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## THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this prospectus, you should consult a stockbroker, or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Peace Mark (Holdings) Limited, you should at once hand this prospectus to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares, have been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares, have been filed with the Registrar of Companies in Bermuda as required by the Companies Act 1981 of Bermuda. The respective Registrars of Companies in Hong Kong and Bermuda takes no responsibility as to the contents of this prospectus, the provisional allotment letter and the form of application for excess Rights Shares.

The Stock Exchange of Hong Kong Limited, Hong Kong Securities Clearing Company Limited and the Securities and Futures Commission of Hong Kong take no responsibility for the contents of this prospectus, the provisional allotment letter or the form of application for excess Rights Shares, make no representation as to their accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus, the provisional allotment letter or the form of application for excess Rights Shares.

Dealings in the securities of the Company may be settled through the Central Clearing and Settlement System and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

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### Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

## RIGHTS ISSUE OF 367,822,300 RIGHTS SHARES OF HK\$0.10 EACH AT HK\$0.18 PER RIGHTS SHARE ON THE BASIS OF TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD

Financial adviser to Peace Mark (Holdings) Limited

### BNP PARIBAS PEREGRINE

Underwriters



TIS Securities (HK) Limited



A-ONE INVESTMENTS LIMITED

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The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Tuesday, 20th August, 2002. The procedure for acceptance and payment or transfer of the Rights Shares is set out on pages 13 to 15 of this prospectus and in the provisional allotment letter.

It should be noted that TIS Securities at its sole discretion may terminate the Underwriting Agreement by notice in writing to the Company if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002, or such other date to be agreed between the Company and the Underwriters, one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

- (a) the occurrence, happening, coming into effect or public knowledge of any local, national or international event of a financial, political, economic, monetary, military or other nature whether or not sui generis with any of the foregoing resulting in a material adverse change in, or which would reasonably be expected to result in a material adverse change in the business or prospects of the Group taken as a whole or materially and adversely affect the success of the Rights Issue; or
- (b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (c) the introduction of any new law or regulation or any change in existing law or regulation or the interpretation thereof by the courts (or in the absence of judicial interpretation, which is commonly accepted) or the introduction or change in any policy or guideline whether or not having the force of law or other occurrence of any nature whatsoever which would materially and adversely affect the business or prospects of the Group taken as a whole; or
- (d) any material adverse change in market conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of the market) occurs which in the reasonable opinion of TIS Securities make it inexpedient or inadvisable to proceed with the Rights Issue; or
- (e) this prospectus disclosing any new fact or circumstance, which in the reasonable opinion of TIS Securities, constitutes a material adverse change in the financial or trading position of the Group taken as a whole in or in its prospects, from that disclosed in the Announcement and/or the audited consolidated financial statements of the Group for the year ended 31st March, 2001 and/or public announcements of the Company made prior to the date of the Underwriting Agreement; or
- (f) any of the warranties or representations given by the Company in the Underwriting Agreement is or becomes no longer true and accurate in every respect which is material in the context of the Rights Issue; or
- (g) any breach of the undertakings by A-ONE and/or the shareholders of A-ONE, Mr. Patrick Chau and Mr. Leung Yung, of their undertakings in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligations under the Underwriting Agreement; or
- (h) the Company commits any breach or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

In the event that the Underwriting Agreement is terminated, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the irrevocable undertakings entered into by Mr. Patrick Chau and Mr. Leung Yung save in respect of any antecedent breach. The Underwriters' right to terminate will be exercised in the sole discretion of TIS Securities and accordingly, A-ONE itself does not have the discretionary power to terminate the Underwriting Agreement. If the Underwriters exercise such right, the Rights Issue will not proceed.

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on the Stock Exchange, as well as compliance with the stock admission requirements of HKSCC, the Rights Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares, or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading days is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

This prospectus, the provisional allotment letters and the forms of application for excess Rights Shares have not been and will not be registered or filed under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. This prospectus is also being distributed to the Overseas Shareholders only for their information.

5th August, 2002

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## SUMMARY OF THE RIGHTS ISSUE

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*The following information is derived from, and should be read in conjunction with and subject to the full text of this prospectus:-*

<b>Number of Rights Shares to be issued</b>	367,822,300 Rights Shares
<b>Amount to be raised</b>	Approximately HK\$66 million before expenses
<b>Subscription price and acceptance date</b>	HK\$0.18 per Rights Share payable in full on acceptance at or prior to 4:00 p.m. on Tuesday, 20th August, 2002
<b>Basis of the Rights Issue</b>	Two Rights Shares for every one existing Share held on the Record Date
<b>Status of the Rights Shares</b>	The Rights Shares (when allotted and fully-paid) will rank pari passu with the then existing Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares
<b>Overseas Shareholders</b>	The Rights Shares which represent entitlements of the Overseas Shareholders will be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK\$500 or more will be paid pro rata to the Overseas Shareholders. The Company will retain individual amounts of less than HK\$500. Any such entitlements not sold in the market will be made available to those Qualifying Shareholders using the EAFs
<b>Excess applications</b>	The Qualifying Shareholders are entitled to apply for unsold entitlements of the Overseas Shareholders and any Rights Shares provisionally allotted but not accepted
<b>Undertakings from Mr. Patrick Chau and Mr. Leung Yung</b>	As at the Latest Practicable Date, Mr. Patrick Chau and Mr. Leung Yung were respectively interested in 18,730,416 Shares and 18,391,500 Shares, representing approximately 10.18% and 10.00% of the total issued share capital of the Company respectively. Each of Mr. Patrick Chau and Mr. Leung Yung has irrevocably undertaken to the Company and the Underwriters to take up their respective entitlements under the Rights Issue in full, representing 74,243,832 Rights Shares in aggregate

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## EXPECTED TIMETABLE

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2002

Despatch of the Prospectus Documents .....	Monday, 5th August
First day of dealings in nil-paid Rights Shares .....	Wednesday, 7th August
Latest time for splitting nil-paid Rights Shares .....	4:00 p.m. on Monday, 12th August
Last day of dealings in nil-paid Rights Shares .....	Thursday, 15th August
Latest time for acceptance of and payment for Rights Shares .....	4:00 p.m. on Tuesday, 20th August
Rights Issue expected to become unconditional .....	Thursday, 22nd August
Announcement of results of acceptance of the Rights Issue .....	Friday, 23rd August
Despatch of refund cheques in respect of wholly or partially unsuccessful excess applications .....	Friday, 23rd August
Certificates for fully-paid Rights Shares expected to be despatched on or before .....	Friday, 23rd August
First day of dealings in the fully-paid Rights Shares .....	Tuesday, 27th August

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## **TERMINATION OF THE UNDERWRITING AGREEMENT**

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TIS Securities may, in addition to and without prejudice to any other remedies to which the Underwriters may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters, one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:

- (a) the occurrence, happening, coming into effect or public knowledge of any local, national or international event of a financial, political, economic, monetary, military or other nature whether or not sui generis with any of the foregoing resulting in a material adverse change in, or which would reasonably be expected to result in a material adverse change in the business or prospects of the Group taken as a whole or materially and adversely affect the success of the Rights Issue; or
- (b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (c) the introduction of any new law or regulation or any change in existing law or regulation or the interpretation thereof by the courts (or in the absence of judicial interpretation, which is commonly accepted) or the introduction or change in any policy or guideline whether or not having the force of law or other occurrence of any nature whatsoever which would materially and adversely affect the business or prospects of the Group taken as a whole; or
- (d) any material adverse change in market conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of the market) occurs which in the reasonable opinion of TIS Securities make it inexpedient or inadvisable to proceed with the Rights Issue; or
- (e) this prospectus disclosing any new fact or circumstance, which in the reasonable opinion of TIS Securities, constitutes a material adverse change in the financial or trading position of the Group taken as a whole or in its prospects, from that disclosed in the Announcement and/or the audited consolidated financial statements of the Group for the year ended 31st March, 2001 and/or public announcements of the Company made prior to the date of the Underwriting Agreement; or

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## **TERMINATION OF THE UNDERWRITING AGREEMENT**

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- (f) any of the warranties or representations given by the Company in the Underwriting Agreement is or becomes no longer true and accurate in every respect which is material in the context of the Rights Issue; or
- (g) any breach of the undertakings by A-ONE and/or the shareholders of A-ONE, Mr. Patrick Chau and Mr. Leung Yung, in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligations under the Underwriting Agreement; or
- (h) the Company commits any breach or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

In the event that the Underwriting Agreement is terminated, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter or thing arising out of or in connection with the Underwriting Agreement and the irrevocable undertakings entered into by Mr. Patrick Chau and Mr. Leung Yung save in respect of any antecedent breach. The Underwriters' right to terminate will be exercised in the sole discretion of TIS Securities and accordingly, A-ONE itself does not have the discretionary power to terminate the Underwriting Agreement. If the Underwriters exercise such right, the Rights Issue will not proceed.

Existing Shares have been dealt in on an ex-rights basis from Thursday, 25th July, 2002. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 (both dates inclusive). If the conditions precedent as stated in the Underwriting Agreement are not fulfilled and TIS Securities elects to exercise the Underwriters' right to terminate the Underwriting Agreement, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriters' right of termination ceases) and any persons dealing in the nil-paid Rights Shares during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

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## DEFINITIONS

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*In this prospectus, the following expressions have the meanings set out below unless context otherwise requires:*

“Announcement”	the announcement dated 6th June, 2002 made by the Company in relation to the Rights Issue and the Whitewash Waiver
“A-ONE”	A-ONE INVESTMENTS LIMITED, an investment holding company incorporated in the British Virgin Islands, which is owned as to 50.45% by Mr. Patrick Chau and 49.55% by Mr. Leung Yung and which is an underwriter of the Rights Issue
“associate”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BNP Paribas Peregrine”	BNP Paribas Peregrine Capital Limited, the financial adviser to the Company in relation to the Rights Issue and an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Circular”	the circular dated 16th July, 2002 issued by the Company in connection with the SGM, containing information in respect of, among other things, the Rights Issue together with a notice of the SGM
“Company”	Peace Mark (Holdings) Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“Director(s)”	director(s) of the Company
“EAF(s)”	form(s) of application for excess Rights Shares
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	shareholders of the Company, other than Mr. Patrick Chau and Mr. Leung Yung, any of their associates and parties acting in concert with any of them, and any other Shareholders who are interested in or involved in the Rights Issue or the Underwriting Agreement or are deemed by the Stock Exchange to be connected persons of the Company
“Latest Practicable Date”	30th July, 2002, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Mr. Patrick Chau”	Chau Cham Wong, Patrick, a substantial shareholder of the Company who held a 10.18% interest in the existing issued share capital of the Company as at the Latest Practicable Date
“ODM”	original design manufacturing, whereby a manufacturer owns the design of the products but such products are marketed under the customer’s own brand name
“OEM”	original equipment manufacturing, whereby products are manufactured in accordance with the designs and instructions of a customer and are marketed by the customer under the customer’s own brand name
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear on the register of members of the Company on the close of business on the Record Date and whose registered address(es) as shown on such register are outside Hong Kong



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## DEFINITIONS

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“PAL(s)”	provisional allotment letter(s) in respect of the Rights Shares
“Posting Date”	the date on which the Prospectus Documents are despatched by the Company to the Qualifying Shareholders, which is expected to be on or about Monday, 5th August, 2002 or such other date as the Company and the Underwriters may agree
“Prospectus Documents”	this prospectus, the PAL(s) and the EAF(s)
“PRC”	the People’s Republic of China
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Overseas Shareholder(s), whose name(s) appear on the register of members of the Company on the Record Date
“Record Date”	being the date for determining entitlement to the Rights Shares, which shall be a date falling on or within 3 days from the date of the SGM and is expected to be on Thursday, 1st August, 2002
“Rights Issue”	the rights issue of two Rights Shares for every one existing Share held on the Record Date
“Rights Share(s)”	new Share(s) to be issued under the Rights Issue
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong
“SGM”	the special general meeting of the Company held on Thursday, 1st August, 2002 approving, inter alia, the Rights Issue, the Underwriting Agreement and the Whitewash Waiver
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“TIS Securities”	TIS Securities (HK) Limited, a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), an underwriter of the Rights Issue
“Underwriters”	A-ONE and TIS Securities
“Underwriting Agreement”	the agreement dated 6th June, 2002 (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002) entered into between the Company, Mr. Patrick Chau, Mr. Leung Yung and the Underwriters in relation to the Rights Issue
“United Success”	United Success Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly-owned by Mr. Leung Yung
“Whitewash Waiver”	a waiver from the Executive pursuant to Note 1 on dispensations from Rule 26 of The Hong Kong Code on Takeovers and Mergers in respect of the obligations of A-ONE, Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them to make a mandatory general offer for all Shares other than those already owned or agreed to be acquired by A-ONE, Mr. Patrick Chau, Mr. Leung Yung or parties acting in concert with any of them which would otherwise arise as a result of A-ONE subscribing for Rights Shares under the terms of the Underwriting Agreement or otherwise pursuant to the Rights Issue
“HK\$”	Hong Kong Dollar, the lawful currency of Hong Kong

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## LETTER FROM THE BOARD

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### Peace Mark (Holdings) Limited

(Incorporated in Bermuda with limited liability)

*Executive Directors:*

Chau Cham Wong, Patrick (*Chairman*)

Leung Yung (*Managing Director*)

Tsang Kwong Chiu, Kevin

Man Kwok Keung

Cheng Kwan Ling

*Registered office:*

Clarendon House

Church Street

Hamilton HM11

Bermuda

*Independent non-executive Directors:*

Sir Oswald Cheung *C.B.E., LL.D., D.Soc.Sc., J.P.*

The Honourable Lau Wong Fat *G.B.S., J.P.*

Susan So

*Principal office in Hong Kong:*

Unit 3 12th Floor

Cheung Fung Industrial Building

23-39 Pak Tin Par Street

Tsuen Wan

Hong Kong

5th August, 2002

*To the Qualifying Shareholders and, for information only,  
the Overseas Shareholders*

Dear Sir or Madam,

**RIGHTS ISSUE OF 367,822,300 RIGHTS SHARES OF  
HK\$0.10 EACH AT HK\$0.18 PER RIGHTS SHARE ON THE BASIS OF  
TWO RIGHTS SHARES FOR EVERY ONE EXISTING SHARE HELD**

#### **INTRODUCTION**

It was announced on 6th June, 2002 that the Company proposed to issue, by way of rights, 367,822,300 Rights Shares on the basis of two Rights Shares for every one existing Share held on the Record Date at HK\$0.18 each, payable in full on acceptance.

