

# Notes to the Financial Statements

For the year ended 31st March, 2001

## 1 GENERAL

The Company was incorporated in Bermuda on 12th August, 1994 under the Companies Act 1981 of Bermuda as an exempted company and its shares are listed on the London Stock Exchange and The Stock Exchange of Hong Kong Limited.

The Company is the holding company for a group which is principally engaged in the design, manufacture, assembly and sale of watches and watch components.

## 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the financial statements, the directors have given careful consideration to the going concern status of the Group in the context of the Group's current working capital difficulties.

Against this background, the directors are taking active steps to improve the Group's liquidity position. Since the year end, the Group has obtained a credit facility of HK\$13,000,000 from an independent third party. At the same time, the directors are currently in discussion with potential new equity investors. Provided that existing credit facilities continue to be made available to the Group and provided that sufficient additional equity funding can be obtained, the directors consider that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. United Kingdom accounting requirements that are applicable to the Group do not differ materially from those accounting principles adopted by the Group except that:

- the revision of FRS1 "Cash Flow Statements" in 1996 would result in a different format for presentation of the cash flow statement;
- the turnover and operating (loss) profit have been analysed between continuing operations and discontinued operations in notes 4 and 7 and not on the face of the income statement as required by FRS 3 "Reporting financial performance";
- the treatment of Goodwill as required by FRS10 "Goodwill and intangible assets" differs from the Group's policy of writing goodwill off to reserves. However, no goodwill has arisen in the current year and the transitional provisions of FRS10 allow that goodwill previously eliminated against reserves need not be reinstated;
- the disclosures as required by FRS 13 "Derivatives and other financial instruments : disclosures"; and
- the treatment of deficit on revaluation of investment properties as required by UK SSAP 19 "Investment properties" for which the effect of non-adoption has been to increase the loss for the year by HK\$640,000.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### **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 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 have been eliminated on consolidation.

#### **Goodwill and capital reserve**

Goodwill or capital reserve, representing respectively the excess or shortfall of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary, is written off or credited directly to reserves respectively in the year of acquisition.

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

#### **Investment in subsidiaries**

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of the voting power or issued capital or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any impairment losses recognised.

#### **Revenue recognition**

Sales of goods are recognised when goods are delivered and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases is recognised on a straight line basis over the terms of the relevant leases.

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

Dividend income from investments is recognised when the Company's rights to receive payment have been established.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation or amortisation at the balance sheet date. 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. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land held on medium-term leases	Over twenty five years or the terms of the leases, if shorter
Buildings	Over twenty five years or the terms of the leases, if shorter
Leasehold improvements	20%
Plant and machinery	20%
Furniture and equipment	20% – 25%
Motor vehicles	20%
Computer system	20%

Assets held under finance leases and hire purchase contracts are depreciated over their expected useful lives, on the same basis as assets owned by the Group, or, where shorter, the terms of the finance leases.

#### Trademarks

Trademarks are stated at cost less amortisation. Amortisation is provided to write off the cost over 10 years, using the straight line method.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuation at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the 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 balance on the revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

This policy represents a departure from the United Kingdom Companies Act 1985, which require depreciation to be provided on all property, plant and equipment. The directors consider that this policy is necessary in order that the financial statements may give a true and fair view, because current values and changes in current values are of prime importance rather than the calculation of systematic annual depreciation. Depreciation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

#### Assets held under finance leases and hire purchase contracts

A lease is classified as a finance lease whenever the term of the lease transfers substantially all the risks and rewards of ownership of the asset concerned to the Group.

Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding principal portion of finance lease and hire purchase commitments is shown as obligations of the Group. The finance charges, which represent the difference between the total commitments and the fair values of the assets acquired, are charged to the income statement using the sum-of-the-digits method over the period of the respective leases and contracts.

All other leases are classified as operating leases and the rental expenses and income are charged and credited respectively to the income statement on a straight line basis over the lease terms.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the expected selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### **Convertible loan stock**

Convertible loan stock are separately disclosed and regarded as liabilities unless conversion actually occurs. The cost incurred in connection with the issue of convertible loan stock are deferred and amortised on a straight line basis over the lives of the convertible loan stock from the date of issue of the loan stock to their final redemption date. If any of the loan stock are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on translation are dealt with in the income statement.

#### **Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

#### **Provident fund**

The Group operates a defined contribution provident fund. The assets of the fund are held separately from those of the Group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the financial year.

