

# NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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## 1. ORGANISATION AND OPERATIONS

EganaGoldpfeil (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 7th December, 1990.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in (i) design, assembly, manufacturing and distribution of timepiece, jewellery and leather products; (ii) licensing or assignment of brandnames or trademarks to third parties and (iii) trading of timepiece components, jewellery and consumer electronic products.

## 2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings and certain investments in securities 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 Companies Ordinance and the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Principal accounting policies are summarised below:

### a. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the “Group”), together with the Group’s share of post-acquisition profit/loss and reserves of its associates under the equity method of accounting. For subsidiaries and associates acquired or disposed of during the year, their results are consolidated from or to their effective date of acquisitions or disposals. Significant intra-group transactions and balances have been eliminated on consolidation.

### b. Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of cost of acquisition over the fair value of the Group’s share of the separable net assets of the subsidiaries and associates acquired, and is eliminated against available reserves in the year of acquisition. Upon disposal of interests in subsidiaries and associates, the underlying goodwill previously eliminated is reversed as investment cost in determining the gain or loss on disposal.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### c. Turnover

Turnover represents (i) net invoiced sales which are recognised when the significant risks and rewards of ownership have been transferred to customers; (ii) income from licensing of brandnames or trademarks which is recognised when the income is received or becomes receivable; (iii) income from assignment of brandnames or trademarks which is recognised when the risks and rewards of the ownership have been transferred to customers and (iv) commission income from the Group's trading business, which is recognised when the related sourcing and quality support services are rendered.

#### d. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue comprises the aforementioned items classified as turnover, together with (i) interest income which is recognised on a time proportion basis on the principal outstanding and at the rates applicable, (ii) rental income which is recognised on a straight-line basis over the rental period and (iii) dividend income which is recognised when the right to receive payment is established.

#### e. 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.

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 assessing the recoverability of the amounts of the 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

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
Leasehold land and buildings	Over the shorter of the remaining period of the leases and estimated useful lives
Buildings on freehold land	2% to 5%
Leasehold improvements	10% to 50%
Furniture and equipment	15% to 33 $\frac{1}{3}$ %
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives or, where shorter, the terms of the lease on the same basis as described above.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **f. Intangible assets**

Intangible assets represent (i) the cost or the estimated fair value 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 and existing licences or trademarks which is amortised using the straight-line method over their estimated useful lives, but not exceeding three years, (iii) the cost incurred for acquisition of a business name which is amortised using the straight-line method over the term of the acquisition agreement of five years and (iv) the cost of acquiring the existing customer base, source of suppliers and know-how of a business which is amortised using the straight-line method over their estimated useful lives of fifteen years.

Where appropriate, provision is made for any impairment in value with respect to the individual intangible asset.

#### **g. Subsidiaries**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital.

In the consolidated financial statements, interest in an unconsolidated subsidiary is stated at cost less provision for any impairment in value that is other than temporary where considered necessary by the Directors. Such a subsidiary is not consolidated because both the investment and the control in the subsidiary is temporary. The results from such an unconsolidated subsidiary are included in the consolidated income statement to the extent of dividends declared by the subsidiary.

In the Company's financial statements, interests in subsidiaries are stated at cost less provision for any impairment in value that is other than temporary where considered necessary by the Directors. The results of the subsidiaries are included in the 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)

#### **h. Associates**

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 their financial and operating policy decisions.

In the consolidated financial statements, interests in associates are 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 associates, distributions received from the associates and other necessary alterations in the Group's proportionate interests in the associates arising from changes in the equity of the associates that have not been included in the income statement.

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.

#### **i. Investments in securities**

##### *Non-trading securities*

Securities that are not held for the purpose of generating profit from short-term fluctuations in price or dealer's margin are classified as non-trading securities. Non-trading securities are stated in the balance sheet at their fair values. Any change in the fair values is recognised directly in the investment revaluation reserve until the securities are sold, collected, or otherwise disposed of, or until the securities are determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement.

Transfers from the investment revaluation reserve to the income statement as a result of impairment are reversed when circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal of the non-trading securities, any profit and loss, including any amount previously held in the investment revaluation reserve in respect of those investments, is accounted for in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **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 determined on the basis of estimated selling price in the ordinary course of business less further costs expected to be incurred to completion and disposal. 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.