Mr. Patrick Chau and Mr. Leung Yung are the substantial Shareholders and were respectively interested in approximately 10.18% and 10.00% of the existing issued share capital of the Company as at the Latest Practicable Date. Each of Mr. Patrick Chau and Mr. Leung Yung has irrevocably undertaken to the Company and the Underwriters that the Shares beneficially owned by each of them will remain registered in their names from the date of the Announcement to the Record Date and that they will take up their respective entitlements, amounting in aggregate 74,243,832 Rights Shares, under the Rights Issue in full.

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## LETTER FROM THE BOARD

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Pursuant to the Underwriting Agreement, the Rights Shares other than the Rights Shares to be issued to and accepted by Mr. Patrick Chau and Mr. Leung Yung have been fully underwritten by the Underwriters.

A-ONE, a company beneficially owned by Mr. Patrick Chau and Mr. Leung Yung acts as one of the Underwriters under the Underwriting Agreement. In the event that A-ONE is called upon to take up its underwriting obligations under the Underwriting Agreement in full, the aggregate shareholding interests of A-ONE. Mr. Patrick Chau, Mr. Leung Yung and parties acting in connect with any of them in the issued share capital of the Company as enlarged by the Rights Issue would be increased to approximately 62.06%.

The Whitewash Waiver was granted by the Executive subject to the approval of the Independent Shareholders by way of poll at the SGM.

On 16th July, 2002, the Circular was despatched to the Shareholders. A copy of the Circular is available for inspection as mentioned in the paragraph headed "Documents available for inspection" in appendix II to this prospectus.

At the SGM, ordinary resolutions including the Rights Issue and the Whitewash Waiver were approved by the Independent Shareholders by poll.

The purpose of this prospectus is to provide you with details of the Rights Issue, including information on dealings, transfer and acceptance and payment, and certain financial and other information relating to the Group.

### **THE RIGHTS ISSUE**

#### **Issue statistics**

Basis of the Rights Issue:	two Rights Shares for every one existing Share held on the Record Date at a subscription price of HK\$0.18 per Rights Share
Number of Shares in issue:	183,911,150 Shares as at the Latest Practicable Date
Number of Rights Shares:	367,822,300 Shares

#### **Qualifying Shareholders**

To qualify for the Rights Issue, a Shareholder must:

- be registered as a member of the Company on the Record Date; and
- have an address in Hong Kong which appears on the register of members of the Company on the Record Date.

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## LETTER FROM THE BOARD

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### **Subscription price for the Rights Shares**

HK\$0.18 per Rights Share payable in full upon acceptance of the assured entitlements and (where applicable) application for excess Rights Shares under the Rights Issue.

Such subscription price represents:

- a discount of about 66.67% to the closing price of HK\$0.54 per Share as quoted on the Stock Exchange on 5th June, 2002 (being the last trading day immediately preceding the release of the Announcement);
- a discount of about 13.46% to the closing price of HK\$0.208 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a discount of about 5.26% to the theoretical ex-rights price of approximately HK\$0.19 per Share based on the closing price per Share as quoted on the Stock Exchange on the Latest Practicable Date.

### **Status of the Rights Shares**

The Rights Shares (when allotted and fully-paid) will rank pari passu with the then existing Shares in all respects. Holders of fully-paid Rights Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Rights Shares.

Nil-paid Rights Shares are expected to be traded in board lots of 10,000 Shares. Dealing in the Rights Shares in both the nil-paid and fully-paid forms registered in the branch registrar of the Company in Hong Kong will be subject to the payment of stamp duty in Hong Kong.

### **Rights of Overseas Shareholders**

The Prospectus Documents will not be registered under the applicable securities legislation of any jurisdictions other than Hong Kong and Bermuda. The Company will send this prospectus to the Overseas Shareholders for their information only and will not send PALs or EAFs to the Overseas Shareholders.

Arrangements will be made for Rights Shares which would otherwise have been provisionally allotted to the Overseas Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence, if a premium (net of expenses) can be obtained. The proceeds of such sale, less expenses, of HK\$500 or more will be paid pro rata to the Overseas Shareholders. The Company will retain individual amount of less than HK\$500.

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## LETTER FROM THE BOARD

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### **Fractional entitlements**

As the basis of the Rights Issue is two Rights Shares for every one existing Share held on the Record Date, there will be no fractional entitlement to the Rights Shares.

### **Application for excess Rights Shares**

The Qualifying Shareholders are entitled to apply for unsold entitlements of the Overseas Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted.

Applications for excess Rights Shares may be made by completing the appropriate EAFs and a separate remittance for the excess Rights Shares. The Directors will allocate the excess Rights Shares at their discretion on a fair and reasonable basis.

The Prospectus Documents have been sent to the Qualifying Shareholders. The Overseas Shareholders have been sent a copy of this prospectus for their information only. The provisions of the PAL and the EAF form part of the terms on which the Rights Issue is made. The latest time for acceptance of, and payment for, the Rights Shares is 4:00 p.m. on Tuesday, 20th August, 2002.

### **UNDERWRITING ARRANGEMENTS**

The Rights Issue is fully underwritten by the Underwriters, terms of which are summarised below:

#### **Underwriting Agreement**

- Date : 6th June, 2002
- Underwriters : (i) A-ONE, an investment holding company which is owned as to 50.45% by Mr. Patrick Chau and 49.55% by Mr. Leung Yung; and
- (ii) TIS Securities, which is independent of, and not acting in concert with, the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or any of their respective associates.
- Number of Rights Shares : a maximum of 231,078,468 Rights Shares or in the proportion underwritten by A-ONE of approximately 78.71% of the Rights Shares to be underwritten by the Underwriters

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## LETTER FROM THE BOARD

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Number of Rights Shares : a maximum of 62,500,000 Rights Shares or in the proportion  
underwritten by of approximately 21.29% of the Rights Shares to be  
TIS Securities underwritten by the Underwriters

Commission payable to : 1.50% of the aggregate subscription price of the Rights  
A-ONE Shares to be underwritten by A-ONE

Commission payable to : 2.50% of the aggregate subscription price of the Rights  
TIS Securities Shares to be underwritten by TIS Securities

As at the Latest Practicable Date, each of Mr. Patrick Chau and Mr. Leung Yung was interested in 18,730,416 Shares and 18,391,500 Shares, representing approximately 10.18% and 10.00% of the existing issued share capital of the Company respectively. The aggregate interests of Mr. Patrick Chau, Mr. Leung Yung and parties acting in concert with any of them in the existing issued share capital of the Company were approximately 20.18%. Each of Mr. Patrick Chau and Mr. Leung Yung has irrevocably undertaken to the Company and the Underwriters that the Shares beneficially owned by each of them will remain registered in their names from the date of the Announcement to the close of business on the Record Date and that they will take up their respective entitlements, amounting in aggregate of 74,243,832 Rights Shares, under the Rights Issue in full. Pursuant to the Underwriting Agreement, the Rights Shares other than the Rights Shares to be issued and accepted by Mr. Patrick Chau and Mr. Leung Yung have been fully underwritten by the Underwriters.

### **Termination of the Underwriting Agreement**

**TIS Securities may, in addition to and without prejudice to any other remedies to which the Underwriters may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters, one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist:**

- (a) the occurrence, happening, coming into effect or public knowledge of any local, national or international event of a financial, political, economic, monetary, military or other nature whether or not sui generis with any of the foregoing resulting in a material adverse change in, or which would reasonably be expected to result in a material adverse change in the business or prospects of the Group taken as a whole or materially and adversely affect the success of the Rights Issue; or**

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## LETTER FROM THE BOARD

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- (b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (c) the introduction of any new law or regulation or any change in existing law or regulation or the interpretation thereof by the courts (or in the absence of judicial interpretation, which is commonly accepted) or the introduction or change in any policy or guideline whether or not having the force of law or other occurrence of any nature whatsoever which would materially and adversely affect the business or prospects of the Group taken as a whole; or
- (d) any material adverse change in market conditions of Hong Kong or international securities markets (or in conditions affecting a sector only of the market) occurs which in the reasonable opinion of TIS Securities make it inexpedient or inadvisable to proceed with the Rights Issue; or
- (e) this prospectus disclosing any new fact or circumstance, which in the reasonable opinion of TIS Securities, constitutes a material adverse change in the financial or trading position of the Group taken as a whole or in its prospects, from that disclosed in the Announcement and/or the audited consolidated financial statements of the Group for the year ended 31st March, 2001 and/or public announcements of the Company made prior to the date of the Underwriting Agreement; or
- (f) any of the warranties or representations given by the Company in the Underwriting Agreement is or becomes no longer true and accurate in every respect which is material in the context of the Rights Issue; or
- (g) any breach of the undertakings by A-ONE and/or the shareholders of A-ONE, Mr. Patrick Chau and Mr. Leung Yung, in relation to the financial resources of A-ONE being sufficient for A-ONE to perform its obligations under the Underwriting Agreement; or
- (h) the Company commits any breach or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement.

In the event that the Underwriting Agreement is terminated, all obligations of the Underwriters under the Underwriting Agreement shall cease and no party shall have any claim against any other parties in respect of any matter



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## LETTER FROM THE BOARD

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**or thing arising out of or in connection with the Underwriting Agreement and the irrevocable undertakings entered into by Mr. Patrick Chau and Mr. Leung Yung save in respect of any antecedent breach. The Underwriters' right to terminate will be exercised in the sole discretion of TIS Securities and accordingly, A-ONE itself does not have the discretionary power to terminate the Underwriting Agreement. If the Underwriters exercise such right, the Rights Issue will not proceed.**

### **CONDITIONS OF THE RIGHTS ISSUE**

The Rights Issue is conditional upon, among other things, the Listing Committee of the Stock Exchange having granted (subject only to provisional allotment and/or allotment of the Rights Shares and any other matters required by the Stock Exchange) the listing of and permission to deal in the Rights Shares (both nil-paid and fully-paid) on the Stock Exchange by no later than the Posting Date and such listing and permission to deal not being revoked prior to 4:00 p.m. on the date of acceptance and payment for the Rights Shares, which is expected to be on or about Tuesday, 20th August, 2002 or such other date to be agreed between the Company and the Underwriters.

The Rights Issue is also subject to the Underwriting Agreement not being terminated in accordance with its terms.

In the event that all the conditions of the Rights Issue are not fulfilled on or before the relevant time and date or dates stated above (or such other date as the Company and the Underwriters may agree provided that the Posting Date shall be no later than Saturday, 31st August, 2002), the Underwriters shall have the right to terminate the Underwriting Agreement by giving notice to the Company. In the event that the Underwriting Agreement is terminated aforesaid, all obligations of the Underwriters shall cease and terminate and no party shall have any claim against any other party in connection with the Underwriting Agreement (including the irrevocable undertakings provided by Mr. Patrick Chau and Mr. Leung Yung) save in respect of antecedent breach.

### **REASONS FOR AND USE OF PROCEEDS OF THE RIGHTS ISSUE**

#### **Business Review**

The Company is an investment holding company which, through its subsidiaries, is principally engaged in the design, manufacture and distribution of timepieces on ODM, OEM and licence bases. In the past few years, the Group has been transforming from an OEM to an ODM, brandname manufacturer and distributor. The Group has been increasingly involved in the design, manufacture and distribution of various fashion and sports brandnames.

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In light of the rapidly changing and competitive marketplace, the Group has to strengthen its distribution network in order to provide a wide range of services along the supply chain to its customers. To this end, the Group is actively seeking opportunities to expand its distribution capability with a view to creating higher profit margin for its business.

In accordance with the objectives stated above and in conjunction with the PRC's accession to World Trade Organisation, the Group has planned the extension of its watches distribution network in the PRC and the establishment of a distribution arm in the United States.

### **Financial Review**

The Company did not undertake any equity fund raising exercise in the past 12 months. The Company has explored alternative methods of raising finance. In November 2001, the Company arranged a HK\$200 million 3-year syndicated term loan facility for the purposes of refinancing an existing facility, improving its production facilities, expansion in distribution network and general working capital purposes. The syndicated loan agreement includes a number of financial and other covenants on the part of the Company. In particular, the consolidated net borrowings of the Company (as defined in the syndicated loan agreement dated 7th November, 2001) shall not at any time exceed a certain percentage of its consolidated net worth (as defined in the syndicated loan agreement dated 7th November, 2001). Based on the Company's audited consolidated balance sheet as at 31st March, 2002, the Company was operating within the relevant limits. However, in considering the financing of the expansion of the distribution network, the Board considers that the Company should adopt a prudent view and raise additional capital needed (approximately HK\$63 million) by way of an equity issue.

