1. BASIS OF PREPARATION OF ACCOUNTS

The Group incurred a consolidated net loss attributable to the shareholders of approximately HK$25 million for the year ended 31 December 2002 and at that date its net current liabilities were approximately HK$8 million.

Based on a review of the existing and projected operations of the Group, the directors believe that the Group would require continual financial support from its creditors and shareholders to sustain its operations.

As disclosed in note 35, subsequent to the balance sheet date, the Company has entered into a conditional placing agreement with a placing agent for the placing of 400,000,000 new ordinary shares of HK$0.01 each to not fewer than six independent placees. The net proceeds of the placing of approximately HK$3.9 million will be used as the Group's general working capital for operating activities.

In the opinion of the directors, continual financial support will be provided by the Group's creditors and shareholders and with the expected proceeds to be raised from the placing of shares mentioned in the above paragraph, the Group will have sufficient working capital for its current operational requirements, notwithstanding that no firm commitment has been given by the Group's creditors and shareholders to provide the required financial support.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments have not been reflected in the accounts.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

In the current year, the following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's consolidated accounts:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits

These SSAPs prescribes new accounting measurement and disclosure practices. The major effects on the Group's accounting policies on the amounts disclosed in the accounts of adopting these SSAPs are summarised as follow:

SSAP 1 (revised) prescribes the basis for the presentation of accounts and set out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity now presented on page 25 in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (revised) prescribes the basis for the translation of foreign currency transactions and accounts. The principal impact of this revised SSAP on the accounts is that the profit and loss accounts of overseas subsidiaries are translated at an average rate for the year on consolidation, rather than at the closing rate. This has had no material effect on the amounts previously recorded in the accounts.

SSAP 15 (revised) prescribes the format for the cash flow statement. The principal impact of the revision on this SSAP is that cash flows are now presented under three headings, that is, cash flows from operating, investing and financing activities, rather than the five headings previously required. The format of the consolidated cash flows statement set out on page 26 of the accounts and the notes thereto have been revised in accordance with the new requirements.

SSAP 33 prescribes the basis for reporting information about discontinuing operations and has resulted in certain additional disclosures, which are included in note 6 of the accounts.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in additional disclosures relating to the Company's share option scheme, as set out in note 31 of the accounts.

3. PRINCIPAL ACCOUNTING POLICIES

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of certain properties. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

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

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

Goodwill

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

Goodwill on acquisition is included in intangible assets and is amortised using the straight-line method over its estimated useful life not exceeding 20 years.

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

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

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

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

Fixed assets

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

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

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

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

Other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of fixed assets is calculated to write off their cost on a straight line basis over their estimated useful lives to the Group. The principal annual rates used for this purpose are as follows:–

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Fixed assets *(continued)*

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

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

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

Construction in progress

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

Assets under leases

(i) Finance leases

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

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

Assets held under finance leases are depreciated over their estimated useful lives.

(ii) Operating leases

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

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Inventories

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

Trade receivables

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

Deferred taxation

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

Translation of 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 consolidated profit and loss account.

On consolidation, the accounts of overseas subsidiaries are translated to Hong Kong dollars using the net investment method. The profit and loss account of overseas subsidiaries are translated to Hong Kong dollars at the average rates for the year. The balance sheet of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserves.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the average exchange rates for the year.

In previous years, the profit and loss account and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The change in the treatment of such items in the current year has, however, had no significant effect on these accounts.

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

Provisions

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

Borrowing costs

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

Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred.

(iii) The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled or which lapse prior to their exercise date are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

(iv) Certain of the Group's employees have completed the required number of years of services to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the events of that such a termination of employment meets the circumstances specified in the Employment Ordinance. No provision has been made for this amount in the accounts as it is not expected to be crystallised in the foreseeable future.

