



## 1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited.

During the year, the Group was engaged in the operation of a chain of watch retail outlets, property holding and investment, and securities investment.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with SSAPs issued by the Hong Kong Society of Accountants. The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and investments in securities. The principal accounting policies which have been adopted in preparing the financial statements are as follows:

### a) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March.

The results of the 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 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 goodwill or capital reserve, which was not previously charged or recognized in the consolidated income statement.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### b) *Goodwill and capital reserve*

Any goodwill or capital reserve arising on the acquisition of subsidiaries, which represents the difference between the fair value of the purchase consideration and the fair value ascribed to the Group's share of the separable net assets of the subsidiaries at the date of acquisition, is dealt with through reserves in the year of acquisition.

On disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off or credited to reserves is included in the determination of the profit or loss on disposal.

### c) *Investment in subsidiaries*

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors.

Investment in subsidiaries is included in the Company's balance sheet at cost less provision for any non-temporary diminution in value, if necessary. Dividend from subsidiaries is recognized by the Company when the Company's right to receive payment has been established.

### d) *Contractual joint ventures*

A contractual joint venture is an entity established between the Group and one or more other parties with the rights and obligations of the joint venture partners governed by a contract. In case the Group owns more than 50% of the joint venture and is able to govern and control its financial and operating policies and its board of directors, such joint venture is considered as a de facto subsidiary and is accounted for as a subsidiary.

### e) *Investments in securities*

#### i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities should be reduced to its fair value. The amount of the reduction is recognized as an expense in the income statement.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### e) *Investments in securities (Continued)*

#### i) Investment securities (Continued)

In prior years, investments in securities were stated at cost less provision for permanent diminution in value. This represents a change in accounting policy in order to comply with Statement of Standard Accounting Practice Number 24 issued by the Hong Kong Society of Accountants. The new accounting policy has been applied retrospectively. The change in accounting policy does not have any effect on the current year's profit or accumulated losses.

#### ii) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of other investments are recognized in the income statement. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognized in the income statement as they arise.

### f) *Revenue recognition*

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

When properties are developed for sale, income is recognized on acceptance by purchasers after the properties are completed and delivered. Payments received from purchasers prior to this stage are recorded as deposits received which are included in current liabilities.

Rental income from properties under operating leases, is recognized on a straight-line basis over the relevant lease term.

Dividend income from investments in securities is recognized when the shareholders' right to receive payment has been established.

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



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### g) *Fixed assets and depreciation and amortisation*

Fixed assets, other than investment properties, are stated at cost or revalued amount less accumulated depreciation or amortization. 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. 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 fixed assets, the expenditure is capitalized as an additional cost of the fixed assets. Major costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. The carrying amount of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have not been discounted in determining the recoverable amount. 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 recognized in the income statement.

Certain of the Group's leasehold properties were revalued on an open market value basis as at 31st March, 1995 by Vigers Hong Kong Limited, a firm of independent professional valuers. Advantage has been taken of the transitional relief provided by paragraph 72 of the Statement of Standard Accounting Practice No. 17 "Property, plant and equipment" issued by the Hong Kong Society of Accountants from the requirement to make revaluation on a regular basis of the Group's leasehold properties and, accordingly, no further revaluation of these properties will be carried out. Any subsequent decrease in the net carrying amount of these properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the other property revaluation reserve relating to a previous revaluation of that particular asset. On the subsequent sale of that asset, any attributable revaluation surplus not yet transferred to accumulated losses in prior years will be transferred directly to accumulated losses.

Depreciation and amortization are provided to write off the depreciable amount of fixed assets other than investment properties, over their estimated useful lives, using the straight-line method, as the following rates per annum:

Leasehold land	2% or over the remaining terms of the leases, if shorter
Buildings	2 -4%
Furniture, fixtures and fittings	15 -20%
Leasehold improvements	5 -20%
Machinery and equipment	20%
Motor vehicles	20%

Asset held under hire purchase contracts is depreciated on the same basis as owned asset.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *h) Assets held under hire purchase contracts*

Assets held under hire purchase contracts are capitalized at their fair value at the date of acquisition. The principal portions of corresponding commitments are shown as obligations under hire purchase contracts. The finance costs, which represent the difference between the total commitments and the principal amounts as the inception of the contracts, are charged to the income statement on the actuarial basis over the periods of the respective contracts.

### *i) Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential with rental income being negotiated at arm's length.

Investment properties are stated at their open market value on the basis of period end valuation carried out annually by an independent external professional valuer. Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the excess of the deficit over the balance of the investment property 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 relevant portion of the investment property revaluation reserve attributable to that property is transferred to the income statement as part of the profit or loss on disposal of the property.

No depreciation is provided on investment properties except when the unexpired term, including the renewal period, of the relevant lease are 20 years or less.

### *j) Capitalisation of borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### k) *Properties held for resale*

Properties held for resale are stated at the lower of cost or carrying value and net realizable value. Net realizable value represents the estimated selling price less all costs to be incurred in selling.

### l) *Convertible notes*

Convertible notes are regarded as debts unless conversion actually occurs. The finance charge recognized in the income statement in respect of the convertible notes includes a provision for the premium payable in the event of redemption rather than conversion of the convertible notes, which are outstanding at the balance sheet date. The provision is made on a straight-line basis over the period from the date of issue of the convertible notes to the date of redemption.