#### **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.

Finance charges, which represent the difference between the minimum lease payments at the inception of the leases and the fair value of the assets, are allocated to accounting periods over the period of the relevant leases so as to produce a constant periodic 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **i. 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 statements of individual companies.

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 the exchange translation reserve.

#### **n. Staff retirement schemes**

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

## **NOTES TO THE FINANCIAL STATEMENTS**

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### **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 therefrom 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 transactions when they occur.

Assets related 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

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
Timepiece operations	<b>1,122,348</b>	1,142,654	<b>99,983</b>	115,009
Jewellery operations	<b>670,648</b>	691,809	<b>48,288</b>	84,053
Leather operations *	<b>579,360</b>	644,691	<b>(8,201)</b>	19,752
Others **	<b>81,880</b>	63,284	<b>2,173</b>	(10,848)
	<b>2,454,236</b>	2,542,438	<b>142,243</b>	207,966

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>1,709,307</b>	1,665,523	<b>114,742</b>	182,200
America	<b>160,785</b>	137,163	<b>(13,183)</b>	(14,282)
Asia Pacific	<b>584,144</b>	739,752	<b>40,684</b>	40,048
	<b>2,454,236</b>	2,542,438	<b>142,243</b>	207,966

\* During the year, the Group assigned its property rights in the Hong Kong Special Administrative Region, Macau, Taiwan and the People's Republic of China ("PRC") with respect to the "Goldpfeil" trademark in men's wear to an independent third party for a consideration of \$75,000,000.

\*\* Include turnover from jewellery retail and pilot shop activities.

\*\*\* Turnover by geographical locations is determined on the basis of the destination of delivery of merchandise.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 4. RELATED PARTY AND CONNECTED TRANSACTIONS

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

#### a. Related party transactions

- (i) During the year, the Group paid approximately \$7,422,000 (1999 - \$7,927,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG is a director, for taxation and corporate advisory services provided.
- (ii) During the year, the Group entered into transactions with the following associates - Peace Mark (Holdings) Limited ("Peace Mark"), Tonic Industries Holdings Limited ("Tonic") and Capricon Company Limited ("Capricon"), and the following related companies - Marubeni Deutschland GmbH ("Marubeni") and Kuraray Europe GmbH ("Kuraray"). In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Interest income from Keimothai Limited	—	533
Licensing income from Peace Mark	—	10,000
Referral income for introducing customers to Peace Mark	—	5,000
Rental expenses to Capricon	<b>846</b>	635
Rental income from Peace Mark	—	175
Purchases from Peace Mark	<b>44,398</b>	158,407
Purchases from Tonic	<b>4</b>	811
Purchases from Marubeni	<b>80,935</b>	177,703
Purchases from Kuraray	<b>50,733</b>	60,397
Sales to Peace Mark	<b>6,750</b>	18,772
Sales to Capricon	—	16

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### b. Connected transactions

During the year, the Group had transactions with connected parties pursuant to the Listing Rules.

The transactions with the connected parties during the year were as follows:

(I) Eliminated on consolidation

(i) Connected transactions with Egana Jewellery & Pearls Limited ("Egana Jewellery") and its subsidiaries which are covered by agreements

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Rental expense		
Time Success Industrial Limited	<b>241</b>	451
Management fee income		
Oro Design Limited	<b>3,980</b>	2,925
Everstone Limited	<b>1,893</b>	2,966
Egana Jewellery	<b>84</b>	—
Management fee expense		
Egana Jewelry & Pearls (America) Corp.	<b>624</b>	—
Royalty fee income		
Oro Design Limited	<b>6,928</b>	6,791
Egana Investments (Pacific) Limited	<b>7,571</b>	7,280
Egana Schmuck und Perlen GmbH	<b>2,262</b>	2,394
Allocation of operating costs		
Egana Schmuck und Perlen GmbH	<b>68,029</b>	52,158
Egana Juwelen & Perlen Handels GmbH	—	859
Interest expense		
Oro Design Limited	<b>3,598</b>	4,022

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### b. Connected transactions (Cont'd)

(I) Eliminated on consolidation (Cont'd)

