

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties and investments in non-trading securities are stated at valuation or fair value respectively. The accounts also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(a) Basis of preparation (Cont'd)

During the seventeen-month period from 1st January, 2001 to 31st May, 2002 (the "period"), the Company and its subsidiaries (hereinafter collectively referred to as 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.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to period/year 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.

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Group accounting (Cont'd)

(i) Consolidation (Cont'd)

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.

(iii) Translation of foreign currencies

In the accounts of the 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 balance sheets and profit and loss 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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, plant and machinery, furniture and equipment and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(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 lease or estimated useful life. The annual rates are as follows:

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Fixed assets (Cont'd)

(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 earnings and is shown as a movement in reserves.

(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.

(ii) Operating leases

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(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 subsidiary/associate 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.

In accordance with SSAP 30, goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of 15 to 20 years.

Goodwill on acquisitions that occurred prior to 1st January, 2001 was written off against reserves in the year of acquisition or amortised over a period of fifteen years. 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 beginning retained profits for the year ended 31st December, 2000 have been reduced by approximately \$16,558,000 which is the amount of the adjustment in respect of impairment losses relating to years prior to 2000.

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

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)

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.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for acquisition 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 expenditures

Deferred expenditures in prior years represented costs incurred in advertising and promoting new licenses or trademarks which are 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 2000 comparatives presented have been restated to conform to the changed policy.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Intangible assets (Cont'd)

(ii) Deferred expenditures (Cont'd)

As a result of adopting SSAP 29, the Group's net profit for the year ended 31st December, 2000 was decreased by approximately \$1,048,000, 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 \$14,951,000 and \$15,999,000 respectively.

(iii) Other intangible assets

Other intangible assets represent (i) costs 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, and (ii) costs of acquiring the know-how of businesses which are amortised over a period of fifteen years.

(iv) 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.

(f) Investments in 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 value 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 security, 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 investments are impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Inventories

Inventories comprise stocks and work in progress and 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.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, cash investments with a maturity of three months or less from date of investment, bank loans, bank overdrafts and trust receipt loans.

(j) 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) 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.

(l) Turnover

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

(m) Revenue recognition

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

(i) Sale of goods

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

(ii) Income from licensing or assignment of brandnames

Income from licensing or assignment of brandnames is recognised on an accrual basis in accordance with the substance of the relevant agreements.

(iii) Interest income

Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(iv) Rental income

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

(v) Dividend income

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(n) Employee retirement benefits

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

(o) 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.

(p) Off-balance sheet financial instruments

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

Financial instruments undertaken for dealing purposes which consist of written currency options are marked to market and the gain or loss arising is recognised in the 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 relating to off-balance sheet option 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

The Group was principally engaged the design, manufacture, distribution and trading of jewellery products and licensing or assignment of brand names to third parties for the design, manufacture and distribution of jewellery and consumer products other than timepieces.

(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.

Seventeen-month period ended 31st May, 2002

	Jewellery products \$'000	Strategic investments \$'000	Group \$'000
Turnover	855,738	—	855,738
Dividend income	—	2,625	2,625
Segment results	65,568	2,625	68,193
Finance costs			(22,972)
Profit before taxation			45,221
Taxation			(3,444)
Profit after taxation			41,777
Minority interests			509
Profit attributable to shareholders			42,286
Segment assets	659,883	97,647	757,530
Interest in an associate	(57)	—	(57)
Total assets	659,826	97,647	757,473
Segment liabilities	(351,568)	—	(351,568)
Total liabilities	(351,568)	—	(351,568)
Capital expenditure	9,508	—	9,508
Depreciation	14,304	—	14,304
Amortisation	4,336	—	4,336
Bad debt expense	4,979	—	4,979

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)		
	Jewellery products \$'000	Strategic investments \$'000	Group \$'000
Turnover	670,648	—	670,648
Segment results	64,305	—	64,305
Finance costs			(17,065)
Profit before taxation			47,240
Taxation			(4,610)
Profit after taxation			42,630
Minority interests			—
Profit attributable to shareholders			42,630
Segment assets	593,629	—	593,629
Interest in an associate	(57)	—	(57)
Total assets	593,572	—	593,572
Segment liabilities	(256,842)	—	(256,842)
Total liabilities	(256,842)	—	(256,842)
Capital expenditure	19,573	—	19,573
Depreciation	10,512	—	10,512
Amortisation	2,862	—	2,862
Bad debt expense	2,367	—	2,367

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 and results attributed to the segments were based on the destination of delivery of merchandise. Segment assets and capital expenditures were based on the geographical location of the assets.

