

# NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

## 1. ORGANISATION AND OPERATIONS

Egana Jewellery & Pearls Limited (the “Company”) was incorporated in the Cayman Islands. Its shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 27th July, 1998.

The Directors consider EganaGoldpfeil (Holdings) Limited (“EganaGoldpfeil”), a limited company incorporated in the Cayman Islands and whose shares are listed on the Stock Exchange, to be the ultimate holding company.

The Company is an investment holding company. Its subsidiaries are principally engaged in (i) design, manufacturing, distribution and trading of jewellery products and (ii) licensing or assignment of brandnames to third parties for the design, manufacturing and/or distribution of jewellery and consumer products other than timepieces.

## 2. PRINCIPAL ACCOUNTING POLICIES

### a. Basis of presentation

The financial statements have been prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

### b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”), together with the Group’s share of post-acquisition profit or loss and reserves of its associate under the equity method of accounting. Significant intra-group transactions and balances have been eliminated on consolidation.

### c. Subsidiaries

A company is a subsidiary company if more than 50% of the issued voting share capital is held long-term, directly or indirectly. In the Company’s financial statements, investment in subsidiaries is carried at cost less provision for impairment in value that is other than temporary where considered necessary by the Directors. The results of the subsidiaries are included in the Company’s income statement to the extent of dividends declared by the subsidiaries.

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **2. PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

#### **d. Associate**

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associate is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associate, distributions received from the associate and other necessary alternations in the Group's proportionate interest in the associate arising from changes in the equity of the associate that have not been included in the income statement.

Goodwill arising on acquisition of an associate, being the excess of the cost over the fair value of the Group's share of the separable net assets acquired, is written off against reserves upon acquisition. Where, in the opinion of the Directors, there is an impairment in value of an associate that is other than temporary, a provision is made for such impairment in value.

#### **e. Goodwill**

Goodwill arising on acquisition of subsidiaries, associate and businesses represents the excess of costs of acquisition over the fair value of the Group's share of the separable net assets of the subsidiaries, associate and businesses acquired, and is eliminated against available reserves in the year of acquisition or is amortised over a period of fifteen years. Upon disposal of interests in subsidiaries, associate and businesses, the underlying goodwill previously eliminated or amortised is reversed as investment cost in determining the gain or loss on disposal.

#### **f. Turnover**

Turnover represents (i) gross invoiced sales, net of discounts and returns and (ii) income from licensing or assignment of brandnames.

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **2. PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

#### **g. Revenue recognition**

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

(i) Sale of goods

Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

(ii) Income from licensing or assignment of brandnames

Income from licensing or assignment of brandnames is recognised when the income is received or becomes receivable.

(iii) Interest income

Interest income from bank deposits and promissory notes is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iv) Rental income

Rental income is recognised on a straight line basis over the period of the relevant leases.

(v) Dividend income

Dividend income is recognised when the right to receive payment is established.

#### **h. Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed 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 fixed assets, the expenditure is capitalised as additional cost of the fixed asset.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### h. Fixed assets and depreciation (Cont'd)

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.

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

Leasehold land and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31st December, 1998. In the intervening years, the Directors review the carrying value of leasehold land and buildings and adjustment is made where in the Directors' opinion there has been a material change in value.

Any increase in leasehold land and buildings valuation is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable valuation surplus is transferred to retained profits.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost or valuation of each asset over its expected useful life. Leasehold land is depreciated over the shorter of the remaining period of the respective lease and estimated useful life. The annual rates are as follows:

Freehold land	Nil
Buildings on the freehold land	5%
Leasehold land and buildings	Over the shorter of the remaining period of the leases and estimated useful lives
Leasehold improvements	10% to 25%
Furniture and equipment	15% to 33- $\frac{1}{3}$ %
Motor vehicles	25%
Plant and machinery	15%

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets.

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **2. PRINCIPAL ACCOUNTING POLICIES** *(Cont'd)*

#### **i. Intangible assets**

Intangible assets represent (i) the cost of licences and trademarks acquired from third parties, which is amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years, (ii) deferred expenditure in advertising and promoting new licenses or trademarks which is amortised using the straight-line method over their estimated useful lives, but not exceeding three years, (iii) deferred expenditure in respect of existing licences and trademarks which is amortised using the straight-line method over their estimated useful lives, but not exceeding one year, (iv) goodwill arising on acquisition of business which is amortised over a period of fifteen years, and (v) cost of the existing customer base, source of suppliers and know-how of a business acquired which is amortised over a period of fifteen years.

#### **j. Stock**

Stock is stated at the lower of cost and net realisable value.

Cost is based on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the stocks to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Provision is made for obsolete, slow-moving or defective items where appropriate.

When stock is sold, the carrying amount of the stock is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of stock to net realisable value and all losses of stock are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of stock, arising from an increase in net realisable value, is recognised as a reduction in the amount of stock recognised as an expense in the period in which the reversal occurs.

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **2. PRINCIPAL ACCOUNTING POLICIES** (Cont'd)

#### **k. Leases**

##### (i) Finance leases

Leases that transfer to the Group substantially all the rewards and risks of ownership of the assets, other than legal title, are accounted for as finance leases. Fixed assets held under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the leases, with the equivalent liabilities recorded as appropriate under current or non-current liabilities. Interest expenses, which represent the difference between the minimum lease payments at the inception of the leases and the corresponding fair value of the assets acquired, are allocated to accounting periods over the period of the leases to produce a constant rate of charge on the outstanding balances.