(ii) Trading Transaction with Egana Jewellery's subsidiaries

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Sales of goods		
Oro Design Limited	<b>2,085</b>	215
Egana Schmuck und Perlen GmbH	<b>7</b>	216
Egana Juwelen & Perlen Handels GmbH	<b>35</b>	140
Burkhard Mueller Schmuck GmbH	<b>94</b>	10
Egana Jewelry & Pearls (America) Corp.	—	675
Everstone Limited	—	4
	<b>2,221</b>	1,260
Purchases of goods/services		
Oro Design Limited	<b>6,981</b>	7,004
Everstone Limited	—	256
Egana Schmuck und Perlen GmbH	<b>24</b>	2,383
	<b>7,005</b>	9,643
Total Trading Transaction	<b>9,226</b>	10,903

(II) Not eliminated on consolidation

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
(i) Haru-Kuraray GmbH:		
Purchases from Marubeni	<b>80,935</b>	177,703
Purchases from Kuraray	<b>35,758</b>	60,397
	<b>116,693</b>	238,100
(ii) Lorica Sud s.r.l.:		
Purchases from Kuraray	<b>14,975</b>	—

(III) During the year, the Group acquired an additional 35% shareholding in Egana India Private Limited (formerly known as "Egana Inter Gold Limited") from a substantial shareholder at a consideration of \$1,195,000. This transaction was approved by the Board of Directors on 4th May, 2000.

(IV) Kuraray Co. Limited through its German subsidiary acquired a 30% interest in the Group's Italian man-made leather manufacturer at a consideration of approximately \$2,262,000 for closer business alliance in the manufacture and distribution of man-made leather under the brandname "Lorica".

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 5. PROFIT BEFORE TAX

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

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<b>After charging:</b>		
Staff retirement scheme contributions	<b>2,238</b>	2,164
Less: refund of forfeited contributions	<b>(289)</b>	(591)
	<b>1,949</b>	1,573
Staff costs (including directors' emoluments and senior executives' emoluments)	<b>356,534</b>	357,286
Interest expenses on		
– Bank loans and overdrafts		
wholly repayable within five years	<b>58,919</b>	65,451
– Bank loans not wholly repayable within five years	<b>1,707</b>	1,560
– Other loans wholly repayable within five years	<b>3,051</b>	1,240
– Other loans not wholly repayable within five years	—	1,397
– Convertible debentures	<b>2,675</b>	1,194
– Finance leases	<b>154</b>	187
Depreciation expenses on		
– Owned assets	<b>37,177</b>	29,482
– Assets held under finance leases	<b>464</b>	725
Amortisation of intangible assets	<b>43,623</b>	60,066
Loss on disposal of fixed assets	<b>4,992</b>	1,474
Loss on disposal of interests in associates	<b>1,603</b>	—
Loss on deemed disposal of interest in an associate	<b>3,793</b>	—
Provision for impairment in value of the investment in an unconsolidated subsidiary	—	1,995
Auditors' remuneration		
– Current year	<b>9,292</b>	7,610
– Under-provision in prior year	<b>368</b>	179
Operating lease rentals		
– Land and buildings	<b>47,748</b>	33,658
– Furniture and equipment	<b>6,404</b>	7,665
Provision for stock obsolescence	<b>4,007</b>	5,000
Provision for doubtful debts	<b>8,401</b>	7,400

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	2000	1999
	\$'000	\$'000
<b>After crediting:</b>		
Exchange gain, net	<b>833</b>	13,749
Rental income, net of outgoings	<b>4,128</b>	3,544
Interest income from		
– Bank deposits	<b>16,218</b>	4,294
– Promissory notes	<b>12,843</b>	6,244
– Debentures	—	1,181
– Convertible notes	<b>340</b>	—
– Associates	—	533
– Others	<b>5,845</b>	1,136
Repairing income (a)	<b>1,376</b>	2,125
Gain on disposal of investment securities, net	<b>6,107</b>	—
Write-back of prior year provision for potential liabilities associated with settled legal cases (b)	<b>21,291</b>	—

- a. During the year, the Group provided watch, jewellery and leather component repairing services to several third party companies and received repairing income of approximately \$1,376,000 (1999 - \$2,125,000).
- b. In prior year, the Group made provision for potential liabilities for two outstanding legal cases. In this year, these two legal cases were settled in the Group companies' favour and the associated provision was reversed in the current year.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 6. OTHER REVENUE