### m) *Inventories*

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is based on estimated selling price less further costs expected to be incurred in selling and distribution.

### n) *Foreign currencies*

Transactions in foreign currencies are translated into Hong Kong dollars at the approximate rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. Gains and losses arising from foreign currency translation are dealt with in the income statement.

For the purpose of preparing consolidated financial statements, the financial statements of overseas subsidiaries expressed in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the balance sheet date. All exchange differences arising therefrom are dealt with in the currency translation reserve.

### o) *Related parties*

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the parties or exercise significant influence over the parties in making financial and operating decisions, or vice versa, or where the Group and the parties are subject to common control or common significant influence.



## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

*p) Trade receivable*

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

*q) Cash equivalents*

Cash equivalents represent 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 advances.

*r) Taxation*

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognized for tax purposes in a different accounting period from that in which they are recognized in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognized as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallize in the foreseeable future.

*s) Operating leases*

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease terms.

*t) Retirement benefits scheme contributions*

The contributions payable to the Group's defined contribution retirement benefits scheme are charged to the income statement.



### 3. TURNOVER AND OTHER REVENUE

Turnover represents the gross proceeds received and receivable derived from the sales of complete watches, investment securities and property rental and is summarised as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover		
Investment securities	1,341	–
Sales of watch components	–	21,028
Sales of complete watches	141,032	121,652
Rental income		
Investment properties	3,348	2,140
Land and buildings	568	1,326
	3,916	3,466
	146,289	146,146
Other revenue		
Written back of provision for bad and doubtful debts	975	2,885
Written back of trade payable	544	7,834
Dividend income	30	125
Interest income from other than short-term bank deposits	1,245	1,190
Interest income from short-term bank deposits	3,122	2,898
Others	3,185	2,652
	9,101	17,584
	155,390	163,730





### 3. TURNOVER AND OTHER REVENUE (Continued)

The analyses of the Group's turnover and profit (loss) before taxation by principal activities and by geographical markets are as follows:

	2001		2000	
	Turnover HK\$'000	Profit (loss) before taxation HK\$'000	Turnover HK\$'000	Profit (loss) before taxation HK\$'000
By principal activities				
Sale of watch components	–	–	21,028	(4,931)
Sale of complete watches	141,032	(1,827)	121,652	(12,284)
Property-related business	3,916	10,723	3,466	11,219
Other activities	1,341	(277)	–	–
	<u>146,289</u>		<u>146,146</u>	
Finance costs		<u>(1,831)</u>		<u>(2,066)</u>
Profit (loss) before taxation		<u>6,788</u>		<u>(8,062)</u>
By geographical markets				
Hong Kong	6,698	(8,145)	29,224	(21,657)
People's Republic of China, excluding Hong Kong	129,853	16,476	109,500	12,431
Others	9,738	288	7,422	3,230
	<u>146,289</u>		<u>146,146</u>	
Finance costs		<u>(1,831)</u>		<u>(2,066)</u>
Profit (loss) before taxation		<u>6,788</u>		<u>(8,062)</u>



## 4. OTHER OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Provision for bad and doubtful debts	565	3,560
Provision for diminution in value of properties held for resale	1,990	4,152
Provision for slow-moving inventories	6,257	5,144
Net unrealised loss on revaluation of investments in securities	1,803	6,587
	<b>10,615</b>	<b>19,443</b>

## 5. OTHER INCOME (EXPENSES)

	2001 HK\$'000	2000 HK\$'000
Profit on disposal of a subsidiary	–	5,208
Profit on disposal of a discontinued operation (Note)	–	10,645
Provision for diminution in value of land and buildings	–	(967)
Loss arising from exchange difference	–	(11,087)
Written off of fixed assets	(3,826)	(2,740)
Written off of investment and amounts due from subsidiaries upon liquidation	10,110	(3,416)
	<b>6,284</b>	<b>(2,357)</b>

*Note:* On 23rd August, 1999, the Group has completed the disposal of its interests in the Lakeview Project, a property development operation in the PRC. A gain of HK\$10,645,000, which represents the difference between the net sales proceeds and the net carrying amount of the assets and liabilities of the operation at the date of disposal, is included in the net loss for the previous year. The profit on disposal of the discontinued operation comprised:

	2001 HK\$'000	2000 HK\$'000
Gain on disposal of a subsidiary	–	11,233
Gain on disposal of investments in securities		
– investment securities	–	19,948
Loss on release of sub-participation interest and assignment of indebtedness	–	(20,536)
	<b>–</b>	<b>10,645</b>



## 5. OTHER INCOME (EXPENSES) (Continued)

The contribution to turnover and loss from ordinary activities in respect of the discontinued operation, accounted for up to the date of disposal, were as follows:

	2001 HK\$'000	2000 HK\$'000
Turnover	–	–
Loss from ordinary activities	–	1,569

## 6. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest payable on:		
Bank loans and overdrafts wholly repayable within five year	–	279
Convertible notes	377	375
Other loans	–	1,297
Hire purchase contract	–	6
	377	1,957
Convertible notes:		
Amortization of premium on redemption	972	972
Others	482	372
Total borrowing costs	1,831	3,301
Less: Amount capitalized in respect of properties under development	–	(1,235)
	1,831	2,066