##### (ii) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

#### **l. Deferred taxation**

Deferred taxation is provided under the liability method, at the current tax rate, in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

#### **m. Foreign currencies**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the income statement of the individual companies.

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### **2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**

#### **m. Foreign currencies (Cont'd)**

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, the financial statements of those subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange differences arising from such translation are treated as changes in exchange translation reserve.

#### **n. Employee retirement benefits**

The costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

#### **o. Off-balance sheet financial instruments**

Off-balance sheet financial instruments arise from forward and option transactions undertaken by the Group in the foreign exchange market. The accounting for these instruments is dependent upon whether the transactions are undertaken for dealing or hedging purposes.

Financial instruments undertaken for dealing purposes which consist of written currency options are marked to market and the gain or loss arising is recognised in the income statement.

Gains and losses on financial instruments designated and qualified as hedges, which consist of currency forward contracts for hedging of firm commitments, are deferred and recognised as part of the firmly committed transaction when they occur.

Assets relating to off-balance sheet option contracts which are marked to market are included in "Deposits, prepayments and other receivables" in the accompanying financial statements. Liabilities resulting from such contracts are included in "Accounts payable and accruals" in the accompanying financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 3. TURNOVER AND PROFIT BEFORE TAX

Analysis of turnover and profit before tax by principal activities was as follows:

	Turnover		Profit before tax	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Manufacturing, distribution and trading of jewellery products	<b>667,652</b>	680,043	<b>46,588</b>	75,863
Income from licensing or assignment of brandnames	<b>2,996</b>	7,281	<b>1,700</b>	5,068
Commission income from referral of customers or suppliers	—	4,485	—	3,122
	<b>670,648</b>	691,809	<b>48,288</b>	84,053

Analysis of turnover and profit before tax by geographical locations was as follows\*:

	Turnover		Profit before tax	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Europe	<b>562,911</b>	488,083	<b>41,393</b>	80,829
America	<b>60,838</b>	63,283	<b>(6,968)</b>	(4,640)
Asia Pacific	<b>46,899</b>	140,443	<b>13,863</b>	7,864
	<b>670,648</b>	691,809	<b>48,288</b>	84,053

- \* Turnover by geographical locations is determined on the basis of the destination of delivery of merchandise. Licensing income by geographical locations is determined on the basis of the territories covered under the relevant licensing agreements.



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. OTHER REVENUE

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Rental income (Note 5)	<b>241</b>	451
Interest income (Note 5)	<b>11,417</b>	6,624
Management fee (Note 5)	<b>628</b>	—
Others	<b>94</b>	1
	<b>12,380</b>	7,076

### 5. RELATED PARTY AND CONNECTED TRANSACTIONS

Related parties are companies in which one or more of the directors or shareholders of the Group have direct or indirect beneficial interests in the companies or are in a position to exercise significant influence on the companies. Parties are also considered to be related if they are subject to common control or common significant influence.

- a. Particulars of significant transactions between the Group and related companies during the year were summarised below:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Sales of goods/services ("Trading Transaction")		
Haru Japan Corporation, Inc. <sup>(1)</sup>	<b>755</b>	7
Kai-Yin Lo Limited <sup>(1)</sup>	<b>50</b>	387
Eco-Haru (Far East) Limited <sup>(1)</sup>	<b>599</b>	1,872
Egana of Switzerland (America) Corp. <sup>(1)</sup>	—	4
Chromachron A.G. <sup>(1)</sup>	—	4,269
Erich Eckelt GmbH <sup>(1)</sup>	—	1,608
Goldpfeil AG <sup>(1)</sup>	<b>52</b>	28
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>747</b>	28
Goldpunkt I. Schoenheim GmbH <sup>(1)</sup>	—	544
Juwelier Krezdorn GmbH <sup>(1)</sup>	—	230
Egana India Private Limited <sup>(1)</sup>		
(formerly known as Egana Inter Gold Limited)	<b>599</b>	666
EganaGoldpfeil (Holdings) Limited	<b>18</b>	—
Egana Suisse SA <sup>(1)</sup>	<b>4,176</b>	—
Egana Italia s.r.l. <sup>(1)</sup>	<b>9</b>	—

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. RELATED PARTY AND CONNECTED TRANSACTIONS (Cont'd)