Other revenue comprised:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Gain in relation to a settled legal case	—	1,772
Interest income	<b>35,246</b>	13,388
Gain on disposal of investment securities, net	<b>6,107</b>	—
Rental income, net of outgoings	<b>4,128</b>	3,544
Gain on partial disposal of interest in a subsidiary	<b>3,807</b>	—
Gain on disposal of an unconsolidated subsidiary	<b>1,885</b>	—
Compensation for early termination of licensing agreement	—	22,404
Exchange gain, net	<b>833</b>	13,749
Others	<b>9,736</b>	10,133
	<b>61,742</b>	64,990

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

#### Directors' emoluments

Details of Directors' emoluments were set out below:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Fees for Executive Directors	—	—
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
– Basic salaries, housing, other allowances and benefits in kind	<b>8,934</b>	9,126
– Retirement scheme contributions	<b>279</b>	329
– Bonuses paid and payable*	<b>290</b>	758
Emoluments for Non-executive Directors	—	—
	<b>9,503</b>	10,213

\* The Directors were entitled to a discretionary bonus.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

Analysis of Directors' emoluments by number of Directors and emolument ranges was as follows:

	<b>2000</b>	1999
Executive Directors –		
\$Nil - \$1,000,000	—	—
\$1,000,001 - \$1,500,000	—	—
\$1,500,001 - \$2,000,000	<b>1</b>	1
\$2,000,001 - \$2,500,000	<b>1</b>	—
\$2,500,001 - \$3,000,000	—	1
\$3,000,001 - \$3,500,000	—	—
\$3,500,001 - \$4,000,000	—	—
\$4,000,001 - \$4,500,000	—	—
\$4,500,001 - \$5,000,000	—	—
\$5,000,001 - \$5,500,000	—	1
\$5,500,001 - \$6,000,000	<b>1</b>	—
	<b>3</b>	3
Non-executive Directors –		
\$Nil - \$1,000,000	<b>3</b>	3

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.



## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

#### Senior executives' emoluments

During the year, the five highest-paid individuals included three (1999 - three) Directors; details of whose emoluments were set out above. The emoluments of the other two (1999 - two) highest-paid individuals were analysed below:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Basic salaries, housing, other allowances and benefits in kind	<b>2,831</b>	3,720
Retirement scheme contributions	—	83
Bonuses paid and payable	<b>1,527</b>	—
	<b>4,358</b>	3,803

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

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

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 8. TAXATION

Taxation comprised:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<hr/>		
Company and subsidiaries –		
Current taxation		
Hong Kong profits tax		
– Provision for current year	<b>9,000</b>	18,110
– Over-provision in prior years	<b>(233)</b>	(777)
Overseas income tax		
– Provision for current year	<b>9,588</b>	7,564
– Over-provision in prior years	<b>(1,251)</b>	(21)
Write-back of overseas deferred taxation	—	(1,975)
	<hr/> <b>17,104</b>	22,901
Associates –		
Current taxation		
Hong Kong profits tax		
– Provision for current year	<b>1,579</b>	1,936
Overseas income tax		
– Provision for current year	<b>91</b>	128
	<hr/> <b>18,774</b>	24,965
	<hr/> <hr/>	

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 and associates with overseas operations on their estimated assessable profits for the year at the tax rates applicable in the countries in which the subsidiaries and associates 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 \$29,199,000 (1999 - \$289,627,000) dealt with in the financial statements of the Company.

### 10. DIVIDENDS

	2000	1999
	\$'000	\$'000
Final - Nil (1999 - 0.36 cent) per share	—	36,538
Prior year final dividend *	<b>2,573</b>	—
	<b>2,573</b>	36,538

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

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

### 11. EARNINGS PER SHARE

#### Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the year of approximately \$110,356,000 (1999 - \$153,698,000) and the weighted average number of ordinary shares of approximately 10,687,235,000 (1999 - 9,650,739,000) in issue during the year.

#### Diluted earnings per share

Diluted earnings per share was calculated based on the adjusted consolidated profit attributable to shareholders for the year of approximately \$112,471,000 (1999 - \$152,658,000) after taking into consideration the potential dilution effect of warrants and options of Egana Jewellery and interest expenses, net of tax that will be saved on the conversion of convertible debentures into ordinary shares and the weighted average number of ordinary shares of approximately 11,365,225,000 (1999 - 9,760,672,000) 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:

	2000					1999	
	Freehold land and buildings (a) (c) \$'000	Leasehold land and buildings (a) (b) \$'000	Leasehold improvements \$'000	Furniture and equipment \$'000	Motor vehicles \$'000	Total \$'000	Total \$'000
<b>Cost or valuation</b>							
As at 1st January	20,711	34,950	29,003	117,235	5,908	207,807	206,953
Acquisition of subsidiaries	13,579	—	—	178,292	706	192,577	14,763
Additions	42,570	—	4,333	39,362	2,133	88,398	29,588
Disposals	—	—	(3,043)	(18,677)	(999)	(22,719)	(10,185)
Reclassification	—	—	104	(104)	—	—	—
Exchange adjustments	254	—	(1,501)	13,650	(43)	12,360	(33,312)
As at 31st December	77,114	34,950	28,896	329,758	7,705	478,423	207,807
<b>Representing</b>							
At cost	77,114	—	28,896	329,758	7,705	443,473	172,857
At valuation	—	34,950	—	—	—	34,950	34,950
	77,114	34,950	28,896	329,758	7,705	478,423	207,807
<b>Accumulated depreciation</b>							
As at 1st January	488	733	10,829	48,732	3,574	64,356	67,037
Acquisition of subsidiaries	11,131	—	—	169,909	469	181,509	—
Charge for the year	2,531	747	7,115	26,323	925	37,641	30,207
Disposals	—	—	(2,827)	(13,728)	(999)	(17,554)	(7,912)
Reclassification	—	—	3	(3)	—	—	—
Exchange adjustments	1,242	—	(979)	14,395	(3)	14,655	(24,976)
As at 31st December	15,392	1,480	14,141	245,628	3,966	280,607	64,356
<b>Net book value</b>							
As at 31st December	61,722	33,470	14,755	84,130	3,739	197,816	143,451
As at 1st January	20,223	34,217	18,174	68,503	2,334	143,451	139,916

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- a. The carrying amounts of land and buildings were analysed as follows:

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
<hr/>		
Held in Hong Kong		
On long-term lease (over 50 years)	<b>1,937</b>	1,978
On medium-term lease (10-50 years)	<b>31,533</b>	32,239
Held outside Hong Kong		
Freehold	<b>61,722</b>	20,223
	<b>95,192</b>	54,440
<hr/> <hr/>		

- b. The leasehold land and buildings were situated in Hong Kong and were held under long-term/medium-term leases. 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 \$33,556,000 (1999 - \$34,378,000).
- c. As at 31st December, 2000, certain land and buildings with a net book value of approximately \$28,205,000 (1999 - \$18,304,000) were pledged as securities for banking facilities granted to a subsidiary of the Group.

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

### 13. INTANGIBLE ASSETS

Movements of intangible assets during the year were as follows:

Group	2000					1999
	Licences and trademarks (a)	Deferred expenditure	Business		Total	Total
name acquired (b)			Technical know-how (c)			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost or valuation</b>						
As at 1st January	273,596	59,172	12,000	30,476	375,244	474,710
Acquisition of subsidiaries	90,000	6,039	—	—	96,039	—
Additions	17,260	19,268	—	14,556	51,084	31,833
Write-off	(1,627)	(16,686)	—	—	(18,313)	(120,148)
Exchange adjustments	(951)	(1,643)	—	(1,364)	(3,958)	(11,151)
As at 31st December	378,278	66,150	12,000	43,668	500,096	375,244
<b>Representing</b>						
At cost	162,428	66,150	12,000	43,668	284,246	249,394
At valuation	215,850	—	—	—	215,850	125,850
	378,278	66,150	12,000	43,668	500,096	375,244
<b>Accumulated amortisation</b>						
As at 1st January	34,248	44,065	8,600	2,350	89,263	154,006
Acquisition of subsidiaries	—	5,544	—	—	5,544	—
Charge for the year	18,228	20,640	2,400	2,355	43,623	60,066
Write-off	(283)	(16,686)	—	—	(16,969)	(120,148)
Exchange adjustments	(637)	(1,279)	—	(114)	(2,030)	(4,661)
As at 31st December	51,556	52,284	11,000	4,591	119,431	89,263
<b>Net book value</b>						
As at 31st December	326,722	13,866	1,000	39,077	380,665	285,981
As at 1st January	239,348	15,107	3,400	28,126	285,981	320,704

## NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- a. The Group has attributed \$90,000,000 out of the acquisition consideration of \$312,711,000 to "Junghans" and "Eurochron" trademarks of which were acquired as part of the acquisition of Junghans Uhren GmbH ("Junghans") (a private company incorporated in Germany) and its subsidiaries (the "Junghans Group") during the year. The fair values of "Junghans" and "Eurochron" trademarks at the acquisition date were based on the valuation performed by an independent professional valuer, LCH (Asia-Pacific) Surveyors Limited, on fair market value basis.
- b. In 1996, the Group entered into an agreement with a third party whereby the latter would allow the Group to use the business name previously owned by the third party for a cash consideration of \$12,000,000. The amount was amortised over five years, being the term of the agreement.
- c. During the year, the Group recognised technical know-how of approximately \$14,556,000 which was acquired as part of the acquisition of assets and business of a watch distributor.