As at 31st March, 2002, the Group had cash and bank balances of approximately HK\$154.4 million. The Directors consider that maintaining cash and bank balances equivalent to about two months of the Group's turnover is in line with the industry norm for similar manufacturing businesses. The average turnover of the Group per month for the year ended 31st March, 2002 was approximately HK\$77.6 million. In addition, the indebtedness of the Group as at 31st May, 2002, as set out in appendix I to this prospectus, amounted to approximately HK\$471.0 million, of which approximately HK\$233.0 million is due in less than one year. In view of the indebtedness, the Directors consider that it is prudent for the Group to maintain a substantial cash position.

The gearing ratio of the Group, measured by reference to the total interest bearing debts to Shareholders' equity as at 31st March, 2002, was approximately 76.9%. Upon completion of the Rights Issue, Shareholders' equity of the Group will be increased by approximately HK\$63 million and such ratio of the Group will be improved from 76.9% to

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## LETTER FROM THE BOARD

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approximately 68.9% as a result of the Rights Issue. The Directors including the independent non-executive Directors believe that the Rights Issue will enable the Group to expand its distribution capability as described above and consider that it is in the interests of the Company and the Shareholders as a whole to strengthen the Group's capital base and financial position through the Rights Issue.

### **Use of proceeds**

The estimated expenses of the Rights Issue are approximately HK\$3 million, which will be borne by the Company. The net proceeds of the Rights Issue are expected to be approximately HK\$63 million and are intended to be used as follows:

- about HK\$24 million for establishing a distribution arm in the United States;
- about HK\$10 million for promoting the Group's licensed products through the distribution arm aforementioned;
- about HK\$20 million for developing the Group's distribution network in the PRC; and
- the balance for use as general working capital of the Group.

The Directors note that the Company's share price has fallen from HK\$0.54 on 5th June, 2002, the last trading day before the Announcement, to HK\$0.208 on the Latest Practicable Date. The Directors believe that the Rights Issue is fundamental to the Group's growth and that, despite the initial fall in the Share price, the Rights Issue will benefit the Group and the Shareholders in the long run.

If the Rights Issue does not proceed, it is likely that the Directors would have to give up their plans for expanding the Group's distribution network for the foreseeable future which will likely jeopardise the commercial development of the Group. The consequence of giving up the expansion plan could lead to further deterioration in profit margin and reduce Shareholders' long-term return on their investments. Cancellation of the Rights Issue, however, would not put the immediate survival of the Group in doubt.

### **PROCEDURE FOR ACCEPTANCE AND PAYMENT OR TRANSFER**

For each Qualifying Shareholder, a PAL is enclosed with this prospectus which entitles the Qualifying Shareholder to subscribe for the number of Rights Shares provisionally allotted to that Qualifying Shareholder specified on the PAL.

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## LETTER FROM THE BOARD

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If any Qualifying Shareholder wishes to exercise his/her/its right to subscribe for all the Rights Shares provisionally allotted to him/her/it as specified in the PAL, the Qualifying Shareholder must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Company's branch share registrar, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by not later than 4:00 p.m. on Tuesday, 20th August, 2002. All remittances must be made in Hong Kong dollars and cheques or banker's cashier orders must be drawn on a bank account in Hong Kong, crossed "Account Payee Only" and made payable to "Peace Mark (Holdings) Limited – Rights Issue Account". All enquirers in connection with the PALs should be addressed to Secretaries Limited at the above address.

Unless the PAL, duly completed, together with the appropriate remittance, has been lodged by 4:00 p.m. on Tuesday, 20th August, 2002, whether by the original allottee or any person in whose favour the rights have been validly transferred, the relevant provisional allotment and all rights to subscribe for Rights Shares thereunder will be deemed to have been declined and will be cancelled. The Company may (at its sole discretion) treat a PAL (lodged as mentioned above) as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions. The Company may require such incomplete PALs to be completed by the relevant applicants at a later stage.

If a Qualifying Shareholder wishes to accept only part of his/her/its rights to subscribe for the Rights Shares provisionally allotted, or if the Qualifying Shareholder wishes to transfer all or part of such rights, the entire PAL must be surrendered by no later than 4:00 p.m. on Monday, 12th August, 2002 with Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong for cancellation and new PALs will be issued in the denominations required.

All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of a PAL with a cheque or a banker's cashier order will constitute a warranty that the cheque or the banker's cashier order will be honoured on first presentation. Without prejudice to any other rights of the Company in respect thereof, the Company reserves the right to reject any PAL in respect of which the accompanying cheque or banker's cashier order is dishonored on first presentation, and, in such event, the relevant provisional allotment and all rights given pursuant to which will be deemed to have been declined and will be cancelled at the discretion of the Company. All documents, including refund cheques for the amounts due, will be sent by ordinary post at the risk of the relevant applicants, or other persons entitled thereto, to their registered addresses as shown in the register of members of the Company.

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## LETTER FROM THE BOARD

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If the Underwriters exercise their right to terminate their obligations under the Underwriting Agreement at any time prior to 4:00 p.m. Tuesday, 20th August, 2002, the monies received in respect of the Rights Shares provisionally allotted and applications for excess Rights Shares will be returned to the applicants, without interest, by means of cheques despatched by ordinary post at the risk of such applicants as soon as practicable thereafter.

### **APPLICATION FOR EXCESS RIGHTS SHARES**

For each Qualifying Shareholder, an EAF is enclosed with this prospectus which entitles the Qualifying Shareholder to apply for excess Rights Shares.

**If any Qualifying Shareholder wishes to apply for any Rights Shares in addition to his/her/its provisional allotment under the Rights Issue, he/she/it must complete and sign the EAF in accordance with instructions printed thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Company's branch share registrar, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connanught Road Central, Hong Kong by not later than 4:00 p.m. on Tuesday, 20th August, 2002. All remittances must be made in Hong Kong dollars and cheques or banker's cashier orders must be drawn on a bank account in Hong Kong, crossed "Account Payee Only" and made payable to "Peace Mark (Holdings) Limited – Excess Application Account". All enquiries in connection with the EAFs should be addressed to Secretaries Limited at the above address. The Qualifying Shareholder will be notified of any allotment of excess Rights Shares made to that Qualifying Shareholder, which allocation will be made at the discretion of the Directors on a fair and reasonable basis.**

All cheques and banker's cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and return of an EAF with a cheque or banker's cashier order will constitute a warranty that the cheque or the banker's cashier order will be honoured on first presentation. Without prejudice to the other rights of the Company in respect thereof, the Company reserves the right to reject any EAF in respect of which the accompanying cheque or banker's cashier order is dishonoured on first presentation.

If no excess Rights Shares are allotted to the relevant applicants, a refund cheque for the full amount tendered on application, without interest, will be posted to the relevant applicants by ordinary post at their own risk. If the number of excess Rights Shares allotted to the relevant applicants is less than that applied for, a cheque for the surplus application monies, without interest, will be posted to the relevant applicants by ordinary post at their own risk. Such posting is expected to take place on or before Friday, 23rd August, 2002.

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## **LETTER FROM THE BOARD**

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EAFs will only be issued to the Qualifying Shareholders and are for use only by the persons to whom they are addressed and are not transferable. All documents, including refund cheques for the amounts due, will be sent by ordinary post at the risk of the relevant applicants or other persons entitled thereto, to their registered addresses as shown in the register of members of the Company. The Company may (at its sole discretion) treat an EAF as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions. The Company may require such incomplete EAFs to be completed by the relevant Qualifying Shareholder at a later stage.

### **JURISDICTIONS OUTSIDE HONG KONG**

The Prospectus Documents issued in connection with the Rights Issue have not been and will not be registered or filed under any applicable securities legislation of any jurisdiction other than Hong Kong and Bermuda. No action has been taken in any territory other than Hong Kong to permit the offering of the Rights Shares or the distribution of any documents issued in connection with the Rights Issue (save that copies of this prospectus have been sent to the Overseas Shareholders for their information only). Accordingly, no provisional allotment of the Rights Shares will be made to any Overseas Shareholders. No person receiving a copy of this prospectus or a PAL or an EAF in any territory or jurisdiction outside Hong Kong may treat it as an offer or invitation to apply for Rights Shares or excess Rights Shares. No application for Rights Shares will be accepted from any person whose address is outside Hong Kong. The Company reserves the right to refuse to accept any application for Rights Shares or excess Rights Shares where it believes that acceptance would violate the applicable securities or the laws or regulations of any territory.

### **LISTING AND DEALINGS**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. It is expected that dealings in the nil-paid Rights Shares will take place between Wednesday, 7th August, 2002 and Thursday, 15th August, 2002 (both dates inclusive). It is expected that dealings in the Rights Shares in fully-paid form will commence on Tuesday, 27th August, 2002. Dealings in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty in Hong Kong.

None of the Rights Shares will be listed or dealt in on any other stock exchange outside Hong Kong. None of the securities of the Company is listed or dealt in, nor is any listing of or permission to deal in securities of the Company being or proposed to be sought on any stock exchange other than the Stock Exchange.

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## **LETTER FROM THE BOARD**

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Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms on the Stock Exchange, and subject to compliance with the stock admission requirements of HKSCC, the Rights Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares, or such other dates as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Rights Shares will be traded in board lots of 10,000.

### **WARNING OF THE RISK OF DEALING IN SHARES AND RIGHTS SHARES**

Existing Shares have been dealt in on an ex-rights basis from Thursday, 25th July, 2002. Dealings in the Rights Shares in the nil-paid form will take place from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 (both dates inclusive). If the conditions of the Rights Issue as stated in the Underwriting Agreement are not fulfilled and TIS Securities elects to exercise the Underwriters' right to terminate the Underwriting Agreement, the Rights Issue will not proceed.

Any Shareholders or other persons contemplating selling or purchasing Shares and/or Rights Shares in their nil-paid form during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 who are in any doubt about their position are recommended to consult their professional advisers. Any Shareholders or other persons dealing in Shares up to the date on which all the conditions to which the Rights Issue is subject are fulfilled (and the date on which the Underwriters' right of termination ceases) and any persons dealing in the nil-paid Rights Shares during the period from Wednesday, 7th August, 2002 to Thursday, 15th August, 2002 will accordingly bear the risk that the Rights Issue may not become unconditional or may not proceed.

### **SHARE CERTIFICATES**

Share certificates for all fully-paid Rights Shares are expected to be posted on or before Friday, 23rd August, 2002 to the persons who have accepted and paid for the Rights Shares and those successful applicants for the excess Rights Shares.

All documents, including refund cheques for the amounts due, will be sent by ordinary post at the risk of the persons entitled thereto to their registered addresses.

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## LETTER FROM THE BOARD

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### GENERAL

Your attention is drawn to the additional information set out in the appendices to this prospectus.

Yours faithfully,  
**Chau Cham Wong, Patrick**  
*Chairman*



**SHARE CAPITAL**

The authorised and issued (or to be issued under the Rights Issue) share capital of the Company as at the Latest Practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>6,000,000,000</u> Shares		<u>600,000,000</u>
<i>Issued and fully paid:</i>		
<u>183,911,150</u> Shares		<u>18,391,115</u>
<i>To be issued under the Rights Issue:</i>		
<u>367,822,300</u> Shares		<u>36,782,230</u>

All the Shares currently in issue rank pari passu in all respects with each other, including dividends, voting rights and capital. No Shares have been issued since 31st March, 2002 (the date to which the latest audited financial statements of the Group were made up) to the Latest Practicable Date.

The Shares are listed on the Stock Exchange and none of the securities of the Company are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

As at the Latest Practicable Date, the Company had in issue no options, warrants, derivatives or other securities that are convertible into Shares.