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Purchases of goods ("Trading Transaction")		
Egana of Switzerland (Far East) Limited <sup>(1)</sup>	<b>94</b>	—
Kai-Yin Lo Limited <sup>(1)</sup>	—	679
Eco-Haru (Far East) Limited <sup>(1)</sup>	<b>7</b>	216
Egana Deutschland GmbH <sup>(1)</sup>	<b>35</b>	150
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>2,041</b>	215
Bartelli Leather Products Limited <sup>(1)</sup>	<b>44</b>	—
Rental income		
Kai-Yin Lo Limited <sup>(1)</sup>	<b>241</b>	451
Interest income		
Keimothai Limited <sup>(4)</sup>	—	533
Centreline Group Limited <sup>(1)</sup>	<b>3,598</b>	4,022
Management fee income		
Egana of Switzerland (America) Corp. <sup>(1)</sup>	<b>624</b>	—
Allocation of operating costs		
Egana Deutschland GmbH <sup>(1)</sup>	<b>68,029</b>	52,158
Egana Uhrenvertriebs GmbH <sup>(1)</sup>	—	859
Consultancy fee expenses		
International Taxation Advisory Services Limited <sup>(2)</sup>	<b>1,859</b>	1,968
Interest expense		
Rossolini Limited <sup>(3)</sup>	<b>10</b>	4
Management fee expenses		
EganaGoldpfeil (Holdings) Limited	<b>3,629</b>	4,192
Egana-Haru Mfr. Corp. Limited <sup>(1)</sup>	<b>2,328</b>	1,699
Royalty fee expenses		
P.C. International Marketing Limited <sup>(1)</sup>	<b>7,571</b>	7,280
Goldpfeil AG <sup>(1)</sup>	<b>1,131</b>	1,197
Goldpfeil Distribution and Services Limited <sup>(1)</sup>	—	2,791
Centreline Group Limited <sup>(1)</sup>	—	4,000
Egana Deutschland GmbH <sup>(1)</sup>	<b>1,131</b>	1,197
Bartelli Leather Products Limited <sup>(1)</sup>	<b>6,928</b>	—

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. RELATED PARTY AND CONNECTED TRANSACTIONS (Cont'd)

- (1) *A subsidiary of EganaGoldpfeil, which is not within the Group ("fellow subsidiary").*
  - (2) *A company in which Mr. David Wai Kwong WONG, Non-executive Director of EganaGoldpfeil and the Company, is a director.*
  - (3) *An associate to the Group.*
  - (4) *An associate to the Group before it became a subsidiary of the Group in 1999.*
- b. During the year, the Group had transactions with related parties (as disclosed in Note 5.a above), all of which are also deemed to be connected parties, except for consultancy fees paid to International Taxation Advisory Services Limited and interest expense paid to Rossolini Limited pursuant to the Listing Rules.
- c. Amounts due to Directors as disclosed in Note 17 were unsecured, non-interest bearing and without pre-determined repayment date.
- d. An amount due to an associate of approximately \$89,000 (1999 - \$103,000) (see Note 15) and a royalty deposit paid to a fellow subsidiary of approximately \$30,420,000 (1999 - \$34,822,000) (see Note 16.d) were interest-bearing at normal commercial rates.
- e. Save as disclosed above, all other balances with related parties in relation to the transactions as disclosed in Note 5.a above were unsecured, non-interest bearing, and with pre-determined repayment terms.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. PROFIT BEFORE TAX

Profit before tax was determined after charging and crediting the following items:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<b>After charging:</b>		
Staff retirement scheme contributions	<b>495</b>	447
Less: refund of forfeited contributions	<b>(220)</b>	(229)
	<b>275</b>	218
Interest expense on		
- bank loans and overdrafts wholly repayable		
within five years	<b>14,563</b>	10,787
- notes payable wholly repayable within five years	<b>281</b>	—
- other loans wholly repayable within five years	<b>8</b>	25
- an advance from an associate	<b>10</b>	4
- finance leases	<b>12</b>	—
Depreciation of fixed assets		
- owned assets	<b>10,424</b>	9,304
- leased assets	<b>88</b>	24
Amortisation of intangible assets	<b>20,606</b>	15,548
Loss on disposal of fixed assets	<b>3,408</b>	144
Auditors' remuneration		
- current year	<b>2,193</b>	1,461
- prior year under-provision	<b>27</b>	—
Operating lease rentals		
- leasehold land and buildings	<b>8,542</b>	6,836
- furniture and equipment	<b>275</b>	978
Bad debt expenses	<b>2,367</b>	4,408
Exchange loss, net	<b>137</b>	1,559
Staff costs (including Directors and senior executives' emoluments)	<b>73,379</b>	64,292

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. PROFIT BEFORE TAX (Cont'd)

	2000	1999
	\$'000	\$'000
<b>After crediting:</b>		
Rental income, net of outgoings	241	451
Interest income from		
- bank deposits	2,788	511
- promissory notes	3,559	1,360
- a fellow subsidiary (Note 16.d)	3,598	4,022
- advance to an associate	—	533
- deposit with a third party (Note 16.e)	162	—
- advance to a supplier	296	198
- others	1,014	—

### 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

#### a. Directors' emoluments

(i) Details of Directors' emoluments were set out below:

	2000	1999
	\$'000	\$'000
Fees for Executive Directors	—	—
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing, other allowances and benefits in kind	2,854	3,189
- Retirement scheme contributions	44	41
- Bonuses paid and payable	1,570	42
Other emoluments for Non-executive Directors	600	—
	<b>5,068</b>	3,272

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

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

- (ii) Analysis of Directors' emoluments by number of Directors and emolument ranges was as follows:

	<b>2000</b>	1999
Executive Directors		
- Nil - \$1,000,000	<b>6</b>	6
- \$1,000,001 - \$1,500,000	—	1
- \$1,500,001 - \$2,000,000	—	—
- \$2,000,001 - \$2,500,000	—	—
- \$2,500,001 - \$3,000,000	<b>1</b>	—
	<b>7</b>	7
Non-executive Directors		
- Nil - \$1,000,000	<b>5</b>	3

- (iii) No Directors waived any emoluments during the year. In the current year, no payments as inducement to join or upon joining the Group or as compensation for loss of office was paid or payable to any Director.