## 7. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
<b>Crediting</b>		
Gross rental income from investment properties	3,348	2,140
Rental income from land and buildings, net of outgoings of HK\$94 (2000: HK\$Nil)	568	1,326
Interest income from other than short-term bank deposits	1,245	1,190
Interest income from short-term bank deposits	3,122	2,898
Net exchange gain	–	1,265
Dividend from listed securities	30	30
Dividend from unlisted securities	–	95
<b>Charging</b>		
Auditors' remuneration		
Current year	594	511
Under (over) provision in prior year	3	(69)
Depreciation on owned assets	2,983	3,558
(Profit) loss on disposal of fixed assets	(222)	396
Loss on write off of fixed assets	3,826	–
Net exchange loss	1,013	–
Staff cost (Including severance payment of HK\$Nil (2000: HK\$1,622,000) but excluding directors' emoluments (Note 8))	17,515	20,612
Operating lease rentals in respect of rented premises	10,893	6,168
Retirement benefits scheme contributions, net of forfeited contributions of HK\$4,000 (2000: HK\$426,000)	325	(75)



## 8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

### Directors

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	500	–
Non-executive directors, including independent non-executive directors	750	563
Emoluments to executive directors		
– Salaries and benefits in kind	1,416	1,512
– Retirement benefits scheme contributions	62	62
	<b>2,728</b>	<b>2,137</b>

*Note:* Included in directors' remuneration of year 2000 is operating lease rentals of HK\$85,000 paid in respect of a director's accommodation. The amount of HK\$85,000 is also included under operating lease rentals as at 31st March, 2000 shown in note 7 to the financial statements.

The emoluments of the directors were within the following bands:

	Number of director(s)	
	2001	2000
Up to HK\$1,000,000	4	5
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<b>5</b>	<b>6</b>

In addition to the above emoluments, certain directors had share options granted under the Company's share option scheme. Details of these benefits in kind are disclosed under the paragraph "Directors' right to acquire shares or debentures" in the Directors' Report.

In the absence of a ready market for the share options granted on the shares of the Company, the directors are unable to arrive at an accurate assessment of the value of the share options granted to the respective directors.



## 8. EMOLUMENTS OF DIRECTORS AND EMPLOYEES (Continued)

### Employees

The five highest paid individuals in the year included one (2000: one) director, details of whose emoluments are set out above. The emoluments of the remaining four (2000: four) individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and benefits in kind	2,812	2,631
Performance related incentive payments	768	782
Retirement benefits scheme contributions	115	106
	<b>3,695</b>	<b>3,519</b>

The emoluments of the four (2000: four) individuals were within the following bands:

	Number of employee(s)	
	2001	2000
Up to HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
	<b>4</b>	<b>4</b>

## 9. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Taxation in other jurisdictions of the Company and its subsidiaries	45	204

No provision for Hong Kong Profits Tax has been made for the year as the Company and its subsidiaries operating in Hong Kong have no assessable profit during the year under review. Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the estimated assessable profit for the year.

Taxation in other jurisdictions has been calculated at the rates prevailing in the respective jurisdictions.

Details of deferred taxation are set out in note 20 to the financial statements.



#### 10. NET PROFIT (LOSS) FOR THE YEAR

Of the Group's profit for the year of HK\$6,743,000 (2000: a loss of HK\$6,327,000), a loss of HK\$2,838,000 (2000: a profit of HK\$34,401,000) has been dealt with in the financial statements of the Company.

#### 11. EARNINGS (LOSS) PER SHARE

The calculation of the basic earnings (loss) per share is computed based on the following data:

	2001	2000
Earnings (loss)		
Earnings (loss) for the purpose of basic earnings (loss) per share	<b>HK\$6,743,000</b>	HK\$(6,327,000)
Number of shares		
Number of shares for the purpose of basic earnings (loss) per share	<b>291,719,516</b>	291,719,516
Basic earnings (loss) per share	<b>2 cents</b>	(2 cents)

No disclosure of the diluted earnings per share for the year under review with comparative diluted loss per share for the previous year is shown as the issue of potential ordinary shares during both years from the exercise of the outstanding share options and convertible notes will be anti-dilutive.



