

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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 timepieces, jewellery and leather products; (ii) licensing or assignment of brandnames or trademarks to third parties; (iii) trading of timepiece components, jewellery and consumer electronic products and (iv) distribution of branded products through franchisees under the franchising arrangement.

The Company and its subsidiaries are collectively referred to as the “Group”.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts were set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure requirements of the Companies Ordinance of Hong Kong and the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investments in non-trading securities and leasehold land and buildings are stated at fair value or valuation, respectively.

During the seventeen-month period from 1st January, 2001 to 31st May, 2002 (the “period”), the Group adopted the following new and revised SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July, 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effects of adopting these new standards were set out in the accounting policies below.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to period end date. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

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

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary, in which an equity interest is held for the long-term purpose and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associates for the period, and the consolidated balance sheet includes the Group's share of the net assets of the associates and also goodwill/negative goodwill (net of accumulated amortisation and accumulated impairment losses) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Group accounting *(Cont'd)*

(iii) Translation of foreign currencies

In the accounts of individual companies, transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

For the purpose of consolidation, the accounts of the subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(c) Fixed assets

(i) Leasehold land and buildings

Leasehold land and buildings are stated at valuation less accumulated depreciation. Independent valuations are performed periodically with the last valuation performed on 31st December, 2001. In the intervening years, the Directors review the carrying value of the properties and adjustment is made where they consider that there has been a material change. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

(ii) Other fixed assets

Other fixed assets, comprising freehold land and buildings, leasehold improvements, furniture and equipment, and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Fixed assets (Cont'd)

(iii) Depreciation

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 leases and estimated useful lives.

The annual rates are as follows:

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

(iv) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(d) Assets under 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.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing companies are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing companies are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Intangible assets

(i) Goodwill/negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries/associates at the date of acquisition.

When, subsequent to acquisition, additional evidence becomes available to assist with the estimation of the amounts assigned to identifiable assets and liabilities, those amounts and the amount assigned to goodwill are adjusted to the extent that such adjustments are made by the end of the first annual accounting period commencing after acquisition and do not increase the carrying amount of goodwill above its recoverable amount. Otherwise, such adjustments to the identifiable assets and liabilities are recognised as income or expense.

Goodwill on acquisitions of subsidiaries and associates occurring on or after 1st January, 2001 are included in intangible assets and interests in associates, respectively and are amortised using the straight-line method over estimated useful lives of twenty years and five years, respectively.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(e) Intangible assets *(Cont'd)*

(i) Goodwill/negative goodwill *(Cont'd)*

Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves. The Group has taken advantage of the transitional provision 1(a) in SSAP 30 and goodwill previously written off against reserves has not been restated. However any impairment arising on such goodwill is accounted for in accordance with SSAP 31. In accordance with the transitional provisions of SSAP 30 where an impairment loss has arisen since the date of acquisition on goodwill previously written off against reserves, and previously there was not a policy to recognise such impairment losses, this change in accounting policy has been applied retrospectively and impairment losses have been recognised as a prior year adjustment to beginning retained profits in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". The comparative accounts for 2000 have been restated to conform to the changed policy. As a result of adopting SSAP 30, the Group's net profit for the year ended 31st December, 2000 was decreased by approximately \$18,608,000, and the beginning retained profits for the year ended 31st December, 2000 and the seventeen-month period ended 31st May, 2002 were decreased by approximately \$23,249,000 and \$43,142,000 respectively.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such negative goodwill has not been restated.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(e) Intangible assets *(Cont'd)*

(i) Goodwill/negative goodwill *(Cont'd)*

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisitions that occurred prior to 1st January, 2001, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) Deferred expenditure

In prior years, the Group capitalised deferred expenditures which represented cost incurred in advertising and promoting new and existing licenses or trademarks which were amortised using the straight-line method over their estimated useful lives but not exceeding three years.

The adoption of SSAP 29 has meant that these expenditures previously recognised and amortised at 31st December, 2000 do not meet the recognition and measurement criteria prescribed in the new standard. In accordance with the transitional provision 1(b) of SSAP 29, these items have been derecognised and this change in accounting policy has been applied retrospectively so that the comparative figures for 2000 presented herein have been restated to conform to the changed policy.

As a result of adopting SSAP 29, the Group's net profit for the year ended 31st December, 2000 was increased by approximately \$5,000, and the beginning retained profits for the year ended 31st December, 2000 and the seventeen-month period ended 31st May, 2002 were decreased by approximately \$3,439,000 and \$3,434,000 respectively.

(iii) Development costs

Development costs are capitalised when they comply strictly with the following criteria:

- the product or process is clearly defined and the costs separately identified and measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(e) Intangible assets *(Cont'd)*

(iii) Development costs *(Cont'd)*

Capitalised development costs are stated at cost less accumulated amortisation and accumulated impairment losses. Capitalised development costs are amortised on a straight-line basis over their expected useful lives but not exceeding five years.

Other development costs are charged to the profit and loss account in the period in which they are incurred.

(iv) Other intangible assets

Other intangible assets represent (1) costs or the estimated fair value of licences and trademarks acquired from third parties, which are amortised using the straight-line method over their estimated useful lives, but not exceeding twenty years; (2) costs 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 (3) costs of acquiring know-how of businesses which are amortised using the straight-line method over their estimated useful lives of fifteen years. Other intangible assets are stated at cost, being its acquisition price, less accumulated amortisation and accumulated impairment losses.

(v) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible assets, including goodwill previously written off against reserves, is assessed and written down immediately to its recoverable amount.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(f) Investments in securities

(i) Non-trading securities

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair values of individual securities are credited or debited to the revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant securities, together with any surplus/deficit transferred from the revaluation reserve, is dealt with in the profit and loss account.

Where there is objective evidence that individual investment is impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) Trading securities

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the profit and loss account. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories comprising stocks and work in progress are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less that are subject to an insignificant risk of change in value, less overdrafts and advances from banks repayable within three months from the date of the advance.

(j) Provisions

In accordance with SSAP 28, provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Warranty provision

The Group recognises a provision for repairs or replacement of products still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

(ii) Restructuring provision

Restructuring provisions mainly comprise lease termination penalties and employee termination payments, and are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or, after individual employees have been advised of the specific terms. Costs related to the ongoing activities of the Group are not provided in advance.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(k) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts, where necessary, when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(l) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) 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; (iv) commission income from the Group's trading business, which is recognised when the related sourcing and quality support services are rendered and (v) franchising income, which is recognised when the right to received payment is established.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(n) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and revenues and costs, if applicable, can be measured reliably, revenues comprise 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.

(o) Employee retirement benefits

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

(p) Segment reporting

In accordance with the Group's internal financial reporting structure, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

(q) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from forward, option and swap transactions undertaken by the Group in the foreign exchange and interest rate 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 currency options, interest rate forwards and swaps are marked to market and the gain or loss arising therefrom is recognised in the profit and loss account.

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 related to off-balance sheet option, interest rate forward and swap contracts which are marked to market are included in "Deposits, prepayments and other receivables" in the accompanying accounts. Liabilities resulting from such contracts are included in "Accounts payable and accruals" in the accompanying accounts.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION

(a) Primary reporting format - business segments

The Group's businesses are managed according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit, which is subject to risks and returns that are different from those of other business segments.

The Group was organised on a worldwide basis into four main business segments:

- Timepieces - design, assembly, manufacturing, distribution and trading timepieces and timepieces components;
- Jewellery - design, assembly, manufacturing, distribution and trading of jewellery products;
- Leather - design, assembly, manufacturing, distribution and trading of leather products; and
- Strategic Investments - investments in listed/unlisted securities which could bring medium or long-term synergetic benefits to the Group's businesses.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format - business segments (Cont'd)

	17-month period ended 31st May, 2002				
	Timepieces	Jewellery	Leather	Strategic	Group
				investments	
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	1,691,993	855,738	626,499	—	3,174,230
Dividend income	1,144	—	906	27,704	29,754
Segment results	109,546	65,568	(15,298)	27,704	187,520
Finance costs					(112,646)
Profit before share of loss of associates					74,874
Share of loss of associates					(1,681)
Profit before taxation					73,193
Taxation					(10,381)
Profit after taxation					62,812
Minority interests					(10,710)
Profit attributable to shareholders					52,102
Segment assets	1,389,138	659,883	617,564	356,726	3,023,311
Interests in associates	100,313	(57)	375	—	100,631
Total assets	1,489,451	659,826	617,939	356,726	3,123,942
Segment liabilities	(1,047,634)	(351,568)	(315,021)	—	(1,714,223)
Total liabilities	(1,047,634)	(351,568)	(315,021)	—	(1,714,223)
Capital expenditure	69,999	9,508	106,086	—	185,593
Depreciation	27,581	14,304	23,267	—	65,152
Amortisation	24,504	4,336	13,129	—	41,969
Write back of provision for bad debt	8,000	—	—	—	8,000
Bad debt expense	6,146	4,979	3,218	—	14,343
Write back of provision for inventory obsolescence	18,407	—	—	—	18,407
Provision for inventory obsolescence	5,667	—	463	—	6,130

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION (Cont'd)

(a) Primary reporting format - business segments (Cont'd)

	Year ended 31st December, 2000 (Restated)				
	Timepieces	Jewellery	Leather	Strategic investments	Group
	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	1,204,228	670,648	579,360	—	2,454,236
Dividend income	—	—	—	—	—
Segment results	95,223	64,305	19,602	—	179,130
Finance costs					(76,231)
Profit before share					
of profit of associates					102,899
Share of					
profit of associates					20,455
Profit before taxation					123,354
Taxation					(18,774)
Profit after taxation					104,580
Minority interests					(12,827)
Profit attributable					
to shareholders					91,753
Segment assets	1,329,782	593,629	554,453	134,160	2,612,024
Interests in associates	154,178	(57)	27,525	—	181,646
Total assets	1,483,960	593,572	581,978	134,160	2,793,670
Segment liabilities	(826,189)	(256,842)	(384,349)	—	(1,467,380)
Total liabilities	(826,189)	(256,842)	(384,349)	—	(1,467,380)
Capital expenditure	124,394	19,573	63,731	—	207,698
Depreciation	13,838	10,512	13,291	—	37,641
Amortisation	13,441	2,862	8,395	—	24,698
Bad debt expense	3,935	2,367	2,099	—	8,401
Provision for inventory					
obsolescence	4,007	—	—	—	4,007

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

3. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

(b) Secondary reporting format - geographical segments

The Group's operations are mainly located in Europe, Asia Pacific and America. In determining the Group's geographical segments, turnover is attributed to the segments based on the destination of merchandise. Segment assets and capital expenditures were based on the geographical locations of the assets.