#### b. Senior executives' emoluments

- (i) During the year, the five highest-paid individuals included one (1999 - one) Director; details of whose emoluments were set out above. The emoluments of the other four (1999 - four) highest-paid individuals were analysed as below:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Basic salaries, housing, other allowances and benefits in kind	<b>3,884</b>	4,498
Retirement scheme contributions	<b>74</b>	—
Bonuses paid and payable	<b>110</b>	70
	<b>4,068</b>	4,568

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Cont'd)

#### b. Senior executives' emoluments (Cont'd)

- (ii) Analysis of emoluments paid to the aforementioned four (1999 - four) non-director employees by number of individuals and emolument ranges was as follows:

	2000	1999
Non-director employees		
- Nil - \$1,000,000	1	2
- \$1,000,001 - \$1,500,000	3	1
- \$1,500,001 - \$2,000,000	—	1
	<u>4</u>	<u>4</u>

- (iii) During the year, no emoluments of the five highest-paid individuals (including Directors and other employees) were incurred as inducement to join or upon joining the Group or as compensation for loss of office.

### 8. TAXATION

Taxation comprised:

	2000	1999
	\$'000	\$'000
Current taxation		
Hong Kong profits tax		
- Provision for current year	4,500	9,000
- Under/(Over)-provision in prior years	115	(41)
Overseas income tax		
- Provision for current year	263	3,057
- Over-provision in prior years	(268)	—
	<u>4,610</u>	<u>12,016</u>

Hong Kong profits tax was provided at the rate of 16% (1999 - 16%) on the estimated assessable profits arising in or derived from Hong Kong. Overseas income tax was provided by subsidiaries with overseas operations on their estimated assessable profits for the year at the tax rates applicable in the countries in which the subsidiaries operated.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately \$13,251,000 (1999 - \$46,053,000) dealt with in the financial statements of the Company.

### 10. DIVIDENDS

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Interim, paid - 0.38 cent (1999 - 0.38 cent) per share	<b>11,788</b>	11,783
Final, Nil (1999 - 1 cent) per share	—	31,010
Prior year final dividend*	<b>7</b>	—
	<b>11,795</b>	42,793

\* This represented prior year final dividend paid to shareholders who exercised their warrants after the prior year financial statements were approved but before the record date for payment of the dividend.

During the year, an interim dividend of approximately \$11,788,000 (1999 - \$11,783,000) was declared and paid.

The Directors did not recommend the payment of a final dividend to shareholders.

### 11. EARNINGS PER SHARE

#### a. Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$43,678,000 (1999 - \$72,037,000) and the weighted average number of ordinary shares of approximately 3,101,441,000 (1999 - 3,100,187,000) in issue during the year.

#### b. Diluted earnings per share

Diluted earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$43,678,000 (1999 - \$72,037,000) and the weighted average number of ordinary shares of approximately 3,110,871,000 (1999 - 3,123,217,000) that would be in issue having been adjusted to reflect the effects of all dilutive potential ordinary shares issuable during the year.



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS

Movements of fixed assets during the year were as follows:

#### Group

	2000						1999	
	Freehold land and buildings \$'000	Leasehold land and buildings \$'000	Leasehold improvements \$'000	Furniture and equipment \$'000	Motor vehicles \$'000	Plant and machinery \$'000	Total \$'000	Total \$'000
<b>Cost or valuation</b>								
Beginning of year	2,448	7,130	10,158	13,524	181	32,235	65,676	59,144
Additions	—	—	651	5,997	557	789	7,994	7,033
Disposal	—	—	—	(3,488)	(135)	—	(3,623)	(301)
Write-off	—	—	—	—	—	—	—	(65)
Exchange adjustments	(421)	—	(87)	(666)	(22)	—	(1,196)	(135)
End of year	2,027	7,130	10,722	15,367	581	33,024	68,851	65,676
Representing -								
At cost	2,027	—	10,722	15,367	581	33,024	61,721	58,546
At valuation	—	7,130	—	—	—	—	7,130	7,130
	2,027	7,130	10,722	15,367	581	33,024	68,851	65,676
<b>Accumulated depreciation</b>								
Beginning of year	70	149	5,494	3,386	93	12,848	22,040	12,799
Charge for the year	58	152	2,660	2,684	99	4,859	10,512	9,328
Disposal	—	—	—	(58)	(135)	—	(193)	(154)
Write-off	—	—	—	—	—	—	—	(65)
Exchange adjustments	(81)	—	(67)	(369)	(22)	—	(539)	132
End of year	47	301	8,087	5,643	35	17,707	31,820	22,040
<b>Net book value</b>								
End of year	1,980	6,829	2,635	9,724	546	15,317	37,031	43,636
Beginning of year	2,378	6,981	4,664	10,138	88	19,387	43,636	46,345

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 12. FIXED ASSETS (Cont'd)

- a. The net book value of fixed assets held under finance lease amounted to \$339,000 (1999 - \$219,000).
- b. The carrying amounts of land and buildings were analysed as follows:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<hr/>		
Held in Hong Kong		
- under medium-term lease (see (c) below)	<b>6,829</b>	6,981
Held outside Hong Kong		
- freehold	<b>1,980</b>	2,378
	<b>8,809</b>	9,359
<hr/> <hr/>		