4. REVENUE AND TURNOVER

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

	2002 HK$'000	2001 HK$'000
Turnover		
Sale of watches and watch components	103,380	75,186
Distribution of computer components	9,445	37,946
	112,825	113,132
Other revenues		
Interest income	172	20
Other income	111	46
	283	66
Total revenues	113,108	113,198

5. SEGMENT INFORMATION

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

(a) By business segment

The Group's operating businesses are organised and managed separately, 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:

– Manufacturing and selling of watches and watch components

– Distribution of computer components

5. SEGMENT INFORMATION *(continued)*

(a) By business segment *(continued)*

The following tables represent revenue and profit information on each of the above business segments for the years ended 31 December 2001 and 2002, and certain assets and liabilities information regarding business segments at 31 December 2001 and 2002.

	Manufacturing and selling of watches and watch components (continuing operation)		Distribution of computer components (discontinued operation)		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Turnover						
External sales	103,380	75,186	9,445	37,946	112,825	113,132
Results						
Segment result	(16,041)	(8,657)	(447)	(2,827)	(16,488)	(11,484)
Interest income					172	20
Unallocated corporate expenses					(4,613)	(8,095)
Loss from operations					(20,929)	(19,559)
Finance costs					(926)	(674)
Impairment loss on goodwill	–	–	–	(703)	–	(703)
Loss on disposal of subsidiaries	–	–	(3,596)	–	(3,596)	–
Loss before taxation					(25,451)	(20,936)
Taxation					(26)	(126)
Loss for the year					(25,477)	(21,062)

5. SEGMENT INFORMATION *(continued)*

(a) By business segment *(continued)*

	Manufacturing and selling of watches and watch components (continuing operation)		Distribution of computer components (discontinued operation)		Consolidated	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Assets						
Segment assets	53,325	75,918	–	3,141	53,325	79,059
Unallocated corporate assets					617	10,783
					53,942	89,842
Liabilities						
Segment liabilities	45,122	47,708	–	6,147	45,122	53,855
Unallocated corporate liabilities					7,030	11,828
					52,152	65,683
Other information						
Capital expenditure	790	459	–	40		
Depreciation	3,225	4,986	–	113		
Non-cash (income)/ expenses other than depreciation	991	(761)	–	–		

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segment information about these businesses is presented below:

The following is the analysis of the Group's sales by geographical market, and the carrying amount of assets and capital expenditures by location of assets:

Year 2002	Hong Kong & Mainland China HK$'000	Middle East HK$'000	Canada HK$'000	South America HK$'000	Europe HK$'000	Other locations HK$'000	Total HK$'000
Segment revenue							
Manufacturing and selling of watches and watch components (continuing operation)	35,650	22,026	900	31,667	7,982	5,155	103,380
Distribution of computer components (discontinued operation)	3,282	–	6,163	–	–	–	9,445
	38,932	22,026	7,063	31,667	7,982	5,155	112,825
Segment assets							
Manufacturing and selling of watches and watch components (continuing operation)	42,960	8,084	–	542	1,342	397	53,325
Distribution of computer components (discontinued operation)	–	–	–	–	–	–	–
Unallocated corporate assets	617	–	–	–	–	–	617
	43,577	8,084	–	542	1,342	397	53,942
Capital expenditures							
Manufacturing and selling of watches and watch components (continuing operation)	790	–	–	–	–	–	790
Distribution of computer components (discontinued operation)	–	–	–	–	–	–	–
	790	–	–	–	–	–	790

5. SEGMENT INFORMATION *(continued)*

(b) Geographical segment information about these businesses is presented below: *(continued)*

Year 2001	Hong Kong & Mainland China HK$'000	Middle East HK$'000	Canada HK$'000	South America HK$'000	Europe HK$'000	Other locations HK$'000	Total HK$'000
Segment revenue							
Manufacturing and selling of watches and watch components (continuing operation)	33,512	17,696	–	9,967	7,308	6,703	75,186
Distribution of computer components (discontinued operation)	15,217	–	22,729	–	–	–	37,946
	48,729	17,696	22,729	9,967	7,308	6,703	113,132
Segment assets							
Manufacturing and selling of watches and watch components (continuing operation)	71,868	2,816	–	–	1,019	215	75,918
Distribution of computer components (discontinued operation)	1,805	–	1,336	–	–	–	3,141
Unallocated corporate assets	10,783	–	–	–	–	–	10,783
	84,456	2,816	1,336	–	1,019	215	89,842
Capital expenditures							
Manufacturing and selling of watches and watch components (continuing operation)	459	–	–	–	–	–	459
Distribution of computer components (discontinued operation)	8	–	32	–	–	–	40
Unallocated capital expenditures	17	–	–	–	–	–	17
	484	–	32	–	–	–	516