	Seventeen-month period ended			
	31st May, 2002		At 31st May, 2002	
	Turnover	Segment result	Capital expenditure	Total assets
	\$'000	\$'000	\$'000	\$'000
Europe	694,824	80,163	1,801	297,655
America	112,339	(16,288)	2,683	65,673
Asia Pacific	48,575	4,318	5,024	394,202
	<u>855,738</u>	<u>68,193</u>	<u>9,508</u>	<u>757,530</u>
Interest in				
an associate				(57)
Total assets				<u>757,473</u>

	Year ended 31st December, 2000			
	(Restated)		At 31st December, 2000	
	Turnover	Segment result	Capital expenditure	Total assets
	\$'000	\$'000	\$'000	\$'000
Europe	562,911	53,909	454	221,075
America	60,838	(4,463)	13,207	56,746
Asia Pacific	46,899	14,859	5,912	315,808
	<u>670,648</u>	<u>64,305</u>	<u>19,573</u>	<u>593,629</u>
Interest in				
an associate				(57)
Total assets				<u>593,572</u>

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

4. OTHER REVENUES

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Rental income (<i>Note 28</i>)	241	241
Interest income (<i>Note 28</i>)	11,913	11,417
Management fees (<i>Note 28</i>)	6	628
Gain on disposal of fixed assets	91	—
Gain on disposal of intangible assets	2,696	—
Exchange gain, net	1,164	—
Consideration received in connection with the sharing of certain information of customer portfolio with a third party (a)	10,234	—
Negative goodwill on acquisition of a subsidiary	144	—
Dividend income from non-trading securities	2,625	—
Others	5,228	94
	34,342	12,380

- (a) 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.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

5. OPERATING PROFIT

Operating profit was determined after crediting and charging the following items:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Crediting:		
Rental income, net of outgoings	241	241
Interest income from		
- bank deposits	5,758	2,788
- promissory notes	1,116	3,559
- deposit with a fellow subsidiary (<i>Note 17(e)</i>)	4,229	3,598
- deposit with a third party	564	162
- advance to a supplier	224	296
- others	22	1,014
Gain on disposal of		
- fixed assets	91	—
- intangible assets	2,696	—
Consideration received in connection with the sharing of certain information of the Group's customer portfolio with a third party	10,234	—
Dividend income from non-trading securities	2,625	—
Exchange gain, net	1,164	—

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	Year ended 31st December, 2000 \$'000
Charging:		
Staff retirement scheme contributions	967	495
Less: refund of forfeited contributions	(254)	(220)
	713	275
Depreciation of fixed assets		
- owned assets	14,302	10,424
- leased assets	2	88
Loss on revaluation of fixed assets	125	—
Amortisation of intangible assets	4,336	2,862
Loss on disposal of fixed assets	—	3,408
Auditors' remuneration		
- current period/year	4,071	2,193
- prior year under-provision	2	27
Operating lease rentals		
- leasehold land and buildings	12,365	8,542
- furniture and equipment	609	275
Bad debt expense	4,979	2,367
Exchange loss, net	—	137
Staff costs (including Directors' and senior executives' emoluments)	108,651	73,379

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(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 wholly repayable within five years	20,178	14,563
Interest on bank loans and overdrafts not wholly repayable within five years	503	—
Interest on notes payable	653	281
Interest on other loans	14	8
Interest element of finance leases	15	12
Interest on advance from an associate	11	10
Bank charges	1,598	2,191
	22,972	17,065

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

7. 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
Current taxation		
Hong Kong profits tax		
-Provision for current period/ year	2,500	4,500
-Under-provision in prior years	—	115
Overseas taxation		
-Provision for current period/ year	954	263
-Over-provision in prior years	(10)	(268)
	3,444	4,610

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit arising in or derived from Hong Kong. Taxation of overseas profit was provided by subsidiaries with overseas operations on their estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the subsidiaries operated.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a loss of approximately \$13,574,000 (2000: a profit of \$13,251,000) dealt with in the accounts of the Company.

9. DIVIDENDS

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Interim, paid 0.15 cent (2000: 0.38 cent) per share	4,653	11,788
Prior year final dividend*	—	7
	4,653	11,795

* This represented final dividend for the year ended 31st December, 1999 paid to shareholders who exercised their warrants after the accounts for that year were approved but before the record date for payment of the dividend.

During the period, an interim dividend of approximately \$4,653,000 (2000: \$11,788,000) was declared and paid.

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

10. EARNINGS PER SHARE

Owing to the Company's share consolidation subsequent to 31st May, 2002 as described in Note 29, 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 \$42,286,000 (2000: \$42,630,000) and the weighted average number of ordinary shares of approximately 310,204,000 (2000: 310,144,100) in issue during the period.

(b) Diluted earnings per share

There was no diluted earnings per share for the period as the Company has no dilutive potential ordinary share.

Diluted earnings per share for the year ended 31st December, 2000 was calculated based on the restated consolidated profit attributable to shareholders for the year of approximately \$42,630,000 and the weighted average number of ordinary shares of approximately 311,087,000 that would be in issue having adjusted for the effects of all dilutive potential ordinary shares issuable during the year ended 31st December, 2000.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. 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	3,457	2,854
- Retirement scheme contributions	68	44
- Bonuses paid and payable	21	1,570
Other emoluments for Non-executive Directors	597	600
	4,143	5,068

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

11. 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		
- Nil - \$1,000,000	6	6
- \$1,000,001 - \$1,500,000	1	—
- \$1,500,001 - \$2,000,000	—	—
- \$2,000,001 - \$2,500,000	—	—
- \$2,500,001 - \$3,000,000	—	1
	7	7
Non-executive Directors		
- Nil - \$1,000,000	4	5

- (iii) 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 was paid or payable to any Director.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Senior executives' emoluments

- (i) During the period, the five highest-paid individuals did not include any Director (2000: one).

