

**NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS**

**(1) BASIS OF PREPARATION**

- (a) In preparing the condensed financial statements, the directors have given careful consideration to the going concern status of the Group in light of the Group's net current liabilities of approximately HK\$39,017,000 and the Group's continuing losses. Also, as explained in note 15, the Company has received a winding up petition from the holders of convertible unsecured loan stock 2008 ("CB Loan") demanding immediate repayment of the Group's outstanding CB Loan which together with accrual interest totalled approximately HK\$33,065,000 as at 30 September 2001.

Against this background, the directors are currently in negotiation with the CB Loan holders for the restructuring of the CB Loan. At the same time, the directors are actively pursuing opportunities for introducing new funding, including equity funding, into the Group. Provided that agreement with the CB Loan holders for the restructuring of the CB Loan can be reached and provided that sufficient additional 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 condensed financial statements have been prepared on a going concern basis.

- (b) The condensed financial statements have been prepared in accordance with the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting".

**(2) PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for revaluation of investment properties.

The condensed 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 condensed cash flow statement;

- the turnover and operating loss have been analysed between continuing operations and discontinued operation in notes 3 and 6 and not on the face of the condensed income statement as required by FRS 3 “Reporting financial performance”;
- 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 period ended 30 September 2001 by HK\$400,000.

The accounting policies adopted are consistent with those followed in the preparation of the Group’s financial statements for the year ended 31 March 2001, except that in the current period, the Group has adopted SSAP 30 “Business Combinations” and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, goodwill arising on acquisitions prior to 1 April 2001 is held in reserves and will be charged to income statement at the time of disposal of the relevant subsidiary or associate. Negative goodwill arising on acquisitions prior to 1 April 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate. Any goodwill arising on acquisitions of subsidiaries or associates after 1 April 2001 is capitalised and amortised over its estimated useful life. Any negative goodwill arising on acquisitions after 1 April 2001 will be presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.

The other new or revised SSAPs adopted during the period have not had any significant impact on the Group.

**(3) ANALYSIS OF TURNOVER AND SEGMENT INFORMATION**

The Group's turnover and operating loss are analysed as follows:

Class of business	Turnover		Operating loss	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>Continuing operations:</i>				
Assembly of watches and				
manufacture of cases	91,979	82,576	(448)	(1,175)
Retail of watches and bags	37,613	39,505	(11,858)	(1,559)
Property investment and				
property holding	69	96	(513)	(43)
	<u>129,661</u>	<u>122,177</u>	<u>(12,819)</u>	<u>(2,777)</u>
<i>Discontinued operation:</i>				
Trading of watch				
movements	—	1,569	—	88
	<u>129,661</u>	<u>123,746</u>	<u>(12,819)</u>	<u>(2,689)</u>
Geographical markets	Turnover		Operating loss	
	by destination		by destination	
	Six months ended		Six months ended	
	30 September		30 September	
	2001	2000	2001	2000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States of America	69,663	58,024	(339)	(825)
People's Republic of China				
("PRC")	37,701	39,505	(11,858)	(1,559)
Hong Kong Special				
Administrative Region	6,477	6,449	(544)	(23)
Switzerland	5,984	6,099	(29)	(87)
India	2,375	3,635	(12)	(52)
France	1,830	3,493	(9)	(50)
United Kingdom	1,199	1,834	(6)	(26)
Others	4,432	4,707	(22)	(67)
	<u>129,661</u>	<u>123,746</u>	<u>(12,819)</u>	<u>(2,689)</u>

**(4) OPERATING LOSS**

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2001</b>	<b>2000</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Operating loss has been arrived at after charging:		
Amortisation of issue cost of convertible loan stock	<u><b>221</b></u>	<u>1,622</u>
Depreciation and amortisation of property, plant and equipment	<u><b>7,069</b></u>	<u>5,520</u>

**(5) TAXATION**

The charge represents Hong Kong Profits Tax which is calculated at 16% on the estimated assessable profit for the period.

No provision for PRC income tax has been made as there was no assessable profit subject to PRC income tax for the period.

**(6) DISCONTINUED OPERATION**

During the period ended 30 September 2000, the Group ceased trading in watch movements.