	17-month period ended			
	31st May, 2002		31st May, 2002	
		Segment	Capital	Total
	Turnover	result	expenditure	assets
	\$'000	\$'000	\$'000	\$'000
Europe	2,524,645	131,991	93,123	1,320,010
America	227,831	(32,992)	3,750	100,986
Asia Pacific	421,754	88,521	88,720	1,602,315
	3,174,230	187,520	185,593	3,023,311
Interests in associates				100,631
Total assets				3,123,942

	Year ended			
	31st December, 2000		31st December, 2000	
	(Restated)			
		Segment	Capital	Total
	Turnover	result	expenditure	assets
	\$'000	\$'000	\$'000	\$'000
Europe	1,709,307	143,427	180,384	1,247,867
America	160,785	(21,414)	16,086	118,368
Asia Pacific	584,144	57,117	11,228	1,245,789
	2,454,236	179,130	207,698	2,612,024
Interests in associates				181,646
Total assets				2,793,670

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES

Other revenues comprised:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Interest income	64,088	35,246
Dividend income	29,754	—
Rental income, net of outgoings	4,145	4,128
Gain on disposal of investments in non-trading securities, net	5,097	6,107
Gain on partial disposal of interest in a subsidiary (a)	79,973	3,807
Gain on disposal of an unconsolidated subsidiary	—	1,885
Gain on disposal of intangible assets, net (b)	2,696	—
Gain on revaluation of trading securities	489	—
Consideration received in connection with the sharing of certain information of customer portfolio with a third party (c)	10,234	—
Write-back of prior year provision for potential liabilities associated with a settled legal case	14,500	—
Redemption premium received on maturity of equity-linked notes	1,695	—
Exchange gain, net	175	833
Others	12,695	9,736
	225,541	61,742

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES *(Cont'd)*

- (a) A wholly owned subsidiary of the Group, Junghans Uhren GmbH ("Junghans Germany"), which is renowned in applying various advanced technologies to timepieces, has developed a number of timepiece patents including radio-controlled, solar and transponder technologies named as "Junghans Systems". The Group established Junghans Asia (Holdings) Limited ("Junghans Asia") during the period to act as the marketing, sourcing and manufacturing agent in Asia for Junghans Germany. In view of positive responses to the potential of various commercial applications covering the Junghans "radio-controlled" timepieces series of the "Junghans Systems" transponder watch program in Asia, the Group invited business partners that can bring synergy to expedite the business growth in Asia, and placed a 10% interest of Junghans Asia for a total consideration of \$80 million to two third party private investors each taking a 5% interest at \$40 million. One of these two investors is an independent private third party company in which the controlling shareholder of the LISTED CO (as mentioned in Note 17(b)(i)) has beneficial interests. As a result, a gain of approximately \$80 million was recorded in the profit and loss account during the period.
- (b) During the period, the Group sold a trademark with a net book value of approximately \$1,063,000 to an independent third party for a consideration of approximately \$3,900,000. As a result, a gain of approximately \$2,837,000 was included in the net gain on disposal of intangible assets.
- (c) During the period, a German subsidiary of the Group agreed to share with a third party company certain information of its customer portfolio to which the third party company would then directly make sales. In this connection, the Group received a consideration of \$10,234,000.

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(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT

Operating profit was arrived at after crediting and charging the following items:

	17-month period ended 31st May, 2002 \$'000	As restated Year ended 31st December, 2000 \$'000
Crediting:		
Exchange gain, net	175	833
Rental income, net of outgoings	4,145	4,128
Dividend income from		
- Listed non-trading securities	2,050	—
- Unlisted non-trading securities	27,704	—
Interest income from		
- Bank deposits	23,717	16,218
- Promissory notes	18,855	12,843
- Convertible notes	11,151	340
- Others	10,365	5,845
Repairing income (a)	3,165	1,376
Gain on disposal of investments in listed non-trading securities	—	6,034
Gain on disposal of investments in unlisted non-trading securities	5,097	73
Gain on revaluation of trading securities	489	—
Gain on partial disposal of interest in a subsidiary (Note 4(a))	79,973	—
Gain on disposal of intangible assets	2,696	—
Write-back of prior year provision for inventory obsolescence (b)	18,407	—
Write-back of provision for bad debt	8,000	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT (Cont'd)

	17-month period ended 31st May, 2002 \$'000	As restated Year ended 31st December, 2000 \$'000
Charging:		
Staff retirement scheme contributions	6,562	2,238
Less: refund of forfeited contributions	(1,183)	(289)
	5,379	1,949
Staff costs (including directors' emoluments and senior executives' emoluments)	691,891	356,534
Depreciation on		
- Owned assets	64,865	37,177
- Assets held under finance leases	287	464
Loss on revaluation of fixed assets	125	—
Loss on disposal of fixed assets	133	4,992
Amortisation of intangible assets	41,969	24,698
Amortisation of goodwill arising on acquisition of associates	5,356	—
Loss on disposal of interests in associates, net	711	1,603
Loss on deemed disposal of interest in an associate	—	3,793
Auditors' remuneration		
- Current period/year	21,069	9,292
- Prior year under-provision	1,240	368
Operating lease rentals		
- Land and buildings	86,144	47,748
- Furniture and equipment	11,694	6,404
Provision for inventory obsolescence	6,130	4,007
Bad debt expense	14,343	8,401

(a) During the period, the Group provided watch, jewellery and leather component repairing services to several third party companies and received repairing income of approximately \$3,165,000 (2000: \$1,376,000).

(b) During the period, the Group sold certain inventory items to its Hong Kong listed associate, Tonic Industries Holdings Limited ("Tonic") and other third party customers, at prices higher than their book values (before prior year's provision for potential inventory obsolescence). As a result, the corresponding provision for these inventories was written back to the profit and loss account during the period.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

6. FINANCE COSTS

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Interest on bank loans and overdrafts	91,605	60,626
Interest on other loans and notes payable	5,060	3,051
Interest element of finance leases	60	154
Interest on convertible debentures	1,000	2,675
Bank charges	14,921	9,725
	112,646	76,231

7. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Directors' emoluments

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

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Fees for Executive Directors	—	—
Fees for Non-executive Directors	—	—
Other emoluments for Executive Directors		
- Basic salaries, housing, other allowances and benefits in kind	13,014	8,934
- Retirement scheme contributions	616	279
- Bonuses paid and payable*	472	290
Emoluments for Non-executive Directors	—	—
	14,102	9,503

* The Directors were entitled to a discretionary bonus.

NOTES TO THE ACCOUNTS

(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:

	17-month period ended 31st May, 2002	Year ended 31st December, 2000
Executive Directors -		
\$1,500,001 - \$2,000,000	—	1
\$2,000,001 - \$2,500,000	1	1
\$3,500,001 - \$4,000,000	1	—
\$5,500,001 - \$6,000,000	—	1
\$8,000,001 - \$8,500,000	1	—
	3	3
Non-executive Directors -		
\$Nil - \$1,000,000	3	3

During the period, no Directors waived any emoluments and no payments as inducement to join or upon joining the Group or as compensation for loss of office were paid or payable to any Director.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Senior executives' emoluments

- (i) During the period, the five highest-paid individuals included three (2000: three) Directors, details of whose emoluments were set out above. The emoluments of the other two (2000: two) highest-paid individuals were analysed below:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Basic salaries, housing, other allowances and benefits in kind	5,797	2,831
Bonuses paid and payable	89	1,527
	5,886	4,358

- (ii) Analysis of emoluments paid to the aforementioned two (2000: two) non-director employees by number of individuals and emolument ranges was as follows:

	17-month period ended 31st May, 2002	Year ended 31st December, 2000
Non-director employees -		
\$1,500,001 - \$2,000,000	—	1
\$2,500,001 - \$3,000,000	1	1
\$3,000,001 - \$3,500,000	1	—
	2	2

- (iii) During the period, 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 ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. TAXATION

The amount of taxation charged to the consolidated profit and loss account represented:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Hong Kong profits tax		
- Provision for the period/year	5,570	9,000
- Over-provision in prior years	(2,956)	(233)
Overseas taxation		
- Provision for the period/year	6,865	9,588
- Over-provision in prior years	(305)	(1,251)
	9,174	17,104
Share of taxation attributable to associates:		
Hong Kong profits tax		
- Provision for the period/year	1,071	1,579
Overseas taxation		
- Provision for the period/year	136	91
	10,381	18,774

Hong Kong profits tax was provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period. Taxation on overseas profits was calculated on the estimated assessable profit for the period provided by subsidiaries and associates with overseas operations at the rates of taxation prevailing in the countries in which the subsidiaries and associates operated.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately \$37,125,000 (2000: a profit of \$29,199,000) dealt with in the accounts of the Company.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. DIVIDENDS

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Interim, paid \$0.13 cent (2000: Nil) per ordinary share	15,067	—
Prior year final dividend*	—	2,573
	15,067	2,573

* This represented year 1999 final dividend declared and paid in 2000 to shareholders who converted their convertible debentures into shares and exercised warrants after the accounts for that year 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

Owing to the Company's share consolidation subsequent to 31st May, 2002 as described in Note 30(b), the calculation of earnings per share for the period and prior year was based on the adjusted number of shares after the share consolidation.