The emoluments of the five (2000: four) highest-paid individuals were analysed as below:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Basic salaries, housing, other allowances and benefits in kind	8,333	3,884
Retirement scheme contributions	98	74
Bonuses paid and payable	37	110
	8,468	4,068

- (ii) Analysis of emoluments paid to the aforementioned five (2000: four) 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		
- Nil - \$1,000,000	—	1
- \$1,000,001 - \$1,500,000	1	3
- \$1,500,001 - \$2,000,000	3	—
- \$2,000,001 - \$2,500,000	1	—
	5	4

- (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)

12. FIXED ASSETS

Group

	Freehold land and buildings	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation							
At 1st January, 2001	2,027	7,130	10,722	33,024	15,367	581	68,851
Exchange adjustments	—	—	(1)	—	89	47	135
Additions	—	—	1,128	2,131	3,847	1,271	8,377
Acquisition of subsidiaries	—	—	—	—	178	204	382
Revaluation	—	(580)	—	—	—	—	(580)
Disposals	—	—	(314)	—	(3,306)	(565)	(4,185)
At 31st May, 2002	2,027	6,550	11,535	35,155	16,175	1,538	72,980
Representing:							
At cost	2,027	—	11,535	35,155	16,175	1,538	66,430
At 2001 valuation	—	6,550	—	—	—	—	6,550
	2,027	6,550	11,535	35,155	16,175	1,538	72,980
Accumulated depreciation							
At 1st January, 2001	47	301	8,087	17,707	5,643	35	31,820
Exchange adjustments	—	—	—	—	90	27	117
Charge for the period	83	215	2,199	7,148	4,154	505	14,304
Written back on revaluation	—	(455)	—	—	—	—	(455)
Disposals	—	—	(114)	—	(2,412)	(107)	(2,633)
At 31st May, 2002	130	61	10,172	24,855	7,475	460	43,153
Net book value							
At 31st May, 2002	1,897	6,489	1,363	10,300	8,700	1,078	29,827
At 31st December, 2000	1,980	6,829	2,635	15,317	9,724	546	37,031

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 lease amounted to approximately \$237,000 (2000: \$339,000).
- (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 medium-term lease (10-50 years) (see (c) below)	6,489	6,829
Held outside Hong Kong		
- freehold	1,897	1,980
	8,386	8,809

- (c) The leasehold land and buildings were situated in Hong Kong and were held under medium-term lease. 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 \$8,129,000 (2000: \$8,400,000).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INTANGIBLE ASSETS

Group	Licences and		Deferred	Goodwill	Total
	Know-how	trademarks	expenditure		
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost					
At 1st January, 2001					
as previously reported	23,553	16,130	75,977	8,294	123,954
Effect of adopting SSAP 29					
(Note 2(e) (ii))	—	—	(75,295)	—	(75,295)
At 1st January, 2001 as restated	23,553	16,130	682	8,294	48,659
Reclassification	—	682	(682)	—	—
Exchange adjustments	(201)	11	—	(71)	(261)
Additions	—	702	—	—	702
Acquisition of subsidiaries (Note 23(b))	—	47	—	—	47
Disposals	(179)	(1,762)	—	—	(1,941)
Subsequent adjustment					
to consideration for prior					
year's acquisition	(9,139)	—	—	—	(9,139)
At 31st May, 2002	14,034	15,810	—	8,223	38,067
Accumulated amortisation					
At 1st January, 2001					
as previously reported	3,508	631	61,233	1,844	67,216
Effect of adopting SSAP 29					
(Note 2(e) (ii))	—	—	(60,822)	—	(60,822)
At 1st January, 2001 as restated	3,508	631	411	1,844	6,394
Reclassification	—	411	(411)	—	—
Exchange adjustments	(30)	9	—	(16)	(37)
Charge for the period	1,960	1,599	—	777	4,336
Disposals	(39)	(585)	—	—	(624)
At 31st May, 2002	5,399	2,065	—	2,605	10,069
Net book value					
At 31st May, 2002	8,635	13,745	—	5,618	27,998
At 31st December, 2000	20,045	15,499	271	6,450	42,265

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

13. INTANGIBLE ASSETS (Cont'd)

Company

	\$'000
Cost	
At 1st January, 2001 as previously reported	363
Effect of adopting SSAP 29 (Note 2(e) (ii))	(275)
At 1st January, 2001 as restated	88
Accumulated amortisation	
At 1st January, 2001	66
Charge for the period	22
At 31st May, 2002	88
Net book value	
At 31st May, 2002	—
At 31st December, 2000	22

14. INTERESTS IN SUBSIDIARIES

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

	31st May, 2002 \$'000	31st December, 2000 \$'000
Unlisted shares, at cost	120,910	120,910
Due from subsidiaries	148,901	129,387
Due to a subsidiary	(80,286)	(63,631)
	189,525	186,666
Less: Impairment loss	(21,648)	—
	167,877	186,666

All of the balances with subsidiaries were unsecured and would not be repayable within one year. Except for the amounts due from subsidiaries of approximately \$14,790,000 (2000: \$24,491,000) and the amount due to a subsidiary of approximately \$80,286,000 (2000: \$63,631,000) which were non-interest bearing, the remaining balances with subsidiaries bore interests at commercial rates.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INTERESTS IN SUBSIDIARIES (Cont'd)

At 31st May, 2002, the Company provided corporate guarantees of \$455,662,000 (2000: \$312,410,000) to secure banking and other facilities of certain subsidiaries.