6. DISCONTINUED OPERATION

On 12 December 2002, Enet.com Limited ("Enet.com"), an indirect subsidiary of the Company, entered into an agreement with a third party for the disposal of interests in 1024120 Ontario Limited, a direct subsidiary of Enet.com, which was engaged in the distribution of computer components business and operating in Canada. The aggregate cash consideration was HK$200,000. The transaction was completed on 23 December 2002.

On 28 December 2002, Lifecycle Investments Limited, a direct subsidiary of the Company, entered into an agreement with third party for the disposal of interests in Enet.com for a cash consideration of HK$11,000. At the date of disposal, Enet.com held 100% interest in G.C. Systems (Asia) Limited which was engaged in the distribution of computer components business and operating in Hong Kong. After the disposal of Enet.com, the Group ceased to be engaged in the business of distribution of computer components.

The aggregate loss on disposal of the above subsidiaries amounted to HK$3,596,000.

The results from the ordinary operations of the distribution of computer components business included in the consolidated profit and loss account for the year ended 31 December are as follows:

	2002 HK$'000	2001 HK$'000
Turnover	9,445	37,946
Cost of sales	(8,971)	(36,626)
Gross profit	474	1,320
Other revenues	4	26
Distribution costs	(8)	(81)
Administrative expenses	(820)	(3,300)
Other operating expenses	(97)	(792)
Operating loss	(447)	(2,827)
Finance costs	–	(112)
Loss before taxation	(447)	(2,939)
Taxation	–	91
Net loss	(447)	(2,848)

6. DISCONTINUED OPERATION *(continued)*

The net cash flows attributable to the distribution of computer components business included in the consolidated cash flow statement are as follows:

	2002 HK$'000	2001 HK$'000
Operating activities	1,508	(1,003)
Investing activities	145	(29)
Financing activities	(160)	611
Net cash inflows/(outflows)	1,493	(421)

7. OPERATING LOSS

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

	2002 HK$'000	2001 HK$'000
Cost of inventories sold	110,260	125,487
Provision/(reversal) for obsolete and slow moving inventories	9,097	(7,944)
Auditors' remuneration	330	462
Depreciation		
– Owned fixed assets	3,363	3,803
– Leased fixed assets	–	1,784
Amortisation of goodwill	2,490	2,678
Staff costs (excluding directors' remuneration) – *note*	8,560	14,891
Retirement scheme contribution	332	557
Operating lease rentals:		
Hire of office equipment	19	19
Land and buildings	1,619	3,322
Other operating expenses		
Provision for bad debt	2,821	493
Loss on disposal of fixed assets	97	385
Other loss *(note 20)*	4,050	7,504
Other gains		
Reversal of provision for advances to a supplier	(12,387)	(22,952)
Revaluation deficits/(surplus) in respect of leasehold land and buildings	991	(761)
Waiver of accrued salaries due to directors *(note 13)*	(2,206)	(1,000)
Waiver of accrued salary due to an ex-director	(241)	(3,950)
Waiver of other payables	(1,377)	–

Note: Staff costs here are excluding directors' emoluments which are disclosed in note 13 below and direct labour costs of HK$17,522,000 (2001: HK$13,751,000) which are included in cost of inventories sold.

8. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest expense on bank loans and overdrafts	786	585
Other loan interest	119	83
Hire charges	21	6
	926	674

9. TAXATION

	2002 HK$'000	2001 HK$'000
Hong Kong profits tax		
– Under provision in previous years	(26)	(217)
Overseas taxation recovered	–	91
	(26)	(126)

(a) No provision for Hong Kong and overseas profits tax has been made in the accounts as the Group has no assessable profit for the year (2001: Nil).