#### **Cash equivalents**

Cash equivalents are defined as 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 advance.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 4. ANALYSIS OF TURNOVER, OPERATING (LOSS) PROFIT AND NET ASSETS

The Group's turnover, operating (loss) profit and net assets are analysed as follows:

Class of business	Turnover		Operating (loss) profit		Net assets			
	2001	2000	2001	2000	2001	2000		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Continuing operations:								
Assembly of watches and manufacture of cases	160,655	169,294	(12,937)	3,041	(8,245)	(1,559)		
Retail of complete watches and bags	77,940	60,279	(11,767)	(2,922)	(13,457)	(2,817)		
Property investments and property holding	193	167	(729)	(87)	958	1,713		
	238,788	229,740	(25,433)	32	(20,744)	(2,663)		
Discontinued operation:								
Trading of watch movements	1,570	8,372	63	1	7,474	7,474		
	240,358	238,112	(25,370)	33	(13,270)	4,811		
Geographical segments	Turnover by destination		Turnover by origin		Operating (loss) profit by origin		Net assets by origin	
	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	112,660	97,806	-	-	-	-	-	-
People's Republic of China ("PRC")	77,959	60,312	238,592	229,441	(26,312)	856	(61,235)	(31,915)
Hong Kong	13,497	12,168	1,766	8,671	942	(823)	47,965	36,726
Switzerland	11,715	16,878	-	-	-	-	-	-
India	7,687	20,542	-	-	-	-	-	-
France	4,816	17,524	-	-	-	-	-	-
United Kingdom	2,976	2,625	-	-	-	-	-	-
Others	9,048	10,257	-	-	-	-	-	-
	240,358	238,112	240,358	238,112	(25,370)	33	(13,270)	4,811

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 5. OPERATING (LOSS) PROFIT

	2001 HK\$'000	2000 HK\$'000
Operating (loss) profit has been arrived at after charging:		
Amortisation on issue cost of convertible loan stock	443	603
Release of issue cost of convertible loan stock		
– on redemption	1,401	–
– on conversion	13	–
Amortisation of trademarks	14	14
Auditors' remuneration	400	376
Depreciation and amortisation		
– assets owned by the Group	9,536	10,373
– assets held under finance leases and hire purchase contracts	143	192
Loss on disposal of property, plant and equipment	140	184
Operating leases charges in respect of premises	696	1,019
Staff costs	39,237	34,986

and after crediting:

Net foreign exchange profits	3,875	225
Rental income, net of outgoings of HK\$33,000 (2000: HK\$31,000)	447	273

Non audit fees paid to the Company's auditors amounted to HK\$777,000 in connection with professional services on taxation matters, the review of cashflow projection and advisory services on business structure (2000: HK\$59,000 in connection with professional services on taxation matters).

### 6. NET INTEREST PAYABLE

	2001 HK\$'000	2000 HK\$'000
Interest income	50	78
Interest expense on:		
Bank loans and overdrafts		
– wholly repayable within five years	(2,705)	(2,300)
– not wholly repayable within five years	–	(79)
Obligations under finance leases and hire purchase contracts	(46)	(35)
Convertible loan stock	(3,189)	(4,495)
	(5,940)	(6,909)
	(5,890)	(6,831)

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 7. DISCONTINUED OPERATION

During the year, the Group ceased trading in watch movements.

The results of the trading of watch movements for the year ended 31st March, 2001, which have been included in the consolidated income statement, were as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover	1,570	8,372
Cost of sales	(1,504)	(8,280)
Gross profit	66	92
Distribution costs	(1)	(27)
Administrative expenses	(50)	(90)
Other operating income	48	26
Operating profit	63	1
Net interest payable	(53)	(309)
Profit (loss) before taxation	10	(308)
Taxation	—	—
Profit (loss) for the year	10	(308)

### 8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The aggregate cost of persons employed by the Group were as follows:

	2001 HK\$'000	2000 HK\$'000
Wages and salaries	37,482	33,561
Other pension costs	1,483	1,161
	38,965	34,722

The average weekly number of persons employed was as follows:

	2001 Number	2000 Number
Office and management	351	352
Manufacturing and distribution	823	831
	1,174	1,183

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (Cont'd)

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

#### (a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	–	–
Non-executive	259	264
Other emoluments:		
Executive directors:		
Salaries and allowances	5,111	4,974
Contributions to provident funds	181	179
	<u>5,551</u>	<u>5,417</u>

No emoluments were paid to the independent non-executive directors.

None of the directors participate in the Group's provident fund.