- c. The leasehold land and buildings were situated in Hong Kong and were held under medium-term lease. They were revalued on 31st December, 1998 by LCH (Asia-Pacific) Surveyors Limited, independent qualified valuers, on an open market value basis. Had those leasehold land and buildings been carried at cost less accumulated depreciation, the net book value of the leasehold land and buildings as at 31st December, 2000 would have been approximately \$8,400,000 (1999 - \$8,585,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INTANGIBLE ASSETS

Movements of the intangible assets for the Group and the Company during the year were as follows:

#### Group

	2000				1999	
	Know-how \$'000	Licences and trademarks \$'000	Deferred expenditure \$'000	Goodwill \$'000	Total	Total
					\$'000	\$'000
<b>Cost</b>						
Beginning of year	24,738	4,756	60,488	8,778	98,760	98,259
Additions	179	11,374	18,818	—	30,371	15,355
Write-off	—	—	(671)	—	(671)	(3,364)
Exchange adjustments	(1,364)	—	(2,658)	(484)	(4,506)	(11,490)
End of year	23,553	16,130	75,977	8,294	123,954	98,760
<b>Accumulated amortisation</b>						
Beginning of year	2,063	38	46,191	1,366	49,658	42,722
Charge for the year	1,559	593	17,901	553	20,606	15,548
Write-off	—	—	(671)	—	(671)	(3,364)
Exchange adjustments	(114)	—	(2,188)	(75)	(2,377)	(5,248)
End of year	3,508	631	61,233	1,844	67,216	49,658
<b>Net book value</b>						
End of year	20,045	15,499	14,744	6,450	56,738	49,102
Beginning of year	22,675	4,718	14,297	7,412	49,102	55,537

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INTANGIBLE ASSETS (Cont'd)

#### Company

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<b>Cost</b>		
Beginning and end of year	<b>363</b>	363
<b>Accumulated amortisation</b>		
Beginning of year	<b>36</b>	7
Charge for the year	<b>30</b>	29
End of year	<b>66</b>	36
<b>Net book value</b>		
End of year	<b>297</b>	327
Beginning of year	<b>327</b>	356

### 14. INTERESTS IN SUBSIDIARIES

In the Company's balance sheet, interests in subsidiaries comprised:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Unlisted shares, at cost	<b>120,910</b>	120,910
Due from subsidiaries	<b>129,387</b>	125,049
Due to a subsidiary	<b>(63,631)</b>	(18,061)
	<b>186,666</b>	227,898

All of the amounts due from subsidiaries were unsecured, interest-bearing at commercial rates and without pre-determined repayment terms, except for the amounts due from three overseas subsidiaries of approximately \$24,491,000 (1999 - \$20,893,000) and the amount due to a subsidiary of approximately \$63,631,000 (1998 - \$18,061,000) which were non-interest bearing.

As at 31st December, 2000, the Company provided corporate guarantees of \$312,410,000 (1999 - \$187,830,000) to secure banking facilities of certain subsidiaries.

The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value as at 31st December, 2000.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INTERESTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries as at 31st December, 2000 were as follows:

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Oro Design Limited	Hong Kong	\$10,000	100	—	Designer, manufacturer and distributor of jewellery
Everstone Limited	Hong Kong/ People's Republic of China	\$100	—	100	Subcontractor for the manufacture of jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	100	—	Investment holding and licensing operations
Time Success Industrial Limited	Hong Kong	\$2	100	—	Property holding
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	100	Marketing and promotion operations
Egana Schmuck und Perlen GmbH	Germany	DM50,000	100	—	Designer and distributor of jewellery
Burkhard Mueller Schmuck GmbH	Germany	DM50,069	—	100	Designer and distributor of jewellery
Egana Juwelen und Perlen Handels GmbH	Austria	ATS500,000	—	100	Distributor of jewellery

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 14. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	100	—	Designer and distributor of jewellery
Jacquelin Designs Enterprises, Inc.	The United States of America	—	100	—	Designer and distributor of jewellery
Keimothai Limited	Thailand	Baht60,000,000	—	100 (a)	Sourcing agent, manufacturer and distributor of jewellery

- a. Keimothai Limited was previously accounted for as an associate since its acquisition by the Group in 1997. It became a subsidiary in 1999 after the Group increased its shareholding from 45% to 100%.
- b. None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2000.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 15. INTEREST IN AN ASSOCIATE

Interest in an associate comprised:

	<b>Group</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Share of net assets other than goodwill -		
Unlisted shares	<b>32</b>	32
Due to an associate	<b>(89)</b>	(103)
	<b>(57)</b>	(71)

Amount due to the associate was unsecured, interest-bearing at commercial rate and without pre-determined repayment terms.