The results of the trading of watch movements for the period ended 30 September 2000, which have been included in the unaudited consolidated income statement, were as follows:

	<b>30 September</b>	
	<b>2001</b>	2000
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover	–	1,569
Cost of sales	–	(1,503)
	<hr/>	<hr/>
Gross profit	–	66
Distribution costs	–	23
Administrative expenses	–	(1)
	<hr/>	<hr/>
Operating profit	–	88
Net interest payable	–	(52)
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Profit before taxation	–	36
Taxation	–	–
	<hr/>	<hr/>
Profit for the period	<hr/> <hr/>	<hr/> <hr/>

**(7) LOSS PER ORDINARY SHARE**

The calculation of basic loss per ordinary share is based on the loss for the period of HK\$15,479,000 (2000: HK\$5,688,000) and on the weighted average of 131,899,864 (2000: 128,720,073) ordinary shares in issue during the period.

The computation of diluted loss per ordinary share has not assumed the exercise of conversion rights under the convertible loan stock which would result in the issue of dilutive potential ordinary shares because the exercise of them would result in a reduction in the loss per ordinary share in both periods.

**(8) INVESTMENT PROPERTIES***HK\$'000*

At 1 April 2001	4,600
Deficit arising on revaluation	(400)
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At 30 September 2001	4,200
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The investment properties were held under medium-term leases and were revalued on 30 September 2001 by Chesterton Petty Limited, a firm of independent professional valuers, on an open market, existing use basis. The deficit arising on revaluation has been charged to the income statement.

**(9) PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group acquired property, plant and equipment amounting to approximately HK\$3,642,000.

In previous years, leasehold improvement, furniture and equipment and computer system were depreciated at 20% per annum. The directors have re-assessed the useful lives of these fixed assets and have decided to that with effect from 1 April 2001, these assets are to be depreciated at 33 $\frac{1}{3}$ % per annum. The change in depreciation rate has increased the depreciation charged for the period by approximately HK\$3,301,000.

**(10) TRADE RECEIVABLES**

The Group allows an average credit period of 60 days to its trade customers. An aging analysis of trade receivables is as follows:

	<b>30 September 2001 (Unaudited) <i>HK\$'000</i></b>	<b>31 March 2001 (Audited) <i>HK\$'000</i></b>
0 – 30 days	<b>22,572</b>	18,837
31 – 60 days	<b>14,113</b>	6,247
61 – 120 days	<b>2,645</b>	2,174
Over 120 days	<b>1,765</b>	87
	<hr/>	<hr/>
	<b>41,095</b>	27,345
Less: Provision	<b>(844)</b>	(494)
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	<b>40,251</b>	26,851
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**(11) TRADE PAYABLES**

An aging analysis of trade payables is as follows:

	<b>30 September 2001 (Unaudited) HK\$'000</b>	<b>31 March 2001 (Audited) HK\$'000</b>
0 – 30 days	<b>12,317</b>	14,582
31 – 60 days	<b>11,139</b>	6,714
61 – 120 days	<b>15,676</b>	13,997
Over 120 days	<b>3,913</b>	5,762
	<b><u>43,045</u></b>	<b><u>41,055</u></b>

**(12) CONVERTIBLE LOAN STOCK**

As explained in note 15, following a non-payment of interest, the Group has received a winding up petition from the CB Loan holders demanding immediate repayment of the outstanding CB Loan liabilities. Whilst the validity of the demand for immediate payment is being contested in legal proceedings before the Court, these CB Loan liabilities have been reclassified as current liabilities for prudence.

**(13) LOAN FROM A DIRECTOR**

The amount is unsecured, carries interest at prevailing market rate and is repayable within one year.

**(14) LOANS FROM A SHAREHOLDER**

The amounts are unsecured, carry interest at prevailing market rate and are not repayable within one year.

**(15) LITIGATION**

As a result of the non-payment of the relevant interest to the CB Loan holders in September 2001, statutory demands were made by a trustee of the stockholders (the “Trustee”) for the full payment of principal and interest outstanding. In November 2001, an application for a petition for winding up of the Company was issued by the Trustee.

The directors have been advised by legal counsel that the statutory demands made were defective and an originating summons was issued against the Trustee whereby a court declaration as to the invalidity of the demands was sought.