The highest remuneration paid to a director who is also the Chairman was as follows:

	2001 HK\$'000	2000 HK\$'000
Salary and allowances	2,404	2,343
Contributions to provident funds	93	90
	<u>2,497</u>	<u>2,433</u>

Directors' emoluments include the use of rent free accommodation with an estimated rateable value of HK\$234,000 (2000: HK\$243,000) per annum provided by the Group to one of the directors.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 8. INFORMATION REGARDING DIRECTORS AND EMPLOYEES (Cont'd)

#### (a) Directors' emoluments (Cont'd)

The directors' emoluments were within the following bands:

	<b>2001</b> <b>Number of</b> <b>directors</b>	2000 Number of directors
Nil to HK\$1,000,000	5	7
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

#### (b) Employees' emoluments

Of the five highest paid individuals in the Group, three (2000: three) were directors of the Company whose emoluments are set out in note 8(a) above. The emoluments of the remaining two (2000: two) individuals were as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Salaries and allowances	1,732	1,903
Contributions to provident funds	<u>65</u>	<u>39</u>
	<u><b>1,797</b></u>	<u><b>1,942</b></u>

Their emoluments were within the following bands:

	<b>2001</b> <b>Number of</b> <b>employees</b>	2000 Number of employees
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

Save as disclosed above, during each of the two years ended 31st March, 2001, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during each of the two years ended 31st March, 2001, no directors waived any emoluments.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 9. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2000: 16%) of the estimated assessable profits		
– current year (see note (a) below)	34	6
– overprovision in respect of prior years	28	–
PRC Income Tax (see note (b) below)	169	121
	<u>231</u>	<u>127</u>

Notes:

- (a) A portion of the Group's profit neither arose in, nor was derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.
- (b) PRC Income Tax is calculated at the rate prevailing in the relevant jurisdiction.

### 10. LOSS FOR THE YEAR

Of the Group's loss for the year of HK\$31,491,000 (2000: HK\$6,925,000), a loss of HK\$34,532,000 (2000: HK\$4,985,000) has been dealt with in the financial statements of the Company.

As permitted by Section 230 of the United Kingdom Companies Act 1985, no income statement is presented for the Company.

### 11. LOSS PER ORDINARY SHARE

The calculation of basic loss per ordinary share is based on the Group's loss for the year of HK\$31,491,000 (2000: HK\$6,925,000) and on the weighted average of 130,305,613 (2000: 106,908,722) ordinary shares in issue during the year.

No diluted loss per ordinary share has been presented as the exercise of dilutive potential ordinary shares would result in a reduction in the loss per ordinary share in both years.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 12. INVESTMENT PROPERTIES

	HK\$'000
At 1st April, 2000	5,400
Revaluation decrease	(800)
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At 31st March, 2001	<u>4,600</u>

The investment properties were held under medium-term leases and were revalued on 31st March, 2001 by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis, resulting in a deficit on revaluation of HK\$800,000 of which an amount of HK\$640,000 was charged to the income statement and the balance of HK\$160,000 was charged to the revaluation reserve.

### 13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture and equipment HK\$'000	Motor vehicles HK\$'000	Computer system HK\$'000	Total HK\$'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1st April, 2000	31,628	20,567	16,102	14,410	2,886	5,149	90,742
Additions	–	1,723	248	3,447	459	893	6,770
Disposals	–	(463)	–	(1,408)	(269)	(16)	(2,156)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st March, 2001</b>	<b>31,628</b>	<b>21,827</b>	<b>16,350</b>	<b>16,449</b>	<b>3,076</b>	<b>6,026</b>	<b>95,356</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION AND AMORTISATION</b>							
At 1st April, 2000	9,257	14,837	11,492	10,110	2,886	3,887	52,469
Provided for the year	1,899	3,105	1,636	2,301	186	552	9,679
Disposals	–	(174)	–	(506)	(269)	(12)	(961)
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<b>At 31st March, 2001</b>	<b>11,156</b>	<b>17,768</b>	<b>13,128</b>	<b>11,905</b>	<b>2,803</b>	<b>4,427</b>	<b>61,187</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUE</b>							
<b>At 31st March, 2001</b>	<b>20,472</b>	<b>4,059</b>	<b>3,222</b>	<b>4,544</b>	<b>273</b>	<b>1,599</b>	<b>34,169</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2000	22,371	5,730	4,610	4,300	–	1,262	38,273
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## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The net book value of leasehold land and buildings shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Medium-term leases:		
In Hong Kong	10,867	11,285
In PRC	9,605	11,086
	<u>20,472</u>	<u>22,371</u>

At 31st March, 2001, the net book value of property, plant and equipment included assets held under finance leases and hire purchase contracts amounted to HK\$322,000 (2000: HK\$278,000).