## 12. FIXED ASSETS

### The Group

	Investment properties HK\$'000	Leasehold properties HK\$'000	Furniture fixtures, and fittings HK\$'000	Leasehold improvements HK\$'000	Machinery and Equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation							
At 1/4/2000	24,540	38,981	9,363	6,211	5,015	2,127	86,237
Currency realignment	-	-	-	-	(3)	-	(3)
Reclassification	20,699	(20,699)	-	-	-	-	-
Additions	-	-	67	3,172	699	224	4,162
Disposals	-	-	-	-	-	(1,624)	(1,624)
Written off	-	-	(2,698)	(5,592)	(1,942)	(438)	(10,670)
Surplus arising from revaluation	459	-	-	-	-	-	459
Eliminated on revaluation	(8,275)	-	-	-	-	-	(8,275)
At 31/3/2001	37,423	18,282	6,732	3,791	3,769	289	70,286
Comprising:							
At cost	-	13,391	6,732	3,791	3,769	289	27,972
At valuation – 1995	-	4,891	-	-	-	-	4,891
At valuation – 2001	37,423	-	-	-	-	-	37,423
At 31/3/2001	37,423	18,282	6,732	3,791	3,769	289	70,286
Depreciation and amortization							
At 1/4/2000	-	15,751	6,811	2,271	3,651	2,045	30,529
Currency realignment	-	-	-	-	(1)	-	(1)
Reclassification	8,275	(8,275)	-	-	-	-	-
Provided for the year	-	386	875	891	798	33	2,983
Eliminated on disposals	-	-	-	-	-	(1,586)	(1,586)
Eliminated on written off	-	-	(2,542)	(1,965)	(1,943)	(394)	(6,844)
Eliminated on revaluation	(8,275)	-	-	-	-	-	(8,275)
At 31/3/2001	-	7,862	5,144	1,197	2,505	98	16,806
Net book value							
At 31/3/2001	37,423	10,420	1,588	2,594	1,264	191	53,480
At 31/3/2000	24,540	23,230	2,552	3,940	1,364	82	55,708





## 12. FIXED ASSETS (Continued)

The Group's property interests at the balance sheet date comprise:

	2001		2000	
	Investment properties HK\$'000	Leasehold properties HK\$'000	Investment properties HK\$'000	Leasehold properties HK\$'000
In Hong Kong under long-term leases	15,600	2,280	17,100	2,370
Outside Hong Kong under medium term leases	21,823	8,140	7,440	20,860
	<b>37,423</b>	<b>10,420</b>	<b>24,540</b>	<b>23,230</b>

The Group's investment properties are held for rental purposes under operating leases and were revalued by DTZ Debenham Tie Leung Limited, a firm of independent professional valuers, at 31st March, 2001 on an open market basis.

The Group's properties outside Hong Kong with carrying value of HK\$28,749,000 (2000: HK\$27,020,000) are registered under the name of other persons in trust for the Group.

Had the leasehold properties which were previously revalued been carried at cost less accumulated depreciation and amortization, their carrying value at 31st March, 2001 would be approximately HK\$1,852,000 (2000: HK\$1,920,000).

## 13. INTERESTS IN SUBSIDIARIES

	The Company	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	320,847	320,847
Due from subsidiaries	766,784	761,628
Due to subsidiaries	(4,787)	(4,421)
	<b>1,082,844</b>	<b>1,078,054</b>
Provision for diminution in value	(826,984)	(827,246)
	<b>255,860</b>	<b>250,808</b>



### 13. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation, establishment or registration/ operations	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital		Principal activities
			held by the Company		
			Directly	Indirectly	
AC (Overseas) Limited	British Virgin Islands	HK\$10,000	100%	–	Investment holding
Asia Commercial Enterprises Limited	Hong Kong/ The PRC	HK\$2	–	100%	Investment holding
Asia Commercial Company, Limited	Hong Kong	HK\$10,000	–	100%	Investment holding
東莞冠亞企業有限公司 Dongguan Asia Commercial Enterprises Limited ("DACEL")	The PRC	HK\$23,400,000	–	100%	Watch trading
Juvenia Montres S.A.	Switzerland	SFr.1,875,000	–	100%	Assembling and marketing of gold and jewellery watches
Time City (Hong Kong) Limited (formerly named as Juvenia Precision Watches (International) Limited)	Hong Kong	HK\$3,000,000	–	100%	Watch trading
Asia Commercial Trading Limited	Hong Kong	HK\$100	100%	–	Securities investment holding



## 13. INTERESTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation, establishment or registration/ operations	Paid up issued ordinary share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital		Principal activities
			held by the Company		
			Directly	Indirectly	
Asia Commercial Property Holdings Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Property holding
Time City International Company Limited	British Virgin Islands/ The PRC	US\$50,000	–	100%	Watch retailing and trading
Asia Commercial Investments Limited	British Virgin Islands/ Hong Kong	US\$1	100%	–	Securities investment holding

DACEL is a sino-foreign contractual joint venture established in the PRC. In the opinion of the directors, the Group is able to govern and control the financial and operating policies and the board of directors of DACEL. Therefore, the Group continues to account for DACEL as a subsidiary.

The above list includes the subsidiaries of the Company, which, in the opinion of the directors, materially affected the results of the year or net assets of the Group. To give details of all the other subsidiaries would, in the opinion of the directors, result in providing particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.



## 14. INVESTMENTS IN SECURITIES – INVESTMENT SECURITIES

	Notes	The Group	
		2001 HK\$'000	2000 HK\$'000
Unlisted shares			
Golden Crown Watch-Band Manufacturing Company Limited ("Golden Crown"), at carrying value	(i)	2,285	2,285
Asia Commercial Watch Company Limited ("AC Watch"), at cost	(ii)	1,500	1,500
Club debentures		984	984
		4,769	4,769
Provision for diminution in value		(1,500)	(1,500)
		3,269	3,269

*Notes:*

- i) At 31st March, 2001, the Group held a 19% interest in Golden Crown, a company that was incorporated in Hong Kong and is engaged in the manufacturing of watchbands. The investment in Golden Crown is accounted for as investment securities as the Group does not have significant influence over this company.
- ii) At 31st March, 2001, the Group holds a 15% interest in AC Watch, a company that was incorporated in Hong Kong and is inactive during the year under review. The investment in AC Watch is accounted for as investment securities as the Group does not have significant influence over this company. Full provision for diminution in value amounting to HK\$1,500,000 was charged to the income statement in the previous year.