(b) Taxation recovered represented Canadian income tax recovered in prior year.

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

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

10. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK$1,590,000 (2001: HK$16,751,000).

11. DIVIDENDS

No dividends had been paid or declared by the Company during the year (2001: Nil).

12. LOSS PER SHARE

(a) The calculation of basic loss per share is based on the loss attributable to shareholders of HK$25,477,000 (2001: HK$21,062,000) and the weighted average of 3,445,046,453 (2001: 3,307,837,922) ordinary shares in issue.

(b) Diluted loss per share for the year has not been presented as the effect of any dilution is anti-dilutive.

13. DIRECTORS' AND SENIOR MANAGEMENT's EMOLUMENTS

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

	2002 HK$'000	2001 HK$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	77	178
	77	178
Other emoluments of executive directors:		
Salaries and allowances	2,663	2,745
Retirement scheme contributions	63	64
	2,726	2,809
	2,803	2,987

During the year, four directors waived the accrued salaries in an aggregate amount of HK$2,206,000 for the two years ended 31 December 2002. Besides, these four directors also agreed to waive their salaries for the period from 1 January 2003 to 15 March 2003 with total amount of HK$405,000. Apart from this, no directors have waived or agreed to waive any emoluments in respect of the year ended 31 December 2002.

The emoluments of each of the directors were less than HK$1,000,000 for both years.

During the years ended 31 December 2001 and 2002, there was no amounts paid as an inducement to join or upon joining the Group and no director waived any emoluments

(b) The five highest paid individuals during the year included four (2001: three) directors, details of whose emoluments are set out in notes 13 (a) above. The remaining individual(s) whose emolument fell within the band of nil to HK$1,000,000, is as follows:–

	2002 HK$'000	2001 HK$'000
Salaries and allowances	488	1,322
Retirement scheme contributions	12	26
	500	1,348

No amounts were paid or payable to senior management as an inducement to join the Group or as compensation for loss of office during the years ended 31 December 2001 and 2002.

14. FIXED ASSETS

Group

	Leasehold land and buildings outside Hong Kong held under medium term leases HK$'000	Construction in progress HK$'000 *(note d)*	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation							
Brought forward	21,900	–	6,373	39,044	9,109	2,355	78,781
Additions, at cost	–	–	100	386	304	–	790
Adjustment on revaluation	(1,752)	–	–	–	–	–	(1,752)
Disposal/write off	–	–	–	–	(220)	(289)	(509)
Disposal of subsidiaries	–	–	–	–	(114)	–	(114)
Carried forward	20,148	–	6,473	39,430	9,079	2,066	77,196
Carried forward as follows:–							
At cost	–	–	6,473	39,430	9,079	2,066	57,048
At 2002 valuation	20,148	–	–	–	–	–	20,148
	20,148	–	6,473	39,430	9,079	2,066	77,196
Aggregate depreciation							
Brought forward	–	–	6,372	36,195	8,215	2,200	52,982
Charge for the year	761	–	21	2,189	392	–	3,363
Adjustment on revaluation	(761)	–	–	–	–	–	(761)
Disposal/write off	–	–	–	–	(133)	(134)	(267)
Disposal of subsidiaries	–	–	–	–	(44)	–	(44)
Carried forward	–	–	6,393	38,384	8,430	2,066	55,273
Net book value							
At 31 December 2002	**20,148**	**–**	**80**	**1,046**	**649**	**–**	**21,923**
At 31 December 2001	21,900	–	1	2,849	894	155	25,799

14. FIXED ASSETS *(continued)*

Group *(continued)*

(a) The Group's leasehold land and buildings including land use rights and buildings in the PRC, were revalued by AA Property Services Limited, an independent professional valuer, on an open market value basis as at 31 December 2002.

(b) The carrying amount of leasehold land and buildings as at 31 December 2002 would have been HK$22,857,000 (2001: HK$23,618,000) had they been stated at cost less accumulated depreciation.