### 14. INTANGIBLE ASSETS

	Trademarks HK\$'000
<b>THE GROUP</b>	
<b>COST</b>	
At 1st April, 2000 and 31st March, 2001	<u>139</u>
<b>AMORTISATION</b>	
At 1st April, 2000	83
Provided for the year	<u>14</u>
<b>At 31st March, 2001</b>	<u>97</u>
<b>NET BOOK VALUE</b>	
<b>At 31st March, 2001</b>	<u>42</u>
At 31st March, 2000	<u>56</u>

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 15. INTEREST IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Unlisted shares, at cost	<b>54,780</b>	54,780
Less: Impairment losses recognised	<b>(54,780)</b>	(54,780)
	<u>          </u>	<u>          </u>
	<b>-</b>	-
	<u>          </u>	<u>          </u>

The cost of the investment in the unlisted shares of the subsidiaries is based on the value of the underlying net assets of the subsidiaries acquired under a group reorganisation in 1995.

Particulars of the Company's subsidiaries at 31st March, 2001 are set out in note 37 to the financial statements.

### 16. INVENTORIES

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
Raw materials and consumables	<b>8,594</b>	24,467
Work-in-progress	<b>5,588</b>	5,539
Finished goods	<b>23,026</b>	19,545
	<u>          </u>	<u>          </u>
	<b>37,208</b>	49,551
	<u>          </u>	<u>          </u>

### 17. TRADE RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables at the reporting date:

	<b>THE GROUP</b>	
	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000
0 – 30 days	<b>18,837</b>	14,013
31 – 60 days	<b>6,247</b>	3,622
61 – 120 days	<b>2,174</b>	1,235
Over 120 days	<b>87</b>	301
	<u>          </u>	<u>          </u>
	<b>27,345</b>	19,171
	<u>          </u>	<u>          </u>

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 18. TRADE PAYABLES

The following is an aged analysis of trade payables at the reporting date:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 – 30 days	14,582	12,272
31 – 60 days	6,714	11,466
61 – 120 days	13,997	14,136
Over 120 days	5,762	3,149
	<u>41,055</u>	<u>41,023</u>

### 19. OTHER LOANS

The other loans are unsecured, interest-bearing and are repayable on demand.

### 20. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 (2000: HK\$0.10) each		
<i>Authorised:</i>		
At 31st March, 2001 and 31st March, 2000	<u>800,000,000</u>	<u>80,000</u>
<i>Issued and fully paid:</i>		
At 1st April, 1999	106,611,464	10,661
Exercise of share options	4,020,000	402
Conversion of convertible loan stock	<u>1,014,450</u>	<u>101</u>
At 31st March, 2000	111,645,914	11,164
Issued by private placement	20,000,000	2,000
Conversion of convertible loan stock	<u>253,950</u>	<u>26</u>
<b>At 31st March, 2001</b>	<b><u>131,899,864</u></b>	<b><u>13,190</u></b>

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 21. SHARE OPTION SCHEME

Pursuant to the share option scheme approved and adopted by the Company on 16th October, 1997 (the "1997 Scheme"), the Board of Directors of the Company may, at their discretion, grant options to directors or employees of the Company or any of its subsidiaries to subscribe for shares in the Company in accordance with the terms of the 1997 Scheme.

Options may be granted at a nominal consideration and will entitle the holder to subscribe for shares during a period of ten years from the date the option is granted and accepted or from a later date as determined by the Board at a price (subject to adjustments as provided therein) equal to the higher of the nominal value of the shares and 80 per cent. of the average of the closing prices of the shares on the Hong Kong Stock Exchange 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 1997 Scheme shall not exceed 10 per cent. of the share capital of the Company in issue from time to time (except shares issued pursuant to the 1997 Scheme) and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25 per cent. of the maximum number of shares in respect of which options may be granted under the 1997 Scheme.

During the year, no options were granted or exercised and the outstanding share options are as follows:

	At 31.3.2000 and 31.3.2001 Number of shares
Exercise price	
HK\$0.285 per share	3,980,000
HK\$0.820 per share	2,000,000
	<hr/>
	5,980,000

### 22. PROVISIONS FOR LIABILITIES AND CHARGES

#### THE GROUP

At 31st March, 2001, the Group had an unrecognised potential deferred taxation asset principally in respect of estimated tax losses carried forward amounting to approximately HK\$47,064,000 (2000: HK\$31,880,000). The potential deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future.

