

## NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation

The unaudited interim financial statements (the "Interim Report") are prepared in accordance with the requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Hong Kong Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants, except that comparative figures for cash flow statement have not been prepared as the Company has taken advantage of the transitional provisions set out in the Listing Rules.

The accounting policies adopted in the annual accounts for the year ended 31 December 2001 have been applied to the Interim Report.

### 2. Segmental information

The Group are principally engaged in the manufacturing and trading of watches and watch components, the provision of electroplating services, distribution of computer components, investment holdings and property holding.

The Group's turnover and contribution to operating profit/(loss) by principal activities and geographical segments for the six months ended 30 June 2002 are as follows:

By principal activities:

	Turnover		Contribution to	
	Six months		operating profit/(loss)	
	ended 30 June		Six months	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of watches	<b>38,226</b>	26,012	<b>5,484</b>	1,570
Distribution of computer components	<b>9,259</b>	21,266	<b>(430)</b>	(651)
Sales of watch components	<b>9,471</b>	11,716	<b>(114)</b>	(2,905)
Provision of electroplating services	<b>8</b>	191	<b>2</b>	18
Investment holdings	-	-	<b>(2,837)</b>	(1,432)
Property holding	-	-	-	(211)
	<b>56,964</b>	59,185	<b>2,105</b>	(3,611)
General and administrative expenses			<b>(1,828)</b>	(5,703)
			<b>277</b>	(9,314)

By geographical segments:

	<b>Turnover</b>	
	<b>Six months</b>	
	<b>ended 30 June</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Hong Kong	<b>22,673</b>	30,709
Middle East	<b>10,045</b>	10,574
Canada	<b>5,977</b>	7,590
South America	<b>13,863</b>	4,653
United States of America	<b>412</b>	1,869
Europe	<b>2,966</b>	2,745
Africa	<b>144</b>	265
Asia and Asia Pacific	<b>884</b>	780
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<b>Turnover</b>	<b>56,964</b>	59,185
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### 3. Operating profit/(loss)

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

	<b>Six months</b>	
	<b>ended 30 June</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Reversal of provision for obsolete and slow moving inventories	-	(10,120)
Depreciation	<b>2,097</b>	3,101
Amortisation of goodwill	<b>1,339</b>	-
Recovery of provision for advances to a supplier	<b>(8,337)</b>	(6,738)
Loss on disposal of fixed assets	<b>974</b>	83
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### 4. Taxation

No provision for Hong Kong and overseas profits tax have been made as the Group and its subsidiaries did not have any estimated assessable profits arising in Hong Kong or overseas countries during the period under review.

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

No provision for deferred taxation has been made in the Interim Report as the effect of timing differences is not material to the Group.

## 5. Dividend

The Board does not recommend any interim dividend for the six months ended 30 June 2002 (30/6/2001: Nil).

## 6. Loss per share

The calculation of basic loss per share is based on the unaudited loss attributable to shareholders for the six months ended 30 June 2002 of HK\$553,000.00 (30/6/2001: loss HK\$9,467,000.00). The basic loss per share is based on the weighted average of 3,369,278,942 (30/6/2001: 3,269,113,745) shares in issue during the period.

The diluted loss per share is not presented for the six months ended 30 June 2002 as there was anti-dilutive effect.

The diluted earnings per share for the six months ended 30 June 2002 was based on the weighted average number of shares in issue during that period plus the weighted average of 3,369,278,942 shares deemed to be issued at nil consideration if all outstanding warrants had been exercised.

## 7. Goodwill arising on consolidation

Goodwill arising on the acquisition of subsidiaries, being the excess of the cost of investments in these companies over the fair value of the Group's share of the separable net assets acquired, is amortised on a straight-line basis over its estimated useful life not exceeding 20 years. Any impairment loss identified will be recognised as expenses in the profit and loss account immediately.

## 8. Trade receivables

An ageing analysis of the trade receivables is as follows:-

	<b>30 June 2002</b>	31 December 2001
	<b>HK\$'000</b>	HK\$'000
0-3 months	<b>12,088</b>	8,265
4-6 months	<b>1,466</b>	2,636
7-12 months	<b>2,702</b>	2,461
Over 1 year	-	16
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	<b>16,256</b>	13,378
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It is the Group's policy to make full provision on those trade debts outstanding for more than one year.