Details of the Group's associate as at 31st December, 2000 were as follows:

<b>Name of associate</b>	<b>Place of incorporation/ operation</b>	<b>Percentage of interests held</b>		<b>Principal activity</b>
		<b>Directly</b>	<b>Indirectly</b>	
		%	%	
Rossolini Limited	Thailand	—	30%	Inactive

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. CURRENT ASSETS

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Cash and bank balances	<b>135,017</b>	74,417	<b>3,845</b>	2,189
Stock (a)	<b>173,873</b>	166,961	—	—
Promissory notes (b)	—	58,009	—	—
Due from ultimate holding company	<b>1</b>	—	—	—
Due from fellow subsidiaries	<b>30,933</b>	6,139	<b>89</b>	—
Accounts receivable (c)	<b>79,134</b>	108,632	—	—
Royalty deposit (d)	<b>30,420</b>	34,822	—	—
Deposits, prepayments and other receivables (e)	<b>64,955</b>	24,388	<b>435</b>	2,684
	<b>514,333</b>	473,368	<b>4,369</b>	4,873

a. Stock:

	Group	
	2000	1999
	\$'000	\$'000
Raw materials	<b>39,317</b>	37,433
Work-in-progress	<b>9,929</b>	8,345
Finished goods	<b>137,952</b>	138,744
	<b>187,198</b>	184,522
Less: provision for stock obsolescence	<b>(13,325)</b>	(17,561)
	<b>173,873</b>	166,961

The amount of finished goods (included above) carried at net realisable value was approximately \$124,660,000 (1999 - \$121,183,000).

As at 31st December, 2000, certain stock was held under trust receipts and import bank loans (see Note 17.a).



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 16. CURRENT ASSETS (Cont'd)

- b. As at 31st December, 1999, promissory notes represented short-term deposits bearing interest at commercial rates. Such amounts were redeemed in full in 2000 and there were no other promissory notes receivable outstanding as at 31st December, 2000.
- c. The Group allows an average credit period of 30-90 days to its trade customers. Aging analysis of accounts receivable was as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
<b>Due</b>				
In current month	<b>54,173</b>	52,765	—	—
Between 1 to 2 months	<b>12,890</b>	30,576	—	—
Between 2 to 3 months	<b>7,474</b>	5,697	—	—
Between 3 to 4 months	<b>2,761</b>	13,242	—	—
Over 4 months	<b>1,836</b>	6,352	—	—
	<b>79,134</b>	108,632	—	—

- d. Royalty deposit represented a deposit paid to a fellow subsidiary in connection with a seven years' guaranteed minimum royalty under the 'Goldpfeil' licence which bore interest at normal commercial rates.
- e. As at 31st December, 2000, a deposit of approximately \$42,045,000 was placed with a third party in relation to a potential investment in an information technology project. Such deposit was interest-bearing at normal commercial rate. For the year ended 31st December, 2000, interest income on this deposit amounted to approximately \$162,000. Such deposit, together with interest income, was refunded to the Group in full upon the Group's decision not to proceed with the project subsequent to the year end.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. CURRENT LIABILITIES

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Short-term bank borrowings (a)	<b>114,669</b>	57,868	—	—
Accounts payable and accruals (b)	<b>65,548</b>	66,095	<b>968</b>	12,248
Bills payable	<b>49,374</b>	60,885	—	—
Due to ultimate holding company	—	1,074	—	1,074
Due to fellow subsidiaries	<b>11,867</b>	5,599	—	—
Due to Directors	<b>1,887</b>	480	<b>360</b>	480
Obligations under finance				
lease-current portion	<b>227</b>	117	—	—
Notes payable (Note 18)	<b>2,232</b>	—	—	—
Taxation payable	<b>4,040</b>	14,562	—	—
Dividend payable	—	31,010	—	31,010
	<b>249,844</b>	237,690	<b>1,328</b>	44,812

a. Short-term bank borrowings:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Bank loans and overdrafts				
- with maturity within three month	<b>55,355</b>	15,221	—	—
- with maturity more than three months	<b>50,196</b>	21,455	—	—
Trust receipts and import loans	<b>9,118</b>	21,192	—	—
	<b>114,669</b>	57,868	—	—
Secured	—	7,311	—	—
Unsecured	<b>114,669</b>	50,557	—	—

Details of the Group's banking facilities were shown in Note 25.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 17. CURRENT LIABILITIES (Cont'd)

b. As at 31st December, 2000, accounts payable and accruals were analysed as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
Accounts payable	<b>27,798</b>	26,951	—	—
Accrued charges and other payables	<b>37,750</b>	39,144	<b>968</b>	12,248
	<b>65,548</b>	66,095	<b>968</b>	12,248

Aging analysis of accounts payable was as follows:

	Group		Company	
	2000	1999	2000	1999
	\$'000	\$'000	\$'000	\$'000
<b>Due</b>				
In current month	<b>21,156</b>	23,917	—	—
Between 1 to 2 months	<b>4,816</b>	1,292	—	—
Between 2 to 3 months	<b>245</b>	1,542	—	—
Between 3 to 4 months	<b>1,514</b>	102	—	—
Over 4 months	<b>67</b>	98	—	—
	<b>27,798</b>	26,951	—	—

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 18. LONG-TERM LIABILITIES

	<b>Group</b>	
	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Long-term bank loans		
- more than two years, but not exceeding five years, unsecured	—	264
Notes payable (a)		
- not exceeding one year, unsecured	<b>2,232</b>	—
- more than one year, but not exceeding two years, unsecured	<b>4,477</b>	—
Obligations under finance lease		
- not exceeding one year	<b>227</b>	117
- repayable in the second to fifth year	<b>129</b>	186
	<b>7,065</b>	567
Amount due within one year included under current liabilities (Note 17)	<b>(2,459)</b>	(117)
	<b>4,606</b>	450

- a. Pursuant to a sales and purchase agreement of a brandname between a third party seller and the Group dated 19th July, 2000, the Group's acquisition cost of US\$1,323,950 (equivalent to approximately \$10,327,000) was to be partially settled by promissory notes which were included under notes payable. The notes payable were unsecured, interest-bearing at 10% per annum and payable within a period commencing 1st August, 2000 until 31st July, 2003.