#### THE COMPANY

The Company had no material unprovided deferred taxation arising during the year or at the balance sheet date.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 23. RESERVES

Movements in reserves were as follows:

	Share premium HK\$'000	Contri- buted surplus HK\$'000	Revalu- ation reserve HK\$'000	Other reserves			Total	Accumu- lated losses HK\$'000	Total
	HK\$'000	HK\$'000	HK\$'000	Special reserve HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>THE GROUP</b>									
At 1st April, 1999	1,979	-	-	(27,500)	609	54,589	27,698	(31,485)	(1,808)
Transfer (note)	(350)	-	-	350	-	-	350	-	-
Exercise of share options	1,814	-	-	-	-	-	-	-	1,814
Conversion of convertible loan stock	406	-	-	-	-	-	-	-	406
Surplus arising on revaluation of investment properties	-	-	160	-	-	-	-	-	160
Loss for the year	-	-	-	-	-	-	-	(6,925)	(6,925)
At 31st March, 2000	3,849	-	160	(27,150)	609	54,589	28,048	(38,410)	(6,353)
Share issue at premium	13,200	-	-	-	-	-	-	-	13,200
Share issue expenses	(1,743)	-	-	-	-	-	-	-	(1,743)
Conversion of convertible loan stock	87	-	-	-	-	-	-	-	87
Deficit arising on revaluation of investment properties	-	-	(160)	-	-	-	-	-	(160)
Loss for the year	-	-	-	-	-	-	-	(31,491)	(31,491)
<b>At 31st March, 2001</b>	<b>15,393</b>	<b>-</b>	<b>-</b>	<b>(27,150)</b>	<b>609</b>	<b>54,589</b>	<b>28,048</b>	<b>(69,901)</b>	<b>(26,460)</b>
<b>THE COMPANY</b>									
At 1st April, 1999	1,629	18,494	-	-	-	54,589	54,589	(76,520)	(1,808)
Exercise of share options	1,814	-	-	-	-	-	-	-	1,814
Conversion of convertible loan stock	406	-	-	-	-	-	-	-	406
Loss for the year	-	-	-	-	-	-	-	(4,985)	(4,985)
At 31st March, 2000	3,849	18,494	-	-	-	54,589	54,589	(81,505)	(4,573)
Share issue at premium	13,200	-	-	-	-	-	-	-	13,200
Share issue expenses	(1,743)	-	-	-	-	-	-	-	(1,743)
Conversion of convertible loan stock	87	-	-	-	-	-	-	-	87
Loss for the year	-	-	-	-	-	-	-	(34,532)	(34,532)
<b>At 31st March, 2001</b>	<b>15,393</b>	<b>18,494</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>54,589</b>	<b>54,589</b>	<b>(116,037)</b>	<b>(27,561)</b>

*Note:* The amount disclosed as share premium in the previous year's financial statements has been re-analysed between share premium attributable to the holding company and share premium attributable to subsidiaries. The portion attributable to subsidiaries has been transferred to special reserve.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 23. RESERVES (Cont'd)

*Notes:*

- (a) The special reserve of the Group represents the difference between the nominal value of ordinary shares issued by the Company and the aggregate nominal value of the issued ordinary share capital of the subsidiaries acquired pursuant to a group reorganisation in 1995.
- (b) The contributed surplus of the Company represents the difference between the value of the underlying net assets of the subsidiaries acquired by the Company and the nominal amount of the ordinary share capital issued by the Company under a group reorganisation in 1995, less capitalisation on bonus issue of shares.

Under the Companies Act 1981 of Bermuda (as amended), the Company shall not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that:

- a. it is, or would after the payment be, unable to pay its liabilities as they become due; or
- b. the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, at 31st March, 2001 and 2000, the Company had no reserves available for distribution to its shareholders.