(a) Basic earnings per share

Basic earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately \$52,102,000 (2000 restated: \$91,753,000) and the weighted average number of ordinary shares of approximately 1,147,080,000 (2000 restated: 1,068,724,000) in issue during the period.

(b) Diluted earnings per share

Diluted earnings per share was calculated based on the consolidated profit attributable to shareholders for the period of approximately \$52,102,000 (2000 restated: \$93,871,000) and the weighted average number of ordinary shares of approximately 1,147,133,000 (2000 restated: 1,136,522,000) that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the period.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. EARNINGS PER SHARE (Cont'd)

(c) Reconciliation

A reconciliation of profit attributable to shareholders used in calculating the basic and diluted earnings per share was as follows:

	17-month period ended 31st May, 2002 \$'000	As restated Year ended 31st December, 2000 \$'000
Profit attributable to shareholders used in calculating basic earnings per share	52,102	91,753
Dilutive potential effect in respect of		
- convertible debentures	—	2,247
- share options of Egana Jewellery & Pearls Limited ("Egana Jewellery"), a subsidiary of the Company	—	(129)
Profit attributable to shareholders used in calculating diluted earnings per share	52,102	93,871

A reconciliation of the number of ordinary shares for calculation of basic and diluted earnings per share was as follows:

	17-month period ended 31st May, 2002	As restated Year ended 31st December, 2000
Weighted average number of ordinary shares used in calculating basic earnings per share	1,147,080,000	1,068,724,000
Dilutive potential effect in respect of		
- convertible debentures	—	35,902,000
- share options of the Company	53,000	4,350,000
- warrants of the Company	—	27,546,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,147,133,000	1,136,522,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

12. FIXED ASSETS

Movements of fixed assets during the period were as follows:

Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Furniture and equipment	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation						
At 1st January, 2001	77,114	34,950	28,896	329,758	7,705	478,423
Additions	225	—	3,646	66,788	2,351	73,010
Acquisition of subsidiaries	—	—	—	178	204	382
Revaluation	—	(2,820)	—	—	—	(2,820)
Disposals	—	—	(439)	(32,136)	(1,659)	(34,234)
Exchange adjustments	(673)	—	(213)	(4,594)	(611)	(6,091)
At 31st May, 2002	76,666	32,130	31,890	359,994	7,990	508,670
Representing:						
At cost	76,666	—	31,890	359,994	7,990	476,540
At 2001 valuation	—	32,130	—	—	—	32,130
At 31st May, 2002	76,666	32,130	31,890	359,994	7,990	508,670
Accumulated depreciation						
At 1st January, 2001	15,392	1,480	14,141	245,628	3,966	280,607
Charge for the period	5,878	1,060	7,880	48,429	1,905	65,152
Revaluation	—	(2,242)	—	—	—	(2,242)
Disposals	—	—	(214)	(30,777)	(887)	(31,878)
Exchange adjustments	(159)	—	(142)	(3,531)	(73)	(3,905)
At 31st May, 2002	21,111	298	21,665	259,749	4,911	307,734
Net book value						
At 31st May, 2002	55,555	31,832	10,225	100,245	3,079	200,936
At 31st December, 2000	61,722	33,470	14,755	84,130	3,739	197,816

NOTES TO THE ACCOUNTS

(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 leases at 31st May, 2002 amounted to \$563,000 (2000: \$630,000).

(b) The carrying amounts of land and buildings were analysed as follows:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Held in Hong Kong		
- under long-term leases (over 50 years)	1,586	1,937
- under medium-term leases (10-50 years)	30,246	31,533
Held outside Hong Kong		
- freehold	55,555	61,722
	87,387	95,192

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, 2001 by LCH (Asia-Pacific) Surveyors Limited, independent professional 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 at 31st May, 2002 would have been approximately \$32,359,000 (2000: \$33,556,000).

(c) At 31st May, 2002, certain land and buildings with an aggregate net book value of approximately \$33,970,000 (2000: \$28,205,000) were pledged as securities for banking facilities granted to German subsidiaries of the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INTANGIBLE ASSETS

Movements of intangible assets during the period were as follows:

Group

	Licences and trademarks	Deferred expenditure	Development costs	Business name acquired	Technical know-how	Goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation							
At 1st January, 2001 as previously reported	378,278	66,150	—	12,000	43,668	—	500,096
Effect of adopting SSAP 29	—	(54,350)	—	—	(14,556)	—	(68,906)
At 1st January, 2001 as restated	378,278	11,800	—	12,000	29,112	—	431,190
Reclassification	—	(11,800)	11,800	—	—	—	—
Acquisition of subsidiaries	—	—	48	—	—	1,696	1,744
Additions (a)	88,659	—	21,798	—	—	—	110,457
Disposals	(1,689)	—	(1,335)	—	—	—	(3,024)
Write-off	(4)	—	—	—	—	—	(4)
Subsequent adjustment to consideration for prior year's acquisition	—	—	—	—	(9,139)	—	(9,139)
Exchange adjustments	(178)	—	(84)	—	(201)	—	(463)
At 31st May, 2002	465,066	—	32,227	12,000	19,772	1,696	530,761
Accumulated amortisation							
At 1st January, 2001 as previously reported	51,556	52,284	—	11,000	4,591	—	119,431
Effect of adopting SSAP 29	—	(43,726)	—	—	(413)	—	(44,139)
At 1st January, 2001 as restated	51,556	8,558	—	11,000	4,178	—	75,292
Reclassification	—	(8,558)	8,558	—	—	—	—
Charge for the period	34,357	—	4,078	1,000	2,463	71	41,969
Disposals	(512)	—	(1,195)	—	—	—	(1,707)
Write-off	(4)	—	—	—	—	—	(4)
Exchange adjustments	(130)	—	(67)	—	(30)	—	(227)
At 31st May, 2002	85,267	—	11,374	12,000	6,611	71	115,323
Net book value							
At 31st May, 2002	379,799	—	20,853	—	13,161	1,625	415,438
At 31st December, 2000	326,722	3,242	—	1,000	24,934	—	355,898

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INTANGIBLE ASSETS *(Cont'd)*

- (a) In December 2000, the Group sold the legal and beneficial interests in the Hong Kong Special Administrative Region, Macau, Taiwan and the People's Republic of China (the "Greater China") with respect to the men's wear segment of the "Goldpfeil" brandname (the "Trademark") to an independent third party for an income of \$75 million. In August 2001, prior to the imminent change in shareholders and management of a third party company (a company in which the controlling shareholder of the LISTED CO as mentioned in Note 17(b)(i) was a director), which was the beneficial owner of the independent third party, the Group was given the opportunity to reacquire the Trademark. Due to the Group's concern regarding the uncertainty of the business direction of the incoming shareholder and management of the third party company, and in view of the Group's change in focus to a strategic alliance strategy for the future development of the "Goldpfeil" brandname in Asia, the Group internally re-assessed the fair value of the Trademark and reacquired and paid for the Trademark at a commercially negotiated cash consideration of \$75 million. In January 2002, the Group engaged an independent professional valuer, LCH (Asia-Pacific) Surveyors Limited to perform an independent valuation for the Trademark which indicated no impairment in the carrying value of the Trademark. Since the reacquisition, the Group has continued to pursue its strategic alliance strategy for the Trademark in Asia and in the opinion of the Directors, there was no impairment in the carrying value of the Trademark at 31st May, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. DEFERRED TAX ASSETS / (LIABILITIES)

Movements of deferred tax assets/(liabilities) were as follows:

Group

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Beginning of period/year	(10,873)	(7,309)
Exchange adjustments	(16)	(109)
Reclassification to/(from) current tax provision	3,678	(3,455)
Recognised during the period/year	62,000	—
End of period/year	54,789	(10,873)
Provided for in respect of:		
Accelerated depreciation allowances	(3,595)	(4,007)
Prepayments	(2,499)	(5,765)
Overseas deferred income	(1,117)	(1,101)
Overseas tax losses carried forward (a)	62,000	—
	54,789	(10,873)

Notes:

- (a) In October 2000, the Group acquired a German timepiece company, Junghans Germany, which had approximately \$520 million corporate tax losses at the date of acquisition.

