRANSACTIONS AND BALANCES

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

- (1) Summary of income and expenses items

	Income (Expenses)	
	2002 HK\$'000	2001 HK\$'000
Interest income from a minority shareholder who is also a director, of a former subsidiary	442	621
Provision for interest receivable from the above mentioned minority shareholder of a former subsidiary (Note)	(442)	(521)
Sales of programming software and related consultancy services to a substantial shareholder of the Company	991	—

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

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade and other receivables, deposits and prepayments	302	—	—	—

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

Note: On 17th July, 2000, a writ has been lodged to High Court to claim the aggregated overdue balance and interest thereon amounting to approximately HK\$7.5 million. At 31st March 2002, the civil procedure of High Court of the legal action has being processed.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

37. PLEDGE OF ASSETS

The Group

At the balance sheet date, general banking facilities granted to the Group of HK\$11,000,000 (2001: HK\$40,000,000) were secured by certain properties as follows:

	2002 HK\$'000	2001 HK\$'000
Carrying value of pledged assets:		
Investment properties	14,900	15,600
Leasehold properties	1,600	2,280
	16,500	17,880

38. OPERATING LEASE ARRANGEMENTS

As lessor

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

	2002 HK\$'000	2001 HK\$'000
Within one year	3,892	3,782
In the second to fifth years inclusive	8,257	10,182
After the fifth year	3,128	4,519
	15,277	18,483

Most of leases require tenants to pay security deposits upon signing the leases, which are negotiated for terms ranging from 1 to 9 years.

As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 6 years. Certain rentals for the use of retail outlets are determined by reference to the revenue of the relevant outlets for the year and the rentals for certain retail outlets will be escalated by a fixed percentage per annum.



Notes to the Financial Statements (Continued)

Year ended 31st March, 2002

38. OPERATING LEASE ARRANGEMENTS (Continued)

As lessee (Continued)

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

	2002	2001
	HK\$'000	HK\$'000
Within one year	12,900	6,885
In the second to fifth years inclusive	14,676	7,425
After the fifth year	41	–
	27,617	14,310

The Company had no operating lease arrangements at 31st March, 2002 and 2001.

39. RETIREMENT BENEFITS SCHEME

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

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

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

40. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following post balance sheet events took place:

- (1) Subject to receiving approvals from shareholders of the Company, The Stock Exchange of Hong Kong Limited and the Bermuda Monetary Authority, the Company will adopt a new share option scheme (the “New Scheme”) under which the Board of Directors of the Company may grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of the grant of the options. The maximum number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the issued share capital of the Company from time to time.
- (2) Save as mentioned in note 35 to the financial statements, the Company is also named as defendant in another legal action. The Claimant claimed the debt of approximately HK\$1,700,000 which was arrived at during the restructuring of the Company around the years 1996 to 1997, and full provision has been provided then. An out-of-court settlement of HK\$800,000 has been reached on or around 12th July, 2002.

41. COMPARATIVE FIGURES

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