(c) As at 31 December 2002, the net book value of plant and machinery held by the Group under finance leases amounted to nil (2001: HK$1,352,000).

(d) Construction in progress ("CIP") represents the cost of construction in respect of the Group's new production facility in the PRC where construction has yet to be completed to its original intended use. Up to 31 December 2002, the Group has incurred an aggregate construction cost of HK$9,043,000. The directors are of the view that, as a result of the Group's current limited cash flows, the Group may not have the necessary cash resources available to complete the construction of this new production facility to its original intended use. In view of these circumstances, the directors have made full provision in respect of the aggregate construction costs of HK$9,043,000 during the four years ended 31 December 2000.

The CIP is currently temporarily used by the Group as warehouse. As at 31 December 2002, the open market value of the CIP, as revalued by AA Property Services Limited, an independent professional valuer, amounted to HK$7,452,000. In the opinion of the directors, as the relevant Real Estate Title Certificate has not been obtained, no reversal of provision has been made in the accounts.

(e) The leasehold land and building were pledged to the bank for banking facilities granted to the Group (note 27).

14. FIXED ASSETS *(continued)*

Company

	Furniture and fixtures HK$'000	Computer equipment HK$'000	Total HK$'000
Cost			
At 1 January 2002 and 31 December 2002	319	241	560
Accumulated depreciation			
Brought forward	113	130	243
Charge for the year	64	72	136
Carried forward	177	202	379
Net book value			
At 31 December 2002	**142**	**39**	**181**
At 31 December 2001	206	111	317

15. GOODWILL

	Group	
	2002 HK$'000	2001 HK$'000
Bought forward	**9,960**	–
Addition	**–**	12,451
Acquisition of subsidiaries	**–**	890
Amortisation charge	**(2,490)**	(2,678)
Impairment charge	**–**	(703)
Disposal of subsidiaries	**(7,470)**	–
At 31 December 2002	**–**	**9,960**

16. INVESTMENTS IN SUBSIDIARIES

	Company 2002 HK$'000	Company 2001 HK$'000
Investments at cost – unlisted shares *(note a)*	**69,532**	69,532
Amounts due from subsidiaries *(note b)*	**260,768**	262,756
Amount due to a subsidiary	**–**	(1,478)
Less: provision	**(325,444)**	(325,297)
	4,856	5,513

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

At 31 December 2002 the Company held shares in the following principal subsidiaries: –

Company	Place of incorporation/ registration	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Shares held directly:–				
Million-Well Enterprises Corp.#	British Virgin Islands	US$130,000	100%	Investment holding
Lifecycle Investments Limited#	British Virgin Islands	US$1	100%	Investment holding
Shares held indirectly:–				
Medtech (H.K.) Company Limited	Hong Kong	HK$2	100%	Investment holding
City Check Limited*	British Virgin Islands	US$10,000	100%	Manufacturing of watches and watch components
Dongguan Queshi Watch Co. Ltd.	The People's Republic of China	HK$15,400,000	100%	Manufacturing of watch components; property holding

16. INVESTMENTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration	Paid up registered/ issued share capital	Percentage of equity held by the Company	Principal activities
Easy Rich Watch Dial Factory Limited	Hong Kong	HK$10,000	100%	Trading of watch dials
Funwell Industrial Company Limited	Hong Kong	HK$10,000	100%	Trading of leather watch straps
Hangfer Company Limited	Hong Kong	HK$10,000	100%	Trading of watch cases
Silver Crystal Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watch glasses
Stime Watch Manufacturing Limited#	British Virgin Islands	US$50,000	100%	Trading of watches and watch components; property holding
Stime Watch Manufacturing Company Limited	Hong Kong	HK$10,000	100%	Trading of watches
Vanfer Electroplating Factory Limited	Hong Kong	HK$10,000	100%	Electroplating of watch components
Wing Fat Watch Band Factory Limited	Hong Kong	HK$10,000	100%	Trading of metal watch bands

\# *Companies operate principally in Hong Kong instead of in their respective places of incorporation/ establishment.*

* *Companies operate principally in the People's Republic of China instead of in their respective places of incorporation/establishment.*

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

17. INVENTORIES

	2002 HK$'000	2001 HK$'000
Raw material	5,454	6,186
Work in progress	4,672	20,501
Finished goods	366	1,622
	10,492	28,309

At 31 December 2002, the inventories that are carried at net realisable value amounted to HK$10,492,000 (2001: HK$27,852,000).