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

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	—	85 (a)	Manufacturing and distribution of jewellery
# Calibre Jewellery (Shenzhen) Co. Ltd.	The People's Republic of China	US\$200,000	—	100 (b)	Manufacturing of jewellery
Egana Investments (Pacific) Limited	Cook Islands	US\$1	100	—	Investment holding and licensing operations
Egana Marketing (Suisse) Inc.	Cook Islands	US\$1	—	100	Marketing and promotion
Egana Schmuck und Perlen GmbH	Germany	EUR25,565	100	—	Design and distribution of jewellery
# Egana Juwelen und Perlen Handels GmbH	Austria	EUR36,336	—	100	Distribution of jewellery
Egana Jewelry & Pearls (America) Corp.	The United States of America	US\$881,000	100	—	Design and distribution of jewellery

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

14. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation/ operations	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Egana Speidel GmbH (Formerly known as Burkhard Mueller Schmuck GmbH)	Germany	EUR25,600	—	100	Design and distribution of jewellery
Everstone Limited	Hong Kong/ The People's Republic of China	\$100	—	100	Subcontractor for the manufacturing of jewellery
Jacquelin Designs Enterprises, Inc.	The United States of America	—	100	—	Design and distribution of jewellery
# Keimothai Limited	Thailand	Baht60,000,000	—	100	Sourcing, manufacturing and distribution of jewellery
Oro Design Limited	Hong Kong	\$10,000	100	—	Design, manufacturing and distribution of jewellery
# Rebner GmbH	Germany	EUR25,564	—	85 (a)	Investment holding
Time Success Industrial Limited	Hong Kong	\$2	100	—	Property holding

(a) Newly acquired subsidiaries in July 2001.

(b) A newly established subsidiary in December 2001.

(c) None of the subsidiaries had any loan capital in issue at any time during the seventeen-month period ended 31st May, 2002.

Audited by certified public accountants other than PricewaterhouseCoopers.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

15. INTEREST IN AN ASSOCIATE

Interest in an associate comprised:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Share of net assets other than goodwill -		
Unlisted shares	32	32
Due to an associate (<i>Note 28(c)</i>)	(89)	(89)
	(57)	(57)

Amount due to the associate was unsecured, interest-bearing at prevailing commercial rate and would not be repaid within one year.

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

Name	Place of incorporation/ operation	Principal activity	Particulars of issued shares held	Percentage of interests held	
				Directly	Indirectly
				%	%
Rossolini Limited	Thailand	Inactive	Ordinary shares of Baht 1,000 each	—	30

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

16. INVESTMENTS IN NON-TRADING SECURITIES

Investments in non-trading securities comprised:

Group

	Equity securities	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Unlisted securities in Hong Kong, at fair value		
- a private closed-end fund (a)	26,197	—
- an other unlisted company (b)	71,367	—
Unlisted other than in Hong Kong, at fair value	83	—
	97,647	—

(a) During the period, the Group invested approximately \$26 million in one private closed-end fund for medium-term capital appreciation potential. The fund was under the management of a third party Hong Kong listed investment banking group ("LISTED CO"). The Group had no representation on the board of directors of the fund. The Directors were of the opinion that the Group did not have significant influence or control over the operating and financial decisions of the fund. At 31st May, 2002, the fund was stated at fair value which was determined by the Directors and the revaluation deficit of approximately \$53,000 was recorded in the revaluation reserve. In the opinion of the Directors, there was no indication of impairment in the carrying value of the fund.

(b) The investment in an unlisted investment was stated at fair value which was determined by the Directors and the revaluation surplus of approximately \$32,367,000 was credited to revaluation reserve.

Details of the Group's major investment in non-trading securities at 31st May, 2002 disclosed pursuant to Section 129 of the Companies Ordinance of Hong Kong were as follows:

Name	Place of incorporation/ operation	Principal activities	Particulars of issued shares held	Equity Interest held
Tonga Group Holding Limited	British Virgin Islands/Asia	Exploitation of forest, processing of wood, trading of wood products	Ordinary shares of US\$1 per share	25%

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

Group (Cont'd)

(b) (Cont'd)

The Group had no representation on the board of directors of Tonga Group Holding Limited. The Directors are of the opinion that the Group did not have significant influence or control over the operating and financial decisions of Tonga Group Holding Limited.

17. CURRENT ASSETS

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Cash and bank balances	112,645	135,017	3,798	3,845
Inventories (a)	179,213	173,873	—	—
Promissory note (b)	25,806	—	—	—
Due from ultimate holding company	—	1	—	—
Due from fellow subsidiaries (c) (Note 28(c))	99,755	30,933	—	89
Due from a related company (Note 28(c))	200	—	—	—
Accounts receivable (d)	69,203	79,134	—	—
Royalty deposit (e)(Note 28(c))	25,526	30,420	—	—
Deposits, prepayments and other receivables (f)	78,585	64,955	245	435
Short-term investment (g)	8,500	—	—	—
Dividend receivable	2,625	—	—	—
Taxation recoverable	—	—	214	—
	602,058	514,333	4,257	4,369

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. CURRENT ASSETS (Cont'd)

(a) Inventories:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Raw materials	36,987	39,317
Work-in-progress	15,236	9,929
Finished goods	136,430	137,952
	188,653	187,198
Less: provision for stock obsolescence	(9,440)	(13,325)
	179,213	173,873

The amount of finished goods (included above) carried at net realisable value was approximately \$127,022,000 (2000: \$124,660,000).