## FINANCIAL SUMMARY

The following is a summary of the audited financial results of the Group for each of the three financial years ended 31st March:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i> <i>(Restated)</i>	<b>2000</b> <i>HK\$'000</i>
Turnover	<u>931,219</u>	<u>852,379</u>	<u>821,155</u>
Profit before taxation	39,707	28,045	16,338
Taxation	<u>(4,577)</u>	<u>(4,246)</u>	<u>(1,385)</u>
Profit after taxation	35,130	23,799	14,953
Minority interest	<u>1,267</u>	<u>2,000</u>	<u>2,271</u>
Profit attributable to Shareholders	<u>36,397</u>	<u>25,799</u>	<u>17,224</u>
Dividend per Share	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per Share			
Basic (cents)	<u>19.79</u>	<u>14.20</u>	<u>11.51</u>
Diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

## FINANCIAL INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2002

Set out below is the audited financial statements of the Group extracted from the Company's annual report for the year ended 31st March, 2002:

**Consolidated income statement**

*For the year ended 31 March, 2002*

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>Turnover</b>	(5)	931,219	852,379
Cost of sales		<u>(801,344)</u>	<u>(723,596)</u>
<b>Gross profit</b>		129,875	128,783
Other revenue	(5)	18,706	16,375
Distribution costs		(23,207)	(21,539)
Administrative expenses		(64,156)	(54,530)
Other operating expenses		<u>(12,247)</u>	<u>(19,224)</u>
<b>Profit from operations</b>	(6)	48,971	49,865
Impairment of goodwill	(2)	–	(9,159)
Finance costs	(7)	<u>(9,264)</u>	<u>(12,661)</u>
<b>Profit before taxation</b>		39,707	28,045
Taxation	(9)	<u>(4,577)</u>	<u>(4,246)</u>
<b>Profit after taxation</b>		35,130	23,799
Minority interest		<u>1,267</u>	<u>2,000</u>
<b>Profit attributable to shareholders</b>	(10)	<u><u>36,397</u></u>	<u><u>25,799</u></u>
<b>Earnings per share</b>	(11)		
Basic (cents)		<u>19.79</u>	<u>14.20</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**Consolidated statement of recognised gains and losses***For the year ended 31 March, 2002*

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i> <i>(Restated)</i>
Net unrealised holding loss of investments in securities	(25)	–	(29,379)
Realisation of unrealised holding loss of investments in securities upon disposal	(25)	17,885	–
Net gain (loss) not recognised in the consolidated income statement		17,885	(29,379)
Net profit for the year as previously reported		36,397	34,958
Effect of changes in accounting policies on adoption of SSAP 30 and SSAP 31		–	(9,159)
Realisation of goodwill on disposal of subsidiary		32,000	–
Total recognised gains (losses)		86,282	(3,580)
Goodwill arising on acquisition of subsidiaries eliminated against reserves		–	(45,264)
Subsequent valuation adjustment to goodwill		–	(7,369)
		<u>86,282</u>	<u>(56,213)</u>

**APPENDIX I****FINANCIAL INFORMATION****Consolidated balance sheet***As at 31 March, 2002*

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>Non-current assets</b>			
Fixed assets	(13)	292,942	240,713
Intangible assets	(14)	43,851	7,992
Goodwill	(15)	11,714	–
Investments in securities	(17)	15	22,999
Club debentures		–	1,499
		<u>348,522</u>	<u>273,203</u>
<b>Current assets</b>			
Inventories	(18)	156,058	125,798
Trade and other receivables	(19)	342,888	267,223
Tax recoverable		–	269
Pledged fixed deposits at bank		–	11,625
Cash and bank balances		154,380	97,153
		<u>653,326</u>	<u>502,068</u>
<b>Current liabilities</b>			
Trade and other payables	(20)	28,237	35,511
Syndicated loan	(21)	–	34,000
Other interest-bearing borrowings	(21)	205,597	164,348
Obligations under finance leases	(22)	252	480
Tax payable		2,236	–
		<u>236,322</u>	<u>234,339</u>
<b>Net current assets</b>		<u>417,004</u>	<u>267,729</u>
<b>Total assets less current liabilities</b>		<u>765,526</u>	<u>540,932</u>
<b>Non-current liabilities</b>			
Syndicated loan – Due after one year	(21)	200,000	51,000
Other interest-bearing borrowings			
– Due after one year	(21)	14,766	6,419
Obligations under finance leases			
– Due after one year	(22)	25	277
Deferred taxation	(23)	3,396	1,743
		<u>218,187</u>	<u>59,439</u>
<b>Minority interest</b>		<u>–</u>	<u>20,436</u>
<b>Net assets</b>		<u>547,339</u>	<u>461,057</u>
<b>Capital and reserves</b>			
Share capital	(24)	18,391	367,822
Reserves	(25)	528,948	93,235
<b>Shareholders' funds</b>		<u>547,339</u>	<u>461,057</u>

**APPENDIX I****FINANCIAL INFORMATION****Balance sheet***As at 31 March, 2002*

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Interests in subsidiaries	(16)	628,672	528,240
<b>Current assets</b>			
Cash and bank balances		183	190
		183	190
<b>Current liabilities</b>			
Accruals and other payables		1,000	233
Syndicated loan	(21)	–	34,000
		1,000	34,233
<b>Net current liabilities</b>		(817)	(34,043)
<b>Total assets less current liabilities</b>		627,855	494,197
<b>Non-current liabilities</b>			
Syndicated loan – Due after one year	(21)	200,000	51,000
<b>Net assets</b>		427,855	443,197
<b>Capital and reserves</b>			
Share capital	(24)	18,391	367,822
Reserves	(25)	409,464	75,375
<b>Shareholders' funds</b>		427,855	443,197

**Consolidated cash flow statement***For the year ended 31 March, 2002*

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i> <i>(Restated)</i>
<b>Net cash inflow (outflow) from operating activities</b>	<i>(28)(a)</i>	10,373	(20,466)
<b>Returns on investments and servicing of finance</b>			
Interest received		5,090	3,435
Interest paid on term loans, syndicated loan and bank overdrafts		(9,084)	(12,260)
Finance charges in respect of finance leases		(180)	(401)
Dividend income		–	1,574
<b>Net cash outflow from returns on investments and servicing of finance</b>		(4,174)	(7,652)
<b>Taxation</b>			
Hong Kong profits tax (paid) refunded		(419)	2,871
<b>Tax (paid) refunded</b>		(419)	2,871
<b>Investing activities</b>			
Payments to acquire fixed assets		(83,834)	(120,304)
Proceeds from disposal of fixed assets		202	231
Payments to acquire intangible assets		(39,208)	(34,000)
Proceeds from disposal of intangible assets		–	54,000
Acquisition of a subsidiary	<i>(28)(b)</i>	–	(34,000)
Payments to increase interests in subsidiaries		(31,500)	(12,815)
Purchases of investments in securities		–	(34,453)
Proceeds from disposal of investments in securities		30,046	32,326
<b>Net cash outflow from investing activities</b>		(124,294)	(149,015)
<b>Net cash outflow before financing</b>		(118,514)	(174,262)

**APPENDIX I****FINANCIAL INFORMATION**

		<b>2002</b>	<b>2001</b>
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(Restated)</i>
<b>Financing</b>	<i>(28)(c)</i>		
Placement of new shares		–	59,650
Drawdown of term loans		62,574	15,155
Trust receipt loans with maturity over 90 days		33,484	–
Syndicated loan raised		200,000	85,000
Repayments of term loans and other loans		(19,001)	(3,072)
Repayment of syndicated loan		(85,000)	–
Contribution from minority shareholder		–	2,000
Repayments of obligations under finance leases		(480)	(3,421)
		<hr/>	<hr/>
<b>Net cash inflow from financing</b>		191,577	155,312
		<hr/>	<hr/>
<b>Increase (Decrease) in cash and cash equivalents</b>		73,063	(18,950)
<b>Cash and cash equivalents at the beginning of the year</b>		(42,338)	(23,388)
		<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<i>(28)(e)</i>	<u>30,725</u>	<u>(42,338)</u>



**Notes to the financial statements**

*For the year ended 31 March, 2002*

**(1) General**

Peace Mark (Holdings) Limited (the "Company") was incorporated in Bermuda as an exempted company with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 16 to the financial statements.

**(2) Adoption of new and revised Statements of Standard Accounting Practice**

In the current year, the Company and its subsidiaries (the "Group") have adopted the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants.

SSAP 9 (Revised)	Events after the balance sheet date
SSAP 14 (Revised)	Leases
SSAP 17 (Revised)	Property, plant and equipment
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

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects of those SSAPs on the Group's accounting policies and on the amounts disclosed in the financial statements are summarised as follows:

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. The disclosure requirements under the SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are set out in notes 22 and 31(b) respectively.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 29 prescribes the accounting treatment for intangible assets that are not dealt with specifically in another SSAP. This statement requires an enterprise to recognise an intangible asset if, and only if, certain criteria are met. The statement also specifies how to measure the carrying amount of intangible assets and requires certain disclosures about intangible assets. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 30 prescribes the accounting treatment for business combination. Goodwill / Negative goodwill arising on acquisition of subsidiaries was previously eliminated against consolidated reserves, and was realised and released to the consolidated income statement upon disposal of such subsidiaries.

Following the adoption of SSAP 30, goodwill is capitalised as an asset and amortised over its estimated useful life of not exceeding 20 years. Negative goodwill is presented in the consolidated balance sheet as a deduction from assets in the same consolidated balance sheet classification as goodwill and recognised as income by reference to any identifiable future losses and expenses and / or the fair values of the identifiable non-monetary assets acquired. The Group has adopted the transitional provision as permitted under SSAP 30. However, any impairment loss in respect of such goodwill is recognised retrospectively in the period when such impairment loss occurred in accordance with the requirements of SSAP 31.

SSAP 31 prescribes the procedures that an enterprise applies to ensure that its assets are carried at no more than their recoverable amounts. SSAP 31 also specifies when an enterprise should reverse an impairment loss and prescribe certain disclosures for impaired assets.

In accordance with the requirements of SSAP 31 and the transitional provisions for SSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of SSAP 30 which was eliminated against available reserves. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with SSAP 2 "Net profit or loss for the period, fundamental errors and changes in accounting policies". Accordingly, goodwill in the amount of approximately HK\$9,159,000 which was impaired in prior periods' retained profits as brought forward at 1 April, 2001 and this also results in a decrease in the Group's profit attributable to shareholders for the year ended 31 March, 2001 of approximately HK\$9,159,000.

The adoption of other new and revised SSAPs as outlined above does not have material impact on results reported in the current or prior year, though the terminology used and certain disclosures have been revised in line with the new requirements.

### **(3) Summary of significant accounting policies**

These financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities and leasehold properties, as further explained in

the respective accounting policies below. A summary of the significant accounting policies adopted by the Group is set out below:

**(a) Basis of consolidation**

The consolidated financial statements of the Group include the financial statements of the Company and its subsidiaries. A subsidiary is a company whose financial and operating policies are under the Company's control, directly or indirectly, so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. The equity and net income attributable to minority shareholders' interests, representing the interests of outside shareholders, are shown separately in the Group's balance sheet and income statement, respectively.

Intragroup balances and transactions and resulting unrealised profits are eliminated in full. Unrealised losses resulting from intragroup transactions are eliminated unless cost cannot be recovered. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

In the Company's financial statements, investments in subsidiaries are carried at cost less any accumulated impairment loss. The results of the subsidiaries are included in the income statement to the extent of dividends received and receivable.

**(b) Goodwill**

Goodwill arising on acquisition of subsidiaries represents the excess of the cost of acquisition over the Group's interest in the fair values of the identifiable assets and liabilities of the subsidiaries at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is capitalised and amortised on a straight-line basis over the shorter of its estimated useful life of 20 years. The amortisation charge for each period is recognised as an expense.

Goodwill arising from transactions completed prior to 1 April, 2001 is written off directly against reserves and is reduced by impairment losses. Any impairment loss identified is recognised as an expense.

On disposal of an interest in a subsidiary, the attributable amount of goodwill not previously amortised through the consolidated income statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

**(c) Negative goodwill**

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, should be recognised as negative goodwill.

Negative goodwill is recognised in the income statement as follows:

- (a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- (b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable / amortisable assets.
- (c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying amount of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

**(d) Investments in securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debts securities that the company has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as securities for trading purposes and other securities.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

**(e) Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

Advantage has been taken of the transitional relief provided by paragraph 80 of SSAP 17 (Revised) "Property, plant and equipment" from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September, 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, surplus arising on the revaluation of these assets was credited to the revaluation reserve. Any future deficit in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of fixed assets over their estimated useful lives using the straight-line method. The annual rates used are as follows:

Freehold land	Nil
Leasehold land	Over the term of lease
Buildings	2% – 4%
Leasehold improvements	2% – 20%
Other assets	20%

The useful lives of assets and depreciation method are reviewed periodically.

The gain or loss arising on the disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Properties under construction are stated at cost less accumulated impairment losses. This includes cost of construction, plant and equipment and other direct costs.

Properties under construction are not depreciated until such time as the assets are completed and ready for their intended use.

#### **(f) Intangible assets**

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise, and the cost of the asset can be measured reliably.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment loss.

Intangible assets mainly comprise the following:

(i) *Technical know-how*

The costs of acquiring technical know-how in connection with product development for the licensed products manufactured by the Group are capitalised and amortised on a straight-line basis over the terms of the relevant licences.

(ii) *Licences*

The cost of licences represents the upfront cost payable and is amortised on a straight-line basis from the date of commencement of its economic use to the end of the terms of the licences.

(iii) *Trademark*

Trademark is stated at acquisition cost and is amortised on a straight-line basis over its expected future economic life of 20 years.

The amortisation period and the amortisation method are reviewed annually at each financial year end.

**(g) Impairment of assets**

At each balance sheet date, the Group assesses whether there is any indication that fixed assets, intangible assets and investments in subsidiaries have suffered an impairment loss. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

The recoverable amount is the higher of the net selling price and value in use of an asset. The net selling price is the amount that could be obtained from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at revalued amount, in which case the impairment loss is firstly charged against the related revaluation reserve to the extent of the amount held in the revaluation reserve with any excess recognised as an expense.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, which is restricted to the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

**(h) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in first-out basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

**(i) Deferred taxation**

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

**(j) Foreign currencies**

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

**(k) Provisions and contingencies**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognised are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

**(l) Revenue recognition**

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

*(i) Sale of goods*

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

*(ii) Rendering of services*

Service income is recognised as services are rendered.

*(iii) Rental income*

Rental income is recognised on a straight-line basis over the respective terms of the leases.

*(iv) Interest income*

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

*(v) Sale of investments in securities*

Sale proceeds of investments in securities are recognised on a trade-date basis when contracts are executed.

**(m) Leases***Finance leases*

A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. Title may or may not eventually be transferred.

The Group recognises finance leases as assets and liabilities in the balance sheet at amounts equal, at the inception of the lease, to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. In calculating the present value of the minimum lease payments the discount factor used is the interest rate implicit in the lease, when it can be determined. Otherwise, the Group's incremental borrowing rate is used. Initial direct costs incurred are included as part of the asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.



A finance lease gives rise to depreciation expense for the asset as well as a finance cost for each accounting period. The depreciation policy for leased assets is the same as that for depreciable assets that are owned.