## 15. AMOUNTS RECEIVABLE AFTER MORE THAN ONE YEAR

	2001 HK\$'000	2000 HK\$'000
Balance of consideration receivable from disposal of Lakeview Project (Note)	76,500	76,500
Others	–	534
	76,500	77,034

*Note:* The amount represents the balance of consideration from disposal of Lakeview Project. In accordance with the supplemental agreement of the disposal, the balance of consideration would be made gradually from time to time according to the time schedule in obtaining the land use rights within 10 years from the date of completion in respect of non-vested land. If no such land use rights are granted in respect of the non-vested land, the balance of the consideration of HK\$76,500,000 will not be payable. In the opinion of the directors, taking into consideration the current circumstances and information available there is no reason to believe that the land use rights for the non-vested land will not be granted by the PRC authorities, therefore, no provision is necessary.

**16. INVESTMENTS IN SECURITIES – OTHER INVESTMENTS**

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Debt securities				
– listed overseas	19,745	16,776	–	–
Equity securities				
– listed Hong Kong	2,520	2,385	–	–
– listed overseas	6,872	12,985	–	–
	9,392	15,370	–	–
Total	29,137	32,146	–	–

**17. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS**

The Group allows credit period of ranging from cash on delivery to 90 days to its trade debtors. The aged analysis of the trade receivables of HK\$7,662,000 (2000: HK\$3,096,000) which are included in the Group's trade and other receivables, deposits and prepayments at the balance sheet date are as follows:

	2001 HK\$'000	2000 HK\$'000
Trade receivables		
Up to 90 days	7,576	2,987
91-180 days	37	91
Over 180 days	49	18
	7,662	3,096
Other receivables, deposits and prepayments	10,183	9,261
Total	17,845	12,357

The Company did not have any trade receivables at the balance sheet date.



## 18. TRADE AND OTHER PAYABLES AND ACCRUED CHARGES

Included in trade and other payables and accrued charges are trade payables of HK\$2,085,000 (2000: HK\$1,416,000), the aged analysis of which at the balance sheet date is as follows:

	2001 HK\$'000	2000 HK\$'000
Trade payables		
Up to 90 days	1,451	1,148
91-180 days	–	–
Over 180 days	634	268
Other payables and accrued charges	2,085 86,703	1,416 99,864
Total	88,788	101,280

The Company did not have any trade payables at the balance sheet date.

## 19. CONVERTIBLE NOTES

	The Group and The Company	
	2001 HK\$'000	2000 HK\$'000
Swiss Francs 11,800,000 7/8% Convertible Notes due 2010, at par	61,912	61,912
Premium on redemption	4,049	3,077
Accrued interest	1,495	1,118
	67,456	66,107

Under the original note agreement (as amended by the note moratorium on 19th February, 1997), holders of the notes have the right at any time on or before 23rd February, 2010 to convert all or some of the notes into shares of the Company at the conversion price of HK\$8.6 per share, subject to adjustment. Interest on the notes is waived for a period of five years with effect from 23rd February, 1996 to and including 22nd February, 2001 and the rate at which interest is charged on the notes is 7/8% per annum for a period of nine years with effect from 23rd February, 2001. Interest is accrued over the revised duration of the convertible notes so as to produce a constant periodic rate of charge for each accounting period. The number of shares to be issued on conversion of a note will be the principal amount of the note (converted into Hong Kong dollars at a fixed rate of HK\$5.2468 to SFr.1.00) divided by the conversion price. The shares once converted will rank pari passu in all respects with the shares in issue at the date of conversion.



### 19. CONVERTIBLE NOTES (Continued)

There is also an option granted to the holders of the notes to cause the Company to redeem in US\$ at a fixed exchange rate of SFr.1.00 = US\$0.67933 any note on 23rd February, 2008 at a redemption price of 117 <sup>3</sup>/<sub>8</sub>% of its principal amount together with interest accrued up to the date of redemption.

The Company has the right, having given not less than 30 days and not more than 60 days' notice to the financial adviser in respect of the notes, to redeem all, but not some only, of the notes at par, together with interest accrued to the date of redemption if the closing price of the Company's shares listed on The Stock Exchange of Hong Kong Limited, converted into US\$ at the prevailing exchange rate, is at least 130% of the conversion price for 30 consecutive dealing days.

### 20. DEFERRED TAXATION

A potential deferred tax asset of the Group estimated to be approximately HK\$58,000,000 (2000: HK\$58,000,000) in respect of the tax losses available to set off future profits has not been recognized in the financial statements as there is no certainty that the tax losses will be utilized in the foreseeable future.

Surpluses arising from the revaluation of the Group's investment and leasehold properties do not constitute timing differences for taxation purposes as any profit realized on the subsequent disposal of these properties would not be subject to taxation.