During the period, the Group recognised deferred tax asset of approximately \$62 million, which was assessed to be recoverable in the foreseeable future by the Directors, based on the business development of "Junghans Systems" transponder watch program. Such deferred tax asset had not been recognised as an identifiable asset by the Group in determining the acquisition goodwill for Junghans Germany in year 2000. Therefore, the goodwill related to the prior year's acquisition of Junghans Germany was adjusted by approximately \$62 million, which was reflected in the reserve movement of the Group in Note 23.

- (b) No deferred taxation was provided for property revaluation deficit because such deficit would not constitute a timing difference for taxation purposes and the realisation of the reserves would not be subject to taxation.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS IN SUBSIDIARIES

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

	31st May, 2002 \$'000	31st December, 2000 \$'000
Listed shares in Hong Kong, at cost	97,548	97,548
Unlisted shares, at cost	304,462	304,462
Advances to subsidiaries	1,614,267	1,355,156
Advances from subsidiaries	(106,977)	(67,303)
	1,909,300	1,689,863
Market value of shares listed in Hong Kong	520,850	480,505

All of the advances to/from subsidiaries were unsecured and would not be repayable within one year. Except for a loan to a subsidiary of approximately \$85,917,000 (2000: \$92,602,000) which bore interest at commercial lending rates, the remaining balances with the subsidiaries were non-interest bearing.

At 31st May, 2002, the Company had provided corporate guarantees of \$1,441,048,000 (2000: \$1,209,833,000) to secure banking facilities of certain subsidiaries (Note 27).

The underlying value of interests in subsidiaries was, in the opinion of the Directors, not less than the Company's carrying value at 31st May, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Details of the principal subsidiaries at 31st May, 2002 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	
			%	%	
# Abel & Zimmermann GmbH & Co KG	Germany	EUR511,292	—	62.87(b)	Manufacturing and distribution of jewellery
# Aladra Investments Limited	Cook Islands	US\$100,001	—	100	Insurance underwriting
# Argenta Die Brillen GmbH	Germany	EUR511,300	—	100	Distribution of glasses and similar accessories
Bartelli (Holdings) Limited	British Virgin Islands	US\$1	—	100	Licensing of leather trademark
Bartelli Leather Products Limited	Hong Kong	\$10,000	—	100	Manufacturing and distribution of leather products
# Calibre Jewellery (Shenzhen) Co. Ltd.	The PRC	US\$200,000	—	73.97	Manufacturing of jewellery
Centreline Group Limited	British Virgin Islands	US\$1	—	100	Investment holding and licence coordinating
# Chromachron A.G.	Switzerland	CHF300,000	—	100	Design, assembly and distribution of watches

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS 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	
			%	%	
Collection Uhren und Schmuck GmbH	Germany	EUR25,565	—	100	Distribution of watches
Eco-Haru (Far East) Limited	Hong Kong	\$500,000	—	100	Distribution 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
Egana Asial Company Limited	Samoa/The PRC	\$1,000	—	60	Assembly of watches
Egana.Com Inc.	British Virgin Islands	US\$100	—	100	Operations of e-business
Egana Deutschland GmbH	Germany	EUR5,113,430	—	100	Design and distribution of watches
Egana Europe (Holdings) GmbH	Germany	EUR2,556,459	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 treasury

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS 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-Haru Mfr. Corp. Limited	Hong Kong	\$2	—	100	Design, assembly, distribution and licensee of watches
# Egana India Private Limited	India	US\$500,000	—	90	Distribution of watches and jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	—	73.97	Investment holding and licensing operations
Egana Italia s.r.l.	Italy	EUR25,823	—	100	Distribution of watches
* Egana Jewellery & Pearls Limited	Cayman Islands/ Hong Kong	\$155,102,935	52.33	21.64(d)	Investment holding
# Egana Juwelen & Perlen Handels GmbH	Austria	EUR36,336	—	73.97	Distribution of jewellery
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	—	73.97	Design and distribution of jewellery
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	73.97	Provision of marketing and consultancy services
Egana Schmuck und Perlen GmbH	Germany	EUR25,565	—	73.97	Design and distribution of jewellery
Egana Speidel GmbH (Formerly known as Burkhard Mueller Schmuck GmbH)	Germany	EUR25,600	—	73.97	Design and distribution of jewellery

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS 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 Suisse (Holdings) SA	Switzerland	CHF100,000	—	100	Investment holding
# Egana Suisse SA	Switzerland	CHF1,000,000	—	100	Design, manufacturing and distribution of watches
Egana of Switzerland (America) Corp.	The United States of America	US\$13,517,458	100	—	Design, distribution and licensee of watches
Egana of Switzerland (Far East) Limited	Hong Kong	\$11,500,000	—	100	Design, assembly and distribution of watches
# Egana Uhrenvertriebs GmbH	Austria	EUR36,000	—	100	Distribution of watches
Eurochron GmbH	Germany	EUR2,556,459	—	100	Design, manufacturing and distribution of clocks
Everstone Limited	Hong Kong/ The PRC	\$100	—	73.97	Subcontracting and manufacturing 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
Gold Arrow Inc.	The United States of America	US\$2,089,111	—	100	Investment holding
Goldpfeil AG	Germany	EUR3,579,043	—	100	Design, manufacturing and distribution of luxury leather goods

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS 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	
			%	%	
Goldpfeil America Inc.	The United States of America	US\$9,546,219	—	100	Investment holding
Goldpfeil Distribution and Services Limited	Hong Kong	\$500,000	—	100	Distribution and retailing of leather products
# Goldpfeil Geneve SA (Formerly known as Junghans (Schweiz) AG)	Switzerland	CHF100,000	—	100	Distribution of watches
# Haru Holding & Management GmbH	Germany	EUR2,300,850	—	100	Investment holding
# Haru Japan Corporation, Inc.	Japan	JPY30,000,000	—	100	Distribution of timepieces, jewellery, and sourcing agent for pearls
# Haru-Kuraray GmbH	Germany	EUR1,022,584	—	55	Distribution of man-made leather
Jacquelin Designs Enterprises, Inc.	The United States of America	—	—	73.97	Design and distribution of jewellery
Junghans Asia Limited	Hong Kong	\$1,000	—	90	Distribution of watches
Junghans Asia (Holdings) Limited	British Virgin Islands	US\$100	—	90(a)	Investment holding
# Junghans Italia s.r.l.	Italy	EUR525,000	—	100	Distribution of watches
Junghans Uhren GmbH	Germany	EUR5,112,919	—	100	Distribution of watches

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS 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	
			%	%	
Kai-Yin Lo Limited	Hong Kong	\$2,600,000	—	100	Design, manufacturing and retailing of jewellery
# Keimothai Limited	Thailand	Baht60,000,000	—	73.97	Sourcing agent, manufacturing and distribution of jewellery
# Lorica Sud s.r.l.	Italy	EUR900,800	—	70	Manufacturing of man-made leather goods
Oro Design Limited	Hong Kong	\$10,000	—	73.97	Design, manufacturing, distribution and licensee of jewellery
P.C. International Marketing Limited	British Virgin Islands/France	US\$1	100	—	Licensing of watches and jewellery
Pioneer Ventures Limited	Hong Kong	\$100	—	100	General trading and quality inspection
# Rebner GmbH	Germany	EUR25,565	—	62.87(b)	Investment holding
Time Success Industrial Limited	Hong Kong	\$2	—	73.97	Property holding
Towercham Limited	Island of Nevis, West Indies	STG2	—	100	Provision of marketing and consultancy services
Zeitmesstechnik GmbH	Germany	EUR99,702	—	100	Provision of timepiece maintenance services

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Notes:

- (a) The Group sold a 10% interest in Junghans Asia (Holdings) Limited, a company incorporated in British Virgin Islands, for a consideration of \$80,000,000 in May 2002 (Note 4(a)).
- (b) The Group acquired two new subsidiaries, Abel & Zimmermann GmbH & Co KG and Rebner GmbH in July 2001.
- (c) None of the subsidiaries of the Group had any loan capital in issue at any time during the period.
- (d) During the period, the Group acquired an additional 1.25% equity interest in Egana Jewellery for a consideration of approximately \$5,947,000. A goodwill of approximately \$1,696,000 was recognised.
- * Listed on the Stock Exchange.
- # Audited by certified public accountants other than PricewaterhouseCoopers.

16. INTERESTS IN ASSOCIATES

Interests in associates comprised:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Share of net assets/(liabilities)		
Shares listed in Hong Kong	88,635	154,106
Unlisted shares	(144)	27,540
	88,491	181,646
Negative goodwill (a)	(6,260)	—
Goodwill (b)	18,400	—
	100,631	181,646
Market value of shares listed in Hong Kong	57,442	82,541

The underlying value of interests in associates was, in the opinion of the Directors, not less than the Group's carrying value at 31st May, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN ASSOCIATES (Cont'd)

Details of the Group's major associates at 31st May, 2002 were as follows:

Name of associate	Place of incorporation/ operations	Particulars of issued shares held by the Group	Interest held by the Group		Principal activities
			Directly	Indirectly	
			%	%	
Tonic*	Cayman Islands/ Hong Kong	Ordinary shares of \$0.1 each	—	24.77(a)	Design, manufacturing and marketing of audio, video and home appliances products
Supreme Stars Group Limited ("Supreme Stars")	British Virgin Islands	Ordinary shares of US\$1 each	—	50.00(b)	Investment holding
Egana Information Technology Limited ("EIT")	Hong Kong	Ordinary shares of \$1 each	—	50.00(c)	Development, marketing, implementation and maintenance of Enterprise Resource Planning (ERP) systems and Logistic and Manufacturing (L&M) systems
Dominique Roger Diffusion S.A.R.L ("Dominique")	France	Ordinary shares of EUR14 each	—	30.00(d)	Distribution and marketing of timepieces and jewellery

* Listed on the Stock Exchange

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN ASSOCIATES (Cont'd)

- (a) In August 2001, the Group acquired an additional 4.49% interest in Tonic at a consideration of approximately \$11,037,000, resulting in a negative goodwill of approximately \$6,504,000 being recognised during the period.