### 14. INTERESTS IN SUBSIDIARIES

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

	<b>2000</b>	1999
	<b>\$'000</b>	\$'000
Listed shares in Hong Kong, at cost	<b>97,548</b>	97,413
Unlisted shares, at cost	<b>304,462</b>	216,810
Advances to subsidiaries	<b>1,355,156</b>	982,212
Advances from subsidiaries	<b>(67,303)</b>	(116,197)
	<b>1,689,863</b>	1,180,238
Quoted market value of shares listed in Hong Kong	<b>480,505</b>	499,588

All of the advances to/from subsidiaries were unsecured, non-interest bearing and without pre-determined repayment terms, except for the loan from a subsidiary of approximately \$13,338,000 (1999 - \$14,682,000) and the loan to a subsidiary of approximately \$92,602,000 (1999 - \$122,456,000) which bore interest at commercial lending rates.

As at 31st December, 2000, the Company had provided corporate guarantees of \$1,209,833,000 (1999 - \$1,099,287,000) to secure banking facilities of certain subsidiaries. (Note 28)

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	
			%	%	
# Aladra Investments Limited	Cook Islands	US\$100,001	—	100	Insurance underwriter
# Argenta Die Brillen GmbH	Germany	DM1,000,000	—	100(a)	Distributor of glasses and similar accessories
# Artina Textiles GmbH	Germany	DM80,000	—	100	Retailer of textile products
Burkhard Mueller Schmuck GmbH	Germany	DM50,069	—	72.72	Designer and distributor of jewellery
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	—	100	Licensor of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	—	100	Manufacturer and distributor of leather products
Centreline Group Limited	British Virgin Islands	US\$1	—	100	Investment holding and licence coordinator
Chromachron A.G.	Switzerland	CHF300,000	—	100	Designer, assembler and distributor of watches
Collection Uhren und Schmuck GmbH	Germany	DM50,000	—	100	Licensee and distributor of watches
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	—	100	Distributor of watches
Eco-Haru Mfr. Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding
Eco-Haru Property Investments Limited	Hong Kong	\$2	—	100	Property holding
Eco Swiss China Time Limited	Hong Kong	\$26,000,000	100	—	Inactive



## 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 Asial Company Limited	Samoa/The PRC	\$1,000	—	60	Assembler of watches
Egana.Com Inc.	British Virgin Islands	US\$1	—	100	e-business
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	72.72	Provision of marketing and consultancy services
Egana Deutschland GmbH	Germany	DM10,001,000	—	100	Designer and distributor of watches
Egana Europe (Holdings) GmbH	Germany	DM5,000,000	100	—	Investment holding
Egana Far East Procurement Services (Holdings) Limited	Cayman Islands	\$15,000,000	100	—	Inactive
Egana Finance Limited	Hong Kong	\$2	100	—	Group treasurer
Egana-Haru Mfr. Corp. Limited	Hong Kong	\$2	—	100	Designer, assembler, distributor and licensee of watches
Egana India Private Limited (Formerly known as Egana Inter Gold Limited)	India	US\$500,000	—	90(b)	Distributor of watches and jewellery
Egana Italia s.r.l.	Italy	ITL50,000,000	—	100	Distributor of watches
Egana Investments (Pacific) Limited	Cook Islands	US\$1	—	72.72	Investment holding and licensing operations
Egana Jewellery & Pearls Limited	Cayman Islands/ Hong Kong	\$155,100,199	52.33	20.39	Investment holding