Neither the Group nor the Company had any other significant unprovided deferred taxation for the year under review or at the balance sheet date.

### 21. SHARE CAPITAL

	Number of shares '000	Value HK\$'000
Ordinary shares of HK\$1 each		
Authorized:		
At 1st April, 2000 and 31st March, 2001	400,000	400,000
Issued and fully paid:		
At 1st April, 2000 and 31st March, 2001	291,719	291,719

There were no changes in the authorized share capital and issued share capital of the Company during the two years ended 31st March, 2001.



## 22. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Scheme") of the Company adopted on 15th September, 1997, the Board of Directors of the Company is authorized to grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of grant of the options. The maximum number under the Scheme shall not exceed 10% of the issued share capital of the Company, in respect of which options may be granted, excluding any shares issued pursuant to the Scheme from time to time. Options granted are exercisable for a period of ten years commencing from the date the Scheme is adopted.

No options were granted or exercised during the two years ended 31st March, 2001.

	2001 Number of share options	2000 Number of share options
At 1st April	7,400,000	15,200,000
Lapsed for the year	–	(7,800,000)
At 31st March	7,400,000	7,400,000

The holders of the above outstanding options, who are executive directors and employees of the Company and its subsidiaries are entitled to subscribe for shares in the Company at an exercise price of HK\$1 for each share.

The options granted are exercisable in accordance with the terms and restrictions contained in the respective offer letters.





### 23. RESERVES

#### The Group

	Share premium account HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Currency translation reserve HK\$'000	Capital reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1/4/1999	84	3,746	6,425	177	206,570	(322,075)	(105,073)
Deficit arising from valuation of investment properties	-	(5,648)	-	-	-	-	(5,648)
Reclassification	-	5,257	(5,257)	-	-	-	-
Excess depreciation on revalued properties	-	-	(248)	-	-	248	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	4,892	-	-	4,892
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	-	3,231	86	3,317
Disposal of discontinued operation	-	-	-	(2,994)	(52,842)	-	(55,836)
Loss for the year	-	-	-	-	-	(6,327)	(6,327)
Balance at 31/3/2000	84	3,355	920	2,075	156,959	(328,068)	(164,675)
Balance at 1/4/2000	84	3,355	920	2,075	156,959	(328,068)	(164,675)
Surplus arising from valuation of investment properties	-	459	-	-	-	-	459
Reclassification	-	344	(344)	-	-	-	-
Excess depreciation on revalued properties	-	-	(22)	-	-	22	-
Exchange differences arising from translation of financial statements of operation outside Hong Kong	-	-	-	(1,145)	-	-	(1,145)
Exclusion of a subsidiary from consolidation upon liquidation	-	-	-	-	-	1,008	1,008
Profit for the year	-	-	-	-	-	6,743	6,743
Balance at 31/3/2001	84	4,158	554	930	156,959	(320,295)	(157,610)



### 23. RESERVES (Continued)

#### The Company

	Share premium account HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1/4/1999	84	(117,948)	(117,864)
Profit for the year (Note 10)	–	34,401	34,401
Balance at 31/3/2000	84	(83,547)	(83,463)
Balance at 1/4/2000	84	(83,547)	(83,463)
Loss for the year (Note 10)	–	(2,838)	(2,838)
Balance at 31/3/2001	84	(86,385)	(86,301)

The application of the share premium account is governed by Section 40 of the Companies Act 1981 of Bermuda (as amended). The capital reserve, currency translation reserve, investment property revaluation reserve and other property revaluation reserve have been set up and will be dealt with in accordance with the accounting policies adopted for goodwill and capital reserve arising on subsidiaries, foreign currency translation and revaluation of investment properties and leasehold properties.

The Company did not have any reserves available for distribution at 31st March, 2001 and 2000.



## 24. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit (loss) before taxation	6,788	(8,062)
Non-cash items		
– Other revenue	(1,519)	(10,719)
– Other operating expenses	10,615	19,443
– Other expenses	(10,110)	(8,730)
– Amortization of premium on redemption of convertible notes	972	972
– Write off slow-moving inventories	–	3,915
Interest income from other than short-term bank deposits	(1,245)	(1,190)
Interest income from short-term bank deposits	(3,122)	(2,898)
Interest expenses	377	722
Depreciation and amortization	2,983	3,558
(Profit) loss on disposal of fixed assets	(222)	396
Loss on write off of fixed assets	3,826	–
Profit on disposal of investments in securities – other investments	(41)	–
Dividend income	(30)	(125)
Increase in properties under development	–	(4,008)
(Increase) decrease in inventories	(12,394)	32,686
Decrease (increase) in amount receivable after more than one year	534	(534)
Decrease in assets relating to Lakeview Project	–	245
Increase in trade and other receivables, deposits and prepayments	(5,221)	(1,041)
Increase (decrease) in trade and other payables and accrued charges	2,892	(2,387)
Increase in liabilities relating to Lakeview Project	–	4,007
(Decrease) increase in rental received in advance	(55)	2,278
Net cash (outflow) inflow from operating activities	(4,972)	28,528