### 19. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation allowances, amounting to approximately \$2,392,000 (1999 - \$2,392,000).

There was no significant unprovided deferred taxation.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 20. SHARE CAPITAL

Share capital comprised:

	2000	1999	2000	1999
	Number of ordinary shares		\$'000	\$'000
<b>Authorised:</b>				
Ordinary shares at \$0.05 each	<b>5,000,000,000</b>	5,000,000,000	<b>250,000</b>	250,000
<b>Issued and fully paid:</b>				
Ordinary shares at \$0.05 each:				
Beginning of year	<b>3,100,854,885</b>	3,100,000,000	<b>155,043</b>	155,000
Issued upon exercise of warrants	<b>1,149,086</b>	854,885	<b>57</b>	43
End of year	<b>3,102,003,971</b>	3,100,854,885	<b>155,100</b>	155,043

a. Share options

The Company adopted an Executive Share Option Scheme, under which it may grant options to employees (including Executive Directors) of the Group to subscribe for shares of the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time. In January 2000, the Company granted options to employees of the Group (including Executive Directors) to subscribe for a maximum of 133,000,000 ordinary shares of \$0.05 each, at an exercise price of \$0.224 per ordinary share. Such options are exercisable up to 23rd July, 2008.

Movements of the share options of the Company during the year ended 31st December, 2000 were as follows:

	Number of share options
Beginning of year	—
Granted	133,000,000
Lapsed	(250,000)
End of year	132,750,000

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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### **20. SHARE CAPITAL** *(Cont'd)*

b. Warrants

In June 1999, the Company issued 620,000,000 warrants to its shareholders which would confer rights to subscribe shares of \$0.05 in the share capital of the Company at a subscription price of \$0.25 per share. The warrants were exercisable at any time from 30th June, 1999 up to and including 30th June, 2001. During the year, 1,149,086 (1999 - 854,885) warrants were exercised at \$0.25 per share. As at 31st December, 2000, the Company had an aggregate of 617,996,029 (1999 - 619,145,115) warrants outstanding and exercisable at any time up to and including 30th June, 2001.

No new warrants were issued by the Company during the year.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. RESERVES

Movements of reserves for the Group and the Company were as follows:

#### Group

	2000					1999	
	Exchange		Retained	Goodwill	Other	Total	Total
	Share	translation					
	premium	reserve	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	31,019	(12,691)	99,810	52,256	66	170,460	162,688
Premium arising from							
exercise of warrants	230	—	—	—	—	230	171
Expenses incurred in							
connection with issue							
of shares	(25)	—	—	—	—	(25)	(121)
Goodwill arising on							
acquisition of							
subsidiaries	—	—	—	—	—	—	(3,634)
Reserve for fixed assets	—	—	—	—	5	5	14
Exchange differences							
arising on translation of							
overseas subsidiaries'							
financial statements	—	(6,450)	—	—	—	(6,450)	(17,902)
Profit for the year	—	—	43,678	—	—	43,678	72,037
Dividends paid	—	—	(11,795)	—	—	(11,795)	(42,793)
End of year	31,224	(19,141)	131,693	52,256	71	196,103	170,460

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 21. RESERVES (Cont'd)

#### Company

	<b>Share</b>	<b>Retained</b>		
	<b>premium</b>	<b>profits</b>	<b>Total</b>	Total
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	\$'000
Beginning of year	<b>31,019</b>	<b>2,224</b>	<b>33,243</b>	29,933
Premium arising from exercise				
of warrants	<b>230</b>	—	<b>230</b>	171
Expenses incurred in connection with				
issue of shares	<b>(25)</b>	—	<b>(25)</b>	(121)
Profit for the year	—	<b>13,251</b>	<b>13,251</b>	46,053
Dividends paid	—	<b>(11,795)</b>	<b>(11,795)</b>	(42,793)
End of year	<b>31,224</b>	<b>3,680</b>	<b>34,904</b>	33,243



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- a. Reconciliation of profit before share of loss of an associate and tax to net cash inflow from operating activities:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Profit before share of loss of an associate and tax	<b>48,288</b>	84,862
Interest income	<b>(11,417)</b>	(6,624)
Interest expense	<b>14,874</b>	10,816
Depreciation expenses	<b>10,512</b>	9,328
Loss on disposal of fixed assets	<b>3,408</b>	144
Amortisation of intangible assets	<b>20,606</b>	15,548
Increase in stock	<b>(14,300)</b>	(19,560)
Decrease in due from an associate	—	4,060
Decrease in promissory notes	—	22,000
Increase in due from ultimate holding company	<b>(1)</b>	—
Increase in due from fellow subsidiaries	<b>(25,006)</b>	(5,682)
Decrease (Increase) in accounts receivable	<b>27,563</b>	(3,025)
Decrease (Increase) in deposits, prepayments and other receivables	<b>3,266</b>	(9,755)
(Decrease) Increase in due to ultimate holding company	<b>(1,074)</b>	955
Increase (Decrease) in due to fellow subsidiaries	<b>6,366</b>	(11,596)
Increase in accounts payable and accruals	<b>998</b>	19,048
(Decrease) Increase in bills payable	<b>(11,510)</b>	38,287
Increase in due to Directors	<b>1,407</b>	158
Effect of foreign exchange rate changes	<b>3,834</b>	1,929
Net cash inflow from operating activities	<b>77,814</b>	150,893