*Operating leases*

An operating lease is a lease other than a finance lease.

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term.

**(n) Off balance sheet financial instruments**

Off balance sheet financial instruments arise from swap transactions undertaken by the Group in the interest rate markets.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or to hedge risk.

Transactions undertaken for trading purposes are marked to market and the gains or losses arising are recognised in the income statement. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profits or losses are recognised in the income statement on the same basis as those arising from the related assets, liabilities or net positions.

Unrealised gains on transactions which are marked to market are included in "Trade and other receivables" in the balance sheet. Unrealised losses on transactions which are marked to market are included in "Trade and other payables".

**(o) Retirement benefits schemes**

The Group provides defined contribution plans based on local laws and regulations. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

**(p) Related parties**

Two 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.

**(q) Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

**(r) Segments**

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, segment expenses and segment performance include transfers between segments. Such inter-segment pricing is based on similar terms as those available to unaffiliated customers for similar products. Those transfers are eliminated upon consolidation.

Segment capital expenditure represents the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets and liabilities, interest-bearing loans, borrowings and corporate and financing expenses.

**(4) Segment information**

In accordance with its internal financial reporting policy, the Group has determined that business segments should be presented as primary reporting format. However, business segments are not presented because the Group's turnover and operating profit were contributed solely by manufacture and trading of timepieces products.

Geographical segments are presented as secondary reporting format, segment revenue is based on the final destination of goods sold. There are no sales between the segments.

**APPENDIX I****FINANCIAL INFORMATION**

Segment assets and capital expenditure are based on the geographical location in which the assets are located at the balance sheet date.

	<b>2002</b>			
	<b>Turnover</b>	<b>Segment</b>	<b>Segment</b>	<b>Capital</b>
	<i>HK\$'000</i>	<b>Results</b>	<b>Assets</b>	<b>Expenditure</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States of America	505,282	57,878	108,886	–
Europe	204,726	23,451	78,739	39,208
Asia	221,211	25,339	617,580	83,834
	<u>931,219</u>	<u>106,668</u>	<u>805,205</u>	<u>123,042</u>
Other revenue		18,706		
Unallocated expenses		(76,403)		
Finance costs		(9,264)		
Profit before taxation		<u>39,707</u>		
Unallocated assets			<u>196,643</u>	
Total assets			<u><u>1,001,848</u></u>	

	<b>2001</b>			
	<b>Turnover</b>	<b>Segment</b>	<b>Segment</b>	<b>Capital</b>
	<i>HK\$'000</i>	<b>Results</b>	<b>Assets</b>	<b>Expenditure</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
United States of America	504,608	63,488	67,442	–
Europe	207,980	26,168	27,797	–
Asia	139,791	17,588	385,194	154,304
	<u>852,379</u>	<u>107,244</u>	<u>480,433</u>	<u>154,304</u>
Other revenue		16,375		
Unallocated expenses		(73,754)		
Finance costs		(12,661)		
Impairment of goodwill		(9,159)		
Profit before taxation		<u>28,045</u>		
Unallocated assets			<u>294,838</u>	
Total assets			<u><u>775,271</u></u>	

**(5) Turnover and Other revenue****(a) Turnover**

Turnover represents the amounts received and receivable for goods sold, less discounts and returns, by the Group to outside customers during the year.

**(b) Other revenue**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	1,252	872
Interest income	5,090	3,435
Dividend income from investments in securities	–	1,574
Handling service income	5,791	–
Gain on disposal of intangible assets	–	7,400
Gain on disposal of fixed assets	37	–
Exchange gain	2,917	1,346
Sundry income	3,619	1,748
	<u>18,706</u>	<u>16,375</u>

**(6) Profit from operations**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
Profit from operations has been arrived at after charging the following:		
Depreciation		
– Owned assets	29,060	20,942
– Assets under finance leases	2,380	2,381
Auditors' remuneration		
– Current year	762	742
– Underprovision in prior years	50	–
Amortisation of intangible assets	3,344	10,845
Amortisation of goodwill	617	–
Impairment of goodwill	–	9,159
Loss on disposal of investments in securities	10,823	6,674
Loss on disposal of fixed assets	–	52
Staff costs, including directors' emoluments	40,877	33,222
Write-off of current assets	<u>6,640</u>	<u>10,866</u>

**(7) Finance costs**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Term loans, syndicated loan and bank overdrafts wholly repayable within five years	9,084	12,260
Obligations under finance leases	180	401
	<u>9,264</u>	<u>12,661</u>

**(8) Directors' and employees' emoluments**

Particulars of the Directors' and the five highest paid employees' emoluments are as follows:

**(a) Directors' emoluments**

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees:		
– Executive	–	–
– Non-executive	190	150
	<u>190</u>	<u>150</u>
Other emoluments (Executive Directors):		
Salaries and other benefits	3,744	4,170
Pension scheme contributions	156	198
	<u>3,900</u>	<u>4,368</u>
	<u>4,090</u>	<u>4,518</u>

The emoluments of the Directors are within the following bands:

	<b>2002</b>	<b>2001</b>
	<b>Number of Directors</b>	<b>Number of Directors</b>
Nil to HK\$1,000,000	10	10
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>11</u>	<u>10</u>

**(b) Employees' emoluments**

During the year ended 31 March, 2002, the five highest paid individuals included four Directors (for the year ended 31 March, 2001, the five highest paid individuals included three Directors) details of whose emoluments are set out in note 8(a) to the financial statements above. The emoluments of the remaining individual for the year are as follows:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other benefits	650	919
Pension scheme contributions	12	38
	<u>662</u>	<u>957</u>

The emoluments of this individual are in the range of Nil to HK\$1,000,000.

**(9) Taxation**

Taxation in the consolidated income statement represents:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Hong Kong Profits Tax</i>		
Current year	2,868	2,526
Underprovision in prior year	56	–
Deferred taxation	1,653	1,720
	<u>4,577</u>	<u>4,246</u>

Hong Kong Profits Tax is calculated at the prevailing rate of 16% (2001: 16%) on the estimated assessable profits for the year.

Details of deferred taxation are set out in note 23 to the financial statements.

**(10) Profit attributable to shareholders**

Of the Group's profit attributable to shareholders, a loss of HK\$15,342,000 (2001: HK\$1,781,000) has been dealt with in the financial statements of the Company.

**(11) Earnings per share**

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>2002</b>	<b>2001</b> <i>(Restated)</i>
<i>(a) Basic earnings per share</i>		
Profit attributable to shareholders (in HK\$'000)	36,397	25,799
Weighted average number of shares (in '000)	183,911	181,705
Basic earnings per share (cents)	<u>19.79</u>	<u>14.20</u>
<i>(b) Diluted earnings per share</i>		
Profit attributable to shareholders (in HK\$'000)	36,397	25,799
Weighted average number of shares (in '000)	183,911	181,705
Potential dilutive shares (in '000)	—	—
Adjusted weighted average number (in '000)	<u>183,911</u>	<u>181,705</u>
Diluted earnings per share	<u>N/A</u>	<u>N/A</u>

**(12) Related party and connected transactions**

On 28 August, 2001, EganaGoldpfeil has reached an agreement with United Success Enterprises Limited ("United Success"), a company wholly owned by Mr. Leung Yung, for the sale of 367,830,000 shares (or equivalently 18,391,500 shares after the share consolidation on 25 January, 2002 whereby every 20 issued shares were consolidated into 1 consolidated share) of par value of HK\$0.10 each which represents approximately 10% of the share capital of the Company at a consideration of HK\$49,800,000.

Upon completion of the sale of said shares in the issued share capital of the Company by EganaGoldpfeil to United Success, the shareholding held by EganaGoldpfeil and its associates (as defined in the Listing Rules) in the Company was decreased from approximately 16.5% to approximately 6.5%. Thereafter, that is effective from 28 August, 2001, EganaGoldpfeil ceased to be a connected party to the Company under the Listing Rules and the trading transactions between the Group and EganaGoldpfeil do not constitute connected transactions of the Group.

Pursuant to SSAP 20, 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. After the sale of the shares by EganaGoldpfeil to United Success, EganaGoldpfeil was ceased to be related party to the Company, also on 28 August, 2001.

In February 2000, a conditional waiver from strict compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") in respect of the trading transactions has been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for three financial years of the Company starting from the year commencing 1 April, 2000.

During the year, the Group had the following material transactions with its related parties as defined in note 3:

	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Sale of goods to EganaGoldpfeil and its subsidiaries	<i>(i)</i>	6,462	20,056
Purchase of raw materials from EganaGoldpfeil and its subsidiaries	<i>(i)</i>	48	3,104
Rental income from a subsidiary of EganaGoldpfeil	<i>(ii)</i>	<u>347</u>	<u>833</u>

*Notes:*

- (i) Sale and purchase transactions with EganaGoldpfeil and its subsidiaries were in relation to timepiece related transactions and were effected on normal commercial terms.*
- (ii) The rental income is in relation to the letting of the factory premises of the Group in the PRC for the production activities of EganaGoldpfeil's leather business. The rental income was negotiated at arm's length.*



## (13) Fixed assets

	The Group						Total HK\$'000
	Properties under con- struction HK\$'000	Freehold and leasehold properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture, and fixtures equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	
<b>Cost or valuation</b>							
As at 1 April, 2001	26,312	106,164	65,255	14,329	90,155	4,814	307,029
Additions	9,265	5,352	2,525	2,069	64,356	267	83,834
Disposals	–	–	–	(166)	(176)	(90)	(432)
As at 31 March, 2002	<u>35,577</u>	<u>111,516</u>	<u>67,780</u>	<u>16,232</u>	<u>154,335</u>	<u>4,991</u>	<u>390,431</u>
<b>Comprising</b>							
At valuation	–	14,000	–	–	–	–	14,000
At cost	<u>35,577</u>	<u>97,516</u>	<u>67,780</u>	<u>16,232</u>	<u>154,335</u>	<u>4,991</u>	<u>376,431</u>
	<u>35,577</u>	<u>111,516</u>	<u>67,780</u>	<u>16,232</u>	<u>154,335</u>	<u>4,991</u>	<u>390,431</u>
<b>Depreciation</b>							
As at 1 April, 2001	–	6,952	11,386	10,025	35,506	2,447	66,316
Provided for the year	–	2,284	6,023	1,951	20,233	949	31,440
Eliminated on disposals	–	–	–	(47)	(130)	(90)	(267)
As at 31 March, 2002	<u>–</u>	<u>9,236</u>	<u>17,409</u>	<u>11,929</u>	<u>55,609</u>	<u>3,306</u>	<u>97,489</u>
<b>Net book value</b>							
As at 31 March, 2002	<u><u>35,577</u></u>	<u><u>102,280</u></u>	<u><u>50,371</u></u>	<u><u>4,303</u></u>	<u><u>98,726</u></u>	<u><u>1,685</u></u>	<u><u>292,942</u></u>
As at 31 March, 2001	<u><u>26,312</u></u>	<u><u>99,212</u></u>	<u><u>53,869</u></u>	<u><u>4,304</u></u>	<u><u>54,649</u></u>	<u><u>2,367</u></u>	<u><u>240,713</u></u>

One of the leasehold properties of the Group was revalued as at 31 March, 1995, on an open market value basis by Messrs. Jones Lang Wootton Limited, independent registered surveyors.

As at 31 March, 2002, had the leasehold properties of the Group been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK\$93,723,000 (2001: HK\$90,321,000).

The net book value of the leasehold properties includes an amount of approximately HK\$43,267,000 (2001: HK\$43,893,000) in respect of an industrial waste management system implemented in an electroplating factory of the Group.

The carrying value of properties held by the Group comprises:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Leasehold properties:		
Held in Hong Kong, medium-term lease	16,343	16,675
Held in the People's Republic of China, medium-term lease	83,902	82,537
Freehold properties:		
Held outside Hong Kong	2,035	–
	<u>102,280</u>	<u>99,212</u>

As at 31 March, 2002, the net book value of the Group's fixed assets held under finance leases was approximately HK\$776,000 (2001: HK\$1,259,000).

#### (14) Intangible assets

During the year, the Group acquired a trademark, the market value of which was valued at approximately HK\$48,500,000 by Sallmanns (Far East) Limited, an independent valuer.

	<b>The Group</b>				<b>2001</b>
	<b>2002</b>				
	<b>Technical know-how</b>	<b>Licence</b>	<b>Trademark</b>	<b>Total</b>	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>					
As at 1 April, 2001	7,145	15,000	–	22,145	54,745
Addition	–	–	39,208	39,208	34,000
Disposal	(5)	–	–	(5)	(66,600)
	<u>7,140</u>	<u>15,000</u>	<u>39,208</u>	<u>61,348</u>	<u>22,145</u>
As at 31 March, 2002	7,140	15,000	39,208	61,348	22,145
<b>Amortisation</b>					
As at 1 April, 2001	4,814	9,339	–	14,153	23,308
Provided for the year	846	2,498	–	3,344	10,845
Eliminated on disposal	–	–	–	–	(20,000)
	<u>5,660</u>	<u>11,837</u>	<u>–</u>	<u>17,497</u>	<u>14,153</u>
As at 31 March, 2002	5,660	11,837	–	17,497	14,153
<b>Net book value</b>					
As at 31 March, 2002	<u>1,480</u>	<u>3,163</u>	<u>39,208</u>	<u>43,851</u>	<u>7,992</u>
As at 31 March, 2001	<u>2,331</u>	<u>5,661</u>	<u>–</u>	<u>7,992</u>	<u>31,437</u>

**(15) Goodwill**

During the year, SSAP 30 was adopted as detailed in note 2 to the financial statements. The amount of the goodwill arising on the acquisition of subsidiaries is as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>		
As at 1 April, 2001	–	–
Acquisition of subsidiaries	12,331	–
	<u>12,331</u>	<u>–</u>
As at 31 March, 2002	<u>12,331</u>	–
<b>Amortisation</b>		
As at 1 April, 2001	–	–
Provided for the year	617	–
	<u>617</u>	<u>–</u>
As at 31 March, 2002	<u>617</u>	–
<b>Net book value</b>		
As at 31 March, 2002	<u>11,714</u>	<u>–</u>
As at 31 March, 2001	<u>–</u>	<u>–</u>

As detailed in note 2 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill in respect of acquisitions which occurred prior to 1 January, 2001 to remain eliminated against consolidated reserves.