18. TRADE RECEIVABLES

The Group generally grants a credit period of 30 to 180 days to its trade customers. The following is an aging analysis of trade receivables at the balance sheet date:

	2002 HK$'000	2001 HK$'000
0 – 3 months	12,950	8,265
4 – 6 months	1,339	2,636
7 – 12 months	28	2,461
Over 1 year	5	16
	14,322	13,378

19. OTHER LOAN RECEIVABLE

On 1 July 2002, the Group advanced a loan of RMB5,200,000 (approximately equivalent to HK$4,856,000) to an independent third party. The loan is unsecured, bearing interest at 7 percent per annum and repayable within one year. Subsequent to the balance sheet date and before the date of this report, the loan was fully repaid.

20. ADVANCES TO A SUPPLIER

	2002 HK$'000	2001 HK$'000
Advances to a supplier	–	12,387
Less: provision	–	(12,387)
	–	–

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

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

On 20 October 1999, the Group and Cheung Tat entered into a deed of settlement (the "Deed of Settlement"). Under the Deed of Settlement, Cheung Tat will deliver certain quartz watch movements to the Group every month between November 1999 and May 2004, wherein Cheung Tat has undertaken to deliver 100,000 quartz watch movements in each delivery, which are of acceptable quality and fit for the purpose of the Group

Up to April 2002, the Group has received a total quantity of 5,448,986 of quartz watch movement with estimated value of HK$56,669,000. Accordingly, the Deed of Settlement has been completed.

During the year, the price of quartz watch movement continues to drop. In order to reflect the real performance of the Group, a loss of HK$4,050,000 was recognised as other loss in the profit and loss account.

21. CASH AND BANK BALANCES

Included in cash and bank balances of the Group are Reminbi cash and bank deposits in the People's Republic of China of approximately HK$122,000 (2001: HK$9,153,000).

22. TRADE PAYABLES

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

	2002 HK$'000	2001 HK$'000
0 – 3 months	9,770	8,659
4 – 6 months	1,909	3,216
7 – 12 months	2,833	5,260
Over 12 months	2,903	2,428
	17,415	19,563

23. AMOUNT DUE TO DIRECTORS

The current year amount mainly represent accrued director's salary. The amounts are unsecured, interest-free and repayable on demand.

24. AMOUNT DUE TO A SUBSTANTIAL SHAREHOLDER

The amount is unsecured, interest-free and has no fixed term of repayment.

25. OTHER LOAN

The amount, which bears interest at 12 percent per annum, is secured by personal guarantee executed by a director of the Company and is repayable on demand.

26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payment		Present value of minimum lease payment	
	2002 HK$'000	2001 HK$'000	2002 HK$'000	2001 HK$'000
Amount payable:				
Within one year	448	1,260	448	1,254
In the second to fifth years inclusive	–	101	–	92
	448	1,361	448	1,346
Future finance charges	–	15	–	–
Present value of lease obligations	448	1,346	448	1,346
Amount due within one year, included under current liabilities			(448)	(1,254)
			–	92

27. BANK LOAN – SECURED

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

28. DEFERRED TAXATION

At 31 December 2002, the Group had net deferred tax assets which have not been recognised in the accounts as their realisation is not assured beyond reasonable doubt.