Tonic has a financial accounting period of 31st March, which is not coterminous with the Group. Summarised audited financial information of Tonic at 31st March, 2002 and for the year then ended was set out below:

	31st March, 2002 \$'000 (Audited)#	31st March, 2001 \$'000 (Audited)#
Balance sheet		
Non-current assets	512,654	469,956
Current assets	399,919	410,619
Total assets	912,573	880,575
Capital and reserves	380,645	377,747
Non-current liabilities	86,085	32,365
Current liabilities	445,843	470,463
Total equity and liabilities	912,573	880,575
Profit and loss		
Turnover	2,013,623	2,625,533
Gross profit	118,343	142,957
Profit from operations	22,609	34,617
Profit before tax	10,762	14,513
Net profit for the year	9,240	12,534

Audited by certified public accountants other than PricewaterhouseCoopers.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INTERESTS IN ASSOCIATES *(Cont'd)*

- (b) In March 2001, the Group acquired a 50% interest in Supreme Stars, a company incorporated in the British Virgin Islands, from an independent third party for a consideration of \$25,000,000. The corresponding goodwill of \$24,000,000 recognised during the period was amortised over five years.
- (c) EIT, a company incorporated in Hong Kong, is a wholly-owned subsidiary of Supreme Stars.
- (d) On 7th September, 2001, the Group acquired a 30% interest in Dominique, a company incorporated in France, from an independent third party for a consideration of approximately \$1,056,000.
- (e) On 28th August, 2001, the Group sold a 10% equity interest in Peace Mark (Holdings) Limited ("Peace Mark"), a company listed on the Stock Exchange, to United Success Enterprises Limited, a third party company owned by Mr. Leung Yung, the managing director of Peace Mark, for a consideration of \$49,800,000, as a result of which the equity interest in Peace Mark held by the Group was reduced from approximately 16.49% to 6.49% and a loss on disposal of \$6,770,000 was recorded during the period. The Directors were of the opinion that the Group was not in a position to exercise significant influence over the operating and financial decisions of Peace Mark. As a result of the disposal, the Group's investment in a 6.49% equity interest in Peace Mark with a carrying value of approximately \$6,919,000 was reclassified to investments in non-trading securities during the period.
- (f) On 18th September, 2001, the Group sold its entire 45% interest in Capricon Company Limited to Peace Mark (BVI) Limited, a subsidiary of Peace Mark, for a consideration of \$31,500,000, resulting in a gain of approximately \$6,059,000.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

Group

	31st May, 2002 Equity securities \$'000	31st December, 2000		
		Convertible notes \$'000	Equity securities \$'000	Total \$'000
Listed in Hong Kong, at quoted market price	66,966	—	43,998	43,998
Unlisted in Hong Kong, at fair value				
- Investments in private third party companies (a)	110,404	110,760	23,400	134,160
- Private closed-end funds (b)(i)	169,403	—	—	—
- Gas supply project (b)(ii)	70,000	—	—	—
- Others	737	—	1,121	1,121
	417,510	110,760	68,519	179,279

Company

	Equity securities	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Listed in Hong Kong, at quoted market price	3	4
Unlisted in Hong Kong, at fair value	47,847	—
Total	47,850	4

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. INVESTMENTS IN NON-TRADING SECURITIES (Cont'd)

- (a) At 31st May, 2002, the Group had equity investments in two third party private companies with a view to enhancing the Group's distribution network in Asia. The principal activities of these two companies are (i) exploitation of forest, processing of wood as well as trading of wood products and (ii) investment holding, distribution and trading of fashion accessory products, respectively. The Group had no representation on the boards of directors of these two companies. The Directors were of the opinion that the Group did not have significant influence or control over the operating and financial decisions of these two companies. At 31st May, 2002, the investments were revalued at their estimated fair values of \$85,641,000 and \$24,763,000, respectively which were determined by the Directors. The revaluation surplus (net of minority investors' portion) of approximately \$31,777,000 was credited to the revaluation reserve.
- (b) (i) During the period, the Group invested approximately \$168,610,000 as strategic shareholder in five private closed-end funds for medium-term capital appreciation potential. The five funds are under the management of a third party Hong Kong listed investment banking group ("LISTED CO"). The Group had no representation on the boards of directors of these funds. The Directors were of the opinion that the Group did not have significant influence or control over the operating and financial decisions of these funds. At 31st May, 2002, the funds were stated at their fair values. The revaluation surplus (net of minority investors' portion) of approximately \$806,000 was credited to the revaluation reserve.
- (ii) In May 2002, the Group, through a private closed-end fund managed by the LISTED CO, secured the investment of a 3% interest of an in-house gas supply project in the People's Republic of China and paid the full consideration of \$70 million.

In the opinion of the Directors, there was no impairment in the carrying value of these non-trading securities at 31st May, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT ASSETS

Current assets comprised:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Cash and bank balances	243,182	443,392	17,107	28,104
Pledged bank deposits (Note 24(d))	31,034	26,047	31,034	26,047
Inventories (a)	590,281	604,849	—	—
Accounts receivable, net (b)	272,814	403,015	—	—
Short-term investments (c)	449,157	204,902	—	—
Dividend receivable	8,994	—	—	—
Due from associates (Note 29(a)(ii))	71,669	7,540	—	—
Deposits, prepayments and other receivables	267,507	189,286	8,728	44,664
Tax recoverable	—	—	1,654	—
	1,934,638	1,879,031	58,523	98,815

(a) Inventories comprised:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Raw materials	188,017	215,157
Work-in-progress	67,694	47,214
Finished goods	446,168	509,310
Less: Provision for inventory obsolescence	(111,598)	(166,832)
	590,281	604,849

Certain inventories were held under trust receipts and import bank loans.

At 31st May, 2002, the carrying amount of inventories that were carried at net realisable value amounted to approximately \$528,571,000 (2000: \$553,247,000).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT ASSETS (Cont'd)

- (b) In general, the Group grants an average credit period of 30-90 days to its trade customers. Aging analysis of accounts receivable after provision for bad and doubtful debts was as follows:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Due:				
In current month	194,750	318,395	—	—
Between one to two months	26,402	44,328	—	—
Between two to three months	10,673	21,034	—	—
Between three to four months	5,323	11,262	—	—
Over four months	35,666	7,996	—	—
	272,814	403,015	—	—

- (c) Short-term investments comprised:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Equity-linked notes (i)	120,500	—
Promissory notes with maturity within three months (ii)	133,388	—
Promissory notes with maturity more than three months and less than one year (ii)	54,571	—
Short-term deposits (iii)	135,189	204,840
Overseas listed trading securities	5,509	—
Overseas unlisted investments	—	62
	449,157	204,902

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT ASSETS *(Cont'd)*

(c) Short-term investments comprised: *(Cont'd)*

(i) At 31st May, 2002, the Group had investments in certain short-term equity-linked notes (the "ELNs") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO (as mentioned in Note 17(b)(i)) has a beneficial interest.

The ELNs were unsecured, bore interest at 3% per annum and would be redeemable by the Note Issuer on maturity dates ranging from three to six months after the issuance dates.

The ELNs or any part thereof are convertible into shares of certain companies listed on the Stock Exchange at specified conversion prices (subject to adjustments) at the option of the Group. The Group also had the right to demand the Note Issuer to redeem any notes not previously converted at redemption amounts equal to 103% to 106% of the principal amounts. Subsequent to 31st May, 2002, all ELNs were redeemed by the Note Issuer upon maturity.

(ii) Promissory notes represented receivables of approximately \$112 million and \$76 million from the five closed-end funds as mentioned in Note 17(b)(i) and an independent third party, respectively. These promissory notes receivable were unsecured and bore interest at commercial rates. At 31st May, 2002, all the promissory notes receivable were due for repayment in the period from July to September 2002 in which approximately \$133 million was rolled over for another three months upon maturity.

