

### **FINANCIAL RESULTS**

For the year ended 31 December 2002, the Group's turnover was approximately HK\$112.8 million, representing a marginal decrease of less than 1% as compared to HK\$113.1 million in the previous corresponding period. Such marginal change was mainly due to the deteriorating performance of the distribution of computer components operations which was eventually disposed during the year. The Group's loss attributable to shareholders was approximately HK\$25.5 million for the year, representing an increase of 21% as compared with HK\$21.1 million of last year and the loss per share for the year was 0.74 cents (2001: 0.64 cents). The increase in loss attributable to shareholders for the year was mainly due to the loss on disposal of the subsidiaries engaging in the distribution of computer components amounted to HK\$3.6 million and the decrease in other gains of approximately HK\$13.4 million. Nevertheless the Group was managed to reduce the administrative overheads by HK\$12.6 million.

### **DIVIDENDS**

The Board of Directors has resolved not to recommend any dividend for the financial year ended 31 December 2002 (2001: Nil).

### **BUSINESS REVIEW**

The past financial year was still a difficult year for the Group. In light of uncertain economic climate and the war in Iraq, recovery of the US economy was still in a sluggish pace and customer confidence remained weak. The Group was unable to avoid making a loss despite continue efforts in costs reduction and streamline of manpower and organization structure.

#### **Manufacturing and selling of watches and watches components**

For the year ended 31 December 2002, the Group's income derived from the manufacturing and sale of watches and watch components was approximately HK\$103.4 million, which was equivalent to 91.6% of the Group's total turnover, representing an increase of 37.5% compared with the turnover of manufacturing and sale of watches and watch components of approximately HK\$75.2 million for the last year. The loss incurred was approximately HK\$16 million, an increase of 85.3% from the loss of HK\$8.7 million recorded in last year. The increase of loss was mainly due to the decline in profit margin and the increase of sales and marketing expenditure.

Other than the local and PRC market, Middle East remained as a major market of the Group, and significant effort and resources was spent on South America to strengthen the business. Both Middle East and South America recorded a growth, of which turnover of South America substantially increased from approximately HK\$10 million in 2001 to approximately HK\$31.7 million in 2002, representing an increase of 217%.

## **BUSINESS REVIEW** *(continued)*

### **Distribution of computer components – discontinued operation**

The Group's turnover in the distribution of computer components for the year ended 31 December 2002 was approximately HK\$9.4 million, representing a 75.1% decrease compared with HK\$37.9 million in 2001. For the year under review, the loss recorded from the distribution of computer components was approximately HK\$0.4 million (2001: HK\$2.8 million). Due to the rapidly changing business environment and increasing number of rivals in the industry, plunge of prices resulted in significant decline in profit margin and the operations of distribution of computer components suffered continuous trading loss since its acquisition, and in August 2002, the directors decided to suspend its operations. The Canada operation and Enet.com Limited were eventually disposed in December 2002 for an aggregate cash consideration of HK\$211,000, resulting in a loss on disposal of subsidiaries of approximately HK\$3.6 million representing the difference between the sale proceeds together with the Group's share of net deficit of the disposed subsidiaries and any unamortized goodwill.

### **Employees**

As at 31 December 2002, the Group employed a total workforce of approximately 2,100 people (2001: 1900) among which 30 people (2001: 50) were working in Hong Kong. The staff costs for the year amounted to approximately HK\$8.6 million (2001: HK\$14.9 million). The employees' remuneration, promotion and salary increment are assessed based on their work performance, working and professional experiences and the prevailing market practice.

### **Pledge of Assets**

The Group's leasehold land and buildings in the PRC with a market value of approximately HK\$20.1 million (2001: HK\$21.9 million) were pledged to a bank for banking facilities granted to the Group amounted to approximately HK\$12.2 million (2001: 12.2 million).

### **Contingent Liability**

As at 31 December 2002, the Group had 26 employees eligible for long service payments on termination of their employment amounted to approximately HK\$3.1 million (2001: HK\$3.1 million) and had no contingent liability in respect of guarantee facilities.