### 24. CONVERTIBLE LOAN STOCK

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2001</b>	<b>2000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
£2,756,816 (2000: £3,766,974) 9.5% convertible unsecured loan stock 2008 ("CL Stock")	<b>30,490</b>	46,711
<i>Less:</i> Issue cost	<b>6,032</b>	6,032
Release on redemption	<b>(1,401)</b>	–
Release on conversion	<b>(13)</b>	–
Accumulated amortisation of issue cost	<b>(1,197)</b>	(754)
	<b>3,421</b>	5,278
	<b>27,069</b>	41,433

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 24. CONVERTIBLE LOAN STOCK (Cont'd)

On 12th January, 1999, the Company issued CL Stock with a nominal value of £3,807,552 divided into 3,807,552 stock units. The CL Stock bear interest at the rate of 9.5% per annum, payable every half year on 31st March and 30th September of each year, and are redeemable at par on 30th September, 2008 or, if later, the date falling 30 days after the final conversion date in respect of the year 2008.

Holders of the CL Stock are entitled to convert their stock units biannually at any time within 30 calendar days after the despatch of the interim report or final report of the Company up to and including 29th September, 2008 on the following bases, subject to adjustment:

- (a) in respect of any conversion in any of the years 1999 to 2001 (both years inclusive), 25 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK\$0.50 for each ordinary share (taking an exchange rate of £1 = HK\$12.5)); or
- (b) in respect of any conversion in any of the years 2002 to 2008 (both years inclusive), 14.286 ordinary shares for every stock unit (i.e. a theoretical conversion price of HK\$0.87 for each ordinary share (taking an exchange rate of £1 = HK\$12.5)).

During the year, the Company placed 20 million new ordinary shares of HK\$0.10 each with third parties, the net proceed of approximately HK\$13.5 million was used as to approximately HK\$12.4 million to redeem £1 million of convertible loan stock units and, as to the balance of net proceeds, for general working capital purposes.

In addition, 253,950 (2000: 1,014,450) ordinary shares of the Company were issued in respect of the conversion of an aggregate sum of 10,158 (2000: 40,578) stock units during the year.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 25. BORROWINGS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Secured bank loans	653	773
Obligations under finance leases and hire purchase contracts	327	192
	<u>980</u>	<u>965</u>
Due within one year	278	231
Due after more than one year	702	734
	<u>980</u>	<u>965</u>
Analysis of loan repayments:		
Secured bank loans		
– within one year or on demand	134	121
– between one and two years	147	621
– between two and five years	372	31
Obligations under finance leases and hire purchase contracts		
– within one year	144	110
– between one and two years	87	82
– between two and five years	96	–
	<u>980</u>	<u>965</u>

The bank loans, which carry interest at market rates in Hong Kong, are secured by fixed and floating charges on the property, plant and equipment of the Group (see note 32). Obligations under finance leases and hire purchase contracts are secured over the related assets.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 26. PENSION SCHEME

The Group operates a defined contribution pension scheme for its qualifying employees. The scheme assets are held separately under a provident fund managed by an independent trustee. The Group and its employees are each required to make contributions to the scheme calculated at 5% of the employees' basic salaries on a monthly basis. The employees are entitled to 100% of the Group contribution and the accrued interest after 10 years' of complete service, or at a reduced scale of between 50% to 90% after completion of 3 to 9 years' service. The forfeited contributions and related accrued interest are to be used to reduce the Group's future contribution.

At 31st March, 2001, there were forfeited contributions of approximately HK\$15,000 (2000: HK\$1,000) which arose upon employees leaving the pension scheme prior to vesting fully in the Group's contributions. The forfeited contributions are available to reduce the contributions payable in future years.

On 10th July, 2000, the above provident fund scheme was granted an exemption of the Mandatory Provident Fund Schemes. The principal deed and the rules of the above provident fund scheme were amended accordingly to comply with the rules of the Mandatory Provident Fund Schemes Ordinance.

With effect from 1st December, 2000, the Group also participated in a mandatory provident fund scheme. The scheme assets are held under a mandatory provident fund operated by HSBC Provident Fund Trustee (Hong Kong) Limited. Under the scheme, the Group is required to make contributions to the scheme calculated at 5% of the employees' relevant income (as defined in the Mandatory Provident Fund Schemes Ordinance) on a monthly basis.

The employees entitled to the defined contribution provident fund scheme before 1st December, 2000 are granted options to join the mandatory provident fund or to continue making contributions to the defined contribution provident fund scheme. All other existing or newly employed employees are required to join the mandatory provident fund scheme compulsorily. The Group is required to make contributions to either of the two schemes according to the employees' options.