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Acquisition of subsidiaries:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Net (liabilities) assets acquired:		
Fixed assets	—	3,051
Cash and bank balances	—	637
Stock	—	5,603
Accounts receivable	—	1,202
Deposits, prepayment and other receivables	—	617
Due to fellow subsidiaries	—	(4)
Interest in an associate	—	(66)
Bank borrowings	—	(3,239)
Accounts payable and accruals	—	(9,961)
	—	(2,160)
Carrying value of interest in a subsidiary acquired originally held by the Group as interest in an associate		
	—	988
Net (liabilities) assets acquired	—	(1,172)
Goodwill arising on acquisition	—	3,634
	—	2,462
Satisfied by:		
Cash	—	2,427
Current account with a fellow subsidiary	—	35
	—	2,462

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Acquisition of subsidiaries: (Cont'd)

Net cash outflow in respect of acquisition of subsidiaries:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Cash consideration	—	2,427
Cash and bank balances acquired	—	(637)
Bank loans and overdrafts with maturity within three months acquired	—	1,520
Net cash outflow in respect of acquisition of subsidiaries	—	3,310

c. Analysis of changes in financing during the year:

	2000						1999	
	Share capital		Bank loans					
	(including		with maturity					
	share	Other	Long-term	over three	Finance lease	Notes		
	premium)	reserve	bank loans	months	obligations	payable	Total	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Beginning of year	186,062	66	264	21,455	303	—	208,150	209,894
Net cash inflow (outflow) from								
financing	262	5	(255)	30,052	(167)	—	29,897	(582)
Acquisition of a								
brandname financed								
by notes payable								
(Note 18.a)	—	—	—	—	—	6,709	6,709	—
Inception of finance								
lease obligations	—	—	—	—	220	—	220	331
Arising from acquisition								
of subsidiaries	—	—	—	—	—	—	—	1,719
Exchange adjustments	—	—	(9)	(1,311)	—	—	(1,320)	(3,212)
End of year	186,324	71	—	50,196	356	6,709	243,656	208,150

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

d. Analysis of cash and cash equivalents:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Cash and bank balances	<b>134,975</b>	74,393
Promissory notes	—	58,009
Bank loans and overdrafts	<b>(55,355)</b>	(15,221)
Trust receipts and import loans	<b>(9,118)</b>	(21,192)
	<b>70,502</b>	95,989

### 23. PENSION SCHEME

The Group participates in the defined Mandatory Provident Fund in Hong Kong since 1st December, 2000 and makes monthly contributions to the scheme based on 5-7% of the employees' basic salaries. During the year ended 31st December, 2000, the Group's employer's contribution for pension scheme was approximately \$495,000 (1999 - \$447,000). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

### 24. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the accompanying financial statements were summarised below:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Discounted bills with recourse	<b>818</b>	6,358	—	—
Corporate guarantees provided to financial institutions in respect of facilities granted to Group companies (Note 14)	—	—	<b>312,410</b>	187,830

In addition, the Company guaranteed the payment and performance by a subsidiary under a licence agreement pursuant to which the subsidiary was a licensee.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 25. BANKING FACILITIES

As at 31st December, 2000, the Group's banking facilities for overdrafts, loans and trade financing were secured by unconditional and continuing corporate guarantee provided by the Company and cross guarantees among its subsidiaries.

As at 31st December, 2000, the Group had aggregate banking facilities of approximately \$280,569,000 (1999 - \$191,142,000) and unused facilities of approximately \$109,228,000 (1999 - \$125,811,000).

### 26. COMMITMENTS

As at 31st December, 2000, the Group had the following commitments:

a. Operating leases:

	2000		1999	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Amounts payable within the next				
twelve months under non-cancellable				
operating leases				
which expire				
- within one year	114	469	377	520
- in the second to fifth year inclusive	2,542	1,259	1,902	1,905
- after five years	594	—	594	—
	<b>3,250</b>	<b>1,728</b>	2,873	2,425

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 26. COMMITMENTS (Cont'd)

- b. Royalties:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Minimum royalty payments payable within the next twelve months under licence agreements which expire		
- within one year	—	4,100
- in the second to fifth year inclusive	<b>20,077</b>	—
- after five years	<b>7,874</b>	15,571
	<b>27,951</b>	19,671

### 27. SUBSEQUENT EVENTS

Subsequent to 31st December, 2000, the Group carried out the following transactions:

- a. In February 2001, the deposit placed with a third party in relation to a potential investment in an information technology project amounted to approximately \$42,045,000 (Note 16.e) was, together with accrued interest, refunded in full to the Group upon the Group's decision not to proceed with the project.
- b. In February 2001, the Group subscribed for a 12.5% equity interest in Tonga Group Holding Limited ("Tonga Group"), a company incorporated in the British Virgin Islands, at a consideration of US\$5,000,000 (equivalent to approximately \$39,000,000). Tonga Group is currently an investment holding company, principally engaged in the sourcing, processing and distribution of wood products, with an anticipation to participate in a forestry project in Suriname to process wood in an environmental friendly manner, as well as to establish a B2B building material exchange platform on a global basis.

### 28. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 26th April, 2001.