## LIQUIDITY AND CAPITAL RESOURCES

### Borrowings

As at 31 December 2002, the Group's had total borrowings amounted to approximately HK\$15.1 million, as compared to HK\$15 million approximately as last financial year end, of which HK\$2.5 million (2001: Nil) is secured by personal guarantee executed by a director of the Company and is repayable on demand, HK\$0.4 million (2001: HK\$1.3 million) represents obligations under finance leases and hire purchase contracts and the remaining balance of HK\$12.2 million (2001: HK\$12.2 million) represents a long term bank loan which is due on 16 May 2004 and is secured by the Group's leasehold land and buildings. As at 31 December 2002, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' funds, was 844 percent, as compared with 62 percent in last financial year end.

As at 31 December 2002, the Group recorded a net current liabilities of approximately HK\$8 million (2001: net current assets of approximately HK\$0.6 million) and a shareholders' funds of HK\$1.8 million (2001: HK\$24.2 million). The deterioration in financial position of the Group was mainly due to continued operating loss of the Group over the years. To raise further working capital of the Group and strengthen the asset value of the Group, the Group will look into the debt and equity markets in the near future.

### Capital Investments and Commitments

The Group did not incur or commit any material investment of capital expenditure during the year and due to the tight liquidity position of the Group, it is not expected that any material investment or capital expenditure will be made until additional financing can be sourced either from the capital or debt markets in the near future.

### Capital Structure

As at 31 December 2002, the Group had total assets of approximately HK\$53.9 million (2001: HK\$89.8 million). Current assets of the Group were approximately HK\$32 million (2001: HK\$54.1 million), while current liabilities were approximately HK\$40 million (2001: HK\$53.4 million).

During the year, 23,348,216 shares of HK\$0.01 each were issued at a subscription price of HK\$0.02 per share to the warrant holders upon the exercise of their subscription rights for a total consideration of approximately HK\$0.4 million.

During the year under review, the Group placed 270,000,000 new shares of HK\$0.01 each to 6 independent investors at the price of HK\$0.01 per placing share. The net proceeds of approximately HK\$ 2.6 million has been used as general working capital of the Group.

Subsequent to the balance sheet date, the Group placed 400,000,000 new shares of HK\$0.01 each to 6 independent investors at the price of HK\$0.01 per placing share. The net proceeds of approximately HK\$ 3.9 million will be used as the general working capital for operating activities.

### **PROSPECTS**

After the suspension and disposal of the business of distribution of computer components, selling and manufacturing of watches became the core and major revenue contribution business of the Group. Based on the current market conditions, the Board anticipates that the coming year will be more challenging and difficult to the Group as the global economy remains sluggish since the terrorism attack in the US and the warfare in Iraq. Tensions still exist owing to the turbulent situation in Middle East after the war which is one of the major markets of the Group at present. The Company will continue to cautiously allocate resources on other geographic segment with relatively stable market conditions. The economy of Hong Kong and PRC has been further affected by the outbreak of Severe Acute Respiratory Syndrome ("SARS"). The underlying impact of such contagion on the overall economy is not yet revealed and the prolonged period is unforeseeable.

Despite the unfavorable economic environment, the Board believes that the huge market of China still provides good opportunities and the Group will continue to explore new business and investment opportunities with good potential as to diversify the Group's business and bring in new sources of income. It will continue to enhance efficiencies by way of streamline operation, retrenching of organization structure and costs reduction, and it may consider any business rationalization whenever it deems appropriate after evaluation of existing business and future development plan from time to time, in order to improve its financial position and enhance shareholders value as a whole.

### **ACKNOWLEDGEMENTS**

Last but not least, I would like to thank my fellow directors, dedicated employees, our supportive shareholders and our loyal customers and suppliers for their confidence and continued support in the Group.

**Cheung Lik Chung**

*Chairman & Executive Director*

Hong Kong, 28 April 2003