The Group's aggregate contributions, net of forfeited contributions, which have been dealt with in the income statement are as follows:

	<b>2001</b> <b>HK\$'000</b>	2000 HK\$'000
Gross contributions	<b>853</b>	791
Less: Forfeited contributions utilised to offset Group contributions for the year	<b>(168)</b>	(100)
Net contributions charged to the income statement	<b>685</b>	691

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 27. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Loss before taxation	(31,260)	(6,798)
Provision for bad and doubtful debts	494	299
Interest income	(50)	(78)
Interest expenses	5,894	6,874
Interest on obligations under finance leases and hire purchase contracts	46	35
Depreciation and amortisation	9,679	10,565
Amortisation of issue cost of convertible loan stock	443	603
Release of issue cost on redemption of convertible loan stock	1,401	–
Amortisation of trademarks	14	14
Exchange differences on translation of convertible loan stock	(3,695)	(500)
Deficit (surplus) arising on revaluation of investment properties	640	(40)
Loss on disposal of property, plant and equipment	140	184
Decrease (increase) in inventories	12,343	(6,542)
Increase in trade and other receivables	(6,603)	(6,637)
Increase in trade and other payables	14,840	17,066
Increase in bills payable – secured	1,343	3,361
Net cash inflow from operating activities	<u>5,669</u>	<u>18,406</u>

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Convertible loan stock HK\$'000	Bank hire purchase loans HK\$'000	Obligations under finance leases and purchase contracts HK\$'000
At 1st April, 1999	12,640	41,837	888	410
Exercise of share options	2,216	–	–	–
Conversion of convertible loan stock	507	(507)	–	–
Transfer to special reserve	(350)	–	–	–
Amortisation of issue cost	–	603	–	–
Exchange differences on translation	–	(500)	–	–
Repayment during the year	–	–	(115)	(218)
At 31st March, 2000	15,013	41,433	773	192
Proceeds from issue of new shares	15,200	–	–	–
Redemption of convertible loan stock	–	(12,400)	–	–
Conversion of convertible loan stock	113	(126)	–	–
Expenses incurred on issue of new shares	(1,743)	–	–	–
Amortisation of issue cost	–	443	–	–
Release of issue cost on redemption of convertible loan stock	–	1,401	–	–
Release of issue cost on conversion of convertible loan stock	–	13	–	–
Exchange differences on translation	–	(3,695)	–	–
Inception of finance lease contracts	–	–	–	300
Repayment during the year	–	–	(120)	(165)
<b>At 31st March, 2001</b>	<b>28,583</b>	<b>27,069</b>	<b>653</b>	<b>327</b>

### 29. MAJOR NON-CASH TRANSACTIONS

During the year, the Group entered into finance lease and hire purchases arrangements in respect of assets with a total capital value at the inception of leases contracts of HK\$300,000 (2000: nil).

In addition, 253,950 (2000: 1,014,450) ordinary shares of the Company were issued in respect of the conversion of an aggregate sum of 10,158 (2000: 40,578) stock units during the year.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 30. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	2001 HK\$'000	2000 HK\$'000
Balance brought forward	5,023	(2,176)
Net cash (outflow) inflow	(4,869)	7,199
	<hr/>	<hr/>
Balance carried forward	154	5,023

### 31. ANALYSIS OF CASH AND CASH EQUIVALENT BALANCES

	2001 HK\$'000	2000 HK\$'000
Bank balances and cash	4,559	5,023
Secured bank overdrafts	(4,405)	–
	<hr/>	<hr/>
	154	5,023

### 32. PLEDGE OF ASSETS

At 31st March, 2001, the Group had pledged its land and buildings, investment properties and plant and machinery with an aggregate net book value of approximately HK\$15,467,000 (2000: HK\$16,684,000) to a bank to secure general banking facilities granted to the Group.

In addition, the Company has created a debenture in favour of a bank by way of fixed and floating charges over all its assets to secure general banking facilities granted to the Group.

### 33. CAPITAL COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant capital commitments.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Bills discounted with recourse	<u>2,093</u>	<u>2,564</u>	<u>-</u>	<u>-</u>
Guarantees given to bankers in respect of banking facilities granted to subsidiaries	<u>-</u>	<u>-</u>	<u>3,500</u> (note)	<u>5,300</u>

*Note:* The Company has also given an unlimited corporate guarantee to a bank in respect of banking facilities granted to its subsidiaries.

The extent of banking facilities utilised by the subsidiaries as at 31st March, 2001 amounted to approximately HK\$25.4 million (2000: HK\$19.8 million).

### 35. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had annual commitments under non-cancellable operating leases for land and buildings, which are payable in the following year, as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
– within one year	280	104
– in the second to fifth year inclusive	<u>29</u>	<u>309</u>
	<u>309</u>	<u>413</u>

At the balance sheet date, the Company did not have any operating lease commitments.