25. NET CASH INFLOW FROM DISPOSAL OF A SUBSIDIARY

	2001 HK\$'000	2000 HK\$'000
Net liabilities disposed of:		
Trade and other receivables, deposits and prepayments	–	435
Trade and other payables and accrued charges	–	(2,109)
Net liabilities	–	(1,674)
Gain on disposal	–	5,208
	–	3,534
Satisfied by:		
Cash consideration received, net of incidental cost of HK\$Nil (2000: HK\$476,000)	–	2,922
Consideration receivable	–	612
	–	3,534

26. ANALYSIS OF THE NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE DISPOSAL OF A SUBSIDIARY

	2001 HK\$'000	2000 HK\$'000
Cash consideration	–	2,922
Less: Cash and cash equivalents disposed of with a subsidiary	–	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	–	2,922



## 27. NET CASH INFLOW FROM DISPOSAL OF A DISCONTINUED OPERATION

## a) Disposal of subsidiary:

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Properties under development	–	551,771
Amount due from a group investee company	–	35,215
Assets relating to Lakeview Project	–	171,407
Trade and other receivables, deposits and prepayments	–	1,051
Bank balances and cash	–	57
Trade and other payables and accrued charges	–	(10,030)
Liabilities relating to Lakeview Project	–	(370,105)
Taxation payable	–	(9,051)
Loans from minority shareholders	–	(23,548)
Loans from two group companies	–	(83,536)
Deferred taxation	–	(82,609)
Provision for fee payable to a PRC joint venture partner	–	(8,763)
Minority interests	–	(53,203)
	–	118,656
Capital reserve and currency translation reserve released on disposal	–	(55,836)
	–	62,820
Gain on disposal	–	11,233
	–	74,053

**27. NET CASH INFLOW FROM DISPOSAL OF A DISCONTINUED OPERATION**  
(Continued)*b) Disposal of investment securities:*

	2001 HK\$'000	2000 HK\$'000
Cost of investment securities	–	52
Write back of provision for restructuring	–	(4,000)
	–	(3,948)
Gain on disposal	–	19,948
	–	16,000

*c) Release of sub-participation interest and assignment of indebtedness:*

	2001 HK\$'000	2000 HK\$'000
Loans and net amounts due from subsidiary	–	83,536
Loss on release of sub-participation interest and assignment of indebtedness	–	(20,536)
	–	63,000
Satisfied by:		
Cash consideration received, net of incidental cost of HK\$Nil (2000: HK\$3,947,000)	–	76,553
Consideration receivable	–	76,500
	–	153,053

**28. ANALYSIS OF THE NET INFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF THE DISPOSAL OF A DISCONTINUED OPERATION**

	2001 HK\$'000	2000 HK\$'000
Cash consideration received, net of incidental cost of HK\$Nil (2000:HK\$3,947,000)	–	76,553
Less: Cash and cash equivalents disposed of with the subsidiary	–	(57)
Net inflow of cash and cash equivalents in respect of the disposal of discontinued operation	–	76,496

**29. NET CASH OUTFLOW FROM WRITTEN OFF OF INVESTMENT AND AMOUNTS DUE FROM SUBSIDIARIES UPON LIQUIDATION**

	2001 HK\$'000	2000 HK\$'000
Net assets disposed of:		
Trade and other receivables, deposits and prepayments	37	13,771
Bank balances and cash	57	96
Trade and other payables and accrued charges	(11,194)	(13,758)
	(11,100)	109
Reversal of goodwill written off upon liquidation of a subsidiary	1,008	3,317
	(10,092)	3,426
Profit (loss) on written off of investment and amount due from subsidiaries upon liquidation	10,110	(3,416)
	18	10
Satisfied by:		
Cash consideration received	18	10

**30. ANALYSIS OF THE NET OUTFLOW OF CASH AND CASH EQUIVALENTS IN RESPECT OF WRITTEN OFF OF INVESTMENT AND AMOUNTS DUE FROM SUBSIDIARIES UPON LIQUIDATION**

	2001 HK\$'000	2000 HK\$'000
Cash consideration	18	10
Less: Cash and cash equivalents disposed of with the subsidiaries upon on liquidation	(57)	(96)
Net outflow of cash and cash equivalents in respect of written off of investment and amounts due from subsidiaries upon liquidation	(39)	(86)

**31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR**

	Share capital and premium account HK\$'000	Loans from minority shareholders HK\$'000	Convertible notes HK\$'000	Obligations under a hire purchase contract HK\$'000
At 1/4/1999	291,803	22,313	64,760	75
Repayments made during the year	–	–	–	(75)
Other movements not involving cash flows:				
Interest on loans from minority shareholders	–	1,235	–	–
Disposal of Lakeview Project	–	(23,548)	–	–
Premium on redemption and interest accrued	–	–	1,347	–
At 31/3/2000	291,803	–	66,107	–
At 1/4/2000	291,803	–	66,107	–
Premium on redemption and interest accrued	–	–	1,349	–
At 31/3/2001	291,803	–	67,456	–





### 32. CONTINGENT LIABILITIES

#### The Company

At 31st March, 2001, the Company issued corporate guarantees of HK\$40,000,000 (2000: HK\$40,000,000) to banks to secure general banking facilities granted to the Group. Bank facilities utilised at 31st March, 2001 was HK\$nil (2000: HK\$nil).