## 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 Juwelen & Perlen Handels GmbH	Austria	ATS500,000	—	72.72	Distributor of jewellery
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	—	72.72	Designer and distributor of jewellery
Egana Schmuck und Perlen GmbH	Germany	DM50,000	—	72.72	Designer and distributor of jewellery
Egana Suisse (Holdings) SA	Switzerland	CHF100,000	—	100	Investment holding
Egana Suisse SA	Switzerland	CHF1,000,000	—	100	Designer, manufacturer and distributor of watches
Egana of Switzerland (America) Corp.	The United States of America	US\$13,335,164	100	—	Investment holding and marketing
Egana of Switzerland (Far East) Limited	Hong Kong	\$11,500,000	—	100	Designer, assembler and distributor of watches
# Egana Uhrenvertriebs GmbH	Austria	ATS495,370	—	100	Distributor of watches
# Eurochron GmbH	Germany	DM5,000,000	—	100(c)	Designer, manufacturer and distributor of clocks
Everstone Limited	Hong Kong/ the PRC	\$100	—	72.72	Subcontractor and manufacturer of jewellery
Funasia Investments Limited	British Virgin Islands	US\$14,000,001	—	100	Investment holding
Glorious Concept Limited	British Virgin Islands	US\$10	—	100	Investment holding

## 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	
			%	%	
Gold Arrow Inc.	The United States of America	US\$400,000	—	100	Investment holding
Goldpfeil AG	Germany	DM7,000,000	—	100	Designer, manufacturer and distributor of luxury leather goods
Goldpfeil America Inc.	The United States of America	US\$1,000	—	100	Investment holding
Goldpfeil Distribution and Services Limited	Hong Kong	\$500,000	—	100	Manufacturer, distributor and retailer of leather products
# Haru Holding & Management GmbH	Germany	DM4,500,000	—	100	Investment holding
# Haru-Kuraray GmbH	Germany	DM2,000,000	—	55	Distributor of man-made leather
Haru Japan Corporation, Inc.	Japan	JPY30,000,000	—	100	Distributor of timepieces, jewellery, and sourcing agent for pearls
Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	72.72	Designer and 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	
			%	%	
Junghans Asia Limited	Hong Kong	\$1,000	—	100(c)	Distributor of watches
# Junghans Austria GmbH	Austria	ATS3,000,000	—	100(c)	Distributor of watches
# Junghans Italia s.r.l.	Italy	ITL1,000,000,000	—	100(c)	Distributor of watches
# Junghans (Schweiz) AG	Switzerland	CHF100,000	—	100(c)	Distributor of watches
# Junghans Uhren GmbH	Germany	DM10,000,000	—	100(c)	Designer, manufacturer and distributor of watches
Kai-Yin Lo Limited	Hong Kong	\$2,600,000	—	100	Designer, manufacturer and retailer of jewellery
Keimothai Limited	Thailand	Baht60,000,000	—	72.72	Sourcing agent, manufacturer and distributor of jewellery
Les Plus Watches & Jewelry, Inc.	The United States of America	US\$50,000	—	100	Designer, distributor and licensee of watches
Lorica Sud s.r.l.	Italy	ITL1,744,200,000	—	70(d)	Manufacturer of man-made leather goods
Oro Design Limited	Hong Kong	\$10,000	—	72.72	Designer, manufacturer, distributor and licensee of jewellery
Orologi Paolo Inc.	The United States of America	US\$132,294	—	100	Designer, distributor and licensee of watches
P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	—	Licensor of watches and 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	
			%	%	
Pioneer Ventures Limited	Hong Kong	\$100	—	100	General trading and quality inspection
Time Success Industrial Limited	Hong Kong	\$2	—	72.72	Property holding
Towercham Limited	Island of Nevis, West Indies	IR£2	—	100	Provision of marketing and consultancy services
Zeitmesstechnik GmbH	Germany	DM195,000	—	100	Provision of timepiece maintenance services

- a. During the year, the Group increased its shareholding in Argenta Die Brillen GmbH from 94% to 100%.
- b. During the year, the Group increased its shareholding in Egana India Private Limited (formerly known as Egana Inter Gold Limited) from 55% to 90%.
- c. In October 2000, the Group acquired 100% interest in the Junghans Group and Junghans Asia Limited (formerly known as Diehl Limited), a Hong Kong incorporated company, and assumed a shareholder loan from ex-owner of the Junghans Group in the principal amount of DM120,719,000 for a consideration of approximately \$312,711,000.
- d. During the year, the Group sold 30% of its interest in Lorica Sud s.r.l. to an independent third party for a consideration of approximately \$2,262,000.

The above table listed the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Audited by certified public accountants other than Arthur Andersen & Co.