At 31st May, 2002, certain inventories were held under trust receipts and import bank loans.

- (b) At 31st May, 2002, promissory note represented a short-term deposit with a third party company, which was unsecured and bore interest at prevailing commercial rate. Such promissory note was rolled over upon the expiry date and would be due for repayment in November 2002.
- (c) The balance mainly arose from the allocation of operating costs to fellow subsidiaries according to a cost sharing agreement (see Note 28(a) ⁽⁷⁾ for details).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. CURRENT ASSETS (Cont'd)

- (d) In general, the Group grants an average credit period of 30-90 days to its trade customers. Aging analysis of accounts receivable 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	53,902	54,173	—	—
Between one to two months	4,904	12,890	—	—
Between two to three months	4,177	7,474	—	—
Between three to four months	1,093	2,761	—	—
Over four months	5,127	1,836	—	—
	69,203	79,134	—	—

- (e) Royalty deposit represented a deposit paid to a fellow subsidiary in connection with a seven years' guaranteed minimum royalty under the "Goldpfeil" licence which bore interest at commercial rates.
- (f) Included in deposits, prepayments and other receivables were:
- (i) \$10 million advanced to two of the Group's trading customers with a view to enhancing the Group's product awareness and the distribution coverage. The balance was unsecured, non-interest bearing and would be repayable within one year; and
 - (ii) Amount of approximately \$10 million due from a third party company with which the Group agreed to share certain information of its customer portfolio (see Note 4(a)). The receivable was fully settled in September 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

17. CURRENT ASSETS (Cont'd)

(g) At 31st May, 2002, the Group had investment in a short-term equity-linked note (the "ELN") issued by an independent third party private company (the "Note Issuer"), in which the controlling shareholder of the LISTED CO as mentioned in Note 16(a) has a beneficial interest.

The ELN was unsecured, bore interest at 3% per annum and would be redeemable by the Note Issuer on the maturity date which was four months after the issuance date.

The ELN or any part thereof was 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 note not previously converted at a redemption amount equals to 104% of the principal amount. Subsequent to 31st May, 2002, such ELN was redeemed by the Note Issuer upon maturity.

18. CURRENT LIABILITIES

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Short-term bank borrowings (a)	144,546	114,669	—	—
Long-term bank borrowings				
- current portion (Note 19)	524	—	—	—
Accounts payable and accruals (b)	122,850	65,548	585	968
Bills payable	51,728	49,374	—	—
Due to fellow subsidiaries (Note 28(c))	14,832	11,867	—	—
Due to Directors (Note 28(c))	41	1,887	41	360
Obligations under finance lease - current portion (Note 19(c))	176	227	—	—
Notes payable (Note 19(b))	2,461	2,232	—	—
Other long-term loan - current portion (Note 19(b))	120	—	—	—
Taxation payable	5,338	4,040	—	—
	342,616	249,844	626	1,328

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT LIABILITIES (Cont'd)

(a) Short-term 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	120,252	55,355	—	—
- with maturity more than three months and less than one year	—	50,196	—	—
- trust receipts and import loans	24,294	9,118	—	—
	144,546	114,669	—	—
Secured	6,087	—	—	—
Unsecured	138,459	114,669	—	—

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

	Group		Company	
	31st May, 2002 \$'000	31st December, 2000 \$'000	31st May, 2002 \$'000	31st December, 2000 \$'000
Accounts payable	73,466	27,798	—	—
Accrued charges and other payables	49,384	37,750	585	968
	122,850	65,548	585	968

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

18. CURRENT LIABILITIES (Cont'd)

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	63,900	21,156	—	—
Between one to two months	3,268	4,816	—	—
Between two to three months	1,048	245	—	—
Between three to four months	418	1,514	—	—
Over four months	4,832	67	—	—
	73,466	27,798	—	—

19. LONG-TERM LIABILITIES

Long-term liabilities comprised:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Long-term bank borrowings (a)	2,706	—
Notes payable (b)	2,477	4,477
Other long-term loans (b)	1,270	—
Obligations under finance leases (c)	107	129
	6,560	4,606

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. LONG-TERM LIABILITIES (Cont'd)

(a) Long-term bank borrowings comprised:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Repayable within a period of		
- not exceeding one year, secured	524	—
- more than one year, but not exceeding two years, secured	587	—
- more than two years, but not exceeding five years, secured	1,692	—
- after five years, secured	427	—
	3,230	—
Less: Amounts repayable within one year included under current liabilities	(524)	—
	2,706	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. LONG-TERM LIABILITIES (Cont'd)

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

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Notes payable		
- not exceeding one year, unsecured	2,461	2,232
- more than one year, but not exceeding five years, unsecured	2,477	4,477
	4,938	6,709
Less: Amounts repayable within one year included under current liabilities	(2,461)	(2,232)
	2,477	4,477
Other long-term loans		
- not exceeding one year, unsecured	120	—
- more than one year, but not exceeding five years, unsecured	552	—
- after five years, unsecured	718	—
	1,390	—
Less: Amounts repayable within one year included under current liabilities	(120)	—
	1,270	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