**(16) Interests in subsidiaries**

	<b>The Company</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	51,398	51,398
Amount due from subsidiaries	577,275	476,843
Amount due to a subsidiary	(1)	(1)
	<u>628,672</u>	<u>528,240</u>

The balances with subsidiaries are unsecured, interest-free and not repayable within the next twelve months.

As at 31 March, 2002, the underlying value of interests in subsidiaries is, in the opinion of the Directors, not less than the carrying value in the books of the Company.

**APPENDIX I****FINANCIAL INFORMATION**

Details of the Company's principal subsidiaries at 31 March, 2002 are as follows:

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Capricon Company Limited	British Virgin Islands	US\$100 Ordinary	–	100	Investment holding
Capricon Industrial (Shenzhen) Co., Ltd.	The People's Republic of China	HK\$10,849,000	–	100	Property investment
Fulltop Limited	British Virgin Islands	US\$1 Ordinary	–	100	Trademark and property holding
Gar Shun Enterprises Development Limited	Hong Kong	HK\$400,000 Ordinary	–	51	Electroplating
Inter Mark Worldwide Limited	Hong Kong	HK\$100 Ordinary	–	100	Timepiece distribution
Peace Mark (B.V.I.) Limited	British Virgin Islands	HK\$10,000 Ordinary	100	–	Investment holding
Peace Mark Limited	Hong Kong	HK\$100 Ordinary HK\$10,000 Non-voting deferred*	–	100	Timepiece trading and marketing
Peace Mark (Switzerland) Enterprises Limited	British Virgin Islands	US\$1 Ordinary	–	100	Provision of after sales service and timepiece components
PM Company Limited	British Virgin Islands	HK\$1 Ordinary	–	100	Subcontracting
Pure Riches Industries Limited	Hong Kong	HK\$2,760,000 Ordinary	–	100	Manufacturing of timepiece components

Name of subsidiary	Place of incorporation / registration	Issued and fully paid capital / registered capital	Percentage of equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Sky Type Limited	Hong Kong	HK\$10,000 Ordinary	–	100	Asset holding
Vico Industries Limited	Hong Kong	HK\$100 Ordinary	–	100	Manufacturing of timepiece components
World Grade Industries Limited	Hong Kong	HK\$10,000 Ordinary	–	100	Property investment

\* The deferred shares, which are not held by the Group, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the subsidiary or to participate in any distribution on winding up.

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

All subsidiaries operate in their respective places of incorporation / registration except for that Capricon Company Limited, Gar Shun Enterprises Development Limited, Pure Riches Industries Limited and Vico Industries Limited operate in the People's Republic of China and that Fulltop Limited operates in Switzerland.

None of the subsidiaries had any loan capital outstanding at the year end, nor at any time during the year.

#### (17) Investments in securities

	The Group	
	2002 HK\$'000	2001 HK\$'000
Equity securities:		
Listed in Hong Kong, at cost	37	40,906
Unrealised holding loss	(22)	(17,907)
	<hr/>	<hr/>
At market value	15	22,999
	<hr/> <hr/>	<hr/> <hr/>

**(18) Inventories**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	7,720	44,713
Work-in-progress	16,053	33,342
Finished goods	132,285	47,743
	<u>156,058</u>	<u>125,798</u>

As at 31 March, 2002 and 2001, all inventories were stated at cost.

**(19) Trade and other receivables**

The Group has extended an average credit period of 90-120 days to its trade customers. Included in trade and other receivables are debtors (net of provisions for bad and doubtful debts) with the following ageing analysis:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables:		
0 – 90 days	113,400	101,004
91 days – 180 days	9,964	12,918
Over 180 days	4,424	–
	<u>127,788</u>	<u>113,922</u>
Trade deposits	70,077	42,000
Other deposits, prepayments and other receivables	145,023	111,301
	<u>342,888</u>	<u>267,223</u>

**(20) Trade and other payables**

Included in trade and other payables are creditors with the following ageing analysis:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables:		
0 – 90 days	9,231	19,342
91 days – 180 days	3,324	4,536
Over 180 days	8,424	–
	<u>20,979</u>	<u>23,878</u>
Accruals and other payables	7,258	11,633
	<u>28,237</u>	<u>35,511</u>

## (21) Syndicated loan and other interest-bearing borrowings

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Syndicated loan and other interest-bearing borrowings comprise:		
– Term loans	63,224	19,651
– Syndicated loan, unsecured	200,000	85,000
– Trust receipt and import loans	156,758	146,267
– Bank overdrafts	381	4,849
	<u>420,363</u>	<u>255,767</u>
Analysed as:		
– Secured	–	6,240
– Unsecured	420,363	249,527
	<u>420,363</u>	<u>255,767</u>
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	205,597	198,348
– More than one year, but not exceeding two years	125,302	36,357
– More than two years, but not exceeding five years	89,464	21,062
	<u>420,363</u>	<u>255,767</u>
Less: Amount shown under current liabilities		
– Syndicated loan	–	(34,000)
– Other interest-bearing borrowings	(205,597)	(164,348)
	<u>214,766</u>	<u>57,419</u>
Analysed as:		
– Syndicated loan	200,000	51,000
– Other interest-bearing borrowings	14,766	6,419
	<u>214,766</u>	<u>57,419</u>

	<b>The Company</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Syndicated loan and other interest-bearing borrowings comprise:		
– Syndicated loan, unsecured	<u>200,000</u>	<u>85,000</u>
The syndicated loan and other interest-bearing borrowings are repayable as follows:		
– Not exceeding one year or upon demand	–	34,000
– More than one year, but not exceeding two years	114,286	34,000
– More than two years, but not exceeding five years	<u>85,714</u>	<u>17,000</u>
	200,000	85,000
Less: Amount shown under current liabilities		
– Syndicated loan	–	<u>(34,000)</u>
	<u>200,000</u>	<u>51,000</u>

**(22) Obligations under finance leases**

As at 31 March, 2002, the Group had obligations under finance leases repayable as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	298	562
More than one year, but not exceeding two years	24	298
More than two years, but not exceeding five years	<u>10</u>	<u>34</u>
	332	894
Less: finance charges	<u>(55)</u>	<u>(137)</u>
	<u>277</u>	<u>757</u>
Representing finance lease obligations:		
Current portion	252	480
Non-current portion	<u>25</u>	<u>277</u>
	<u>277</u>	<u>757</u>



**(23) Deferred taxation**

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April, 2001	1,743	23
Provided for the year	1,653	1,720
	<u>          </u>	<u>          </u>
As at 31 March, 2002	<u>3,396</u>	<u>1,743</u>

As at the balance sheet date, the major components of the provision for deferred taxation are as follows:

	<b>Liability provided</b>		<b>Net potential liabilities (assets) unrecognised</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences attributable to:				
Excess of depreciation allowances over depreciation charged in the financial statements	3,442	1,789	3,687	1,019
Revaluation deficit on the Group's investment properties situated in the People's Republic of China	(46)	(46)	–	–
Tax losses	–	–	(4,306)	(3,133)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>3,396</u>	<u>1,743</u>	<u>(619)</u>	<u>(2,114)</u>

Deferred tax has not been provided on the revaluation surplus arising on the valuation of properties in Hong Kong as profits arising on the disposal of these assets would not be subject to taxation. Accordingly, the revaluation surplus does not constitute a timing difference for tax purposes.

**(24) Share capital**

	<b>Number of shares</b>	<b>Par value</b> <i>HK\$</i>	<b>Amount</b> <i>HK\$'000</i>
Authorised:			
As at 1 April, 2001 and 31 March, 2002	<u>6,000,000,000</u>	<u>0.10</u>	<u>600,000</u>
Issued and fully paid:			
As at 1 April, 2001	3,678,223,019	0.10	367,822
Capital Reduction whereby the nominal value of the shares was reduced to HK\$0.005 each by cancellation of HK\$0.095 paid-up capital for each issued share	<u>–</u>	<u>(0.095)</u>	<u>(349,431)</u>
	3,678,223,019	0.005	18,391
Capital Consolidation whereby every 20 new issued shares with nominal value of HK\$0.005 each in the capital of the Company following the Capital Reduction was consolidated into 1 consolidated share	<u>(3,494,311,869)</u>	<u>0.095</u>	<u>–</u>
As at 31 March, 2002	<u>183,911,150</u>	<u>0.10</u>	<u>18,391</u>

Pursuant to a special resolution passed on 24 January, 2002, the shareholders approved a capital reorganisation (“Capital Reorganisation”) involving, among others, a reduction (“Capital Reduction”) and consolidation (“Share Consolidation”) of the issued share capital. The Capital Reorganisation has become effective on 25 January, 2002.

Pursuant to the Capital Reorganisation:

1. the paid-up capital and nominal value of all the issued shares were reduced from HK\$0.10 to HK\$0.005 each by cancellation of HK\$0.095 paid up capital on each issued share;
2. every 20 issued new shares were consolidated into 1 consolidated share; and
3. the credit of HK\$349,431,187 arising from the Capital Reduction on the basis of 3,678,223,019 shares in issue transferred to the contributed surplus account of the Company, which may be used in future for such purposes as the Board may direct subject to the Companies Act and Bye-laws.

Before the Capital Reduction, the authorised share capital of the Company was HK\$600,000,000 divided into 6,000,000,000 shares of which HK\$367,822,302 divided into 3,678,223,019 shares were issued and credited as fully paid. Immediately upon the Capital Reorganisation becoming effective and on the basis that 3,678,223,019 shares were issued immediately prior to the Capital Reduction becoming effective, the authorised share capital of the Company was HK\$600,000,000 divided into 6,000,000,000 consolidated shares of which HK\$18,391,115 divided into 183,911,150 consolidated shares were issued and credited as fully paid, and a credit of HK\$349,431,187 arising from the Capital Reorganisation was transferred to the contributed surplus account of the Company as mentioned above. The Share Consolidation stipulated that every 20 issued new shares were consolidated into 1 consolidated share.

**(25) Reserves**

	<b>The Group</b>							
	<b>Share premium</b>	<b>Merger deficit</b>	<b>Capital reserve (Goodwill)</b>	<b>Contributed surplus</b>	<b>Leasehold property revaluation reserve</b>	<b>Other reserve</b>	<b>Retained profits</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 April, 2000	43,255	(11,988)	23,846	-	5,466	11,472	68,238	140,289
Subsequent valuation adjustment to goodwill	-	-	(7,369)	-	-	-	-	(7,369)
Goodwill arising on acquisition of subsidiaries eliminated	-	-	(45,264)	-	-	-	-	(45,264)
Net unrealised holding loss of investments in securities	-	-	-	-	-	(29,379)	-	(29,379)
Profit for the year	-	-	-	-	-	-	34,958	34,958
As at 31 March, 2001 as previously reported	43,255	(11,988)	(28,787)	-	5,466	(17,907)	103,196	93,235
Effect of changes in accounting policies on adoption of SSAP 30 and SSAP 31	-	-	9,159	-	-	-	(9,159)	-
As at 31 March, 2001 as restated	43,255	(11,988)	(19,628)	-	5,466	(17,907)	94,037	93,235
Realisation of goodwill on disposal of subsidiary	-	-	32,000	-	-	-	-	32,000
Realisation of unrealised holding loss of investments in securities upon disposal	-	-	-	-	-	17,885	-	17,885
Credit arising on Capital Reduction	-	-	-	349,431	-	-	-	349,431
Profit for the year	-	-	-	-	-	-	36,397	36,397
As at 31 March, 2002	<u>43,255</u>	<u>(11,988)</u>	<u>12,372</u>	<u>349,431</u>	<u>5,466</u>	<u>(22)</u>	<u>130,434</u>	<u>528,948</u>

	The Company							Total HK\$'000
	Share premium HK\$'000	Merger deficit HK\$'000	Capital	Contributed surplus HK\$'000	Leasehold property	Other reserve HK\$'000	Accumu- lated losses HK\$'000	
			reserve (Goodwill) HK\$'000		revaluation reserve HK\$'000			
As at 1 April, 2000	43,255	-	-	39,399	-	-	(5,498)	77,156
Loss for the year	-	-	-	-	-	-	(1,781)	(1,781)
As at 31 March, 2001	43,255	-	-	39,399	-	-	(7,279)	75,375
Credit arising on Capital Reduction	-	-	-	349,431	-	-	-	349,431
Loss for the year	-	-	-	-	-	-	(15,342)	(15,342)
As at 31 March, 2002	43,255	-	-	388,830	-	-	(22,621)	409,464

The capital reserve (goodwill) represents the total of the share premium of a subsidiary prior to becoming a member of the Group in a merger and the amount arising from the excess or shortfall of the purchase consideration over the fair value of the Group's share of the separable net assets of the subsidiaries acquired.