The major components of the deferred tax assets/(liabilities) of the Group and Company not provided for are set out below:

	Group		Company	
	2002	2001	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000
Arising from accelerated depreciation	(9)	(255)	(16)	(35)
Future benefit of tax losses	6,175	4,030	547	255
	6,166	3,775	531	220

29. PLEDGE OF ASSETS

During the financial restructuring of the Group in year 2000, all the Group's undertaking, properties, assets, goodwill, rights and revenues were pledged to secure the amount due to bank group. In March 2001, the amount due was fully settled. The Group had obtained the required consent from the Bank Group to release the debentures but up to the report date, the deed of release has not yet been prepared.

30. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2001 and 2002	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2001	2,917,520,105	29,175
Issue of shares	428,410,621	4,284
At 31 December 2001 and 1 January 2002	3,345,930,726	33,459
Issue of shares	293,348,216	2,934
At 31 December 2002	3,639,278,942	36,393

Notes:

(i) 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$467,000.

(ii) On 2 September 2002, an aggregate of 270,000,000 new ordinary shares at a price of HK$0.01 each (the "Price") were issued to 6 independent investors, pursuant to a placing agreement entered into by the Company and the placing agent. The Price is equal to (i) the par value of the shares; (ii) a discount of approximately 23.08% to the closing price for the last ten trading days immediately before the date of the announcement. The net proceeds of the placing of approximately HK$2.6 million, were used by the Group as general working capital.

31. EMPLOYEE BENEFIT

The Group operates a Mandatory Provident Fund scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administrated by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

Under a share option scheme approved by the shareholders of the Company on 4 July 1996 (the "Scheme"), the directors of the Company may, at their discretion, invite any employee and any executive director of the Company or its subsidiaries, to take up options at HK$1 per option to subscribe for shares in the Company.

The total number of the shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders.

Options may be exercised at any time from the date of grant of the share option to the date of expiry of the option as may be determined by the directors which shall not exceed three years commencing on the expiry of six months after the date of the option is accepted and expiring on the last day of such three year period or 3 July 2006 whichever is the earlier. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Details of options outstanding as at 31 December 2002 are as follows:

	Number of share options
As at 1 January 2002 and 31 December 2002	150,000,000

32. RESERVES

Group	Share premium account	Contributed surplus *(note a)*	Capital reserve	Exchange fluctuation reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2001	166,570	–	814	140	(168,735)	(1,211)
Issue of shares	3,724	–	–	–	–	3,724
Acquisition of a subsidiary	9,300	–	–	–	–	9,300
Share issue expenses	(51)	–	–	–	–	(51)
Loss attributable to shareholders	–	–	–	–	(21,062)	(21,062)
At 31 December 2001	179,543	–	814	140	(189,797)	(9,300)
At 1 January 2002	179,543	–	814	140	(189,797)	(9,300)
Issue of shares	233	–	–	–	–	233
Share issue expenses	(59)	–	–	–	–	(59)
Exchange realignment	–	–	–	(28)	–	(28)
Disposal of subsidiaries	–	–	–	28	–	28
Loss attributable to shareholders	–	–	–	–	(25,477)	(25,477)
At 31 December 2002	**179,717**	**–**	**814**	**140**	**(215,274)**	**(34,603)**

32. RESERVES *(continued)*

Company	Share premium account	Contributed surplus *(note a)*	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2001	166,570	69,332	(268,450)	(32,548)
Issue of shares	3,724	–	–	3,724
Acquisition of a subsidiary	9,300	–	–	9,300
Share issue expenses	(51)	–	–	(51)
Loss for the year	–	–	(16,751)	(16,751)
At 31 December 2001	179,543	69,332	(285,201)	(36,326)
At 1 January 2002	179,543	69,332	(285,201)	(36,326)
Issue of shares	233	–	–	233
Share issue expenses	(59)	–	–	(59)
Loss for the year	–	–	(1,590)	(1,590)
At 31 December 2002	**179,717**	**69,332**	**(286,791)**	**(37,742)**

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

(b) The Company had no reserve available for distribution as at 31 December 2002.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to cash flow used in operating activities is set out below:

	2002 HK$'000	2001 HK$'000
Loss before taxation	(25,451)	(20,936)
Adjustment for:		
Provision/(reversal of) for obsolete and slow-moving inventories	9,097	(7,944)
Revaluation deficits/(surplus) in respect of leasehold land and buildings	991	(761)
Waiver of accrued salaries due to directors	(2,206)	(1,000)
Waiver of accrued salary due to an ex-director	(241)	(3,950)
Waiver of other payables	(1,377)	–
Depreciation of fixed assets	3,363	5,587
Amortisation of goodwill	2,490	2,678
Impairment of goodwill	–	703
Loss on disposal of subsidiaries	3,596	–
Loss on disposal of fixed assets	97	386
Operating loss before working capital changes	(9,641)	(25,237)
Decrease in inventories	8,682	8,030
Increase in trade receivables, prepayments, deposits and other receivables	(5,979)	(3,705)
(Decrease)/increase in trade payables, accrued charges and other payables, including amounts due to directors and a substantial shareholder	(4,045)	18,063
Cash used in operations	(10,983)	(2,849)
Hong Kong profits tax paid	(790)	(1,000)
Overseas tax paid	(26)	–
Hong Kong profits tax refund	28	–
Overseas tax refund	84	163
Net cash used in operating activities	(11,687)	(3,686)

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Disposal of subsidiaries

	2002 HK$'000	2001 HK$'000
Fixed assets	70	–
Cash and bank balance	113	–
Inventories	38	–
Other net current liabilities	(3,912)	–
Exchange reserves	28	
	(3,663)	–
Attributable goodwill	7,470	–
	3,807	–
Loss on disposal	(3,596)	–
Consideration received	211	–
Satisfied by cash	211	–

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

	Group	
	2002 HK$'000	2001 HK$'000
Cash consideration received	211	–
Net cash and bank balance disposed of	(113)	–
Net inflow of cash and cash equivalents	98	–

34. CONTINGENT LIABILITIES

As at 31 December 2002, 26 (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 Group's liability as at 31 December 2002 would be approximately HK$3,077,000 (2001: HK$3,147,000). No provision has been made in this respect.

35. POST BALANCE SHEET EVENT

On 25 March 2003, the Company conditionally agreed to place 400,000,000 new ordinary shares at an issue price of HK$0.01 (the "Price") each to not fewer than six independent placees with Kingston Securities Limited as the placing agent (the "Placing Agent") pursuant to a conditional placing agreement entered into by the Company and the Placing Agent on 25 March 2003. The Price represented (i) the closing price of HK$0.01 per shares as quoted on the Stock Exchange on 25 March 2003; and (ii) the average of the closing price per share of HK$0.01 as quoted on the Stock Exchange for the ten trading days ended 25 March 2003. The net proceeds of the placing of approximately HK$3.9 million will be used as the Company's general working capital for operating activities.

36. COMMITMENTS UNDER OPERATING LEASES

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

	Land and buildings		Office equipment	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	51	**19**	19
In the second to fifth years inclusive	**–**	–	**2**	21
	–	51	**21**	40

37. LITIGATION

On 22 May 2002, Synnex Canada Limited ("Synnex"), a supplier of 1024120 Ontario Limited ("Ontario"), a disposed subsidiary of the Company has issued a writ against the Company for trade debt of CAD$466,472 (equivalent approximately to HK$2,320,000) due by Ontario. As stated in the statement of claim, the Company has given a cross-corporate guarantee on 16 August 2001 in favour of Synnex for facilities granted to Ontario and since Ontario had defaulted in repayment of its debt, the Company, being the guarantor of the said facilities, were demanded to pay and settle the said debt. However, according to the directors, the Company has never given any such guarantee. The Company has taken legal action to clarify the case. Up to the date of this report, no further development in respect of the case. No provision was made in the accounts, as in the opinion of the directors, the Company is not liable to the debt in any way.

38. COMPARATIVE FIGURES

Due to the adoption of new/revised SSAPs during the current year, the presentation of accounts and certain notes to accounts have been revised to comply with the new requirements. Accordingly, certain comparative figures have been reclassified to conform with current year's presentation.

39. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 28 April 2003.