19. LONG-TERM LIABILITIES (Cont'd)

(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	182	241
In the second year	62	126
In the third to fifth year	57	3
	301	370
Less: Future finance charges on finance leases	(18)	(14)
Present value of finance lease liabilities	283	356

The present value of finance lease liabilities was as follows:

	Group	
	31st May, 2002 \$'000	31st December, 2000 \$'000
Within one year	176	227
In the second year	56	126
In the third to fifth year	51	3
Present value of finance lease liabilities	283	356
Less: Amounts repayable within one year included under current liabilities	(176)	(227)
	107	129

20. DEFERRED TAXATION

Deferred taxation represented the taxation effect of accelerated depreciation allowances, amounting to approximately \$2,392,000 (2000: \$2,392,000).

There was no significant unprovided deferred taxation at 31st May, 2002 and for the seventeen-month period then ended.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. 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 \$0.05 each	5,000,000,000	5,000,000,000	250,000	250,000
Issued and fully paid:				
Ordinary shares at \$0.05 each:				
Beginning of period/year	3,102,003,971	3,100,854,885	155,100	155,043
Issued upon exercise of warrants	54,724	1,149,086	3	57
End of period/year	3,102,058,695	3,102,003,971	155,103	155,100

(a) Share options

The Company adopted an Executive Share Option Scheme, under which it may grant options to employees (including Executive Directors) of the Group to subscribe for shares of the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time.

Movements of the share options at an exercise price of \$0.224 per ordinary share during the period were as follows:

	Number of share options
At 1st January, 2001	132,750,000
Lapsed	(1,500,000)
At 31st May, 2002	131,250,000

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

21. SHARE CAPITAL (Cont'd)

(b) Warrants

At 1st January, 2001, the Company had an aggregate number of 617,996,029 warrants which would confer warrant holders rights to subscribe ordinary shares of the Company with par value of \$0.05 each at a subscription price of \$0.25 per share. The warrants were exercisable at any time from 30th June, 1999 up to and including 30th June, 2001. During the period, 54,724 (2000: 1,149,086) warrants were exercised at \$0.25 per share. All remaining warrants were expired at 30th June, 2001.

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

22. RESERVES

Group

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

	31st May, 2002						Total \$'000
	Exchange		Retained profits \$'000	Goodwill \$'000	Revaluation reserve \$'000	Other reserve \$'000	
	Share premium \$'000	translation reserve \$'000					
Beginning of period	31,224	(17,615)	99,136	68,814	—	71	181,630
Premium arising from exercise of warrants	10	—	—	—	—	—	10
Expenses incurred in connection with issue of shares	(7)	—	—	—	—	—	(7)
Reserve for fixed assets	—	—	—	—	—	(1)	(1)
Exchange differences arising on translation of overseas subsidiaries' accounts	—	(804)	—	—	—	—	(804)
Surplus on revaluation of non-trading securities	—	—	—	—	32,314	—	32,314
Profit for the period	—	—	42,286	—	—	—	42,286
Dividends paid	—	—	(4,653)	—	—	—	(4,653)
End of period	31,227	(18,419)	136,769	68,814	32,314	70	250,775

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. 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)						Total \$'000
	Exchange		Retained profits \$'000	Goodwill \$'000	Revaluation reserve \$'000	Other reserve \$'000	
	Share premium \$'000	translation reserve \$'000					
Beginning of year							
as previously reported	31,019	(12,691)	99,810	52,256	—	66	170,460
Effect of adopting SSAP 29 (Note 2(e))	—	1,076	(14,951)	—	—	—	(13,875)
Effect of adopting SSAP 30 and SSAP 31 (Note 2(e))	—	—	(16,558)	16,558	—	—	—
Beginning of year							
as restated	31,019	(11,615)	68,301	68,814	—	66	156,585
Premium arising from exercise of warrants	230	—	—	—	—	—	230
Expenses incurred in connection with issue of shares	(25)	—	—	—	—	—	(25)
Reserve for fixed assets	—	—	—	—	—	5	5
Exchange differences arising on translation of overseas subsidiaries' accounts	—	(6,000)	—	—	—	—	(6,000)
Profit for the year as previously reported	—	—	43,678	—	—	—	43,678
Effect of adopting SSAP 29 (Note 2(e))	—	—	(1,048)	—	—	—	(1,048)
Dividends paid	—	—	(11,795)	—	—	—	(11,795)
End of year	31,224	(17,615)	99,136	68,814	—	71	181,630

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

22. 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		
	Share (Accumulated premium \$'000)	Retained profits/deficit) \$'000	Total \$'000
Beginning of period	31,224	3,405	34,629
Premium arising from exercise of warrants	10	—	10
Expenses incurred in connection with issue of shares	(7)	—	(7)
Loss for the period	—	(13,574)	(13,574)
Dividends paid	—	(4,653)	(4,653)
End of period	31,227	(14,822)	16,405

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

	31st December, 2000 (Restated)		
	Share premium \$'000	Retained profits \$'000	Total \$'000
Beginning of year as previously reported	31,019	2,224	33,243
Effect of adopting SSAP 29 (Note 2(e))	—	(275)	(275)
Beginning of year as restated	31,019	1,949	32,968
Premium arising from exercise of warrants	230	—	230
Expenses incurred in connection with issue of shares	(25)	—	(25)
Profit for the year	—	13,251	13,251
Dividends paid	—	(11,795)	(11,795)
End of year	31,224	3,405	34,629