The merger deficit represents the excess of the nominal value of the shares in the Company issued as consideration over the nominal value of the subsidiaries' shares transferred to the Company.

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries acquired by the Company and the nominal amount of the Company's shares issued for the acquisition.

The other reserve represents the amount of unrealised holding gain (loss) from the investments in securities.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Directors, the Company's reserves available for distribution to shareholders were as follows:

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contributed surplus	388,830	39,399
Accumulated losses	(22,621)	(7,279)
	<u>366,209</u>	<u>32,120</u>

#### **(26) Share option schemes**

On 24 January, 2002, the share option scheme adopted by the Company on 15 January, 1993 (the "Old Share Option Scheme") was terminated and a replacing share option scheme (the "New Share Option Scheme") was adopted by the shareholders of the Company on the same date to comply with the new amendments to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") regarding the share option schemes of a company. As a result, the Company may no longer grant any further options under the Old Share Option Scheme. Out of all the share options to subscribe for 149,300,000 shares in the Company granted to certain directors and employees on 8 October, 1999 under the Old Share Option Scheme which are exercisable from 8 April, 2000 to 7 April, 2003 at an exercise price of HK\$0.10 per share, share options to subscribe for 20,000,000 shares in the Company were lapsed on 27 November, 2001 due to, on 28 August, 2001, the resignations of Mr. Lee Ka Yue, Peter and Mr. Law Shik Chuen who are Executive Directors of the Company before the resignations. The remaining share options to subscribe for 129,300,000 shares in the Company were cancelled, and hence lapsed, on 29 November, 2002. No options have been granted under the New Share Option Scheme since the date of its adoption.

The purpose of the New Share Option Scheme is to advance the interests of the Company and its shareholders by providing to:

- (i) the directors and employees of the Group with a performance incentive to reward them for their continued and improved services with the Group and to further encourage them by offering them an opportunity to obtain an ownership in the Company; and
- (ii) the eligible persons (other than the directors and employees of the Group) with an incentive through ownership in the Company in order to motivate them to optimise their performance and efficiency for the benefit of the Group and / or to attract, retain or otherwise maintain their on-going business relationships with the Group which are or will be beneficial to the Group's success.

Eligible persons of the New Share Option Scheme include

- (i) any director of the Group;
- (ii) any employee (whether part time or full time) of the Group;

- (iii) any consultant or professional adviser who, at the offer date (“Offer Date”) of the grant of an option or options and during the option period (“Option Period”), which means a period to be notified by the board of directors (“Board”) to each grantee of the option or options which the Board may in its absolute discretion determine save that such period of time shall not exceed a period of 10 years commencing on the commencement date of the option or options, in respect of any options granted to such consultant or professional adviser, is mandated by the Group for the provision of services;
- (iv) any supplier or customer of the Group who, during the six-month period immediately prior to the offer date and any such time during the Option Period in respect of any options granted to such supplier or customer, has entered into business transactions with the Group the aggregate value of all of which shall have exceeded HK\$10,000,000; and
- (v) any person who, at the Offer Date and during the Option Period in respect of any options granted to such person, is appointed by the Group as an authorised agent of the Group.

The New Share Option Scheme became effective on 24 January, 2002 and unless otherwise terminated by the Company or the Directors, it shall be valid and effective for 10 years commencing on the adoption date on 24 January, 2002. After such period no further share options will be granted but in all other respects the provisions of the 2002 Scheme shall remain in full force and effect.

Pursuant to the New Share Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30 percent of the shares of the Company in issue from time to time. No options may be granted under the New Share Option Scheme if such grant would result in the above 30 percent limit being exceeded. The total number of shares available from issue under the options which may be granted under the New Share Option Schemes and any other share options schemes of the Company must not, in aggregate, exceed 10 percent of the issued share capital of the Company as at the date of approval of the New Share Option Scheme by the shareholders of the Company on 24 January, 2002 unless shareholders’ approval has been obtained.

Subject to the terms of the New Share Option Scheme and the requirements of the Listing Rules, the Board shall be entitled at any time, within 10 years after the adoption date on 24 January, New Share Option of the New Share Option Scheme to make an offer of the grant of an option or options to any eligible person as the Board may in its absolute discretion select to subscribe for such number of shares as the Board may determine at the subscription price.

The subscription price shall be a price determined by the Board and notified to an eligible person and shall be the higher of the closing price of the share of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited on the Offer Date, which must be a business day; and the average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange of Hong Kong Limited for the five business days immediately preceding the offer date.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

A summary of the movements of share options granted under the above schemes is as follows:

	<b>New Share Option Scheme</b>	<b>Old Share Option Scheme</b>
As at 1 April, 2001	–	149,300,000
Cancelled during the year	–	(129,300,000)
Lapsed during the year	–	(20,000,000)
	<u>–</u>	<u>–</u>
As at 31 March, 2002	<u>–</u>	<u>–</u>

#### **(27) Retirement benefits schemes**

The Group operates both a defined contribution pension scheme (the “Scheme”) and a defined contribution Mandatory Provident Fund (the “MPF”) since 1 December, 2000 for all eligible employees including Directors of the Company. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The cost charged to the income statement represents contributions payable to the Scheme (2002: HK\$810,000; 2001: HK\$606,000) and the MPF (2002: HK\$186,000; 2001: HK\$16,000) by the Group at rates specified in the rules of the schemes. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

During the year, contributions of approximately HK\$73,000 (2001: nil) were forfeited which are available to reduce the contributions payable in the future years.

**(28) Notes to the consolidated cash flow statement**

- (a) Reconciliation of profit before taxation to net cash inflow (outflow) from operating activities

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	39,707	28,045
Interest income	(5,090)	(3,435)
Interest expenses on bank loans, syndicated loan and bank overdrafts	9,084	12,260
Finance charges in respect of finance leases	180	401
Dividend income	–	(1,574)
Impairment of goodwill	–	9,159
Amortisation of goodwill	617	–
Loss (Gain) on disposal of intangible assets	5	(7,400)
Depreciation of fixed assets	31,440	23,323
Amortisation of intangible assets	3,344	10,845
Loss on disposal of investment securities	10,823	6,674
(Gain) Loss on disposals of fixed assets	(37)	52
Loss on disposal of club debenture	1,499	–
Increase in inventories	(30,260)	(2,253)
Increase in trade and other receivables	(43,665)	(90,742)
Decrease in trade and other payables	(7,274)	(5,821)
	<u>10,373</u>	<u>(20,466)</u>

- (b) Acquisition of a subsidiary

	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets of the subsidiary acquired	–	–
Goodwill arising on consolidation	<u>–</u>	<u>34,000</u>
Satisfied by:		
Cash consideration paid	<u>–</u>	<u>34,000</u>



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

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Cash consideration paid	–	(34,000)
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	–	(34,000)

(c) Analysis of changes in financing during the year

	<b>Share capital and share premium</b> <i>HK\$'000</i>	<b>Interest- bearing borrowings</b> <i>HK\$'000</i>	<b>Obligations under finance leases</b> <i>HK\$'000</i>	<b>Minority interest</b> <i>HK\$'000</i>
As at 1 April, 2000	351,427	7,568	4,178	21,987
Drawdown of term loans raised	–	15,155	–	–
Repayment of obligations under finance leases	–	–	(3,421)	–
Placement of new shares	59,650	–	–	–
Acquisition of initial interests in subsidiary	–	–	–	1,960
Acquisition of further interests in subsidiary	–	–	–	(1,511)
Syndicated loan raised	–	85,000	–	–
Repayment of term loans and other loans	–	(3,072)	–	–
Share of loss for the year	–	–	–	(2,000)
As at 31 March, 2001	411,077	104,651	757	20,436
Drawdown of term loans	–	62,574	–	–
Repayment of obligations under finance leases	–	–	(480)	–
Credit arising on Capital Reduction	(349,431)	–	–	–
Trust receipt loans with maturity over 90 days	–	33,484	–	–
Syndicated loan raised	–	200,000	–	–
Repayment of syndicated loan	–	(85,000)	–	–
Repayment of term loans and other loans	–	(19,001)	–	–
Share of loss for the year	–	–	–	(1,267)
Acquisition of further interests in subsidiaries	–	–	–	(19,169)
As at 31 March, 2002	61,646	296,708	277	–

## (d) Disposal of a subsidiary

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Net assets disposed of:	<u>—</u>	<u>—</u>
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Satisfied by:		
Other receivables	<u>34,000</u>	<u>—</u>
Analysis of the net inflow of cash and cash equivalents in respect of the disposal of the subsidiary:		
Cash received	<u>—</u>	<u>—</u>

During the year, the Group disposed of a subsidiary (the "Disposal") with a patent registered in Japan in connection with a technology for downloading Internet data for personal computers to wrist watches through infra-red communication (the "Technology") for HK\$34,000,000. The Disposal enabled the Group to recoup additional cash resources for better business opportunities. The market value of the Technology was HK\$32,000,000 as valued by Sallmanns (Far East) Ltd., an independent valuer.

The subsidiary disposed of during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit for the year.

This represents the Group's only major non-cash transaction during the year.

## (e) Analysis of the balances of cash and cash equivalents

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Cash and bank balances	154,380	97,153
Pledged fixed deposit at bank	—	11,625
Trust receipt loans	(123,274)	(146,267)
Bank overdrafts	<u>(381)</u>	<u>(4,849)</u>
Cash and cash equivalents at the end of the year	<u>30,725</u>	<u>(42,338)</u>

**(29) Contingent liabilities**

As at 31 March, 2002, the Group had contingent liabilities in respect of bills discounted with recourse amounting to approximately HK\$179,740,000 (2001: HK\$165,210,000).

The Company has given corporate guarantees to banks in respect of general banking facilities granted to subsidiaries amounting to HK\$816,000,000 (2001: HK\$584,900,000). The extent of such facilities utilised by the subsidiaries as at 31 March, 2002 amounted to approximately HK\$195,000,000 (2001: HK\$151,000,000).

**(30) Financial instruments**

The Company had entered into interest rate swaps to manage its interest rate risk. As at 31 March, 2002, the total notional amount of such instruments was HK\$201,000,000. The notional amounts of the outstanding interest rate swaps indicate the contract size outstanding at the balance sheet date and do not represent the amount at risk.

The Company had entered into currency-linked deposit contracts to manage its foreign currency risk. As at 31 March, 2002, the total US dollar based currency-linked deposits were amounted to US\$2,200,000. The alternative currency of those contracts is Euro currency.

**(31) Capital and lease commitments**

- (a) Capital commitments outstanding as at 31 March, 2002 not provided for in the financial statements are as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	628	5,557

- (b) As at 31 March, 2002, the total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings are payable as follows:

	<b>The Group</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Restated)</i>
– Within 1 year	935	932
– After 1 year but within 5 years	3,707	3,715
– After 5 years	5,746	6,672
	10,388	11,319

**(32) Pledge of assets**

As at 31 March, 2002, no assets of the Group were pledged.

As at 31 March, 2001, fixed bank deposits of HK\$11,625,000 and leasehold properties with carrying value of HK\$16,729,000 had been pledged to secure banking facilities for a subsidiary in the PRC and mortgage loans respectively.

**(33) Subsequent events**

On 6 June, 2002, the Directors announced that the Company proposed to issue, by way of rights, 367,822,300 rights shares at HK\$0.18 each ("Rights Issue"). The Company will provisionally allot two right shares in nil-paid form for every one existing share held by the qualifying shareholders on the record date. The Rights Issue is not available to the overseas shareholders.

The net proceeds of the Rights Issue are expected to be about HK\$63 million, about HK\$24 million of which is intended to be used for establishing a distribution arm in the United States, about HK\$10 million of which will be used for promoting the Group's licensed products through the distribution arm aforementioned, about HK\$20 million of which will be used for developing its distribution network in the PRC and the remaining balance will be used as its general working capital.

The Rights Issue is conditional upon certain events as described in the announcement.

**STATEMENT OF ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE  
ASSET VALUE OF THE GROUP**

The following is a statement of the adjusted unaudited consolidated net tangible asset value of the Group, based on the audited net tangible asset value of the Group as at 31st March, 2002 and adjusted as follows:

	<b>Total amount</b>	<b>Per Share</b>
	<i>HK\$'000</i>	<i>HK\$</i>
Audited consolidated net tangible assets as at 31st March, 2002	491,774	2.67*
Adjusted for:		
Net proceeds from the issue of the Rights Shares	<u>63,000</u>	
Adjusted unaudited consolidated net tangible asset value of the Group	<u><u>554,774</u></u>	1.01**

*Notes:*

\* on the basis of 183,911,150 Shares in issue as at the Latest Practicable Date.

\*\* on the basis of 551,733,450 Shares in issue upon completion of the Rights Issue.

**STATEMENT OF INDEBTEDNESS****Borrowings**

As at the close of business on 31st May, 2002, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding borrowings of approximately HK\$470,952,000, which comprised of secured bank loan of approximately HK\$30,000,000, unsecured bank loans and other borrowings of approximately HK\$440,603,000 and obligations under finance leases of approximately HK\$349,000.

**Debt securities**

As at 31st May, 2002, the Group had no debt securities.

**Securities and guarantees**

As at the close of business on 31st May, 2002, the Group's borrowings were secured by certain of the Group's leasehold properties and corporate guarantees given by the Company.

**Contingent liabilities**

As at 31st May, 2002, the Group had contingent liabilities in respect of normal trade bills discounted with recourse of approximately HK\$174,821,000.