(iii) The Group placed short-term deposits of \$135 million with the LISTED CO mentioned in Note 17(b)(i) to require the LISTED CO to issue facility letters for the Group's on-going negotiations in connection with the proposed acquisitions of two target companies. The deposits were unsecured and non-interest bearing. In July 2002, the whole amount was withdrawn by the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES

Current liabilities comprised:

	Group		Company	
	31st May, 2002 \$'000	As restated 31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Short-term bank borrowings (a)	617,655	610,019	23,291	21,528
Long-term bank borrowings - current portion (a)	131,652	22,471	125,929	—
Other long-term loans - current portion (Note 20 (b))	4,409	5,058	—	—
Obligation under finance lease - current portion (Note 20 (c))	348	583	—	—
Accounts payable and accruals (b)	513,440	520,175	20,251	9,030
Bills payable	102,832	126,994	—	—
Due to an associate (Note 29(a)(iii))	89	5,687	—	—
Due to Directors (Note 29(a)(iii))	18	333	—	—
Taxation payable	2,829	12,523	—	—
Provisions (c)	44,828	50,298	—	—
Convertible debentures (Note 21)	13,260	—	13,260	—
	1,431,360	1,354,141	182,731	30,558

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES (Cont'd)

(a) Bank borrowings:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Bank loans and overdrafts				
- with maturity within three months	530,965	243,718	23,291	21,528
- with maturity more than three months and less than one year	6,103	284,182	—	—
Trust receipts and import loans	80,587	82,119	—	—
	617,655	610,019	23,291	21,528
Current portion of long-term bank borrowings (Note 20(a))	131,652	22,471	125,929	—
	749,307	632,490	149,220	21,528
Secured	39,501	27,763	31,034	21,528
Unsecured	709,806	604,727	118,186	—

(b) At 31st May, 2002, accounts payable and accruals were analysed as follows:

	Group		Company	
	31st May, 2002 \$'000	As restated 31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Accounts payable	213,610	195,139	—	—
Accrued charges and other payables	299,830	325,036	20,251	9,030
	513,440	520,175	20,251	9,030

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES (Cont'd)

(b) At 31st May, 2002, accounts payable and accruals were analysed as follows: (Cont'd)

An aging analysis of accounts payable was as follows:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Due:				
In current month	169,918	156,845	—	—
Between one to two months	15,516	26,031	—	—
Between two to three months	4,406	8,637	—	—
Between three to four months	4,690	1,629	—	—
Over four months	19,080	1,997	—	—
	213,610	195,139	—	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. CURRENT LIABILITIES (Cont'd)

(c) Provisions:

	Warranty(i)	Restructuring(ii)	Other(iii)	Total
	\$'000	\$'000	\$'000	\$'000
Group				
At 1st January, 2001	34,357	773	15,168	50,298
Acquisition of subsidiaries	89	—	—	89
Additional provisions	32,919	4,576	2,439	39,934
Less: Amounts utilised	(29,763)	(766)	—	(30,529)
Less: Unused amounts reversed	(47)	—	(14,930)	(14,977)
Exchange adjustments	(286)	(7)	306	13
At 31st May, 2002	37,269	4,576	2,983	44,828

- (i) **Warranty:** The Group provided warranties on certain products and undertook to repair or replace items that failed to perform satisfactorily. The provision was recognised during the period for expected warranty claims based on past experience of the level of repairs and returns.
- (ii) **Provision for restructuring:** The restructuring provision was related to the restructuring plan of a German subsidiary of the Group. The provision was expected to be fully utilised in the second half of 2002.
- (iii) **Other provision:** The provision at 31st May, 2002 was mainly related to the environmental risks of tearing down certain old buildings of an overseas subsidiary.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Long-term bank loans (a)	265,032	26,544	218,500	—
Other long-term liabilities				
Other long-term loan (b)	17,499	19,888	—	—
Obligations under finance leases (c)	332	554	—	—
	17,831	20,442	—	—
	282,863	46,986	218,500	—

(a) Long-term bank borrowings comprised:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Repayable within a period of				
- not exceeding one year				
Secured	2,380	1,716	—	—
Unsecured	129,272	20,755	125,929	—
- more than one year, but not exceeding two years				
Secured	5,128	1,825	—	—
Unsecured	143,630	3,048	139,500	—
- more than two year ,but not exceeding five years				
Secured	6,765	7,958	—	—
Unsecured	88,522	7,756	79,000	—
- after five years				
Secured	20,987	4,791	—	—
Unsecured	—	1,166	—	—
	396,684	49,015	344,429	—
Less: Amounts repayable within one year included in current liabilities	(131,652)	(22,471)	(125,929)	—
	265,032	26,544	218,500	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM LIABILITIES (Cont'd)

(b) Other loans represented notes payable and other long-term loan:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Other long-term loans		
- not exceeding one year, unsecured	4,409	5,058
- more than one year, but not exceeding five years, unsecured	10,339	19,888
- after five years, unsecured	7,160	—
	21,908	24,946
Less: Amounts repayable within one year included in current liabilities (Note 19)	(4,409)	(5,058)
	17,499	19,888

(c) At 31st May, 2002, the Group's finance lease liabilities were repayable as follows:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Within one year	371	631
In the second year	219	332
In the third to fifth year	135	252
	725	1,215
Future finance charges on finance leases	(45)	(78)
Present value of finance lease liabilities	680	1,137

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

20. LONG-TERM LIABILITIES (Cont'd)

(c) At 31st May, 2002, the Group's finance lease liabilities were repayable as follows: (Cont'd)

The present value of finance lease liabilities was as follows:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Within one year	348	583
In the second year	205	313
In the third to fifth year	127	241
Present value of finance lease liabilities	680	1,137
Less: Amounts repayable within one year included in current liabilities (Note 19)	(348)	(583)
	332	554

21. CONVERTIBLE DEBENTURES

Movements of convertible debentures were as follows:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Beginning of period/year (a)	55,380	117,000
Converted to ordinary shares	(42,120)	(61,620)
End of period/year	13,260	55,380
Less: Amounts repayable within one year included in current liabilities (Note 19)	(13,260)	—
	—	55,380

(a) On 15th December, 1999, the Company issued convertible debentures (the "Debentures") of US\$15 million to a third party. Such Debentures will be due on 15th December, 2002. After 47 days from the date of the initial issue of the Debentures, the Debentures can be converted into ordinary shares of \$0.10 each of the Company at a conversion price equal to the lesser of (i) \$0.28 per share (prior to share consolidation as mentioned in Note 30(b)), subject to adjustments; and (ii) 90% of the average of the 5 lowest closing prices of one Company's ordinary share during the 20 business days immediately prior to conversion at the option of the Debenture holders. Unless converted or redeemed earlier at the discretion of the Company, all outstanding Debentures will be automatically converted into the Company's ordinary shares on maturity. The Debentures bore interest at the rate of 4.5% per annum on outstanding principal from time to time.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. SHARE CAPITAL

Share capital comprised:

	31st May, 2002	31st December, 2000	31st May, 2002	31st December, 2000
	Number of ordinary shares		\$'000	\$'000
Authorised:				
Ordinary shares at \$0.10 each	20,000,000,000	20,000,000,000	2,000,000	2,000,000
Issued and fully paid:				
Ordinary shares at \$0.10 each:				
Beginning of period/year	11,325,472,648	9,767,386,822	1,132,547	976,739
Issued upon exercise of share options	—	860,000	—	86
Issued upon exercise of warrants	—	1,269,451,835	—	126,945
Issued upon exercise of convertible debentures	285,902,250	287,773,991	28,590	28,777
Shares repurchased	(395,700,000)	—	(39,570)	—
End of period/year	11,215,674,898	11,325,472,648	1,121,567	1,132,547

In February and March, 2002, a total of 395,700,000 shares were repurchased on the Stock Exchange and cancelled by the Company as follows:

Month	Number of			Total
	shares purchased	Highest price paid per share	Lowest price paid per share	
		\$	\$	\$
February, 2002	161,060,000	0.206	0.202	32,961,751
March, 2002	234,640,000	0.205	0.202	48,013,625
	395,700,000			80,975,376

The premium paid on the repurchase of such shares was charged against the share premium account. An amount equivalent to the par value of the corresponding cancelled shares was transferred from retained profits of the Group to the capital redemption reserve as set out in Note 23 to the accounts.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. SHARE CAPITAL (Cont'd)

Share options

The Company has adopted an Executive Share Option Scheme under which the Directors can grant options to Directors and employees of the Company or any of its subsidiaries 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.

Movements of share options during the period were summarised below:

	Number of shares under share options at subscription price of \$0.211 '000	Number of shares under share options at subscription price of \$0.345 '000	Number of shares under share options at subscription price of \$0.128 '000	Total number of shares under Executive Share Option Scheme '000
Outstanding at 1st January, 2001	446,550	14,220	1,660	462,430
Lapsed	(6,450)	—	—	(6,450)
Outstanding at 31st May, 2002	440,100	14,220	1,660	455,980

At 31st May, 2002, the Company had a total of approximately 455,980,000 (2000: 462,430,000) options outstanding. The exercise in full of such share options would, under the present capital structure of the Company, result in the issuance of 455,980,000 (2000: 462,430,000) additional shares of \$0.10 each and cash proceeds to the Company of approximately \$97,979,000 (2000: \$99,340,000) excluding the related issue expenses.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. RESERVES

Group

Movements of reserves for the Group for the seventeen-month period ended 31st May, 2002 were as follows:

	31st May, 2002										
	Share	Exchange	Capital						Legal	Other	Total
	premium	translation	Retained	Revaluation	redemption	Goodwil	reserve	reserve			
	account	reserve	profits	reserve	reserve				\$'000	\$'000	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Beginning of period as restated	352,650	(99,665)	368,778	(4,795)	1,231	(522,529)	270	587	96,527		
Premium arising from exercise of convertible debentures	13,530	—	—	—	—	—	—	—	13,530		
Expenses incurred in connection with conversion of convertible debentures	(21)	—	—	—	—	—	—	—	(21)		
Repurchase of shares (including expenses incurred)	(41,485)	—	(39,570)	—	39,570	—	—	—	(41,485)		
Disposal of interests in associates	—	—	—	(4,391)	—	8,715	—	—	4,324		
Impairment of goodwill previously written off against reserves	—	—	—	—	—	73	—	—	73		
Share of an associate's revaluation surplus of fixed assets	—	—	—	4,036	—	—	—	—	4,036		
Revaluation of listed non-trading securities	—	—	—	(18,265)	—	—	—	—	(18,265)		
Revaluation of unlisted non-trading securities	—	—	—	32,583	—	—	—	—	32,583		
Revaluation of leasehold land and buildings	—	—	—	(453)	—	—	—	—	(453)		
Other statutory reserve	—	—	—	—	—	—	—	(7)	(7)		
Subsequent adjustment to goodwill as a result of recognition of deferred tax asset (Note 14(a))	—	—	—	—	—	62,000	—	—	62,000		
Other subsequent adjustment to goodwill	—	—	—	—	—	(9,194)	—	—	(9,194)		
Exchange differences on translation of the accounts of foreign subsidiaries	—	(6,821)	—	—	—	—	—	—	(6,821)		
Profit attributable to shareholders	—	—	52,102	—	—	—	—	—	52,102		
Dividend paid	—	—	(15,067)	—	—	—	—	—	(15,067)		
End of period	324,674	(106,486)	366,243	8,715	40,801	(460,935)	270	580	173,862		

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. RESERVES (Cont'd)

Group (Cont'd)

Movements of reserves for the Group for the year ended 31st December, 2000, as restated were as follows:

	31st December, 2000 (Restated)										
	Share	Exchange	Capital						Legal	Other	Total
	premium	translation	Retained	Revaluation	redemption	Goodwil	reserve	reserve			
	account	reserve	profits	reserve	reserve				\$'000	\$'000	\$'000
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
Beginning of year as previously reported	230,926	(37,619)	307,571	4,136	1,231	(341,776)	270	552	165,291		
Effect of adopting SSAP 29 (Note 2(e)(ii))	—	(285)	(3,439)	—	—	(1,848)	—	—	(5,572)		
Effect of adopting SSAP 30 and 31 (Note 2(e)(i))	—	—	(23,249)	—	—	23,249	—	—	—		
Beginning of year as restated	230,926	(37,904)	280,883	4,136	1,231	(320,375)	270	552	159,719		
Premium arising from exercise of share options	41	—	—	—	—	—	—	—	41		
Premium arising from exercise of warrants	88,997	—	—	—	—	—	—	—	88,997		
Premium arising from exercise of convertible debentures	32,843	—	—	—	—	—	—	—	32,843		
Expenses incurred in connection with issue of shares	(157)	—	—	—	—	—	—	—	(157)		
Acquisition of subsidiaries	—	—	—	—	—	(173,770)	—	—	(173,770)		
Acquisition of additional interests in subsidiaries	—	—	—	—	—	(36,918)	—	—	(36,918)		
Acquisition of additional interests in associates	—	—	—	—	—	2,676	—	—	2,676		
Disposal of interest in a subsidiary	—	—	—	—	—	(4,401)	—	—	(4,401)		
Disposal of interests in associates	—	—	—	—	—	10,093	—	—	10,093		
Impairment loss of goodwill of a subsidiary	—	—	(1,285)	—	—	1,285	—	—	—		
De-recognition of deferred expenses of a subsidiary	—	(123)	—	—	—	(1,119)	—	—	(1,242)		
Share of an associate's revaluation deficit of non-trading securities	—	—	—	(4,143)	—	—	—	—	(4,143)		
Revaluation of non-trading securities	—	—	—	(3,621)	—	—	—	—	(3,621)		
Disposal of non-trading securities	—	—	—	(1,167)	—	—	—	—	(1,167)		
Other statutory reserve	—	—	—	—	—	—	—	35	35		
Exchange differences on translation of the accounts of foreign subsidiaries	—	(61,638)	—	—	—	—	—	—	(61,638)		
Profit attributable to shareholders (a)	—	—	91,753	—	—	—	—	—	91,753		
Dividend paid	—	—	(2,573)	—	—	—	—	—	(2,573)		
End of year	352,650	(99,665)	368,778	(4,795)	1,231	(522,529)	270	587	96,527		

Note:

(a) Profit attributable to shareholders

As previously reported	110,356
Effect of adopting SSAP 29 (Note 2(e)(ii))	5
Effect of adopting SSAP 30 and 31 (Note 2(e)(i))	(18,608)
As restated	91,753

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. RESERVES (Cont'd)

Company

Movements of reserves for the Company for the seventeen-month period ended 31st May, 2002 were as follows:

	31st May, 2002					Total \$'000
	Share	Capital			Other reserve \$'000	
	premium	Retained	Revaluation	redemption		
	account	profits	reserve	reserve		
\$'000	\$'000	\$'000	\$'000	\$'000		
Beginning of period	352,650	215,857	2	1,231	457	570,197
Repurchases of shares (including expenses incurred)	(41,485)	(39,570)	—	39,570	—	(41,485)
Premium arising from exercise of convertible debentures	13,530	—	—	—	—	13,530
Expenses incurred in connection with conversion of convertible debentures	(21)	—	—	—	—	(21)
Revaluation of listed non-trading securities	—	—	(1)	—	—	(1)
Revaluation of unlisted non-trading securities	—	—	2,847	—	—	2,847
Loss for the period	—	(37,125)	—	—	—	(37,125)
Dividend paid	—	(15,067)	—	—	—	(15,067)
End of period	324,674	124,095	2,848	40,801	457	492,875

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. RESERVES (Cont'd)

Company (Cont'd)

Movements of reserves for the Company for the year ended 31st December, 2000 were as follows:

	31st December, 2000					Total \$'000
	Share	Retained	Revaluation	Capital	Other	
	premium			redemption		
	account	profits	reserve	reserve	reserve	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Beginning of year	230,926	189,231	—	1,231	457	421,845
Premium arising from exercise of share options	41	—	—	—	—	41
Premium arising from exercise of warrants	88,997	—	—	—	—	88,997
Premium arising from exercise of convertible debentures	32,843	—	—	—	—	32,843
Expenses incurred in connection with conversion of convertible debentures	(157)	—	—	—	—	(157)
Revaluation of listed non-trading securities	—	—	2	—	—	2
Profit for the year	—	29,199	—	—	—	29,199
Dividend paid	—	(2,573)	—	—	—	(2,573)
End of year	352,650	215,857	2	1,231	457	570,197

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

24. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of profit before share of (loss)/profit of associates and taxation to net cash inflow from operating activities:

	17-month period ended 31st May, 2002 \$'000	As restated Year ended 31st December, 2000 \$'000
Profit before share of (loss)/profit of associates and taxation	74,874	102,899
Interest income	(64,088)	(35,246)
Interest expense	97,725	66,506
Redemption premium received on maturity of equity-linked notes	(1,695)	—
Dividend income	(29,754)	—
Write-back of prior year provision for potential liabilities associated with settled legal cases	(14,500)	(21,291)
Depreciation	65,152	37,641
Loss on disposal of fixed assets	133	4,992
Loss on revaluation of fixed assets	125	—
Amortisation of intangible assets	41,969	24,698
Impairment of goodwill previously written off against reserves	73	—
Gain on disposal of intangible assets	(2,696)	—
Gain on disposal of an unconsolidated subsidiary	—	(1,885)
Gain on partial disposal of interest in a subsidiary	(79,973)	(3,807)
Loss on disposal of interests in associates	711	1,603
Loss on deemed disposal of interest in an associate, net	—	3,793
Amortisation of goodwill arising on acquisition of associates	5,356	—
Negative goodwill recognised as income	(144)	—
Gain on disposal of investments in non-trading securities, net	(5,097)	(6,107)
Gain on revaluation of short-term investments in trading securities	(489)	—
(Write-back of)/Provision for inventory obsolescence	(12,277)	4,007
Bad debt expense	14,343	8,401
Decrease in inventories	29,660	16,507
Decrease in accounts receivable	116,268	85,072
(Increase)/Decrease in deposits, prepayments and other receivables	(74,770)	51,636
Decrease in settlement sum receivable from Benetton International N.V.	—	338,550
Increase in due from associates	(64,129)	(7,524)
Decrease in due to associates	(5,598)	(13,736)
Increase/(Decrease) in accounts payable, accruals and provision	3,500	(58,857)
(Decrease)/Increase in bills payable	(24,140)	6,009
Decrease in due to Directors	(315)	(200)
Net cash inflow from operating activities	70,224	603,661

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Acquisition of subsidiaries

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Net assets acquired:		
Fixed assets	382	11,068
Intangible assets	48	495
Investments in non-trading securities	—	730
Cash and bank balances	18	20,262
Inventories	10,208	115,938
Accounts receivable	3,686	105,379
Deposits, prepayments and other receivables	7,729	1,826
Bank loans and overdrafts of original maturities of less than three months	(13,398)	(19,136)
Accounts payable and accruals	(4,255)	(190,293)
Provision	(89)	—
Taxation	(207)	3,999
Long-term bank loans	(3,442)	(1,327)
Trademark recognised at consolidated level	—	90,000
	680	138,941
Minority interests	(536)	—
Share of net assets at date of acquisition	144	138,941
(Negative Goodwill)/Goodwill	(144)	173,770
Consideration	—	312,711
Satisfied by cash	—	312,711

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Acquisition of subsidiaries (Cont'd)

Analysis of net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Cash consideration	—	312,711
Cash and bank balances acquired	(18)	(20,262)
Bank loans and overdrafts with maturity within three months	13,398	19,136
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	13,380	311,585