### 33. RELATED PARTY TRANSACTIONS AND BALANCES

The following entity has been defined as related party with whom the Group has had significant transactions during the year and/or with whom a significant balance existed at the balance sheet date:

	Nature of Relationship
Mr. Zheng Li Shun	Minority shareholder and director of a former subsidiary

The following is the significant transactions with related party during the year ended 31st March, 2001.

	2001 HK\$'000	2000 HK\$'000
Interest income	621	536

The above amount was included in the balance sheet of the Group and the Company as follow:

	The Group		The Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade and other receivables, deposits and prepayments (Note)	–	188	–	–

*Note:* The amount which is net of provision is HK\$Nil (2000: HK\$188,000) arose from the disposal of Asian Luck Development Limited ("ALDL") in 1998. ALDL was formerly a 63% owned subsidiary of the Group. The amount was secured by 63 ordinary shares of ALDL sold by the Group to the purchaser by way of a first legal charge and repayable by installments. The amount has been overdue and bears interest at the prime rate of the Hong Kong & Shanghai Banking Corporation Limited.



### 33. RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

A provision of HK\$6,494,000 for the fully secured amount has been charged to the income statement in the previous year in respect of the uncertainty of the collectibility of the balance of consideration receivable.

During the year, a further provision of HK\$521,000 has been charged to the income statement regarding to the interest income arisen from the overdue amount of the agreed interest rate on default payment.

On 17th July, 2000, a writ has been lodged to High Court to recover the balances and the interest thereon in view of the long overdue of the balances. At the balance sheet date, the civil procedure of the High Court of the legal action has being taken.

### 34. PLEDGE OF ASSETS

#### The Group

At the balance sheet date, general banking facilities granted to the Group of HK\$40,000,000 (2000: HK\$40,000,000) were secured by certain properties as follows:

	2001 HK\$'000	2000 HK\$'000
Carrying value of pledged assets		
Investment properties	15,600	17,100
Leasehold properties	2,280	2,370
	<b>17,880</b>	<b>19,470</b>



### 35. OPERATING LEASE COMMITMENTS

#### The Group

At the balance sheet date, the Group was committed to pay the following amounts within one year under non-cancellable operating leases in respect of land and buildings:

	2001 HK\$'000	2000 HK\$'000
Operating leases which expire		
Within one year	1,983	–
In the second to fifth years inclusive	3,274	6,079
	<b>5,257</b>	<b>6,079</b>

The Company had no operating lease commitments at 31st March, 2001 and 2000.

### 36. RETIREMENT BENEFITS SCHEME

Prior to 1st December 2000, the Group operates a defined contribution retirement benefits scheme for eligible employees including executive directors, employees of the Company and its subsidiaries in Hong Kong. The assets of the scheme are held separately from those of the Group under provident fund managed by independent trustee.

The cost charged to the income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the Group's contributions, the contributions payable by the Group are reduced by the amount of the forfeited contributions.

Since 1st December 2000, the Group has enrolled all Hong Kong eligible employees including executive directors into a Mandatory Provident Fund ("MPF") scheme as a consequence of the new Mandatory Provident Fund Pension Legislation introduced by the Hong Kong Government. The former scheme has been terminated accordingly and all the Group's contributions as at 1st December, 2000 are transferred to the MPF scheme as voluntary contribution. The retirement benefit cost for the MPF scheme charged to the income statement represents contributions payable to the MPF scheme by the Group at rates specified in the rules of the MPF scheme.

Employees who are employed in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.



### 37. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following post balance sheet events took place:

- 1) Subject to receiving approvals from shareholders of the Company, The Stock Exchange of Hong Kong Limited and the Bermuda Monetary Authority, the Company will adopt a new share option scheme (the "New Scheme") under which the Board of Directors of the Company may grant options to eligible employees, including executive directors, of the Company and its subsidiaries, to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited 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 New Scheme shall not exceed 10% of the issued share capital of the Company from time to time.
- 2) The Company has entered into an agreement to acquire a 54% interest in KBQ for an aggregate consideration of HK\$42million. KBQ is principally engaged in the sale and design of contact software programmes, including logistics management, e-business, e-learning, telecommunications and general system development as well as enhancement, for business customers in the information technology industry. The consideration has been satisfied by the allotment and issue of 42,000,000 shares at a price of HK\$1.00 per Share to the Vendor. At completion, the Vendor is interested in approximately 14.4% of the issued share capital of the Company as at the balance sheet date and approximately 12.6% of the enlarged issued share capital of the Company. The Acquisition contemplated under the Agreement constitutes a discloseable transaction for the Company under the Rules Governing of the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company has set out the details regarding the Acquisition and other information required by the Listing Rules in the Circular dated 24th May, 2001.
- 3) The Company is named as defendants in 2 legal actions. In the opinion of the directors, there were no material contingent liabilities in respect of these legal proceedings and all valid claims have been adequately provided in the financial statements. However, in any event, it is in the opinion of the directors after consulting legal advisers that the Company can successfully appeal the claim made by the Plaintiffs.

### 38. COMPARATIVE FIGURES

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