**Disclaimer**

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 31st May, 2002, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, obligations under finance leases, guarantees, or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the relevant rates of exchange prevailing at the close of business on 31st May, 2002.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31st May, 2002 and up to the Latest Practicable Date.

**WORKING CAPITAL**

The Directors are of the opinion that after taking into account of the Group's present available borrowing facilities and the internal resources of the Group, and in the absence of unforeseeable circumstances, the Group has sufficient working capital for its present requirement other than the expansion plan as stated in the paragraph headed "Reasons for and use of proceeds of the Rights Issue" in the Letter from the Board in this prospectus.

**MATERIAL CHANGES**

Save as disclosed in the audited results of the Group for the year ended 31st March, 2002 and the information set out under the paragraph headed "Reasons for and use of proceeds of the Rights Issue" and paragraph headed "Statement of Indebtedness", the Directors are not aware of any material change in the financial or trading position of the Group since 31st March, 2002, the date to which the latest published financial statements of the Group were made up.

**RESPONSIBILITY STATEMENT**

This prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this prospectus, and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this prospectus have been arrived at after due and careful consideration and there are no other facts not contained in this prospectus, the omission of which would make any statement herein misleading.

**DISCLOSURE OF INTERESTS****(a) Interests in the Company/associated corporations**

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company and their associated corporations in the Shares within the meaning of the SDI Ordinance which have been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

	<b>Personal interests</b>	<b>Family interests</b>	<b>Corporate interests</b>	<b>Total</b>	<b>Approximate percentage of shareholding</b>
	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>Number of Shares</i>	<i>%</i>
Chau Cham Wong, Patrick	18,730,416	-	-	18,730,416	10.18%
Leung Yung (Note)	-	-	18,391,500	18,391,500	10.00%

*Note:* Mr. Leung Yung is deemed to be interested in 18,391,500 Shares held by United Success by virtue of his interests in United Success. Mr. Leung Yung is the beneficiary owner of the entire interests of United Success.



Save for Mr. Leung Yung, who will deem to subscribe for the Rights Shares through United Success, Mr. Patrick Chau and Mr. Leung Yung have indicated that they will subscribe for the Rights Shares to which they are entitled pursuant to their respective interests in the Company as stated above.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor chief executive of the Company had, or was taken or deemed to have under the SDI Ordinance, any interests in the Shares or share options of the Company or any of its associated corporations, within the meaning of the SDI Ordinance which is required to be notified, or which is required to be entered in the register kept by the Company pursuant to section 29 of the SDI Ordinance or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules.

**(b) Substantial shareholders**

Save as disclosed above, so far as was known to any Director, there was no person (other than the Director or chief executive of the Company and their associates whose interests are set out in the section “Disclosure of Interests”) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the issued share capital or of any options in respect of such capital of the Company.

**(c) Service contracts**

As at the Latest Practicable Date, none of the Directors had any existing nor proposed service contract with any member of the Group, save for contracts expiring or terminable by the employer within one year without payment of compensation, other than statutory compensation.

There are no service contracts entered into, commenced, or amended in the past six months.

**(d) Others**

Save as disclosed in this prospectus and which pertain to Mr. Patrick Chau and Mr. Leung Yung, no Director is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the Group.

Since 31st March, 2002, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, any member of the Group.

**LITIGATION**

As at the Latest Practicable Date, so far as the Directors are aware, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration or claims of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**MATERIAL CONTRACTS**

During the two years immediately preceding the date of this prospectus, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

- (a) an agreement dated 18th September, 2001 pursuant to which Peace Mark (B.V.I.) Limited, a wholly owned subsidiary of the Company agreed to acquire 45% of the issued share capital of Capricon Company Limited (which in turn owns 100% of Capricon Industrial (Shenzhen) Company Limited) from Goldpfeil Aktiengesellschaft at a consideration of HK\$31.5 million. The remaining 55% was held by Peace Mark (B.V.I.) Limited. Completion of this agreement took place on 18th September, 2001;
- (b) a loan agreement dated 7th November, 2001 entered into between the Company and a group of banks with Westdeutsche Landesbank Girozentrale, Hong Kong Branch, as the coordinating arranger pursuant to which a 3-year term loan facility available to the Company of HK\$200,000,000 which bears interest at HIBOR was made available to the Company for refinancing its existing bank debt, general working capital purpose and the improvement in production facilities and expansion in distribution network of the Group;
- (c) an agreement dated 28th March, 2002 pursuant to which Fulltop Limited, a wholly-owned subsidiary of the Group agreed to acquire a brandname and a lot of land located in Bienne, Switzerland at a consideration of HK\$39.2 million and HK\$2 million respectively; and
- (d) the Underwriting Agreement (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002).

## PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

<b>Financial adviser to the Company</b>	BNP Paribas Peregrine Capital Limited 36th Floor, Asia Pacific Finance Tower 3 Garden Road Hong Kong
<b>Underwriters</b>	TIS Securities (HK) Limited Unit 1010, 10th Floor Tower Two Lippo Centre 89 Queensway Hong Kong
	A-ONE INVESTMENTS LIMITED Unit 3, 12th Floor Cheung Fung Industrial Building 23-39 Par Tin Par Street Tsuen Wan Hong Kong
<b>Legal advisers to the Company</b>	Lovells 23rd Floor Cheung Kong Center 2 Queen's Road Central Hong Kong
<b>Registered office of the Company</b>	Clarendon House Church Street Hamilton HM11 Bermuda
<b>Company secretary</b>	Tsang Kwong Chiu, Kevin
<b>Authorised representatives</b>	Chau Cham Wong, Patrick Tsang Kwong Chiu, Kevin
<b>Auditors</b>	Chu and Chu <i>Certified Public Accountants</i> Suite 2302-7 ING Tower 308 Des Voeux Road Central Hong Kong

**Registrar office**

Secretaries Limited  
 5th Floor  
 Wing On Centre  
 111 Connaught Road Central  
 Hong Kong

**Principal bankers**

Bank of China (Hong Kong)  
 BNP Paribas  
 China Construction Bank  
 ING Bank N.V.  
 Hamburgische Landesbank  
 HypoVereinsbank  
 Natexis Banques Populaires  
 Westdeutsche Landesbank Girozentrale

**EXPENSES**

The expenses in connection with the Rights Issue and the Whitewash Waiver, including financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges are estimated to amount to approximately HK\$3 million and are payable by the Company.

**DIRECTORS****Name****Residential Address***Executive Directors*

Mr. Chau Cham Wong, Patrick (*Chairman*)

28th Floor  
 1 Robinson Road  
 Hong Kong

Mr. Leung Yung

Flat B-2, 8th Floor, Tower B  
 Wilshire Tower  
 200 Tin Hau Temple Road  
 Hong Kong

Mr. Tsang Kwong Chiu, Kevin

Flat C, 4th Floor, London Court  
 Realty Gardens  
 41 Conduit Road  
 Mid-Level  
 Hong Kong

Mr. Man Kwok Keung	Flat A, 6th Floor, Block 5, Peridot Court Tuen Mun New Territories Hong Kong
Mr. Cheung Kwan Ling	Flat 6, 15th Floor, Hoi Chu Court Aberdeen Centre Aberdeen Hong Kong
<i>Independent non-executive Directors</i>	
Sir Oswald Cheung	120 Blue Pool Road Happy Valley Hong Kong
The Honorable Lau Wong Fat	Block A&B, Blessing Village 43 Castle Peak Road Tuen Mun New Territories Hong Kong
Ms. Susan So	Block B, 6th Floor, South Bay Villa South Bay Close Hong Kong

## **DIRECTORS AND SENIOR MANAGEMENT PROFILE**

### **Executive Directors**

**Mr. Chau Cham Wong, Patrick**, – aged 53, is the Chairman and is responsible for overall strategic planning and business development. Mr. Chau has over 28 years experience in the watch and clock industry. He served as the director of the Hong Kong Watch and Clock Manufacturing Association from 1984 to 1993 and as the co-chairman of the Hong Kong Watch and Clock Fair. He was also the former adviser and the committee member of the Hong Kong Watch and Clock Trade Advisory Council to the Hong Kong Trade Development Council. He has been with the Group for over 11 years.

**Mr. Leung Yung** – aged 54, is the Managing Director and is responsible for strategic planning, business development, marketing and product research and development. He is the director of the Hong Kong Watch and Clock Manufacturing Association. He joined the Group when it was founded and has over 35 years experience in the timepiece industry.

**Mr. Tsang Kwong Chiu, Kevin** – aged 35, is the Finance Director and also the Company Secretary and is responsible for the accounting, financial and company secretarial matters of the Group. Mr. Tsang holds a Master Degree from the University of Hull. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Mr. Tsang has more than 13 years experience in accounting and finance.

**Mr. Man Kwok Keung** – aged 55, is the Group's Technical Director and is responsible for product engineering. Mr. Man holds a Bachelor Degree in Civil Engineering from the University of Calgary, Canada and has more than 19 years experience in production management in the timepiece industry. He has been with the Group since it was founded.

**Mr. Cheng Kwan Ling** – aged 51, is the Director and is responsible for the general management and finance of the Group's operations in the PRC. Mr. Cheng holds a diploma in management studies from the Hong Kong Polytechnic University and the Hong Kong Management Association and is a member of the British Institute of Management. He has over 28 years experience in accountancy and general management and has been with the Group for over 13 years.

#### **Independent Non-Executive Directors**

**Sir Oswald Cheung**, C.B.E., LL.D., D.Soc.Sc., J.P. – aged 80, has been an honorary steward of The Hong Kong Jockey Club for 10 years and is a former member of the Hong Kong Legislative and Executive Councils. He has been a non-executive Director of the Company since 1993.

**The Honourable Lau Wong Fat**, G.B.S., J.P. – aged 65, is the Chairman of Wing Tung Yick Investment Limited, a company engaged in real estate development and operation of restaurants. Mr. Lau is currently a member of the H.K.S.A.R. Legislative Council and is also the Chairman of N.T. Heung Yee Kuk and of the Tuen Mun District Board. He has been a non-executive Director of the Company since 1993.

**Ms. Susan So** – aged 49, is the managing director of Guo Ye Holdings Co., Limited and Guo Ye Enterprises Ltd., the principal activities of which are investment holding and the provision of investment consultancy services covering, among others, telecommunication, media, energy supply in the PRC. Ms. So has extensive management experience in relation to trade and investment projects (including information technology, sales and marketing) in the PRC. She has been a director of a number of listed companies in Hong Kong and a consultant of various companies in the United States and the PRC.

**Senior Management**

**Mr. Leung Chi Shing**, Factory Manager – aged 45, is responsible for managing watch production in Shenzhen, the PRC. Mr. Leung holds a certificate in watch repairing from Lee Wai Lee Technical Institute in Hong Kong. He has over 24 years experience in product management in the watch and clock industry. He has been with the Group for over 17 years.

**Mr. Tai Kwan Kong, Terry**, Head of Brandname Division – aged 51, is responsible for the business development of the brandname division of the Group. He is a former Director (1992-1995) of The Federation of Hong Kong Watch Traders and Industries Ltd and is also an organizing committee member of HK Watch O Mark. He has over 31 years experience in the watch industry.

**Mr. Yip Chi Hung**, Operation Manager – aged 48, is responsible for managing the timepiece operation of the Group. Mr. Yip is also the management representative of ISO 9001 ensuring the Group's continuing compliance of the ISO 9001 standard. He has over 18 years experience in the watch industry and has been with the Group since 1994.

**Mr. Chan Wai Pong**, Marketing Manager – aged 33, is responsible for the timepiece marketing function, in particular the United States market, of the Group. He has over 11 years experience in the watch industry. He has been with the Group for over 7 years.

**Mr. Leung King Chak, King**, Financial Controller – aged 34, is responsible for the accounting function of the Group. His credentials include a degree of Master of Accountancy from the Chinese University of Hong Kong and fellow membership of the Association of Chartered Certified Accountants. He has over 11 years experience in the accounting profession, both in Hong Kong and Europe.

**Jan Edöcs** – aged 31, is the Chief Executive Officer of the Group's Swiss operation and is responsible for the business development and marketing of Milus brand. Prior to joining the Group, he was the Sales-Marketing Director (Switzerland) and International Sales Manager for VERSACE S.A..

**LEGAL EFFECT**

The Prospectus Documents are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made for Rights Shares pursuant to

the Prospectus Documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of sections 44A and 44B of the Companies Ordinance (Chapter 32) of Hong Kong, so far as applicable.

**DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES**

A copy of this prospectus, together with copies of the PALs and the EAFs, have been delivered to the Registrar of Companies in Hong Kong for registration as required by section 342C of the Companies Ordinance (Chapter 32) of Hong Kong.

A copy of this prospectus, together with copies of the PALs and the EAFs, have been filed with the Registrar of Companies in Bermuda as required by the Companies Act 1981 of Bermuda.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of the Company at Unit 3, 12th Floor, Cheung Fung Industrial Building, 23-39 Pak Tin Par Street, Tsuen Wan, Hong Kong up to and including 20th August, 2002:

- the memorandum of association and bye-laws of the Company;
- the Underwriting Agreement (as amended by a supplemental deed relating to the Underwriting Agreement dated 8th July, 2002);
- the letters of undertakings dated 6th June, 2002 from each of Mr. Patrick Chau and Mr. Leung Yung to the Company and the Underwriters in relation to the Rights Issue;
- the material contracts and the circular of the transactions referred to under the section headed "Material Contracts" in this appendix;
- the audited financial statements of the Group for the two years ended 31st March, 2001 and 31st March, 2002; and
- the Circular despatched by the Company to the Shareholders on 16th July, 2002.