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(c) Analysis of changes in financing during the period:

	Share capital (including share premium)	Short-term bank loans	Long-term bank loans	Other long-term loans	Finance leases obligations	Convertible debentures	Minority interests	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1st January, 2001								
as previously reported	1,485,197	284,182	49,015	24,946	1,137	55,380	101,227	2,001,084
Effect of adopting SSAP 29	—	—	—	—	—	—	(4,011)	(4,011)
At 1st January, 2001 as restated	1,485,197	284,182	49,015	24,946	1,137	55,380	97,216	1,997,073
(Repayment)/Proceeds								
from borrowings	—	(276,406)	345,023	(2,750)	(626)	—	—	65,241
Conversion of convertible								
debentures	42,099	—	—	—	—	(42,120)	—	(21)
Repurchase of shares	(81,055)	—	—	—	—	—	—	(81,055)
Acquisition of subsidiaries	—	—	3,442	—	—	—	536	3,978
Acquisition of additional interest								
in a subsidiary	—	—	—	—	—	—	(4,251)	(4,251)
Partial disposal of a subsidiary	—	—	—	—	—	—	27	27
Dividend paid to minority								
shareholders of subsidiaries	—	—	—	—	—	—	(1,211)	(1,211)
Share of profit by minority								
shareholders of subsidiaries	—	—	—	—	—	—	10,710	10,710
Share of revaluation surplus of								
non-trading securities by minority								
shareholders of subsidiaries	—	—	—	—	—	—	8,413	8,413
Inception of finance lease	—	—	—	—	168	—	—	168
Subsequent adjustment to goodwill	—	—	—	—	—	—	4,344	4,344
Exchange translation effect	—	(1,673)	(796)	(288)	1	—	(1,494)	(4,250)
At 31st May, 2002	1,446,241	6,103	396,684	21,908	680	13,260	114,290	1,999,166

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(d) Analysis of cash and cash equivalents:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Cash and bank balances*	274,216	469,439
Promissory notes	133,388	—
Bank loans and overdrafts with original maturity within three months	(530,965)	(243,718)
Trust receipts and import loans	(80,587)	(82,119)
	(203,948)	143,602

* Amounts included pledged deposits of approximately \$31 million (2000: \$26 million) (Note 18) in connection with short-term money market loan with a maturity period of one to three months.

25. PENSION SCHEME

The Group has participated in the defined Mandatory Provident Fund in Hong Kong since 1st December, 2000, and made monthly contributions to the scheme based on 5%-7% of the employees' basic salaries. The contributions are subject to a maximum of \$1,000 per employee and thereafter contributions are voluntary. During the seventeen-month period ended 31st May, 2002, the Group's employer's contribution for pension scheme was approximately \$3,799,000 (2000: \$2,238,000). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

25. PENSION SCHEME (Cont'd)

Employees of certain overseas subsidiaries are members of a defined benefit scheme. There is no requirement for these employees to make periodic contribution to the scheme. At 31st May, 2002, the scheme was still unfunded and comprised no plan assets. The latest actuarial valuation of this defined benefit scheme was completed at 31st May, 2002 by M&L Gesellschaft for Versicherungsmathematik mbH. The actuarial method adopted was the projected unit credit method and the main actuarial assumptions were as follows:

Interest rate	6%
Inflation rate	1.5%
Personnel turnover rate	1.8%

Since there were no plan assets at 31st May, 2002, there is a 100% deficiency for the accrued actuarial liabilities. Accordingly, the Group had accrued the needed amount based on the actuarial report and the Group's future contribution is designed to fund the shortfall over a period of time.

26. CONTINGENT LIABILITIES

Contingent liabilities not provided for by the Group and the Company were summarised below:

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Discounted bills with recourse	40,048	44,715	—	—
Guarantees given to financial institutions in respect of facilities granted to Group companies (Note 15)	—	—	1,441,048	1,209,833
Guarantees given to financial institutions in respect of facilities granted to a third party	14,620	—	—	—
Guarantees given to landlords in respect of rental obligations of Group companies	3,658	—	—	—
Guarantees given to customs in respect of customs obligations of Group companies	5,568	—	—	—

In addition, the Company guaranteed the payments and performance by several subsidiaries under certain license agreements pursuant to which the subsidiaries were licensees.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. BANKING FACILITIES

At 31st May, 2002, 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.

28. COMMITMENTS

(a) At 31st May, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	31st May, 2002		31st December, 2000	
	Leasehold land and buildings \$'000	Furniture and equipment \$'000	Leasehold land and buildings \$'000	Furniture and equipment \$'000
Payable:				
- Not later than one year	36,507	11,455	17,551	9,158
- Later than one year and not later than five years	70,887	9,281	92,700	5,786
- Later than five years	20,288	125	7,736	—
	127,682	20,861	117,987	14,944

(b) At 31st May, 2002, the Group had future aggregate minimum royalty payments under licence agreements as follows:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Payable:		
- Not later than one year	33,771	45,581
- Later than one year and not later than five years	77,985	110,551
- Later than five years	1,743	—
	113,499	156,132

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. COMMITMENTS *(Cont'd)*

(c) Off-balance sheet financial instruments

- (i) During the period, the Group entered into forward foreign exchange contracts in order to hedge firmly committed non-Hong Kong dollar commercial transactions. The contracts were arranged with commercial banks. In addition, the Group has also sold some currency options. The Group had, at 31st May, 2002, outstanding forward foreign exchange contracts to buy currency with a notional principal value of EUR3,000,000 (2000: Nil) equivalent, and written currency options (principally EURO Dollars) with a notional principal value of EUR13,350,000 (2000: Nil) equivalent. Such outstanding contracts were scheduled to settle or expire, through October 2002.
- (ii) At 31st May, 2002, the Group had outstanding interest rate forward and swap contracts with notional amounts of approximately \$17 million (2000: Nil) and \$324 million (2000: Nil), respectively. Such outstanding contracts were scheduled to settle or expire, through July 2004.

Save as disclosed above, neither the Group nor the Company had any significant commitments.

29. RELATED PARTY AND CONNECTED TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or entities.

(a) Related party transactions

- (i) During the period, the Group paid approximately \$10,593,000 (2000: \$7,422,000) (inclusive of disbursements) to International Taxation Advisory Services Limited, of which Mr. David Wai Kwong WONG, a Non-executive Director of the Company, is a director, for taxation and corporate advisory services provided.
- (ii) Amounts due from associates were unsecured, non-interest bearing and would be repayable within one year.
- (iii) Amounts due to an associate and Directors were unsecured and would be repayable within one year. The amount due to an associate of approximately \$89,000 (2000: \$89,000) bore interest at the prevailing commercial rate while the amounts due to Directors were non-interest bearing.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RELATED PARTY AND CONNECTED TRANSACTIONS *(Cont'd)*

(a) Related party transactions *(Cont'd)*

- (iv) During the period, the Group entered into transactions with the following associates and related companies. In the opinion of the Directors, the following transactions arose in the ordinary course of the Group's business:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Interest expense to Rossolini Limited	11	—
Management fee from EIT	280	—
Sample charges to Peace Mark*	4	—
Purchases from Peace Mark*	11,310	44,398
Purchases from Tonic	28,342	4
Purchases from Marubeni Deutschland GmbH ("Marubeni")	47,677	80,935
Purchases from Kuraray Co. Limited ("Kuraray")	117,759	50,733
Service fee to EIT	70	—
Sales to Peace Mark*	79	6,750
Sales to Tonic	66,587	—
Sales to Dominique	4,495	—

* *Peace Mark was an associate of the Group before the disposal of a 10% interest of Peace Mark during the period.*

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

29. RELATED PARTY AND CONNECTED TRANSACTIONS (Cont'd)

(b) Connected transactions

During the period, the Group had transactions with connected parties defined in accordance with the Listing Rules. The transactions with the connected parties during the period were as follows:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
(i) Haru-Kuraray GmbH:		
Purchases from Marubeni ⁽¹⁾	47,677	80,935
Purchases from Kuraray ⁽¹⁾	83,197	35,758
	130,874	116,693
(ii) Lorica Sud s.r.l.:		
Purchases from Kuraray ⁽²⁾ and its subsidiaries	34,562	14,975

(1) According to the Distribution Agreement entered into among Kuraray, Marubeni and Haru-Kuraray dated 12th August, 1984, purchase prices were determined through negotiations on commercial terms.

(2) Purchases were transacted based on the terms stated in the Supply Agreement dated 30th March, 2000, while prices were pre-determined as per the price list dated 12th January, 2001.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

30. SUBSEQUENT EVENTS

- (a) In July 2002, the Group subscribed for an additional 4.75% equity interest in the Tonga Group at a consideration of \$14,820,000, thereby increasing the Group's equity interest in the Tonga Group from 30% to 34.75%.
- (b) On 4th September, 2002, an ordinary resolution was passed at an extraordinary general meeting to consolidate 20,000,000,000 shares of \$0.10 each in the authorised share capital of the Company into 2,000,000,000 shares of \$1.00 each by the consolidation of every 10 shares of \$0.10 each into one consolidated share of \$1.00 each.

31. COMPARATIVE FIGURES

Certain of the prior year's comparative figures were restated as a result of adoption of new accounting standards mentioned in Note 2(a) or reclassified to conform to the current period's presentation.

32. APPROVAL OF THE ACCOUNTS

The accounts were approved by the Board of Directors on 19th September, 2002.