### 36. RELATED PARTY TRANSACTION

During the year, Mr. Leung Wai Ho provided an unlimited personal guarantee and a guarantee to the extent of HK\$3,500,000 (2000: HK\$5,300,000), without charge, to two banks in respect of general banking facilities granted to the Group.

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 37. ADDITIONAL INFORMATION ON SUBSIDIARIES

Particulars of the subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued and paid up share capital	Proportion of issued share capital held by the Company		Principal activity
			Directly	Indirectly	
Always Prosperous Limited	Hong Kong	HK\$500,000	–	100%	Property investment
Dailywin Time Limited	Hong Kong	HK\$400,000	–	100%	Inactive
Dailywin Watch Products Mfg. Limited ("Dailywin Watch")	Hong Kong	HK\$2,500,000 non-voting deferred ( <i>note 1</i> )	–	–	Manufacture of watch cases, assembly of watches and trading in watches
		HK\$1,000 ordinary	–	100%	
Dongguan Dailywin Watch Company Limited ("Dongguan Dailywin")	PRC	HK\$55,800,000 registered capital ( <i>note 2</i> )	–	95%	Manufacture of watch cases, assembly of watches and trading in watches
D & S Concepts (HK) Limited	Hong Kong	HK\$2	–	100%	Investment holding
Ever Precision Corporation	British Virgin Islands	US\$1	–	100%	Investment holding
Great Prime International Holdings Limited	British Virgin Islands	US\$25,001	100%	–	Investment holding
Tensfine Investments Limited	Hong Kong	HK\$10,000	–	100%	Property holding
World Light Technology Limited	Hong Kong	HK\$10,000	–	100%	Trading in watch movements
東莞市時尚風采貿易有限公司 ("Trendi Image")	PRC	RMB500,000 registered capital	–	<i>note 3</i>	Trading in watches

## Notes to the Financial Statements (Cont'd)

For the year ended 31st March, 2001

### 37. ADDITIONAL INFORMATION ON SUBSIDIARIES (Cont'd)

*Notes:*

- (1) The deferred shares in Dailywin Watch, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the company or to participate in any distribution on winding up. The company has been granted an option by the holders of the deferred shares to acquire these shares at a nominal amount.
- (2) Dongguan Dailywin is a joint venture limited liability company established in the PRC for a term of 15 years starting 15th January, 1992, subject to extension. The registered capital of Dongguan Dailywin is owned as to 95% by the Group and 5% by an independent PRC third party.
- (3) Trendi Image is a private limited liability company established in the PRC on 29th December, 1999. The registered capital of Trendi Image was previously owned as to 90% by Mr. Leung Wai Ho ("Mr. Leung"); 5% by Mr. Tsang Pui Sing, Aloysius ("Mr. Tsang") and 5% by an independent third party. Pursuant to a deed entered into between Mr. Leung, Mr. Tsang and D & S Concepts (HK) Limited ("D&S"), a wholly owned subsidiary of the Company, Mr. Leung and Mr. Tsang has each agreed, inter alia, (a) to assign to D&S all past, present and future benefits received by them as owners of the registered capital of Trendi Image; (b) to vote at board meetings, general meetings or otherwise of Trendi Image in accordance with instructions of D&S; and (c) not to dispose of his interest in Trendi Image unless authorized by D&S. In return, D&S has agreed to (a) provide all funding and financing for Trendi Image as and when requested by Mr. Leung and Mr. Tsang; and (b) indemnify Mr. Leung and Mr. Tsang for any costs, expenses or losses incurred by them by reason of their carrying on Trendi Image's business. By virtue of this deed, Mr. Leung and Mr. Tsang have effectively transferred their entire economic interests in Trendi Image to D&S. During the year, the shareholders of Trendi Image have been changed and the shares held by Mr. Leung and Mr. Tsang were transferred to Mr. 陳偉力 and Mr. 陳富堯. The registered capital is now owned as to 48% held by Mr. 陳偉力, 47% held by Mr. 陳富堯 and 5% by an independent third party. Pursuant to a deed entered into between Mr. 陳偉力 and Mr. 陳富堯 and D&S on the same terms as above, Mr. 陳偉力 and Mr. 陳富堯 have effectively transferred their entire economic interests in Trendi Image to D&S. Accordingly, Trendi Image is continued to be regarded as a subsidiary of the Company.