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before 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 taxation	45,221	47,240
Interest income	(11,913)	(11,417)
Interest expense	21,374	14,874
Dividend income	(2,625)	—
Negative goodwill	(144)	—
Loss on revaluation of fixed assets	125	—
Depreciation	14,304	10,512
(Gain)/Loss on disposal of fixed assets	(91)	3,408
Gain on disposal of intangible assets	(2,696)	—
Amortisation of intangible assets	4,336	2,862
Decrease/(Increase) in inventories	4,758	(14,300)
Decrease/(Increase) in due from ultimate holding company	1	(1)
Increase in due from fellow subsidiaries	(69,064)	(25,006)
Increase in due from a related company	(200)	—
Decrease in accounts receivable	13,581	27,563
(Increase)/Decrease in deposits, prepayments and other receivables	(29,118)	3,266
Increase in accounts payable and accruals	52,540	998
Decrease in due to ultimate holding company	—	(1,074)
Increase in due to fellow subsidiaries	3,037	6,366
Increase/(Decrease) in bills payable	2,354	(11,510)
(Decrease)/Increase in due to Directors	(1,833)	1,407
Effect of foreign exchange rate changes	437	3,834
Net cash inflow from operating activities	44,384	59,022

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Acquisition of subsidiaries:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Net assets acquired:		
Fixed assets	382	—
Intangible assets	47	—
Cash and bank balances	18	—
Inventories	10,208	—
Accounts receivable	3,686	—
Deposits, prepayment and other receivables	7,730	—
Bank loans and overdrafts	(13,398)	—
Accounts payable and accruals	(4,344)	—
Provision for taxation	(207)	—
Long-term bank loans	(3,442)	—
Minority interests	(536)	—
	144	—
Negative goodwill	(144)	—
	—	—
Satisfied by:		
Cash	—	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

(b) Acquisition of subsidiaries: (Cont'd)

Net cash outflow in respect of acquisition of subsidiaries:

	31st May, 2002 \$'000	31st December, 2000 \$'000
Cash and bank balances acquired	18	—
Bank loans and overdrafts with maturity within three months acquired	(13,398)	—
Net cash outflow in respect of acquisition of subsidiaries	(13,380)	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

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

	31st May, 2002							31st	
								December,	
								2000	
	Share capital (including share premium)	Other reserve	Long-term bank loans	Short-term bank loans	Finance lease obligations	Notes payable and other long-term loans	Minority interests	Total	
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	Total \$'000	
Beginning of period/year	186,324	71	—	50,196	356	6,709	—	243,656	208,150
Net cash (outflow)/inflow									
from financing	6	(1)	(553)	(49,833)	(241)	(381)	—	(51,003)	29,897
Acquisition of a brandname financed by notes payable	—	—	—	—	—	—	—	—	6,709
Inception of finance lease obligations	—	—	—	—	168	—	—	168	220
Arising from acquisition of subsidiaries	—	—	3,442	—	—	—	536	3,978	—
Share of loss by minority shareholders	—	—	—	—	—	—	(509)	(509)	—
Exchange adjustments	—	—	341	(363)	—	—	—	(22)	(1,320)
End of period/year	186,330	70	3,230	—	283	6,328	27	196,268	243,656

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

23. 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	112,645	134,975
Promissory note	25,806	—
Bank loans and overdrafts	(120,252)	(55,355)
Trust receipts and import loans	(24,294)	(9,118)
	(6,095)	70,502

24. 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 \$967,000 (2000: \$495,000). The assets of the fund are held separately from those of the Group and are managed by independent professional fund managers.

25. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the accompanying accounts 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	11,660	818	—	—
Corporate guarantees provided to financial institutions in respect of facilities granted to Group companies (Note 14)	—	—	444,449	312,410
Corporate guarantees provided to other institutions in respect of facilities granted to Group companies (Note 14)	—	—	11,213	—

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

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

26. 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.

27. 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	4,051	678	2,477	469
- Later than one year and not later than five years	9,164	1,180	7,373	1,259
- Later than five years	5,903	—	3,713	—
	19,118	1,858	13,563	1,728

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

27. COMMITMENTS (Cont'd)

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

	31st May, 2002 \$'000	31st December, 2000 \$'000
Payable:		
- Not later than one year	28,399	27,951
- Later than one year and not later than five years	87,878	113,763
- Later than five years	213,290	227,022
	329,567	368,736

- (c) At 31st May, 2002, the Group had several committed sales denominated in foreign currencies. During the period, the Group entered into forward foreign exchange contracts in order to hedge these firmly committed, non-Hong Kong dollar commercial transactions. The contracts were arranged with commercial banks. The Group also sold some currency options. There was no forward foreign exchange contracts outstanding at 31st December, 2000. At 31st May, 2002, the Group had outstanding written currency option contracts to sell currency (principally Euro Dollar) with a notional principal value of EUR2,000,000 (2000: Nil) equivalent. Such outstanding contracts were scheduled to settle or expire through August 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

28. RELATED PARTY AND CONNECTED TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control 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.