## 9. Advances to a supplier

	<b>30 June 2002</b>	31 December 2001
	<b>HK\$'000</b>	HK\$'000
Advances to a supplier	-	12,387
Less: Provision	-	(12,387)
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During the years 1997 and 1998, the Group had advanced totally HK\$56,669,000.00 to Cheung Tat Metal Products Factory ("Cheung Tat"), a supplier of the Group, for supply of goods which were later found to be defective. On 20 October 1999, the Group and Cheung Tat entered into a deed of settlement (the "Deed of Settlement") under which Cheung Tat agreed to deliver 100,000 quartz watch movements of acceptable quality to the Group every month between November 1999 and May 2004. The price of the quartz watch movements was fixed at the then market value.

Up to April 2002 the Group had received a total quantity of 5,448,986 quartz watch movements of acceptable quality and fit for the purpose of the Group in the total value of not less than HK\$56,669,000.00. Accordingly, the Settlement between Stime Watch Manufacturing Company Limited and Cheung Tat has been completed.

During the period under review, the price of quartz watch movement continues to drop. In order to reflect the real performance in the Group, a loss of HK\$4,050,000.00 was recognised as other loss in the Profit and Loss Account.

## 10. Trade payables

	<b>30 June 2002</b>	31 December 2001
	<b>HK\$'000</b>	HK\$'000
0-3 months	<b>9,168</b>	8,659
4-6 months	<b>2,963</b>	3,216
7-12 months	<b>1,577</b>	5,260
Over 12 months	<b>3,715</b>	2,428
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	<u><b>17,423</b></u>	<u>19,563</u>

## 11. Share capital

	Number of shares HK\$'000	Amount HK\$'000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each		
At 1 January 2002	3,345,930	33,459
Issue of new shares	23,349	234
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<b>At 30 June 2002</b>	<b>3,369,279</b>	<b>33,693</b>
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During the period, 23,348,216 warrants were exercised and 23,348,216 ordinary shares of HK\$0.01 each were issued at HK\$ 0.02 per share.

## 12. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	166,570	814	140	(168,735)	(1,211)
Issue of shares	3,724	-	-	-	3,724
Acquisition of subsidiary	9,300	-	-	-	9,300
Share issue expenses	(51)	-	-	-	(51)
Loss attributable to Shareholders	-	-	-	(21,062)	(21,062)
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At 31 December 2001	179,543	814	140	(189,797)	(9,300)
Issue of shares	233	-	-	-	233
Loss attributable to Shareholders	-	-	-	(553)	(553)
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<b>At 30 June 2002</b>	<b>179,776</b>	<b>814</b>	<b>140</b>	<b>(190,350)</b>	<b>(9,620)</b>
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## 13. Contingent Liabilities

As at 30 June 2002, 28 (31/12/2001: 26) employees have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Company is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees met the circumstances set out in the Ordinance, the Company's liability as at 30 June 2002 would be approximately HK\$2,706,000.00 (31/12/2001: HK\$3,147,000.00). No provision has been made in this respect.

#### 14. Commitments under operating leases

The Group's total future minimum lease payments under non-cancellable operating leases are as follows:

	Land and buildings		Office equipment	
	30 June 2002 HK\$'000	31 December 2001 HK\$'000	30 June 2002 HK\$'000	31 December 2001 HK\$'000
Within one year	998	-	-	-
Two to fifth years inclusive	2,160	4,310	51	60
	<u>3,158</u>	<u>4,310</u>	<u>51</u>	<u>60</u>

#### 15. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

### INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2002 (30/6/2001: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

For the period under review, the Group's turnover amounted to approximately HK\$56,964,000.00 (6/2001: HK\$59,185,000.00), representing a loss of 3.75% over the same period last year, in which turnovers of watch business and computer distribution operation represented approximately 84% and 16% respectively.

For the six months ended 30 June 2002, loss attributable to shareholders of the Group amounted to approximately HK\$553,000.00 (6/2001: loss attributable to shareholders of HK\$9,467,000.00). Loss per share for the period under review amounted to 0.02 HK cents (6/2001: loss per share of 0.29 HK cents).

### Liquidity and Financial Information

As at 30 June 2002, the Group's bank and other borrowings amounted to approximately HK\$12,928.00, compared with approximately HK\$13,646,000.00 as at 31 December 2001. Cash and bank balances amounted to approximately HK\$321,000.00 as at 30 June 2002, compared with approximately HK\$9,773,000.00 as at 31 December 2001. The net borrowings amounting to approximately HK\$12,607,000.00 as at 30 June 2002 (31/12/2001: HK\$3,873,000.00) were secured by the Group's leasehold land and buildings.