- (a) Particulars of significant transactions between the Group and related companies during the period/year were summarised below:

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Sales of goods/services⁽⁴⁾		
("Trading Transactions")		
Haru Japan Corporation, Inc. ⁽¹⁾	554	755
Kai-Yin Lo Limited ⁽¹⁾	—	50
Eco-Haru (Far East) Limited ⁽¹⁾	1,350	599
Egana of Switzerland (Far East) Limited ⁽¹⁾	64	—
Goldpfeil AG ⁽¹⁾	13	52
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	50	747
Goldpfeil Distribution and Services Limited ⁽¹⁾	22	—
Zeitmesstechnik GmbH ⁽¹⁾	38	—
Egana India Private Limited ⁽¹⁾	32	599
EganaGoldpfeil	—	18
Egana Suisse SA ⁽¹⁾	5,788	4,176
Egana Italia s.r.l. ⁽¹⁾	758	9
Goldpfeil Guam, Inc. ⁽¹⁾	102	—

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Purchases of goods⁽⁵⁾ ("Trading Transactions")		
Egana of Switzerland (Far East) Limited ⁽¹⁾	17	94
Egana of Switzerland (America) Corp. ⁽¹⁾	16	—
Eco-Haru (Far East) Limited ⁽¹⁾	19	7
Egana Deutschland GmbH ⁽¹⁾	14	35
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	1,879	2,041
Bartelli Leather Products Limited ⁽¹⁾	—	44
Zeitmesstechnik GmbH ⁽¹⁾	2,224	—
Rental income ⁽⁶⁾		
Kai-Yin Lo Limited ⁽¹⁾	241	241
Interest income		
Centreline Group Limited ⁽¹⁾	4,229	3,598
Management fee income		
Egana of Switzerland (America) Corp. ⁽¹⁾	—	624
Allocation of operating costs ⁽⁷⁾		
Egana Deutschland GmbH ⁽¹⁾	93,515	63,752
Sub-tenancy agreement ⁽⁶⁾		
Egana Deutschland GmbH ⁽¹⁾	6,583	4,277
Consultancy fee expenses		
International Taxation Advisory Services Limited ⁽²⁾	1,593	1,859
Interest expense		
Rossolini Limited ⁽³⁾	11	10
Rental expenses ⁽⁶⁾		
Eco-Haru Property Investments Limited ⁽¹⁾	54	38

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

	17-month period ended 31st May, 2002 \$'000	Year ended 31st December, 2000 \$'000
Management fee expenses ⁽⁷⁾		
EganaGoldpfeil	7,716	3,629
Egana-Haru Mfr. Corp. Limited ⁽¹⁾	3,761	2,328
Royalty fee expenses ⁽⁷⁾		
P.C. International Marketing Limited ⁽¹⁾	11,286	7,571
Goldpfeil AG ⁽¹⁾	1,588	1,131
Egana Deutschland GmbH ⁽¹⁾	561	1,131
Bartelli Leather Products Limited ⁽¹⁾	9,852	6,928

- (1) A subsidiary of EganaGoldpfeil which is not within the Group ("fellow subsidiary").
- (2) A company in which Mr David Wai Kwong WONG, Non-executive Director of EganaGoldpfeil and the Company, is a director.
- (3) An associate of the Group.
- (4) Sales to related parties were transacted at cost plus basis with a mark-up of approximately 10% to 50%.
- (5) Purchase from related parties were determined on a cost plus basis with a mark-up up to approximately 20%.
- (6) Rental income/expenses received from/charged to related companies was based upon the terms specified in the rental agreements.
- (7) Allocation of operating costs, management fee expenses and royalty expenses charged by P.C. International Marketing Limited and Egana Deutschland GmbH were covered by the agreements enumerated on pages 5 to 10 of the Company's Circular dated 11th September, 2001. Royalties paid to Goldpfeil AG and Bartelli Leather Products Limited were covered by another licence agreement, pursuant to which the Group is granted an exclusive right for design, manufacture, and distribution of jewellery products under the trademark "Goldpfeil" on a worldwide basis at a sales royalty of 8% of the ex-factory price of the licensed products subject to a guaranteed minimum royalty of \$8,000,000 per annum.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars unless otherwise stated)

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

- (b) During the period, the Group had transactions with related parties (as disclosed in Note 28(a) above), all of which are also deemed to be connected parties pursuant to the Listing Rules, except for consultancy fees paid to International Taxation Advisory Services Limited and interest expense paid to Rossolini Limited.
- (c) Except for an amount due to an associate of approximately \$89,000 (2000: \$89,000) (see Note 15) and a royalty deposit paid to a fellow subsidiary of approximately \$25,526,000 (2000: \$30,420,000) (see Note 17(e)) which were interest-bearing at commercial rates, all other balances with related parties and Directors were unsecured, non-interest bearing and would be repayable within one year.

29. SUBSEQUENT EVENTS

On 4th September, 2002, an ordinary resolution was passed at an extraordinary general meeting to consolidate 5,000,000,000 shares of \$0.05 each in the authorised share capital of the Company into 500,000,000 shares of \$0.50 each by the consolidation of every 10 shares of \$0.05 each into one consolidated share of \$0.50 each.

30. APPROVAL OF THE ACCOUNTS

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